NCR CORP
Form S-4
September 03, 2002

As filed with the Securities and Exchange Commission on September 3, 2002
Registration No. 333-______

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NCR CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland	3578	31-0387920
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1700 South Patterson Blvd.
Dayton, Ohio 45479
(937) 445-5000
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Jonathan S.
Senior Vice President and
NCR Corporat
1700 South Patter
Dayton, Ohio
(937) 445-5
(Name, address, including zip cod
including area code, of a

Copy to:

James R. Doty
Baker Botts L.L.P.
The Warner
1299 Pennsylvania Avenue, N.W.
Washington, DC 20004-2400
(202) 639-7700

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable following the effectiveness of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [_]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933 (the "Securities Act"), check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price (1)	regi
7.125% Notes due 2009	$300,000,000	100%	$300,000,000	

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated
September 3, 2002

PROSPECTUS

$300,000,000

NCR CORPORATION

Offer to Exchange

7.125% Senior Notes due 2009 for all outstanding 7.125% Senior Notes due 2009

The new notes

- will be freely tradeable and otherwise substantially identical to the outstanding notes
- will accrue interest from June 6, 2002, at the rate of 7.125% per annum, payable semi-annually in arrears on each June 15 and December 15, beginning December 15, 2002
- will be unsecured and will rank equally with the outstanding notes and all other unsecured and unsubordinated indebtedness
- will not be listed on any exchange or on any automated dealer quotation system

The exchange offer

- expires at 5:00 p.m., New York City time, on ____________, 2002, unless extended
- is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered

You should note that

- we will exchange all outstan tendered and not validly wit principal amount of new note under the Securities Act of
- tenders of outstanding notes any time prior to the expira
- the exchange of outstanding exchange offer will not be a federal income tax purposes
- at the time of the issuance received credit agency ratin & Poor's and Baa3 from Moody

You should consider carefully the risk factors on page 10 of this prospectus before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission or other U.S. regulatory authority has approved or disapproved of the new notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is   , 2002.

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This prospectus contains certain of our trademarks, service marks, and registered marks, and such marks of other companies, as indicated. Teradata is either a registered trademark or trademark of NCR International, Inc. in the United States and/or other countries.

About This Prospectus

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission (SEC). You should rely only on the information we have provided or incorporated by reference in this prospectus. We have not authorized anyone to provide you with additional or different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information in this prospectus is accurate only as of the date on the front of this document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

The new notes may not be offered or sold in or into the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses (or in other circumstances that have not resulted and will not result in an offer to the public in the United Kingdom for the purposes of the Public Offers of Securities Regulations 1995, as amended), and this prospectus may only be issued or passed on to persons in the United Kingdom if such persons are of a kind described in Articles 19 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 or if such persons are persons to whom this prospectus may otherwise lawfully be communicated.

Forward-Looking Statements

This prospectus, including the information we incorporate by reference, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify a forward-looking statements by our use of the words "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "budget," "forecast," "will," "could," "should," "may" and similar expressions. These forward-looking statements include our statements regarding the timing of future events, our anticipated future operations as well as those of our subsidiaries and our anticipated future financial position and cash requirements, and other statements as to anticipated or expected results,

beliefs, opinions, known and unknown risks and uncertainties, and future financial performance.

These forward-looking statements are not guarantees of future performance, and there are a number of factors including, without limitation, those listed below, which could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements. Specific factors that could affect our forward-looking statements include the following (in no particular order of priority):

- the duration and intensity of the economic downturn and its impact on the markets in general or on our ability to meet our commitments to customers, the ability of our suppliers to meet their commitments to us, or the timing of purchases (including upgrades to existing data warehousing solutions and retail point of service solutions) by our current and potential customers; and other general economic and business conditions;

- the timely development, production or acquisition, and market acceptance of new and existing products and services (such as self-checkout and electronic shelf labeling technologies, ATM outsourcing, and enterprise data warehousing), including our ability to accelerate market acceptance of new products and services;

- shifts in market demands, such as a possible shift toward industry standard "open" platforms for data warehousing solutions;

- continued competitive factors and pricing pressures, and their impact on our ability to improve gross margins and profitability, especially in our more mature solution offerings such as our Financial Self Service and traditional Retail Store Automation solutions;

- short product cycles, rapidly changing technologies, and maintaining a competitive leadership position with respect to our solution offerings, particularly data warehousing technologies;

- ability to execute our business plan;

- turnover of workforce and the ability to attract and retain skilled employees;

- availability and successful exploitation of new acquisition and alliance opportunities; and

- continued efforts to establish and maintain best in class internal information technology and control systems.

These and the other factors discussed elsewhere in this prospectus and the documents incorporated by reference herein are not necessarily all of the important factors that could cause our results to differ materially from those expressed in our forward-looking statements. Forward-looking statements speak only as of the date they were made and we undertake no obligation to update or revise them, whether as a result of new information, future events or otherwise.

Where You Can Find More Information

Our filings with the SEC may be inspected and copied at the public

reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information relating to the public reference rooms. Copies of our filings may be obtained at the prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, the SEC maintains an Internet site (http://www.sec.gov) that contains certain reports, proxy statements and other information regarding NCR. Our common stock is traded on the New York Stock Exchange, through which information regarding NCR also is available.

We "incorporate by reference" into this prospectus information we file with the SEC, which means that we are disclosing important information to you by referring you to those documents. The information we incorporate by reference is an important part of this prospectus, and later information that we file with the SEC automatically will update and supersede this information. We are incorporating by reference into this prospectus the following documents that we have filed with the SEC, and our future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the offering made by this prospectus terminates:

- our Annual Report on Form 10-K for the year ended December 31, 2001,
- our Quarterly Reports on Form 10-Q, for the periods ended March 31 and June 30, 2002, and
- our Current Reports on Form 8-K, dated April 23, April 30, May 31 and August 14, 2002.

This prospectus is part of a registration statement we have filed with the SEC relating to the new notes. As permitted by SEC rules, this prospectus does not contain all of the information included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You should read the registration statement and the exhibits and schedules for more information about us and the new notes. The registration statement, exhibits and schedules are also available at the SEC's Public Reference Room or through its Internet site.

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

NCR Corporation
1700 South Patterson Blvd.
Dayton, Ohio 45479
Attention: Laura Nyquist
Corporate Secretary
Telephone: (937) 445-5000

To obtain timely delivery, you must request the information no later than five business days prior to the expiration of the exchange offer.

Prospectus Summary

This summary highlights selected information from this prospectus, but does not contain all information that is important to you. This prospectus includes specific terms of the exchange offer and the new notes, information about our business and financial data. To understand all of the terms of this exchange offer and to attain a more complete understanding of our business and financial situation, we encourage you to read this prospectus in its entirety. The terms

"we," "our," "ours" and "us" as used in this prospectus refer to NCR Corporation and its subsidiaries.

About NCR Corporation

We are a worldwide provider of information technology solutions. Our solutions are designed to enable businesses to build, expand and enhance their relationships with their customers by facilitating transactions and transforming transaction data into useful business information.

Our Retail Store Automation and Financial Self Service solutions enable companies to capture and process transaction-based information through our offerings at customer interaction points, such as point-of-sale workstations, automated-teller machines (ATMs) and web-enabled kiosks. In addition, our Data Warehousing solutions transform transaction-based information into knowledge, permitting businesses to respond with programs designed to improve customer acquisition, retention and profitability. Please read the section "About NCR Corporation" beginning on page 16 of the prospectus for more information about us.

Our principal executive officers are located at the following address:

NCR Corporation
1700 South Patterson Blvd.
Dayton, Ohio 45479
(937) 445-5000 (telephone)
(937) 445-9997 (facsimile)

Additional information concerning NCR and our subsidiaries is included in our reports and other documents incorporated by reference into this prospectus.

Summary of the Exchange Offer

On June 6, 2002, we completed the private offering of the outstanding notes. We received proceeds, before deducting the discount to the initial purchasers, of $300,000,000 from the sale of the outstanding notes.

In connection with these transactions, we entered into a registration rights agreement with the initial purchasers of the outstanding notes. We agreed to deliver to you this prospectus and to complete the exchange offer within 200 days after the date we issued the outstanding notes. In the exchange offer, you are entitled to exchange your outstanding notes for new notes that are registered with the SEC but otherwise contain substantially identical terms. You should read the discussion under the headings "Summary of Terms of the New Notes" beginning on page 8 and "Description of the New Notes" beginning on page 29 for further information about the new notes.

We have summarized the terms of the exchange offer below. You should read the discussion under the heading "The Exchange Offer" beginning on page 18 for further information about the exchange offer and resale of the new notes.

The Exchange Offer	We are offering to exchange up to $300,000,000 aggregate principal amount of the outstanding notes. Outstanding notes may be exchanged only in integral multiples of $1,000.

Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2002, or such later date and time to which we extend it.
Withdrawal of Tenders	You may withdraw your tender of outstanding notes at any time prior to the expiration date, unless previously accepted for exchange. We will return to you, without charge, promptly after the expiration or termination of the exchange offer any outstanding notes that you tendered but that were not accepted for exchange.
Conditions to the Exchange Offer	We will not be required to accept outstanding notes for exchange if the exchange offer would be unlawful or would violate any interpretation of the staff of the SEC or if any legal action has been instituted or threatened that would impair our ability to proceed with the exchange offer. The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered. Please read the section "The Exchange Offer--Conditions to the Exchange Offer" beginning on page 21 for more information about the conditions to the exchange offer.
Procedures for Tendering Outstanding notes	If your outstanding notes are held through The Depository Trust Company (DTC) and you wish to participate in the exchange offer, you may do so through DTC's automated tender offer program. If you tender under this program, you will agree to be bound by the letter of transmittal that we are providing with this prospectus as though you had signed the letter of transmittal. By signing or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things: . any new notes that you receive will be acquired in the ordinary course of your business, . you have no arrangement or understanding with any person to participate in the distribution of the new notes, . you are not our

"affiliate," as defined in Rule 405 of the

Securities Act, or, if you are our affiliate, you will comply with any applicable registration and prospectus delivery requirements of the Securities Act,

- if you are not a broker-dealer, you are not engaged in and do not intend to engage in the distribution of the new notes, and
- if you are a broker-dealer that will receive new notes for your own account in exchange for outstanding notes that were acquired as a result of market-making activities or other trading activities, you will deliver a prospectus, as required by law, in connection with any resale of such new notes.

Special Procedures for Beneficial Owners.............. If you own a beneficial interest in outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender the outstanding notes in the exchange offer, please contact the registered holder as soon as possible and instruct the registered holder to tender on your behalf and to comply with our instructions described in this prospectus.

Guaranteed Delivery Procedures.... You must tender your outstanding notes according to the guaranteed delivery procedures described in "The Exchange Offer-- Guaranteed Delivery Procedures" beginning on page 25, if any of the following apply:

- you wish to tender your outstanding notes but they are not immediately available,
- you cannot deliver your outstanding notes, the letter of transmittal or any other required documents to the exchange agent prior to the expiration date, or
- you cannot comply with the applicable procedures under DTC's automated tender offer program prior to the expiration date.

U.S. Federal Income Tax Considerations............ The exchange of the outstanding notes for new notes in the exchange offer will not be a taxable event for U.S. federal income tax

	purposes. Please read "United States Federal Tax Consequences" on page 38.
Use of Proceeds	We will not receive any cash proceeds from the issuance of new notes in the exchange offer.

The Exchange Agent

We have appointed The Bank of New York as exchange agent for the exchange offer. Please direct questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for the notice of guaranteed delivery to the exchange agent. If you are not tendering under DTC's automated tender offer program, you should send the letter of transmittal and any other required documents to the exchange agent as follows:

Bank of New York

By Hand or by Courier:	By Mail (registered or certified mail recommended):
The Bank of New York Corporate Trust Services Window - Ground Level 101 Barclay Street New York, NY 10286	The Bank of New York Reorganization Department 101 Barclay Street - 7E New York, NY 10286

By Facsimile Transmission (eligible institutions only):

Confirm by Telephone:

Summary of Terms of the New Notes

The new notes will be freely tradeable and otherwise substantially identical to the outstanding notes. The new notes will not have registration rights or provisions for additional interest that the outstanding notes have. The new notes will evidence the same debt as the outstanding notes, and the outstanding notes and the new notes will constitute a single series of debt under the indenture. Unless the context otherwise indicates, the term "notes" refers to both the outstanding notes and the new notes.

Notes Offered....................	$300,000,000 principal amount of 7.125% Senior Notes due 2009
Maturity Date....................	June 15, 2009
Credit Agency Ratings............	At the time of the issuance of the outstanding notes, we received credit agency ratings of BBB- (Standard & Poor's) and Baa3

	(Moody's)
Interest Payment Dates............	Interest on the new notes will accrue from June 6, 2002, and will be payable on June 15 and December 15 each year, beginning on December 15, 2002
Optional Redemption...............	The notes will be redeemable as a whole or in part, at our option, at any time, at a redemption price equal to the greater of (1) the principal amount being redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below under "Description of the New Notes") plus 37.5 basis points, plus accrued and unpaid interest on the notes to the redemption date.
Ranking...........................	The new notes: . are unsecured and unsubordinated, . rank equally with all of our other existing and future unsecured and unsubordinated debt, and . will be structurally subordinated to all liabilities of our subsidiaries, including trade payables.
Restrictive Covenants.............	The outstanding notes have been and the new notes will be issued under an indenture containing covenants for your benefit. These covenants restrict our ability, with certain exceptions, to: . incur debt secured by liens, and . engage in sale/leaseback transactions. These covenants are described under the heading "Description of the New Notes - Certain Covenants of NCR" beginning on page 31.
Rights under Registration Rights Agreement.........................	If we fail to complete the exchange offer as required by the registration rights agreement, we may be obligated to pay additional interest to holders of the outstanding notes.
Absence of a Public Market for the New Notes.................	There is no existing market for the new notes. We cannot provide any assurance about:

- the liquidity of any markets that may develop for the new notes,
- your ability to sell your new notes, or
- the prices at which you will be able to sell your new notes.

Future trading prices of the new notes will depend on many factors, including:

- prevailing interest rates,
- our operating results,
- ratings of the new notes, and
- the market for similar securities.

The initial purchasers of the outstanding notes have advised us that they currently intend to make a market in the new notes we issue in the exchange offer. Those purchasers do not, however, have any obligation to do so, and they may discontinue any market-making activities at any time without notice. In addition, we do not intend to apply for listing of the new notes on any securities exchange or for quotation of the new notes in any automated dealer quotation system.

Risk Factors

You should carefully consider the risks below before making an investment decision. The risks and uncertainties described below are not the only ones relating to the new notes or facing NCR. Our business is subject to certain risks and uncertainties which are described in our periodic reports filed with the Securities and Exchange Commission, which reports are incorporated herein by reference. Further, additional risks and uncertainties not presently known to us or that we currently do not believe are material may also impair our business operations. If any of the following risks actually occurs, our business, financial condition or results of operations, and your investment in the new notes, could be materially adversely affected.

Risks Related to the Notes and the Exchange Offer

The new notes are unsecured and unsubordinated.

The new notes will not be secured by any of our assets. In addition, the new notes will rank equally with all of our other existing and future unsecured and unsubordinated debt.

The new notes are structurally subordinated to all liabilities, including trade payables, of our subsidiaries.

The new notes will be structurally subordinated to claims of creditors of our subsidiaries (other than us), including lessors, trade creditors, taxing authorities, creditors holding guarantees and tort claimants. In the event of a liquidation, reorganization or similar proceeding relating to a subsidiary, these persons generally will have priority as to the assets of that subsidiary over our claims and equity interest and, thereby indirectly, holders of our indebtedness, including the new notes.

The covenant restrictions in the new notes and in our other debt restrict our operations and finances.

We and our subsidiaries are subject to operating and financial restrictions contained in the instruments governing the new notes. Such restrictions will affect our ability, among other things, to:

- incur indebtedness secured by liens, and
- engage in sale/leaseback transactions.

The indenture for the new notes does not significantly limit our ability to issue more debt.

Except as described below under "Description of the New Notes - Certain Covenants of NCR" beginning on page 31, the indenture relating to the notes will not limit or restrict the amount of other indebtedness or securities that may be issued by us or our subsidiaries.

If you do not properly tender your outstanding notes, you will continue to hold unregistered outstanding notes and your ability to transfer outstanding notes will remain restricted and may be adversely affected.

We will only issue new notes in exchange for outstanding notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the outstanding notes and you should carefully follow the instructions on how to tender your outstanding notes. Neither we nor the exchange agent is required to tell you of any defects or irregularities with respect to your tender of outstanding notes.

If you do not exchange your outstanding notes for new notes pursuant to the exchange offer, the outstanding notes you hold will continue to be subject to the existing transfer restrictions. In general, you may not offer or sell the outstanding notes except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register outstanding notes under the Securities Act unless our registration rights agreement with the initial purchasers of the outstanding notes requires us to do so. Further, if you continue to hold any outstanding notes after the exchange offer is consummated, you may have trouble selling them because there will be fewer outstanding notes outstanding.

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If an active trading market does not develop for the new notes, you may be unable to sell the new notes or to sell the new notes at a price that you deem sufficient.

The new notes will be new securities for which there is no established trading market. Although we have registered the new notes under the Securities Act, we do not intend to apply for listing of the new notes on any securities exchange or for quotation of the new notes in any automated dealer quotation system. In addition, the initial purchasers of the outstanding notes have advised us that they intend to make a market in the new notes, as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to make a market in the new notes, and they may discontinue their market-making activities at any time without notice. Therefore, we cannot assure you that an active market for the new notes will develop or, if developed, that it will continue. Historically, the market for noninvestment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the new notes. We cannot assure you that the market, if any, for the new notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your

notes. In addition, subsequent to their initial issuance, the new notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, our performance and other factors. Finally, if a large number of holders of outstanding notes do not tender outstanding notes or tender outstanding notes improperly, the limited amount of new notes that would be issued and outstanding after we consummate the exchange offer could adversely affect the development of a market for the new notes.

Private Placement

On June 6, 2002, we issued the 7.125% Senior Notes due 2009 with an outstanding principal amount of $300,000,000. The notes were issued to the initial purchasers at the price of 99.486% of the principal amount.

We issued the outstanding notes to the initial purchasers in transactions exempt from or not subject to registration under the Securities Act. The initial purchasers then offered and resold the notes to qualified institutional buyers and non-U.S. persons to such purchasers at a price of 100% of the principal amount of those notes.

We received aggregate net proceeds of approximately $296,000,000 after expenses from the sale of the outstanding notes. We used those proceeds to repay a portion of our short-term borrowings and for general corporate purposes.

Use of Proceeds

We will not receive any cash proceeds from the issuance of the new notes. In consideration for issuing the new notes, we will receive in exchange a like principal amount of outstanding notes. The outstanding notes surrendered in exchange for the new notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the new notes will not result in any change in our capitalization.

Capitalization

The following table sets forth at June 30, 2002 our cash, cash equivalents and short-term investments, short-term borrowings and total long-term debt and stockholders' equity on an actual basis. As the sale of the outstanding notes was completed on June 6, 2002, this table gives effect to the issuance of the notes and for an increase in cash, cash equivalents and short-term investments pending the application of the remaining net proceeds as described under "Use of Proceeds." The table should be read in conjunction with our condensed consolidated financial statements and the notes to our condensed consolidated financial statements incorporated by reference into this prospectus, as well as "Use of Proceeds."

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Cash, cash equivalents and short-term investments	
Short-term borrowings	
Long-term debt:	
7.125% Senior Notes due 2009	
Other	
Total long-term debt	
Stockholders' equity:	
Preferred stock, par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding	
Common stock, par value $0.01 per share, 500.0 shares authorized, 100.5 shares issued and outstanding	
Paid-in capital	
Retained earnings	
Accumulated other comprehensive loss	
Total stockholders' equity	
Total long-term debt and stockholders' equity	

Selected Financial Data

The selected financial data set forth below at December 31 and for each of the five years in the period ended December 31, 2001, have been derived from our audited consolidated financial statements. The selected financial data at June 30, 2002 and June 30, 2001, and for the six-month periods then ended have been derived from our unaudited condensed consolidated financial statements and, in the opinion of our management, include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information set forth therein. The following selected financial data should be read in conjunction with the information contained in our consolidated financial statements and the notes to our consolidated financial statements incorporated by reference into this prospectus.

	Six Months Ended June 30,		Year Ended De		
	2002/(1)/	2001/(2)/	2001/(3)/	2000/(4)/	
			(dollars in millio		
Statement of Income Data:					
Product revenue	$ 1,322	$ 1,464	$ 3,048	$ 3,178	$
Service revenue	1,305	1,411	2,869	2,781	

Total revenue	2,627	2,875	5,917	5,959	
Cost of products	848	937	1,947	2,000	
Cost of services	1,028	1,065	2,176	2,092	
Selling, general and administrative expenses	574	680	1,315	1,329	
Research and development expenses	117	153	293	333	
Total operating expenses	2,567	2,835	5,731	5,754	
Income (loss) from operations	60	40	186	205	
Interest expense	6	10	18	13	
Other expense (income), net	12	3	44	(83)	
Income (loss) before income taxes and cumulative effect of accounting change	42	27	124	275	
Income tax expense (benefit)	12	(129)	(97)	97	
Income before cumulative effect of accounting change	30	156	221	178	
Cumulative effect of accounting change, net of tax	(348)	(4)	(4)	--	
Net income	$ (318)	$ 152	$ 217	$ 178	$
Balance Sheet Data (at period end):					
Cash, cash equivalents and short-term investments	$ 569	$ 327	$ 336	$ 357	$
Total assets	4,866	4,777	4,855	5,106	
Total debt	318	143	148	107	
Total stockholders' equity	1,726	1,968	2,027	1,758	
Other Data:					
Adjusted EBITDA/(7)/	$ 222	$ 288	$ 650	$ 625	$
Capital expenditures	44	89	141	216	
Ratio of earnings to fixed charges/(8)/	3.4x	2.3x	3.8x	7.6x	

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(1) Net income for 2002 includes the cumulative impact of adopting Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), resulting in a non-cash charge from goodwill impairment of $348 million ($350 million before tax). This charge is discussed in more detail in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, which is incorporated by reference into this prospectus.

(2) Income from operations for the first half of 2001 includes a $39 million provision for loans and receivables with Credit Card Center (CCC), $4 million of integration costs related to acquisitions, and $32

million of goodwill amortization which would otherwise be excluded with the adoption of SFAS 142 in 2002. Net income for the first half of 2001 includes the after-tax impacts of the aforementioned items, as well as a $1 million provision for interest receivables with CCC, a $138 million tax benefit from the resolution of international income tax issues, a $4 million cumulative effect of adopting SFAS 133, and $4 million of additional goodwill amortization. Excluding these items, income from operations and net income for the first half of 2001 would have been $115 million and $80 million, respectively.

(3) Income from operations for 2001 includes a $39 million provision for loans and receivables with CCC and $9 million of integration costs related to acquisitions. Net income for 2001 includes the after-tax impacts of a $39 million provision for loans and receivables with CCC, $9 million of integration costs related to acquisitions, $40 million for a charge associated with an environmental matter, a $1 million provision for interest receivables with CCC, a $138 million tax benefit from the resolution of international income tax issues and a $4 million cumulative effect of adopting SFAS 133. Excluding these items, the 2001 income from operations and net income would have been $234 million and $142 million, respectively.

(4) Income from operations for 2000 includes $38 million for restructuring and other related charges, $25 million for in-process research and development charges related to acquisitions, and $2 million for integration costs related to acquisitions. Excluding these items, the 2000 income from operations and net income would have been $270 million and $229 million, respectively.

(5) Income from operations for 1999 includes $125 million for restructuring and other related charges. Net income for 1999 includes the after-tax impacts of $125 million for restructuring and other related charges, $98 million of gains from significant asset dispositions and $232 million of favorable impact from a tax valuation allowance release. Excluding these items, the 1999 income from operations and net income would have been $203 million and $162 million, respectively.

(6) Income from operations for 1998 includes a $50 million non-recurring pension charge. Net income for 1998 includes the after-tax impacts of $50 million for a non-recurring pension charge and a $55 million significant gain from an asset disposition. Excluding these items, the 1998 income from operations and net income would have been $152 million and $119 million, respectively.

(7) Adjusted EBITDA is defined as income from operations plus that portion of depreciation and amortization included in operating income, and excluding the special items in income from operations described in footnotes (1) through (5) above. EBITDA is presented because it is commonly used by certain investors and analysts to analyze a company's ability to service debt. However, others may define EBITDA differently. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to operating income or net income as a measure of operating performance or to net cash provided by operating activities as a measure of liquidity.

(8) In calculating the ratio of earnings to fixed charges, earnings consist of income before tax plus fixed charges. Fixed charges consist of interest expense (which includes debt issuance costs) and one-third of rental expense, which we deem to be a reasonable estimate of the portion of our rental expense that is attributable to interest.

About NCR Corporation

We are a worldwide provider of information technology solutions. Our solutions are designed to enable businesses to build, expand and enhance their relationships with their customers by facilitating transactions and transforming transaction data into useful business information. Our customers include the world's top 10 retailers, 7 of the world's top 10 telecommunications companies, 6 of the world's top airlines, and the world's top technology companies and leading banks.

Our Retail Store Automation and Financial Self Service solutions enable companies to capture and process transaction-based information through our offerings at customer interaction points, such as point-of-sale workstations, automated-teller machines and web-enabled kiosks. In addition, our Data Warehousing solutions transform transaction-based information into knowledge, permitting businesses to respond with programs designed to improve customer acquisition, retention and profitability. These solutions are built on a foundation of long-established industry knowledge and consulting expertise, a range of hardware technology, value-adding software, global customer support services, and a complete line of consumable and media products.

Business Segments

We are organized into two operating businesses--the Retail and Financial Group and the Teradata Division. Our Retail and Financial Group includes the following four segments: Financial Self Service, Retail Store Automation, Systemedia, and Payment and Imaging solutions. The Teradata Division is comprised of our Data Warehousing segment. Each segment is comprised of hardware, software, professional consulting services and customer support services.

Financial Self Service Solutions. We are the world's leading provider of ATMs and related software and services that are designed to process high volumes of consumer transactions quickly and reliably. Our Financial Self Service solutions incorporate advanced features such as web-enablement, automated check cashing and deposit, bill payment, and the sale of non-cash items, enabling businesses to reduce costs, generate new revenue streams and build customer loyalty. For the twelve months ended December 31, 2001, this segment recorded $1.62 billion in revenue, including $479 million of customer services maintenance, or 27% of our total revenue.

Retail Store Automation Solutions. Our Retail Store Automation solutions include traditional retail solutions such as point-of-sale workstations and scanners, as well as advanced solutions in the emerging areas of self-checkout technologies, web-enabled kiosks and electronic shelf labels. These solutions are designed to improve selling productivity and checkout processes, and to increase service levels for retailers. For the twelve months ended December 31, 2001, this segment recorded $1.27 billion in revenue, including $438 million of customer services maintenance, or 21 % of our total revenue.

Data Warehousing Solutions. Our Data Warehousing solutions are built on our advanced Teradata data warehouse and data mining software and complemented by customer relationship management applications. These complex solutions help businesses, across a multitude of industries, synthesize large volumes of information about customers, suppliers and partners, allowing them to make the right decisions to drive growth and profitability. For example, one of our major

airline customers uses a Teradata data warehouse to help its front-line agents decide which passengers will be assigned the remaining seats on an overbooked flight by examining the purchasing history and profitability of the remaining ticketed passengers in a matter of seconds. For the twelve months ended December 31, 2001, this segment recorded $1.15 billion in revenue, including $192 million of customer services maintenance, or 19% of our total revenue.

Systemedia. Systemedia develops, produces and markets a complete line of business consumables. These products include paper rolls for ATMs and point-of-sale workstations, labels, paper products, and imaging supplies for printers. Systemedia products are designed to reduce paper-related failures and enable businesses to improve transaction accuracy while reducing overall costs. For the twelve months ended December 31, 2001, this segment recorded $503 million in revenue, or 9% of our total revenue.

Payment and Imaging. Our Payment and Imaging solutions consist of hardware, software, and consulting and support services that enable comprehensive check and item-based transactions to be digitally captured, processed and retained within a flexible, scalable environment. Payment and Imaging solutions utilize advanced image recognition and workflow technologies to automate item processing, helping financial industry businesses increase efficiency and reduce operating costs. For the twelve months ended December 31, 2001, this segment recorded $301 million in revenue, or 5% of our total revenue.

Objectives and Strategy

Our top strategic priorities are to grow our revenues and to focus on expense reduction and operational excellence. Our objectives supporting these three strategic priorities include:

Revenue Growth. Our Retail and Financial Group plans to grow revenue by using new products and services to expand under-served markets, focusing on geographic expansion to reach new customers and countries, selling more solutions to existing customers, and utilizing new sales channels. The Teradata Division plans to grow revenue through new customers and data warehousing upgrades for existing customers. We plan to add new Teradata customers by demonstrating (1) a powerful return on investment for leading global businesses and (2) the cost reduction strategy of implementing an enterprise data warehouse to replace an existing data mart configuration. We also expect to obtain new data warehouse business by upgrading existing customers' data warehouses to solve additional business problems.

Margin Improvement. Our Retail and Financial Group is focused on reducing product costs through product redesign, procurement initiatives, and resource shifts, as well as increasing productivity through process improvement actions. Our Teradata Division is leveraging its significant achievement in 2001--driving operational excellence and cost discipline throughout the organization to lower its break-even point. As a result, this division expects to meet its goal of profitability for the full year 2002.

Operational Excellence. We are continuously working to improve our processes, especially when they impact our customers and their perception of us as a world-class solutions provider. This effort includes initiatives relating to fulfillment processes, installation and service delivery times, and project management, among other things.

Our History

We were originally established in 1884 as a cash register manufacturer and have evolved through the mechanical era to the electronic era to the digital era. In 1991, we were acquired by AT&T Corp. and then later spun-off at the end of 1996 and became a public company through a distribution of our stock to existing AT&T stockholders. Since that time, we have transformed ourselves from a loss-generating commodity hardware provider into a profitable solutions company.

We are a Maryland corporation with operations in over 100 countries. Our principal executive offices are at 1700 S. Patterson Boulevard, Dayton, Ohio, 45479, and our telephone number is (937) 445-5000.

The Exchange Offer

Purpose of the Exchange Offer

In connection with the sale of the outstanding notes, we entered into a registration rights agreement with the initial purchasers of the outstanding notes. In this agreement, we agreed to file a registration statement relating to an offer to exchange the outstanding notes for new notes. We also agreed to use commercially reasonable efforts to complete the exchange offer within 200 days after the issue date of those notes. We are offering the new notes under this prospectus to satisfy our obligations under the registration rights agreement.

Resale of New Notes

Based on interpretations of the SEC staff in no-action letters issued to third parties, we believe that each new note issued in the exchange offer may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act if:

- you are not our "affiliate" within the meaning of Rule 405 under the Securities Act,
- you acquire such new notes in the ordinary course of your business, and
- you do not intend to participate in the distribution of the new notes.

If you tender your outstanding notes in the exchange offer with the intention of participating in any manner in a distribution of the new notes, you:

- cannot rely on such interpretations by the SEC staff, and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

Unless an exemption from registration is otherwise available, the resale by any securityholder intending to distribute new notes should be covered by an effective registration statement under the Securities Act containing the selling securityholder's information required by Item 507 of Regulation S-K under the Securities Act. This prospectus may be used for an offer to resell, resale or other retransfer of new notes only as specifically described in this prospectus.

Only those broker-dealers that acquired the outstanding notes as a result of market-making activities or other trading activities may participate in the exchange offer.

We believe that you may not transfer new notes issued in the exchange offer in exchange for the outstanding notes if you are:

- our "affiliate" within the meaning of Rule 405 under the Securities Act,
- a broker-dealer that acquired outstanding notes directly from us, or
- a broker-dealer that acquired outstanding notes as a result of market-making or other trading activities without compliance with the registration and prospectus delivery provisions of the Securities Act.

To date, the staff of the SEC has taken the position that participating broker-dealers may fulfill their prospectus delivery requirements with respect to transactions involving an exchange of notes such as this exchange offer, other than a resale of an unsold allotment from the original sale of the outstanding notes, with the prospectus contained in the exchange offer registration statement. In the registration rights agreement, we have agreed to permit participating broker-dealers to use this prospectus in connection with the resale of new notes. We have agreed that, for a period of up to 180 days after the expiration of the exchange offer, we will make this prospectus, and any amendment or supplement to this prospectus, available to any broker-dealer that requests such documents in the letter of transmittal.

We will not receive any proceeds from any sale of new notes by broker-dealers. New notes received by broker-dealers for their own account in the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market:

- in negotiated transactions,
- through the writing of options on the new notes, or
- a combination of such methods of resale.

The prices at which these sales occur may be:

- at market prices prevailing at the time of resale,
- at prices related to such prevailing market prices, or
- at negotiated prices.

Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such new notes. Any broker-dealer that resells new notes that it received for its own account in the exchange offer and any broker or dealer that participates in a distribution of new notes may be deemed to be an "underwriter" within the meaning of the Securities Act. Any profit on any resale of new notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

Terms of the Exchange Offer

Upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal, we will accept for exchange any outstanding notes properly tendered and not withdrawn prior to the expiration date. We will issue $1,000 principal amount of new notes in exchange for each $1,000 principal amount of outstanding notes surrendered under the exchange offer. Outstanding notes may be tendered only in integral multiples of $1,000.

The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered for exchange or upon the consummation of any other exchange offer.

As of the date of this prospectus, $300,000,000 aggregate principal amount of the outstanding notes are outstanding. This prospectus and the letter of transmittal are being sent to all registered holders of outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offer.

We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement, the applicable requirements of the Securities Act and the Securities Exchange Act of 1934 and the rules and regulations of the SEC. Outstanding notes that are not tendered for exchange in the exchange offer:

- will remain outstanding,

- will continue to accrue interest,

- will be entitled to the rights and benefits that holders have under the indenture relating to the notes, and

- will no longer be entitled to any further rights under the registration rights agreement, except under limited circumstances.

We will be deemed to have accepted for exchange properly tendered outstanding notes when we have given oral or written notice of the acceptance to the exchange agent and complied with the applicable provisions of the registration rights agreement. The exchange agent will act as agent for the tendering holders for the purposes of receiving the new notes from us.

If you tender outstanding notes in the exchange offer, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes. We will pay all charges and expenses in connection with the exchange offer, other than certain applicable taxes described below, and certain incidental expenses. It is important that you read the section labeled "--Fees and Expenses" for more details about fees and expenses incurred in the exchange offer.

We will return any outstanding notes that we do not accept for exchange for any reason without expense to the tendering holder as promptly as practicable after the expiration or termination of the exchange offer.

Expiration Date

Each exchange offer will expire at 5:00 p.m., New York City time, on ,

2002, unless in our sole discretion we extend it.

Extensions, Delay in Acceptance, Termination or Amendment

We expressly reserve the right, at any time or at various times, to extend the period of time during which the exchange offer is open. During any such extensions, all outstanding notes you have previously tendered will remain subject to the exchange offer, and we may accept them for exchange.

To extend the exchange offer, we will notify the exchange agent orally or in writing of any extension. We also will make a public announcement of the extension no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

If any of the conditions described below under "--Conditions to the Exchange Offer" have not been satisfied, we reserve the right, in our sole discretion:

. to delay accepting for exchange any outstanding notes,

. to extend the exchange offer, or

. to terminate the exchange offer.

We will give oral or written notice of such delay, extension or termination to the exchange agent. Subject to the terms of the registration rights agreement, we also reserve the right to amend the terms of the exchange offer in any manner.

Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice thereof to the registered holders of outstanding notes. If we amend the exchange offer in a manner that we determine to constitute a material change, we will promptly disclose that amendment by means of a prospectus supplement. We will distribute the supplement to the registered holders of the outstanding notes. Depending upon the significance of the amendment and the manner of disclosure to the registered holders, we will extend the exchange offer if the exchange offer would otherwise expire during such period.

Without limiting the manner in which we may choose to make public announcements of any delay in acceptance, extension, termination or amendment of the exchange offer, we have no obligation to publish, advertise

or otherwise communicate any such public announcement, other than by making a timely release to an appropriate news agency.

Conditions to the Exchange Offer

Despite any other term of the exchange offer, we will not be required to accept for exchange, or exchange any new notes for, any outstanding notes, and we may terminate the exchange offer as provided in this prospectus before accepting any outstanding notes for exchange, if in our reasonable judgment:

. the exchange offer, or the making of any exchange by a holder of outstanding notes, would violate applicable law or any applicable interpretation of the staff of the SEC, or

. any action or proceeding has been instituted or threatened in any

court or by or before any governmental agency with respect to the exchange offer that, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer.

In addition, we will not be obligated to accept for exchange the outstanding notes of any holder that has not made to us:

- the representations described under "--Resale of New Notes" and "--Procedures for Tendering" and
- such other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to make available to us an appropriate form for registering the new notes under the Securities Act.

We expressly reserve the right to amend or terminate the exchange offer, and to reject for exchange any outstanding notes not previously accepted for exchange, upon the occurrence of any of the conditions to the exchange offer specified above. We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable.

These conditions are for our sole benefit, and we may assert them or waive them in whole or in part at any time or at various times in our sole discretion. Our failure at any time to exercise any of these rights will not mean that we have waived our rights. Each right will be deemed an ongoing right that we may assert at any time or at various times.

In addition, we will not accept for exchange any outstanding notes tendered, and will not issue new notes in exchange for any such outstanding notes, if at such time any stop order has been threatened or is in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture relating to the notes under the Trust Indenture Act of 1939.

Procedures for Tendering

How to Tender Generally

Only a holder of outstanding notes may tender such outstanding notes in the exchange offer. To tender in the exchange offer, a holder must:

- complete, sign and date the letter of transmittal or a facsimile of the letter of transmittal; have the signature on the letter of transmittal guaranteed if the letter of transmittal so requires; mail or deliver the letter of transmittal or facsimile to the exchange agent prior to the expiration date; and deliver the outstanding notes to the exchange agent prior to the expiration date or comply with the guaranteed delivery procedures described below, or
- comply with the automated tender offer program procedures of DTC, as discussed below.

In addition, either:

- the exchange agent must receive outstanding notes along with the letter of transmittal,

- the exchange agent must receive, prior to the expiration date, a timely confirmation of book-entry transfer of such outstanding notes into the exchange agent's account at DTC according to the procedure for book-entry transfer described below or a properly transmitted agent's message, or

- the holder must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the exchange agent must receive any physical delivery of the letter of transmittal and other required documents at its address provided above under "Prospectus Summary--The Exchange Agent" prior to the expiration date.

To complete a tender through DTC's automated tender offer program, the exchange agent must receive, prior to the expiration date, a timely confirmation of book-entry transfer of such outstanding notes into the exchange agent's account at DTC according to the procedure for book-entry transfer described below or a properly transmitted agent's message.

The tender by a holder that is not withdrawn prior to the expiration date and our acceptance of that tender will constitute an agreement between the holder and us in accordance with the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of outstanding notes, the letter of transmittal and all other required documents to the exchange agent is at your election and risk. Rather than mail these items, we recommend that you use an overnight or hand delivery service. In all cases, you should allow sufficient time to assure delivery to the exchange agent before the expiration date. You should not send the letter of transmittal or outstanding notes to us. You may request your broker, dealer, commercial bank, trust company or other nominee to effect the above transactions for you.

How to Tender If You Are a Beneficial Owner

Beneficial owners of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee wishing to tender those notes should contact the registered holder as soon as possible and instruct the registered holder to tender on your behalf. Beneficial owners who wish to tender on their own behalf must, prior to completing and executing the letter of transmittal and delivering their outstanding notes, either:

- make appropriate arrangements to register ownership of the outstanding notes in their name, or

- obtain a properly completed bond power from the registered holder of outstanding notes.

The transfer of registered ownership may take considerable time and may not be completed prior to the expiration date.

Signatures and Signature Guarantees

You must have signatures on a letter of transmittal or a notice of withdrawal described below guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., (NASD) a commercial bank or trust company having an office or correspondent in the United States, or an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Securities Exchange Act of 1934, that is a member of one of the recognized signature guarantee programs identified in the letter of transmittal, unless the outstanding notes are tendered:

- by a registered holder who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal and the new notes are being issued directly to the registered holder of the outstanding notes tendered in the exchange for those new notes

- for the account of a member firm of a registered national securities exchange or of the NASD, a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution.

When Endorsements or Bond Powers Are Needed

If a person other than the registered holder of any outstanding notes signs the letter of transmittal, the outstanding notes must be endorsed or accompanied by a properly completed bond power. The bond power must be signed by the registered holder as the registered holder's name appears on the outstanding notes and a member firm of a registered national securities exchange or of the NASD, a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution must guarantee the signature on the bond power.

If the letter of transmittal or any outstanding notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, those persons should so indicate when signing. Unless we waive this requirement, they also must submit evidence satisfactory to us of their authority to deliver the letter of transmittal.

Tendering Through DTC's Automated Tender Offer Program

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC's system may use DTC's automated tender offer program to tender. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, transmit their acceptance of the exchange offer electronically. They may do so by causing DTC to transfer the outstanding notes to the exchange agent in accordance with its procedures for transfer. DTC will then send an agent's message to the exchange agent.

An "agent's message" is a message transmitted by DTC to and received by the exchange agent and forming part of the book-entry confirmation, stating that:

- DTC has received an express acknowledgment from a participant in DTC's automated tender offer program that is tendering outstanding notes that are the subject of such book-entry confirmation,

- the participant has received and agrees to be bound by the terms of the letter of transmittal or, in the case of an agent's message relating to guaranteed delivery, the participant has received and agrees to be bound by the applicable notice of guaranteed delivery, and

- we may enforce the agreement against such participant.

Determinations Under the Exchange Offer

We will determine in our sole discretion all questions as to the validity, form, eligibility, time of receipt, acceptance of tendered outstanding notes and withdrawal of tendered outstanding notes. Our determination will be final and binding. We reserve the absolute right to reject any outstanding notes not properly tendered or any outstanding notes our acceptance of which, in the opinion of our counsel, might be unlawful. We also reserve the right to waive any defects, irregularities or conditions of the exchange offer as to particular outstanding notes. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties.

Unless waived, any defects or irregularities in connection with tenders of outstanding notes must be cured within such time as we determine. Neither we, the exchange agent nor any other person will be under any duty to

give notification of defects or irregularities with respect to tenders of outstanding notes, nor will we or those persons incur any liability for failure to give such notification. Tenders of outstanding notes will not be deemed made until such defects or irregularities have been cured or waived. Any outstanding notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned to the tendering holder, unless otherwise provided in the letter of transmittal, as soon as practicable following the expiration date.

When We Will Issue New Notes

In all cases, we will issue new notes for outstanding notes that we have accepted for exchange in the exchange offer only after the exchange agent timely receives:

- outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent's account at DTC, and
- a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent's message.

Return of Outstanding Notes Not Accepted or Exchanged

If we do not accept any tendered outstanding notes for exchange for any reason described in the terms and conditions of the exchange offer or if outstanding notes are submitted for a greater principal amount than the holder desires to exchange, we will return the unaccepted or non-exchanged outstanding notes without expense to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC according to the procedures described below, such non-exchanged outstanding notes will be credited to an account maintained with DTC. These actions will occur as promptly as practicable after the expiration or termination of the exchange offer.

Your Representations to Us

By signing or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:

- any new notes that you receive will be acquired in the ordinary course of your business,
- you have no arrangement or understanding with any person to

participate in the distribution of the new notes,

- you are not our "affiliate," as defined in Rule 405 under the Securities Act, or, if you are our affiliate, that you will comply with the applicable registration and prospectus delivery requirements of the Securities Act,

- if you are not a broker-dealer, you are not engaged in and do not intend to engage in the distribution of the new notes, and

- if you are a broker-dealer that will receive new notes for your own account in exchange for outstanding notes that you acquired as a result of market-making activities or other trading activities, you will deliver a prospectus, as required by law, in connection with any resale of such new notes.

Book-Entry Transfer

The exchange agent will make a request to establish an account with respect to the outstanding notes at DTC for purposes of the exchange offer promptly after the date of this prospectus. Any financial institution participating in DTC's system may make book-entry delivery of outstanding notes by causing DTC to transfer such outstanding notes into the exchange agent's account at DTC in accordance with DTC's procedures for transfer. If

you are unable to deliver confirmation of the book-entry tender of your outstanding notes into the exchange agent's account at DTC or all other documents required by the letter of transmittal to the exchange agent on or prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If you wish to tender your outstanding notes but they are not immediately available or if you cannot deliver your outstanding notes, the letter of transmittal or any other required documents to the exchange agent or comply with the applicable procedures under DTC's automated tender offer program prior to the expiration date, you may tender if:

- the tender is made through a member firm of a registered national securities exchange or of the NASD, a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution,

- prior to the expiration date, the exchange agent receives from such member firm of a registered national securities exchange or of the NASD, commercial bank or trust company having an office or correspondent in the United States, or eligible guarantor institution either a properly completed and duly executed notice of guaranteed delivery by facsimile transmission, mail or hand delivery or a properly transmitted agent's message and notice of guaranteed delivery:

    - stating your name and address, the registered number(s) of your outstanding notes and the principal amount of outstanding notes tendered,

    - stating that the tender is being made thereby,

  - guaranteeing that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal or facsimile thereof or agent's message in lieu thereof, together with the outstanding notes or a book-entry confirmation, and any other documents required by the letter of transmittal will be deposited by the eligible guarantor institution with the exchange agent, and

- the exchange agent receives such properly completed and executed letter of transmittal or facsimile or agent's message, as well as all tendered outstanding notes in proper form for transfer or a book-entry confirmation, and all other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the expiration date.

Upon request to the exchange agent, the exchange agent will send a notice of guaranteed delivery to you if you wish to tender your outstanding notes according to the guaranteed delivery procedures described above.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw your tender at any time prior to 5:00 p.m., New York City time, on the expiration date (unless previously accepted for exchange).

For a withdrawal to be effective:

- the exchange agent must receive a written notice of withdrawal at one of the addresses listed above under "Prospectus Summary--The Exchange Agent," or

- the withdrawing holder must comply with the appropriate procedures of DTC's automated tender offer program system.

Any notice of withdrawal must:

- specify the name of the person who tendered the outstanding notes to be withdrawn,

- identify the outstanding notes to be withdrawn, including the registration number or numbers and the principal amount of such outstanding notes,

- be signed by the person who tendered the outstanding notes in the same manner as the original signature on the letter of transmittal used to deposit those outstanding notes (or be accompanied by documents of transfer sufficient to permit the trustee to register the transfer into the name of the person withdrawing the tender), and

- specify the name in which such outstanding notes are to be registered, if different from that of the person who tendered the outstanding notes.

If outstanding notes have been tendered under the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of DTC.

We will determine all questions as to the validity, form, eligibility and time of receipt of notice of withdrawal, and our determination shall be final and binding on all parties. We will deem any outstanding notes so withdrawn not to have been validly tendered for exchange for purposes of the exchange offer.

Any outstanding notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder without cost to the holder or, in the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC according to the procedures described above, such outstanding notes will be credited to an account maintained with DTC for the outstanding notes. This return or crediting will take place as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. You may retender properly withdrawn outstanding notes by following one of the procedures described under "--Procedures for Tendering" above at any time on or prior to the expiration date.

Fees and Expenses

We will bear the expenses of soliciting tenders. The principal solicitation is being made by mail; however, we may make additional solicitation by facsimile, email, telephone or in person by our officers and regular employees and those of our affiliates.

We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to broker-dealers or others soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and reimburse it for its related reasonable out-of-pocket expenses. We may also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this prospectus, letters of transmittal and related documents to the beneficial owners of the outstanding notes and in handling or forwarding tenders for exchange.

We will pay certain expenses to be incurred in connection with the exchange offer or, if necessary, the shelf registration statement. They include:

- SEC registration fees,
- fees and expenses of the exchange agent and trustee,
- certain accounting and legal fees as well as printing costs, and
- certain related fees and expenses.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchange of outstanding notes in the exchange offer. The tendering holder will, however, be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing new notes or outstanding notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of outstanding notes tendered,
- tendered outstanding notes are registered in the name of any person

other than the person signing the letter of transmittal, or

- a transfer tax is imposed for any reason other than the exchange of outstanding notes in the exchange offer including, but not limited to, the imposition of a transfer tax related to a shelf registration statement.

If satisfactory evidence of payment of any transfer taxes payable by a note holder is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to that tendering holder.

Consequences of Failure to Exchange

If you do not exchange your outstanding notes for new notes in the exchange offer, you will remain subject to the existing restrictions on transfer of the outstanding notes.

In general, you may not offer or sell the outstanding notes unless either they are registered under the Securities Act or the offer or sale is exempt from or not subject to registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. Based on interpretations of the SEC staff, holders may offer for resale, resell or otherwise transfer new notes issued in the exchange offer without compliance with the registration and prospectus delivery provisions of the Securities Act, if:

- they are not the Company's "affiliate" within the meaning of Rule 405 under the Securities Act,
- they acquired the new notes in the ordinary course of their business, and
- they have no arrangement or understanding with respect to the distribution of the new notes to be acquired in the exchange offer.

If a holder tenders in the exchange offer for the purpose of participating in a distribution of the new notes, it:

- cannot rely on the applicable interpretations of the SEC, and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

Accounting Treatment

No gain or loss for accounting purposes will be recognized by us upon the consummation of the exchange offer. We will amortize our expenses of the exchange offer over the term of the new notes under generally accepted accounting principles.

Other

Participation in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your decision on what action to take. In the future,

we may seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plan to acquire any outstanding notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered outstanding notes, except as required by the registration rights agreement.

Description of the New Notes

We will issue the new notes, and we issued the outstanding notes, under an indenture, dated as of June 1, 2002, between NCR and The Bank of New York, as trustee, as supplemented by supplemental indenture no. 1 thereto, dated as of June 6, 2002 (which are referred to collectively as the "indenture").

The following discussion summarizes selected provisions of the indenture under which the new notes will be issued. Because this is only a summary, it is not complete and does not describe every aspect of the new notes and the indenture. Whenever there is a reference to particular sections or defined terms of the indenture, the sections or defined terms are incorporated by reference, and the statement is qualified in its entirety by that reference. Capitalized terms are terms that are defined in the indenture. References to "NCR," "we," or "us" in this description of the notes refers to only NCR Corporation, the issuer of the notes.

If the exchange offer contemplated by this prospectus is consummated, holders of outstanding notes who do not exchange those notes for new notes in the exchange offer will vote together with holders of new notes for all relevant purposes under the indenture. In that regard, the indenture requires that certain actions by the holders pursuant to the indenture, including acceleration following an Event of Default (as defined below), must be taken, and certain rights must be exercised, by specified minimum percentages of the aggregate principal amount of the outstanding notes issued under the indenture. In determining whether holders of the requisite percentage in principal amount have given any notice, consent or waiver or taken any other action permitted under the indenture, any outstanding notes that remain outstanding after the exchange offer will be aggregated with the new notes, and the holders of such outstanding notes and the new notes will vote together as a single series for all such purposes. Accordingly, all references herein to specified percentages in aggregate principal amount of the notes outstanding is deemed to mean, at any time after the exchange offer is consummated, such percentages in aggregate principal amount of the outstanding notes and the new notes then outstanding.

A copy of the indenture has been filed as an exhibit to the registration statement which includes this prospectus. You should read the indenture for provisions that may be important to you but which are not included in this summary.

General Terms of the New Notes

The new notes will mature on June 15, 2009 at 100% of their principal amount.

The new notes:

- are unsecured and unsubordinated,
- rank equally with all of our other existing and future unsecured and unsubordinated debt, and

- will be structurally subordinated to all liabilities of our subsidiaries, including trade payables.

The indenture does not limit the amount of notes, debentures or other evidences of indebtedness that we may issue thereunder and provides that notes, debentures or other evidences of indebtedness may be issued from time to time in one or more series. We may from time to time, without giving notice to or seeking the consent of the holders of the new notes, issue notes having the same ranking and the same interest rate, maturity and other terms as the new notes issued in the exchange offer. Any additional notes having such similar terms, together with the applicable notes, will constitute a single series of notes under the indenture.

The new notes will bear interest at 7.125% per annum from June 6, 2002. We:

- will pay interest semiannually on June 15 and December 15 of each year, beginning on December 15, 2002,

- will pay interest to the persons in whose names the new notes were registered at the close of business on the next preceding June 1 and December 1, respectively,

- will compute interest on the basis of a 360-day year comprised of twelve 30-day months,

- will make payment of interest and principal payable, and the new notes will be transferable or exchangeable, at the office or offices or agency maintained by us for this purpose, and

- may make payments by wire transfer for new notes held in book-entry form or by check mailed to registered holders at our option.

Any payment otherwise required to be made in respect of the new notes on a date that is not a business day may be made on the next succeeding business day with the same force and effect as if made on that date. No additional interest shall accrue as a result of a delayed payment. A business day is defined in the indenture as a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

The new notes will be issued, and the outstanding notes were issued, only in fully registered form without coupons in denominations of $1,000 or any whole multiple of $1,000. No service charge will be made for any transfer or exchange of the outstanding notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange. The new notes will be represented, and the outstanding notes are represented, by one or more global notes registered in the name of a nominee of DTC. Except as described under "Book-Entry; Delivery and Form" below, the new notes will not be issuable in certificated form.

We have appointed the trustee at its corporate trust office as the paying agent, transfer agent and registrar for the new notes. We will cause the registrar to keep at its offices a registrar in which, subject to such reasonable regulations as we may prescribe, we will provide for the registration of the new notes and registration of transfers of the new notes. We may vary or terminate the appointment of the paying agent or transfer agent, or appoint

additional or other such agents or approve any change in the office through which any such agent acts. We will provide you with notice of any resignation, termination or appointment of the trustee or the paying agent or transfer agent, and of any change in the office through which any such agent will act.

Optional Redemption

The new notes may be redeemed, in whole or in part, at our option at any time or from time to time. The redemption price for the new notes to be redeemed on any redemption date will be equal to the greater of the following amounts:

- 100% of the principal amount of the new notes being redeemed on the redemption date, or

- the sum of the present values of the remaining scheduled payments of principal and interest on the new notes being redeemed on that redemption date (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis at the Treasury Rate (as defined below), as determined by the Reference Treasury Dealer (as defined below), plus 37.5 basis points,

plus, in each case, accrued and unpaid interest on the new notes to the redemption date. Notwithstanding the foregoing, installments of interest on new notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the new notes and the indenture. The redemption price will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each registered holder of the new notes to be redeemed. Once notice of redemption is mailed, the notes called

for redemption will become due and payable on the redemption date and at the applicable redemption price, plus accrued and unpaid interest to the redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

"Comparable Treasury Price" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Quotations, or (C) if only one Reference Treasury Dealer Quotation is received, such Quotation.

"Reference Treasury Dealer" means (A) Salomon Smith Barney Inc., Banc One Capital Markets, Inc. or one of the other initial purchasers (or their respective affiliates which are Primary Treasury Dealers), and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), we will substitute therefor another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) selected by us.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the new notes or any portion of the new notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of and accrued interest on the new notes to be redeemed on that date. If less than all of the new notes are to be redeemed, the new notes to be redeemed shall be selected by lot by DTC, in the case of new notes represented by a global note, or by the trustee by a method the trustee deems to be fair and appropriate, in the case of new notes that are not represented by a global note. The new notes will not be entitled to the benefit of any mandatory redemption or sinking fund.

Certain Covenants of NCR

There are no covenants or other provisions which would offer protection to note holders in the event of a highly leveraged transaction, rating downgrade or similar occurrence. Described below are certain covenants of NCR under the indenture:

Limitations on Liens

Under the indenture, if we or any of our Restricted Subsidiaries (as defined below) incur debt that is secured by a Principal Property (as defined below) or stock or debt of a Restricted Subsidiary, we must secure the notes at least equally and ratably with the secured debt.

The foregoing restriction shall not apply to:

- liens on property, shares of stock or indebtedness (herein referred to as "Property") of any corporation existing at the time such corporation becomes a Restricted Subsidiary,

- liens arising out of an acquisition,
- purchase money and construction liens which are entered into or for which commitments are received within a certain time period,
- liens in our favor or in favor of a Restricted Subsidiary,
- liens on property owned or leased by us or a Restricted Subsidiary in favor of a governmental entity or in favor of the holders of securities issued by any such entity, pursuant to any contract or

statute (including liens to secure debt of the industrial revenue bond type) or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction of the property subject to such liens,

- liens existing at the date of the indenture,
- certain landlords' liens,
- liens to secure partial, progress, advance or other payments or any debt incurred for the purpose of financing all or part of the purchase price or cost of construction, development or substantial repair, alteration or improvement of the property subject to such lien if the commitment for such financing is obtained within one year after completion of or the placing into operation of such constructed, developed, repaired, altered or improved property,
- liens arising in connection with contracts with or made at the request of governmental entities,
- mechanics' and similar liens arising in the ordinary course of business in respect of obligations not due or being contested in good faith,
- liens arising from deposits with or the giving of any form of security to any governmental authority required as a condition to the transaction of business or exercise of any privilege, franchise or license,
- liens for taxes, assessments or governmental charges or levies which, if delinquent, are being contested in good faith,
- liens (including judgment liens) arising from legal proceedings being contested in good faith, or
- any extension, renewal or replacement of these categories of liens.

However, if the total amount of our secured debt and the present value of any remaining rent payments for certain sale and leaseback transactions involving a Principal Property would not exceed 15% of our consolidated net tangible assets, this requirement does not apply.

Sale and Leaseback

We will not enter, nor will we permit any Restricted Subsidiary to enter, into a sale and leaseback transaction of any Principal Property (except for temporary leases for a term of not more than three years and except for leases between us and a Restricted Subsidiary or between Restricted Subsidiaries) unless:

- we or such Restricted Subsidiary would be entitled to issue, assume or guarantee debt secured by the property involved at least equal in amount to the Attributable Debt (as defined below) in respect of such transaction without equally and ratably securing the notes (provided that such Attributable Debt shall thereupon be deemed to be debt subject to the provisions of the preceding paragraph), or

- an amount in cash equal to such Attributable Debt is applied to the

non-mandatory retirement of our long-term non-subordinated debt or long-term debt of a Restricted Subsidiary.

Definitions

The term "Attributable Debt" is defined as the present value (discounted at an appropriate rate) of the obligation of a lessee for rental payments during the remaining term of any lease.

The term "Subsidiary" is defined to mean any corporation which is consolidated in our accounts and any corporation of which at least a majority of the outstanding stock having voting power under ordinary circumstances to elect a majority of the board of directors of that corporation is at the time owned or controlled solely by us or in conjunction with or by one or more Subsidiaries.

The term "Restricted Subsidiary" is defined to mean any Subsidiary:

- substantially all the property of which is located within the continental United States,
- which owns a Principal Property, and
- in which our investment exceeds 5% of our consolidated assets as shown on our latest quarterly financial statements.

However, the term "Restricted Subsidiary" does not include any Subsidiary which is principally engaged in certain types of leasing and financing activities.

The term "Principal Property" is defined to mean any manufacturing, warehouse, distribution or research and development plant or facility which is located within the continental United States and is owned by us or any Restricted Subsidiary. Our board of directors (or any duly authorized committee of the board of directors) by resolution may create an exception by declaring that any such plant or facility, together with all other plants and facilities previously so declared, is not of material importance to the total business conducted by us and our Restricted Subsidiaries as an entirety.

Events of Default

An "Event of Default" with respect to the notes is defined as being:

- default for 30 days in payment of interest on any security,
- default in payment of principal of (or premium, if any, on) any security as and when the same becomes due either upon maturity, by declaration or otherwise,
- default by us in the performance of any of the other covenants or agreements in the indenture relating to the notes which shall not have been remedied within a period of 90 days after notice by the trustee or holders of at least 25% in aggregate principal amount of the notes then outstanding, or
- certain events of bankruptcy, insolvency or reorganization of NCR.

The indenture provides that the trustee shall, with certain exceptions, notify the holders of the notes of any Event of Default known to it and affecting that series within 90 days after the occurrence of the Event of Default.

The indenture provides that if an Event of Default with respect to the notes shall have occurred and is continuing (other than an event of default

specified in the last bullet point above), either the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the principal amount of all of the notes to be due and payable immediately. However, upon certain conditions such declaration may be annulled and past uncured defaults may be waived by the holders of a majority in principal amount of the notes then

outstanding. If any event of default specified in the last bullet point above occurs with respect to us, all unpaid principal of, and premium, if any, and accrued and unpaid interest and liquidated damages, if any, on the notes then outstanding will automatically become due and payable without any declaration or other act on the part of the trustee or any holder of notes.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default shall occur and be continuing, the trustee shall be under no obligation to exercise any of the rights or powers in the indenture at the request or direction of any of the holders of the notes, unless the holders shall have offered to the trustee reasonable security or indemnity. Subject to the provisions for security or indemnification and certain limitations contained in the indenture, the holders of a majority in principal amount of the outstanding notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee under the indenture or exercising any trust or power conferred on the trustee with respect to the notes. The indenture requires the annual filing by us with the trustee of a certificate as to compliance with certain covenants contained in the indenture.

No holder of any note will have any right to institute any proceeding with respect to the indenture or for any remedy thereunder, unless the holder shall have previously given the trustee written notice of an Event of Default with respect to the notes and also the holders of at least 25% in aggregate principal amount of the outstanding notes shall have made written request, and offered indemnity satisfactory to the trustee, to the trustee to institute such proceeding as trustee, and the trustee shall not have received from the holders of a majority in aggregate principal amount of the outstanding notes a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days. However, any right of a holder of any note to receive payment of the principal of (and premium, if any) and any interest on such note on or after the due dates expressed in such note and to institute suit for the enforcement of any such payment on or after such dates shall not be impaired or affected without the consent of such holder.

Merger, Consolidation or Sale of Assets

If, as a result of any consolidation or merger of NCR or any Restricted Subsidiary with or into any other corporation, or upon any sale, conveyance or lease of substantially all the properties of NCR or any Restricted Subsidiary, any Principal Property or any shares of stock or indebtedness of any Restricted Subsidiary becomes subject to a mortgage, pledge, security interest or other lien or encumbrance, we will effectively provide that the notes shall be secured equally and ratably by a direct lien on such Principal Property, shares of stock or indebtedness. The lien should be prior to all liens other than any liens already existing thereon, so long as the Principal Property, shares of stock or indebtedness are subject to such mortgage, security interest, pledge, lien or encumbrance.

Satisfaction and Discharge of Indenture

The indenture, except for certain specified surviving obligations, will be discharged and canceled upon the satisfaction of certain conditions, including the payment of all the notes or the deposit with the trustee of cash or appropriate government obligations or a combination of the two sufficient for the payment or redemption in accordance with the indenture and the terms of the notes.

Modification of the Indenture

The indenture contains provisions permitting us and the trustee to execute certain supplemental indentures adding, changing or eliminating any provisions to the indenture or any supplemental indenture with respect to the notes or modifying in any manner the rights of the holders of the notes. However, no supplemental indenture may, among other things, (a) extend the final maturity of any note, or reduce the rate or extend the time of payment of any interest on any note, or reduce the principal amount of any note or premium on any note, or reduce any amount payable upon any redemption of any note, without the consent of the holder of each note so affected, or (b) reduce the percentage of notes that is required to approve a supplemental indenture, without the consent of the holders of all notes then outstanding.

Governing Law

The indenture provides that it and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

Concerning the Trustee

We maintain customary banking relationships with affiliates of The Bank of New York, the trustee under the indenture.

Credit Agency Ratings

At the time of the issuance of the outstanding notes, we received credit agency ratings of BBB- from Standard & Poor's and Baa3 from Moody's Investors Service. The ratings represent a current opinion regarding our creditworthiness with respect to a specific financial obligation such as the notes. A BBB- rating from Standard & Poor's generally indicates that the notes exhibit adequate protection parameters, however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet our financial commitment under the notes. The minus sign is used to show relative standing within the rating category. A Baa3 rating from Moody's generally indicates that interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such a rating also indicates that the notes lack outstanding investment characteristics and in fact have speculative characteristics as well. The number 3 indicates a ranking in the lower end of the Baa rating category.

Book Entry; Delivery and Form

The new notes will initially be represented by one or more permanent global notes in definitive, fully registered book-entry form (the "Global Notes") that will be registered in the name of Cede & Co., as nominee of DTC. The Global Notes will be deposited on behalf of the acquirors of the new notes represented thereby with a custodian for DTC for credit to the respective accounts of the acquirors or to such other accounts as they may direct at DTC. See "The Exchange Offer -- Book-Entry Transfer."

The Global Notes

We expect that under procedures established by DTC:

- upon deposit of the Global Notes with DTC or its custodian, DTC will credit on its internal system portions of the Global Notes that shall be comprised of the corresponding respective amounts of the Global Notes to the respective accounts of persons who have accounts with such depositary ("participants"), and

- ownership of the new notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC or its nominee, with respect to interests of participants, and the records of participants, with respect to interests of persons other than participants.

So long as DTC or its nominee is the registered owner or holder of any of the new notes, DTC or such nominee will be considered the sole owner or holder of such new notes represented by the Global Notes for all purposes under the indenture. No beneficial owner of an interest in the Global Notes will be able to transfer such interest except in accordance with the applicable procedures of DTC in addition to those provided for under the indenture.

Payments on the new notes represented by the Global Notes will be made to or at the direction of DTC or its nominee, as the case may be, as the registered owner thereof. Neither NCR nor the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

We expect that DTC or its nominee, upon receipt of any payment on the new notes represented by the Global Notes, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the Global Notes as shown in the records of DTC or its nominee. We also expect that payments by participants and indirect participants to owners of beneficial interests in the Global Notes held through such participants will be governed by standing instructions and customary industry practice as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payment will be the responsibility of such participants or the indirect participants and the DTC.

Transfers between participants in DTC will be effected in accordance with DTC rules and will be settled in same-day funds. If a holder requires physical delivery of a certificated security for any reason, including to sell new notes to persons in jurisdictions that require physical delivery of such security or to pledge such notes, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of DTC and the procedures in the indenture.

DTC has advised us that DTC will take any action permitted to be taken by a holder of new notes, including the presentation of new notes for exchange as described below, only at the direction of one or more participants to whose account the DTC interests in the Global Notes are credited and only in respect of the aggregate principal amount as to which such participant or participants has or have given such direction. However, if there is an event of default under the indenture, DTC will exchange the Global Notes for certificated notes that it

will distribute to its participants.

DTC has advised us as follows:

- DTC is a limited-purpose company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and a "clearing agency" registered under the provisions of Section 17A of the Securities Exchange Act of 1934,

- DTC holds securities that its participants deposit with DTC and facilitates the clearance and settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic book-entry changes in participants' accounts, thereby eliminating the need for physical transfer and delivery of securities certificates,

- direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations,

- DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the NASD,

- access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly, and

- the rules applicable to DTC and its participants are on file with the SEC.

Although DTC is expected to follow these procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, it is under no obligation to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by DTC or its direct or indirect participants on their respective obligations under the rules and procedures governing their operations.

Certificated Notes

Interests in the Global Notes will be exchanged for certificated notes if:

- DTC or any successor depositary (the "Depositary") notifies us that it is unwilling or unable to continue as depositary or clearing system for the Global Notes, or DTC ceases to be a "clearing agency" registered under the Securities Exchange Act of 1934, and a successor depositary is not appointed by us within 90 days of such notice or cessation,

- we determine not to have the new notes represented by Global Notes, or

- upon the occurrence and continuation of an Event of Default under the indenture.

Upon the occurrence of any of the events described in the preceding sentence, we will cause the appropriate certificated notes to be delivered to the beneficial

owners of the new notes represented by the Global Notes.

Neither we nor the trustee will be liable for any delay by the Depositary, its nominee, or any participant or indirect participant in identifying the beneficial owners of the related notes. Each such person may conclusively rely on, and will be protected in relying on, instructions from such Depositary or nominee for all purposes, including the registration and delivery, and the respective principal amounts, of the new notes to be issued.

United States Federal Tax Consequences

The following discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury regulations, judicial authority and administrative rulings and practice. We can give you no assurance that the Internal Revenue Service will not take a contrary view, and we have not sought and will not seek a ruling from the IRS. Legislative, judicial or administrative changes or interpretations may be forthcoming that could alter or modify the statements and conditions described in this section. These changes or interpretations may be retroactive and could affect the tax consequences to you. Unless otherwise stated, this discussion is limited to the tax consequences to those persons who are original beneficial owners of the notes ("Holders") and who hold such notes as capital assets within the meaning of Section 1221 of the Code. This discussion does not consider any specific facts or circumstances that may apply to a particular Holder (including, for example, a financial institution, a broker-dealer, an insurance company, a tax-exempt organization, a person that holds notes as part of a straddle, hedge, conversion transaction, or other integrated investment).

YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL TAX CONSEQUENCES OF EXCHANGING YOUR OUTSTANDING NOTES FOR NEW NOTES, AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL, OR OTHER TAXING JURISDICTION.

The exchange of outstanding notes for new notes pursuant to the exchange offer will not be treated as an "exchange" for U.S. federal income tax purposes because the new notes will not be considered to differ materially either in kind or extent from the outstanding notes. As a result, there will be no U.S. federal income tax consequences to Holders exchanging outstanding notes for new notes pursuant to the exchange offer.

Legal Matters

Certain legal matters in connection with the exchange offer will be passed upon for us by Baker Botts L.L.P.

Experts

The consolidated financial statements of NCR Corporation incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2001 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

$300,000,000

NCR CORPORATION

Offer to Exchange

7.125% Senior Notes due 2009

for

7.125% Senior Notes due 2009

PROSPECTUS

, 2002

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 20. Indemnification of Directors and Officers

NCR's Articles of Incorporation, as amended and restated (the "Charter") limits the personal liability of its directors and officers to the maximum extent permitted by Maryland law. Section 2-405.2 of the Maryland General Corporation Law authorizes the Company to limit the liability of its directors and officers to the Company and its stockholders for money damages except (i) to the extent that it is proved that the director or officer actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit actually received, or (ii) to the extent that a judgment or other final adjudication adverse to the director or officer is entered in a proceeding based on a finding in the proceeding that the director's or officer's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

The Charter provides that NCR will indemnify its directors and officers, whether serving the Company or, at its request, any other entity, to the fullest extent required or permitted by the General Laws of the State of Maryland now or hereafter in force, including the advance of expenses under the procedures and to the fullest extent permitted by law. The Company's Bylaws, as amended and restated (the "Bylaws") currently contain provisions implementing the foregoing. Under the Bylaws, however, directors and officers are not entitled to indemnification by the Company or the advancement of expenses, unless (i) the officer or director requesting indemnification has met the requisite standard of conduct, or (ii) indemnification is required under the General Laws of the State of Maryland now or hereafter in force. Under Section 2-418(b) of the Maryland General Corporation Law, an officer or director

requesting indemnification shall have met the requisite standard of conduct unless it is established that: (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding, and (i) was committed in bad faith, or (ii) was the result of active and deliberate dishonesty; (b) the director or officer actually received an improper benefit in money, property or services; or (c) in the case of a criminal proceeding, the director or officer had reasonable cause to believe the act or omission was unlawful. Under Section 2-418(b) of the Maryland General Corporation Law, indemnification may be against judgments, penalties, fines, settlements, and reasonable expenses (including attorneys' fees) actually incurred by a director in connection with a proceeding. The foregoing indemnification could apply to liabilities under the Securities Act of 1933 in certain circumstances. If, however, the proceeding was one by or in the right of the Company and the director was adjudged liable to the Company, the Company may not indemnify the director.

Under the Charter, the rights of indemnification of the Company's officers and directors are not exclusive of any other rights to which they may be entitled. The Board of Directors may take such action as is necessary to carry out such indemnification provisions and is expressly empowered to adopt, approve and amend from time to time such bylaws, resolutions or contracts implementing such provisions or such further indemnification arrangements as may be permitted by law. No amendment of the Charter, or of any such bylaw, resolution or contract, or repeal of any of their provisions will limit or eliminate the right to indemnification provided thereunder with respect to acts or omissions occurring prior to such amendment or repeal.

In addition, NCR's Bylaws provide that the Company shall advance to its directors and officers, whether serving the Company or at its request any other entity, expenses, including the providing by the Company to a director or officer who has been named a party to a proceeding, of legal representation by, or at the expense of, the Company, to the full extent permitted by law and as permitted under the Bylaws. Any request for an advance of expenses by an officer or director shall contain (1) a written affirmation by the officer or director of his or her good faith belief he or she has met the standard of conduct necessary for indemnification, and (2) a written undertaking by or on behalf of the officer or director to repay the amount advanced if it is ultimately determined the he or she did not meet the necessary standard of conduct. The right of an officer or director to indemnification and advance of expenses under the Bylaws shall be enforceable by the officer or director entitled to request indemnification in any court of competent jurisdiction, if (a) the Company denies such request, in whole or in part, or (b) no disposition thereof is made within sixty (60) days.

Maryland corporations also are authorized to obtain insurance to protect officers and directors from certain liabilities, including liabilities against which the corporation cannot indemnify its directors and officers. The

Company currently has in effect a directors' and officers' liability insurance policy in order to protect them against liability, including with respect to the matters covered by the foregoing indemnities.

ITEM 21. Exhibits and Financial Schedules

(a) Exhibits

The following instruments and documents are included as Exhibits to this Registration Statement. Exhibits incorporated by reference are so indicated

by parenthetical information.

Exhibit No.		Exhibit
4.1	--	Indenture dated as of June 1, 2002 between the Company and The Bank of New York (filed as Exhibit 4.4 to NCR's Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated herein by reference)
4.5	--	Registration Rights Agreement dated June 6, 2002 by and between the Company and Salomon Smith Barney Inc., Banc One Capital Markets, Inc., BNY Capital Markets, Inc., Fleet Securities, Inc., J.P. Morgan Securities Inc. and McDonald Investments Inc. relating to $300,000,000 principal amount of 7.125% Senior Notes due 2009 (filed as Exhibit 4.5 to NCR's Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated herein by reference)
4.8	--	Terms of 7.125% Senior Notes due 2009, including the form of notes (filed as Exhibit 4.6 to NCR's Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated herein by reference)
*5.1	--	Opinion of Baker Botts L.L.P.
12.1	--	Computation of ratio of earnings to fixed charges
*23.1	--	Consent of PricewaterhouseCoopers LLP
*23.2	--	Consent of Baker Botts L.L.P.
25.1	--	Statement of Eligibility under the Trust Indenture Act of 1939, of The Bank of New York
99.1	--	Form of Letter of Transmittal
99.2	--	Form of Notice of Guaranteed Delivery
99.3	--	Form of Letter to The Depository Trust Company Participants
99.4	--	Form of Letter to Clients

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* To be filed by amendment

(b) Financial Statement Schedules

Not applicable.

ITEM 22. Undertakings

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the

Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless, in the opinion of its counsel, the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(d) The undersigned Registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt

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means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Dayton, State of Ohio, on September 3, 2002.

NCR CORPORATION

By /s/ Lars Nyberg

Lars Nyberg
Chairman of the Board and
Chief Executive Officer

Signature	Title	Date
/s/ Lars Nyberg Lars Nyberg	Chairman of the Board, Chief Executive Officer and Director (principal executive officer)	
/s/ Earl Shanks Earl Shanks	Senior Vice President and Chief Financial Officer (principal financial and accounting	

officer)

/s/ Edward P. Boyki ------------------------ Edward P. Boykin	Director
/s/ Mark P. Frissora ------------------------ Mark P. Frissora	Director
/s/ David R. Holmes ------------------------ David R. Holmes	Director
/s/ Linda Fayne Levinson ------------------------ Linda Fayne Levinson	Director
/s/ James R. Long ------------------------ James R. Long	Director
/s/ C.K. Prahalad ------------------------ C.K. Prahalad	Director

/s/ James O. Robbins -------------------- James O. Robbins	Director
/s/ William S. Stavropoulos --------------------------- William S. Stavropoulos	Director

EXHIBIT INDEX

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* To be filed by amendment

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Ended

December 31,

March 31,

December 31,

2006

2006

2005

Operating Results

Capitated Revenue

HealthNet

$ -

$ 6,128

$ 6,128

Aetna

27,061

33,380

24,675

Total capitated revenue

$ 27,061

$ 39,508

$ 30,803

Administrative and Fee Revenue

Health Net

$ 843

$ 9,328

$ 5,676

Aetna

27

36

27

PATY customers

6,316

1,848

-

Haelan customers

238

-

-

Other

6,853

3,974

2,527

Total administrative and fee revenue

$ 14,277

$ 15,186

$ 8,230

Total Revenue

Health Net

$ 843

$ 15,456

$ 11,804

Aetna

27,088

33,416

24,702

PATY customers

6,316

1,848

-

Haelan customers

238

-

-

Other

6,853

3,974

2,527

Total revenue

$ 41,338

$ 54,694

$ 39,033

Percentage of Revenue by Customer

Health Net

2.0%

28.3%

30.2%

Aetna

65.5%

61.1%

63.3%

PATY customers

15.3%

3.4%

-

Haelan customers

0.6%

-

-

Other

16.6%

7.2%

6.5%

Total revenue

100.0%

100.0%

100.0%

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Direct Service Costs	**Nine Months Ended December 31, 2006**	**Year Ended March 31, 2006**	**Nine Months Ended December 31, 2005**
Incurred claims	$ 20,074	$ 35,439	$ 27,695
Direct clinical expenses	11,355	11,892	7,905
Total direct service costs	**31,429**	**47,331**	**35,600**
Direct Service Costs as a Percentage of Revenue			
Incurred claims as a percentage of total revenue	48.6%	64.8%	71.0%
Direct clinical expenses as a percentage of total revenue	27.4%	21.7%	20.2%
Total direct service costs as a percentage of total revenue	76.0%	86.5%	91.2%
Gross profit	**$ 9,909**	**$ 7,363**	**$ 3,433**
Gross profit as a percentage of total revenue	**24.0%**	**13.5%**	**8.8%**
Operating Costs and Expenses			
Selling, general and administrative expenses	$ 6,641	$ 6,964	$ 4,350
Depreciation and amortization expense	1,959	1,504	981
Total operating costs and expenses	**$ 8,600**	**$ 8,468**	**$ 5,331**
Operating income (loss) from continuing operations	**$ 1,309**	**$ (1,105)**	**$ (1,898)**
Other Income (Expense)			
Interest and other income	$ 360	$ 361	$ 251
Interest expense:			
Interest on Line of Credit	(572)	(566)	(397)
Interest on Notes Payable	-	(46)	(46)
Interest on lease obligations	(106)	(120)	(90)
Interest on Notes Payable related to Haelan acquisition	(20)	-	-
Amortization of Warrants	(657)	(884)	(655)
Total interest expense	(1,355)	(1,616)	(1,188)
Trading portfolio loss	(543)	(16)	-
Net other income (expense)	**$ (1,538)**	**$ (1,271)**	**$ (937)**
Loss from continuing operations before income taxes	**$ (229)**	**$ (2,376)**	**$ (2,835)**
Income tax expense	(377)	(54)	(75)
Loss from continuing operations	**(606)**	**(2,430)**	**(2,910)**
Income from discontinued operations	675	290	290
Net income (loss)	**$ 69**	**$ (2,140)**	**$ (2,620)**

Balance Sheet Data	**December 31, 2006**	**March 31, 2006**
Total Assets		
Cash and cash equivalents	$ 5,975	$ 8,399
Restricted cash for current liabilities	4,717	4,894
Securities held for sale	24	99
Securities held for trading	284	827
Accounts receivable, net	3,503	3,859
Other current assets	1,239	1,131
Total current assets	**15,742**	**19,209**
Goodwill	32,629	28,666
Long term assets	9,819	6,062
Total assets	**$ 58,190**	**$ 53,937**
Liabilities and Stockholders' Equity		
Claims payable	$ 7,260	$ 8,260
Line of credit	8,000	-
Other current liabilities	7,566	9,217
Total current liabilities	**22,826**	**17,477**
Line of credit	-	8,000
Notes payable related to Haelan acquisition	6,520	-
Other long-term liabilities	1,114	1,500
Total liabilities	**30,460**	**26,977**
Stockholders' equity	**27,730**	**26,960**
Total liabilities and stockholders' equity	**$ 58,190**	**$ 53,937**

Cash Flow Data	Nine Months Ended December 31, 2006	Year Ended March 31, 2006	Nine Months Ended December 31, 2005
Cash provided by (used in) operating activities:			
Cash received from customers	$ 25,612	$ 35,425	$ 23,891
Direct provider costs and claims settlements paid	(4,859)	(19,979)	(15,268)
Salary and benefits paid	(12,536)	(12,400)	(8,178)
Other operating expenses paid, net	(7,491)	(7,032)	(5,218)
Net cash provided by (used in) operating activities	**726**	**(3,986)**	**(4,773)**
Cash (used in) provided by investing activities:			
Purchases of property and equipment	(381)	(280)	(250)
Restricted deposits, net	(113)	5,882	4,783
Cash (used in) acquired in merger, net of acquisition costs	(2,596)	3,814	(513)
Net cash (used in) provided by investing activities	**(3,090)**	**9,416**	**4,020**
Cash provided by (used in) financing activities:			
Proceeds from borrowing under Line of Credit facility	-	1,850	1,850
Other financing activities, net	(60)	(313)	(193)
Net cash (used in) provided by financing activities	**(60)**	**1,537**	**1,657**
Net (decrease) increase in cash and cash equivalents	**(2,424)**	**6,967**	**904**
Cash and cash equivalents, beginning of period	8,399	1,432	1,432
Cash and cash equivalents, end of period	**$ 5,975**	**$ 8,399**	**$ 2,336**

CareGuide s historical business model was the acceptance of capitated risk to provide post-acute services to members of a health plan s covered population. Under this model, we received capitated PMPM revenue for all covered members. We then paid the claims of the members that needed services. Thus, the capitated revenue received included the cost of claims, as well as our expenses to provide our services. During the periods described above, we accepted capitated risk from two of our customers, Health Net and Aetna. The discussion of Health Net and Aetna that follows is meant to provide the historical perspective of these contracts, the relative size of these contracts and the impacts on our business from the eventual termination of these contracts and the transition in our business model to focus on administrative service only (ASO) and fee-for-service contracts.

Health Net

Our contract with Health Net, which had been in place since 1998 and historically represented our largest contract in terms of revenues, covered certain of Health Net's members in the states of Connecticut, New York and New Jersey. The lines of business for these members included Medicare, Medicaid and commercial members, with the vast majority of the members residing in Connecticut. Our services provided to these members included prior authorization of services to skilled nursing facilities and home health agencies. Historically, we accepted capitated risk for these members. Capitated revenues related to this contract for the year ended March 31, 2004 were $43.4 million. In addition, we received fee-for-service revenue for providing certain services for which we did not receive a capitation PMPM fee. Our fee-for-service revenue from this contract for the year ended March 31, 2004 was $8.3 million. Thus, our total revenues received from Health Net for the year ended March 31, 2004 were $51.7 million.

Our medical loss ratio (MLR), which is defined as our incurred claims divided by the related revenue, for our Health Net capitated risk business was 76.7% for the year ended March 31, 2004. We believe that this level of MLR generally produces a sufficient margin for us to cover direct costs involved in administering the business while also making a sufficient contribution to our selling, general and administrative expenses in order for us to produce a profit. We realized a contribution margin from this contract for this period of $6.1 million.

Two events occurred subsequent to March 31, 2004 that resulted in the deterioration of this contract for us. First, the utilization rates of the Health Net members for our services increased. The average number of bed days for the biggest

risk element of the Health Net contract increased by 8% for the year ended March 31, 2005 as compared to the year ended March 31, 2004. Secondly, Health Net reduced the capitated PMPM rates it paid to us as of the contract s renewal on January 1, 2005. Had the Health Net membership remained stable, the rate reduction alone would have resulted in decreased revenues to us of $2.25 million for the year ended March 31, 2005. However, Health Net also had a decrease in membership in certain accounts that we served, which compounded the reduction in our revenues.

These factors resulted in an increase in our MLR for the Health Net capitated contract from 76.7% for the year ended March 31, 2004 to 85.5% for the year ended March 31, 2005. Capitated revenues decreased from $43.4 million for the year ended March 31, 2004 to $39.0 million for the year ended March 31, 2005 due to the declining Health Net membership base coupled with the PMPM rate decrease that took effect as of January 1, 2005. At the same time, utilization of our services increased. The contribution to our overhead and profit from the Health Net contract decreased from $6.1 million for the year ended March 31, 2004 to $0.9 million for the year ended March 31, 2005.

During 2005, the Connecticut Insurance Department enacted legislation that raised capital requirements for all risk-bearing entities, which would have required us to commit approximately $13 million of capital to continue to accept risk for the Health Net members in that state as of May 1, 2005. As this capital was not readily available, we and Health Net mutually agreed to convert our Connecticut contract from capitated risk to an ASO contract as of May 1, 2005. We continued to perform the same services under the contract as when the contract was on an at-risk basis, but we only received an ASO fee for our services which excluded the cost of claims and therefore resulted in a large reduction in our revenue.

The deterioration of the Health Net risk contracts during this time period, coupled with the relatively large amount of capital that would have been needed to support future acceptance of risk, served as the catalysts for our strategic decision to transition from a primarily capitated risk entity to an entity that receives primarily ASO and fee revenue for our services.

On February 14, 2006, we signed a Transition Agreement with Health Net that was effective as of January 1, 2006. The transition, which was effectively completed as of April 30, 2006, resulted in the de-delegation of services back to Health Net. Certain of our staff who formerly serviced the Health Net contract were transferred to new contracts, and the remaining positions were eliminated.

As noted above, our Health Net Connecticut business converted to an ASO basis on May 1, 2005. As of January 1, 2006, the contracts for New York and New Jersey were also converted to ASO basis.

As part of the contract renewal as of January 1, 2005, we guaranteed to Health Net that we would reduce Health Net s hospital costs by certain amounts during the 2005 calendar year, a goal which would entitle us to a bonus if achieved. We increased our restricted cash balances as of March 31, 2005 by $938 thousand as an escrow. We and Health Net reconciled the guarantee bonus data in early 2006 and signed a settlement agreement under which Health Net agreed to pay us a guarantee bonus of $1.2 million. Our escrowed restricted cash balance was released back to operating cash in the year ended March 31, 2006. The $1.2 million of guarantee bonus revenue was recognized as fee-for-service revenue during the three months ended March 31, 2006. We expect payment of the guarantee bonus from Health Net in the second quarter of 2007.

The following table represents the effects of the Health Net contract on our revenues and contribution to overhead and profit for the nine months ended December 31, 2006, the year ended March 31, 2006 and the nine months ended December 31, 2005. Comparative data is presented for the years ended March 31, 2005 and 2004 to show the impact on our results of operations over the last three years from the rate reductions and the resulting impact on profitability, the conversion from capitated risk to administration and fee revenue, and finally the termination of the contracts:

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	Nine Months Ended December 31, 2006	Year Ended March 31, 2006	Nine Months Ended December 31, 2005	Year Ended March 31, 2005	Year Ended March 31, 2004
Health Net Revenues	$0.8 million	$14.3 million	$11.8 million	$45.0 million	$51.7 million
Health Net contribution to overhead and profit	$0.8 million	$(0.8) million (Excludes $1.2 million of guarantee bonus revenue)	$(0.5) million	$0.9 million	$6.1 million

The contribution margins shown above are before consideration of the corporate overhead necessary to support this contract, such as executive staff, finance, actuarial, and similar costs. The contract with Health Net was terminated effective May 1, 2006. The contribution margin shown above for the nine months ended December 31, 2006 included $0.6 million of favorable development of prior period claims payable.

Aetna

We entered into contracts with Aetna in July 2003 to provide post-acute services to certain of its members in the states of New York and New Jersey. We were compensated on an ASO basis when these contracts began. The contracts converted from ASO basis to capitated risk basis in 2004 and 2005. The capitated revenue for these contracts for the nine months ended December 31, 2006, the year ended March 31, 2006 and nine months ended December 31, 2005 were $27.1 million, $33.4 million and $24.7 million, respectively.

Our contracts with Aetna required that Aetna receive letters of credit from us in the amount of three months of capitation revenue. Our bank lender issued the letters of credit to Aetna in the amount of $3.4 million, which are collateralized by $3.4 million in certificates of deposit funded by us. This amount is included in "Restricted Cash available for current liabilities" on our accompanying consolidated balance sheets as of December 31, 2006 and March 31, 2006.

Because we are at-risk for the claims under the capitation risk arrangement, we record estimates of the claims to be incurred, and we recorded all of the capitation revenue related to the Aetna contracts. Aetna paid the majority of the claims on our behalf. Accordingly, Aetna retained 60% of the capitation revenue to fund its claim payments on our behalf. The Aetna contracts contained provisions that provide for periodic reconciliations of the claims Aetna paid on our behalf to the cash Aetna retained. If Aetna paid more claims than the cash it retained for an incurred period of time, we would owe Aetna this amount. If Aetna retained more cash than the claims it paid on our behalf, Aetna would owe us this excess.

As of March 31, 2006, the negotiation for the reconciliations for the 2004 and 2005 contract years was in process. We estimated that we owed Aetna $4.8 million at that time for these periods. This amount was included in the claims payable liability on our accompanying consolidated balance sheet as of March 31, 2006. In August 2006, we and Aetna reached consensus on the reconciliation for the 2004 and 2005 contract years. It was determined that we owed Aetna $2.75 million for these contract years. The parties agreed that we would pay Aetna $1.05 million from operating cash and the remaining $1.7 million would be funded by a reduction in restricted cash. Accordingly, we paid Aetna $1.05 million in August 2006. The restricted cash funding was completed in March 2007. As we had accrued $4.8 million for the 2004 and 2005 contract years as of March 31, 2006 and the final negotiated settlement was for $2.75 million, we released $2.0 million from our claims payable liability during the nine months ended December 31, 2006. Accordingly, our direct service costs for the nine months ended December 31, 2006 were reduced by this amount.

The capitated risk contracts with Aetna were terminated effective January 31, 2007. We currently have no other capitated risk contracts in place. Accordingly, unless we enter into new risk-based contracts during 2007, we expect to recognize $3.0 million of capitated risk revenue during the year ended December 31, 2007 and do not anticipate any capitation revenue in future periods.

The following comparisons of our operating results refer to the financial data listed in the tables above.

Nine Months Ended December 31, 2006 Compared to the Nine Months Ended December 31, 2005

Capitation Revenue

As described above, our capitation revenues related to the Health Net contracts for the nine months ended December 31, 2005 includes one month of capitated revenue for the state of Connecticut and nine months of capitated revenue for the

states of New York and New Jersey. As the Health Net contracts had all converted from risk-based to ASO based by January 1, 2006, there was no Health Net capitated revenue for the nine months ended December 31, 2006. Therefore, there was a decrease of capitated revenue related to Health Net for the nine months ended December 31, 2006, when compared to the same period of the prior year, of $6.1 million.

The capitated revenue increase related to Aetna of $2.4 million for the nine months ended December 31, 2006, when compared to the same period of the prior year, was due principally to increased Aetna membership in our programs.

As a result of the offsetting changes in our capitated contracts with Health Net and Aetna, the net decrease in capitated revenue for the nine months ended December 31, 2006, when compared to the same period of the prior year, was $3.7 million.

Administrative and Fee Revenue

The increase in administrative and fee revenue of $6.0 million during the nine months ended December 31, 2006, when compared to the same period of the prior year, was primarily the result of new customers and contracts acquired in the January 2006 merger between CCS Consolidated and CareGuide, Inc. (formerly Patient Infosystems, Inc., which we refer to herein as PATY), as well as growth from existing contracts and new contracts unrelated to the merger. This increase was net of a decrease in administrative and fee revenue related to the Health Net contracts of $4.8 million for these periods due to the termination of our remaining Health Net contracts as of May 1, 2006, as described above.

Revenues generated from customers of PATY that were acquired in the merger added $6.3 million of administrative and fee revenue to our results of operations for the nine months ended December 31, 2006 that was not present in the corresponding period of the prior year. ASO and fee-for-service revenues from a contract with an existing customer that began in mid-2005 increased by $2.4 million for the nine months ended December 31, 2006 when compared to the same period of the prior year, as our level of services increased. Additionally, we generated $1.1 million in revenues from new contracts that began after April 1, 2006. The revenues of contracts with customers of Haelan that were acquired in our merger in December 2006 added $0.2 million to our revenues in December 2006 that were not included for the nine months ended December 31, 2005. Finally, growth of our other existing ASO and fee-for-service contracts resulted in a net increase of $0.8 million for the nine months ended December 31, 2006 when compared to the corresponding period of the prior year.

Total Revenues

Our total revenues for the nine months ended December 31, 2006 aggregated $41.3 million, an increase of $2.3 million, or 5.9%, from the same period of the prior year. This increase was the net result of the $11.0 million decrease in total Health Net revenues, an increase of Aetna capitated revenues of $2.4 million, revenues generated from the acquisition of customers in our mergers with PATY and Haelan of $6.5 million, revenues from new contracts of $1.1 million, and growth in existing contracts of $3.2 million. During the nine months ended December 31, 2006, the year ended March 31, 2006 and the nine months ended December 31, 2005, the percentage of our revenue related to the Health Net and Aetna contracts was 67.5%, 89.4% and 93.5%, respectively. Due to the terminations of these contracts as described above, we expect that our revenues will not be concentrated by any one customer to a material extent in the foreseeable future. Additionally, due to these terminations of the last of our risk contracts we anticipate no capitated revenue after January 2007.

Direct Service Costs

Direct service costs consist of incurred claims on capitated risk and fee-for-service business and the direct clinical costs of providing the Company s services to customers and members of customers. For the nine months ended December 31, 2006 and 2005, the direct service costs exclude $808 thousand and $619 thousand, respectively, of depreciation and amortization cost attributable to direct service costs but that are reported as an operating cost. The decrease in direct service costs of $4.2 million for the nine months ended December 31, 2006, when compared to the same period of the prior year, is a net result of several factors, including:

- The Health Net capitated incurred claims decreased $6.3 million due primarily to the conversions of the contracts from risk to ASO on May 1, 2005 and January 1, 2006, as described above, as well as a decrease in incurred claims of $632 thousand as a result of favorable development of the Health Net claim reserves as of March 31, 2006. Additionally, the fee-for-service Health Net incurred claims decreased an additional $1.3 million due to the termination of the Health Net contract in May 2006. Therefore, there was a total decrease in Health Net incurred claims of $7.6 million compared to a decrease in Health Net revenues of $11.0 million.
- As described above, we recognized a reduction in incurred claims expense of $2.0 million from the settlement of the reconciliation with Aetna for the 2004 and 2005 contract years. Additionally, there was a decrease in incurred claims of $509 thousand as a result of favorable development of the Aetna claim reserves as of March 31, 2006 that

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we were responsible to pay. This total favorable development of $2.5 million was offset by an increase in Aetna incurred claims of $2.0 million due to increased membership and higher levels of utilization.

Increased incurred claims of $0.5 million from growth in existing fee-for-service contracts.

Direct clinical expenses, which are the costs directly involved in providing clinical services to the members of our customers, increased by $3.4 million during the nine months ended December 31, 2006 when compared to the same period of the prior year. This increase was due primarily to the $5.2 million of direct clinical expenses resulting from the contracts acquired in our mergers with PATY and Haelan. There was a net decrease in other direct clinical expenses of $1.8 million, principally due to reductions in direct clinical expenses related to the termination of the Health Net contracts.

Gross Profit

Our gross profit for the nine months ended December 31, 2006 increased by $6.5 million to $9.9 million from $3.4 million for the same period of the prior year. This improvement was due to the negotiated settlement of the 2004 and 2005 contract years with Aetna described above that contributed $2.0 million to our gross profit for the nine months ended December 31, 2006 as well as $1.2 million of decreases in other incurred claims as a result of favorable development of the claim reserves as of March 31, 2006. Additional contributing factors for this period included $341 thousand of gross profit from increases in the Aetna membership participating in our programs, gross profit from contracts acquired in the PATY and Haelan mergers of $1.3 million and growth in existing and new customers. The gross profit percentages of total revenue grew from 8.8% to 24.0% over this same period of time. For the nine months ended December 31, 2006 and 2005, the gross profit exclude $808 thousand and $619 thousand, respectively, of depreciation and amortization cost attributable to direct service costs but that are reported as an operating cost.

Selling, General and Administrative expenses (SG&A)

SG&A increased by $2.3 million during the nine months ended December 31, 2006, when compared to same period of the prior year. Our mergers with PATY and Haelan accounted for $1.9 million of this increase. The remaining $0.4 million increase was the net result of increased costs from being a public company after January 2006, and growth in certain SG&A expenses related to growth of existing contracts and new contracts, partially offset by reductions in SG&A expenses due to the Health Net termination and a $303 thousand decrease in the value of a call option liability described below under "Interest Income (Expense), net .

Depreciation and Amortization Expense

Depreciation and amortization expense related to fixed and intangible assets for the nine months ended December 31, 2006 increased by $978 thousand when compared to the same period of the prior year. Included in this increase is a write-off of unamortized software costs of $325 thousand upon our decision to discontinue use of certain software. Additionally, we expensed $221 thousand of unamortized leasehold improvements upon our determination to discontinue use of the assets in question. Also included in the increase was $745 thousand of amortization of fixed and intangible assets acquired in our mergers with PATY and Haelan. These increases were partially offset by reduced levels of amortization of our website costs and deferred financing costs as these assets became fully amortized at some point during the nine months ended December 31, 2006.

Interest Income (Expense), net

Interest income increased by $109 thousand during the nine months ended December 31, 2006 when compared to the same period of the prior year. Our mergers with PATY and Haelan accounted for $57 thousand of this increase as those entities had cash that was acquired in the mergers.

Interest expense on our line of credit with Comerica Bank (the "Line of Credit") increased by $175 thousand during the nine months ended December 31, 2006 when compared to the same period of the prior year. The average outstanding balance under the Line of Credit was higher during the nine months ended December 31, 2006 as we borrowed $1.85 million during the nine months ended December 31, 2005 and maintained the increased balance through 2006. Additionally, the interest rate on the Line of Credit increased from 6.75% at March 31, 2005 to 9.25% at December 31, 2006.

Certain of our principal stockholders have guaranteed our obligations under the Line of Credit and as compensation those stockholders were issued warrants to purchase shares of our common stock. These warrants have been amortized to interest expense over the life of the loan. The warrant amortization was $657 thousand and $655 thousand for the nine months ended December 31, 2006 and 2005, respectively. The offset to this expense is an increase in paid-in capital. Thus, there is no impact on stockholders equity (deficit) for this expense.

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We recorded the fair value of the remaining lease rentals without economic benefit discussed above using the credit adjusted discount rate at the lease cease use date. We record interest expense each month as this liability is amortized. The interest expense for the nine months ended December 31, 2006 and 2005 was $106 thousand and $72 thousand, respectively.

Prior to the PATY merger, PATY effected a spin-off of its subsidiary, American Caresource Holdings, Inc. (ACSH). PATY retained 166,610 shares of ACSH common stock following the spin-off. We have classified 13,092 shares of common stock of ACSH held by us as available-for-sale and such shares are carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of our stockholders equity. The remaining 153,518 shares of ACSH common stock have been classified as a trading portfolio as such shares may be needed to satisfy a call option that we have granted on these shares to a holder who acted as an underwriter of PATY's securities in a private placement offering in 2005, as described in Note 15 to our consolidated financial statements included in this report. We carry this trading portfolio at fair value, with unrealized gains and losses reported as a component of our consolidated statements of operations. The value of the ACSH common stock declined in the nine months ended December 31, 2006. As noted above, the change in the fair value of the call option liability reduced our selling, general and administrative expenses by $303 thousand during this period, which was offset by the loss recognized for the decrease in the fair value of the trading portfolio of $543 thousand during this period.

Income tax expense

Income tax expense for the nine months ended December 31, 2006 was $377 thousand compared to $75 thousand for the same period of the prior year. We have minimal federal income tax due to large federal income tax net operating loss carryforwards. For state income tax purposes, tax returns are filed on a separate entity basis (as opposed to a consolidated basis). The increase in the state tax expense from the same period of the prior year was primarily attributable to increased profits of subsidiaries operating in states where we do not have significant net operating loss carryforwards available.

Loss From Continuing Operations

The loss from continuing operations improved by $2.3 million, from $2.9 million for the nine months ended December 31, 2005 to $606 thousand for the nine months ended December 31, 2006. The improvement in our gross profit of $6.5 million discussed above was partially offset by the $2.3 million increase in selling, general and administration expenses, the write-offs of fixed and intangible assets of $492 thousand, the amortization of fixed and intangible assets related to the mergers with PATY and Haelan of $745 thousand, the $543 thousand loss in the trading portfolio and an increase in state and federal taxes of $302 thousand.

Discontinued Operations

During the year ended March 31, 2005, we terminated our contractual relationship with Oxford Health Plans, which we sometimes refer to in this report as Oxford. Pursuant to the contract termination provisions, we performed under the terms of the contract through August 31, 2005 but have had no continuing involvement thereafter. Therefore, we account for this former contract with Oxford as discontinued operations.

The Oxford contract included risk-sharing provisions and provided for an annual settlement after the conclusion of each contract year. During the year ended March 31, 2006, Oxford submitted its calculation of the amount due from us for the contract year ended December 31, 2004, which included many matters which we believed were contrary to the terms of the contract. Oxford drew down a $500,000 letter of credit that had been established by us for Oxford s benefit under the contract. At March 31, 2006, we recorded a liability based on our estimate of the potential liability in the contractual dispute. The parties agreed to arbitration in 2006. In September 2006, the arbitration panel rendered an award in our favor. Accordingly, Oxford paid us $661 thousand on November 10, 2006. The related legal costs, net of the elimination of the liability we had recorded at March 31, 2006, resulted in $131 thousand of expenses related to Oxford for the nine months ended December 31, 2006.

During the year ended March 31, 2003, we ceased operations in Texas and began the process of dissolving our subsidiary doing business in that state. These operations are also accounted for as discontinued operations. During the nine months ended December 31, 2006, we revised our estimate of the ultimate settlement to providers for such operations, and as a result we released $171 thousand of claims payable liabilities during this period, which was recorded as income from discontinued operations.

During the nine months ended December 31, 2006 and 2005, we recognized a total of $675 thousand and $290 thousand, respectively, of net income from discontinued operations.

Net income (loss)

The improvements in the net loss from continuing operations and the net income from discontinued operations resulted in an improvement of $2.7 million from a net loss of $2.6 for the nine months ended December 31, 2005 to net income of $69 thousand for the nine months ended December 31, 2006.

Nine Months Ended December 31, 2006 Compared to the Year Ended March 31, 2006

The following common dollar table is used to facilitate the review of the nine months ended December 31, 2006 to the twelve months ended March 31, 2006, as well as the nine months ended December 31, 2005:

Operating Results Expressed as a Percentage of Total Revenue	**Nine Months Ended December 31, 2006**	**Year Ended March 31, 2006**	**Nine Months Ended December 31, 2005**
Capitated Revenue			
HealthNet	0.0%	11.2%	15.7%
Aetna	65.5%	61.0%	63.2%
Total capitated revenue	**65.5%**	**72.2%**	**78.9%**
Administrative and Fee Revenue			
Health Net	2.0%	17.1%	14.5%
Aetna	0.0%	0.1%	0.1%
PATY customers	15.3%	3.4%	0.0%
Haelan customers	0.6%	0.0%	0.0%
Other	16.6%	7.2%	6.5%
Total administrative and fee revenue	**34.5%**	**27.8%**	**21.1%**
Total Revenue			
Health Net	2.0%	28.3%	30.2%
Aetna	65.5%	61.1%	63.3%
PATY customers	15.3%	3.4%	0.0%
Haelan customers	0.6%	0.0%	0.0%
Other	16.6%	7.2%	6.5%
Total revenue	**100.0%**	**100.0%**	**100.0%**

Direct Service Costs	Nine Months Ended December 31, 2006	Year Ended March 31, 2006	Nine Months Ended December 31, 2005
Incurred claims	48.6%	64.8%	71.0%
Direct clinical expenses	27.4%	21.7%	20.2%
Total direct service costs	**76.0%**	**86.5%**	**91.2%**
Gross profit	**24.0%**	**13.5%**	**8.8%**
Operating Costs and Expenses			
Selling, general and administrative expenses	16.1%	12.7%	11.2%
Depreciation and amortization expense	4.7%	2.8%	2.5%
Total selling, general and administration expense	**20.8%**	**15.5%**	**13.7%**
Operating income (loss) from continuing operations	**3.2%**	**(2.0)%**	**(4.9)%**
Other Income (Expense)			
Interest income	0.9%	0.6%	0.6%
Interest expense:			
Interest on Line of Credit	(1.4)%	(1.0)%	(1.0)%
Interest on Notes Payable	0.0%	(0.1)%	(0.1)%
Interest on lease obligations	(0.3)%	(0.2)%	(0.2)%
Interest on Notes Payable related to Haelan acquisition	0.0%	0.0%	0.0%
Amortization of Warrants	(1.6)%	(1.6)%	(1.7)%
Total interest expense	(3.3)%	(2.9)%	(3.0)%
Trading portfolio loss	(1.3)%	0.0%	0.0%
Net other income (expense)	**(3.7)%**	**(2.3)%**	**(2.4)%**
Loss from continuing operations before income taxes	**(0.5)%**	**(4.3)%**	**(7.3)%**
Income tax expense	(1.0)%	(0.1)%	(0.2)%
Loss from continuing operations	**(1.5)%**	**(4.4)%**	**(7.5)%**
Income from discontinued operations	1.7%	0.5%	0.8%
Net income (loss)	**0.2%**	**(3.9)%**	**(6.7)%**

Capitation Revenue

As described above, the capitation revenue related to our Health Net contracts for the nine months ended December 31, 2005 and the year ended March 31, 2006 includes one month of capitated revenue for the state of Connecticut and nine months of capitated revenue for the states of New York and New Jersey. As the Health Net contracts had all converted from risk basis to ASO basis by January 1, 2006, there was no Health Net capitated revenue for the nine months ended December 31, 2006.

The revenue concentration related to the Aetna capitated risk contracts increased to 65.5% for the nine months ended December 31, 2006 from 61.1% for the year ended March 31, 2006. This was due to increased Aetna membership revenue and the termination of the Health Net capitated contracts, partially offset by the revenue growth in new and existing contracts and the contracts acquired in the mergers with PATY and Haelan. As described above, the Aetna capitated risk contracts were terminated on January 31, 2007.

As described elsewhere in this report, we have been exiting the capitated risk business to focus on what we believe to be the next generation of disease and care management. Capitated revenues as a percentage of our total revenues declined from 78.9% for the nine months ended December 31, 2005 to 72.2% for the year ended March 31, 2006 to 65.5% for the nine months ended December 31, 2006. Due to the termination of our last capitated risk contracts on January 31, 2007, we expect the percentage of our total revenue related to capitated risk to be minimal for the year ending December 31, 2007.

Administrative and Fee Revenue

Administrative and fee revenue as a percentage of total revenue grew from 21.1% for the nine months ended December 31, 2005 to 27.8% for the year ended March 31, 2006 to 34.5% for the nine months ended December 31, 2006. This is a net result of several factors, including:

- We recognized $1.2 million of administrative and fee revenue resulting from a performance guarantee bonus earned in connection with the Health Net contract in the three months ended March 31, 2006. This amount was 2.2% of our total revenues for the year ended March 31, 2006.
- Our merger with PATY closed in January 2006, and the revenues generated from customers acquired as a result of this transaction, which are all administration and fee revenue, were $1.8 million for the period from the closing of the merger through March 31, 2006 and $6.3 million for the nine months ended December 31, 2006. These amounts were 3.4% and 15.3% of total revenues for the year ended March 31, 2006 and the nine months ended December 31, 2006, respectively.
- We began providing service under a contract with a new customer in July 2005, which generated minimal revenues in the early stages of the contract but has since increased. The administrative and fee revenues related to this customer for the nine months ended December 31, 2005, the year ended March 31, 2006 and nine months ended December 31, 2006 were $0.4 million, $1.0 million and $2.8 million, respectively. These amounts were 1.1%, 1.8% and 6.8% of total revenues for these periods, respectively.
- New contracts that began in the nine months ended December 31, 2006 added $1.1 million of administration and fee revenue. This amount was 2.7% of total revenues for this period.
- Offsetting these increases in administration and fee revenue was the termination of the Health Net ASO contracts as of May 1, 2006. The administration and fee revenue related to the Health Net contracts for the nine months ended December 31, 2005, the year ended March 31, 2006 and the nine months ended December 31, 2006 were $5.7 million, $8.1 million (excluding the $1.2 million of bonus revenue discussed above) and $0.8 million, respectively. These amounts were 14.5%, 14.9% and 2.0% of total revenues for these periods, respectively.

Direct Service Costs

Total incurred claims as a percentage of our total revenues decreased from 71.0% for the nine months ended December 31, 2005 to 64.8% for the year ended March 31, 2006 and 48.6% for the nine months ended December 31, 2006. This is a net result of several factors, including:

- The termination of our Health Net capitation risk business as of January 1, 2006. The Health Net incurred claims for the nine months ended December 31, 2005, the year ended March 31, 2006 and the nine months ended December 31, 2006 as a percentage of total revenues were 18.5%, 14.0% and (0.9) %, respectively.
- The recognition of the Health Net performance bonus of $1.2 million discussed above in the three months ended March 31, 2006.
- The growth of existing and new administration and fee revenue contracts.
- Our mergers with PATY and Haelan, which increased revenues without resulting in increases in incurred claims, as these revenues were all ASO and fee revenues.
- Our 2006 settlement with Aetna for the 2004 and 2005 contract years, which resulted in a $2.0 million reduction in incurred claims for the nine months ended December 31, 2006. This was offset by an increase in Aetna incurred claims of $1.5 million due to increased Aetna membership in our programs and higher levels of utilization. The net Aetna incurred claims for the nine months ended December 31, 2005, the year ended March 31, 2006 and the nine months ended December 31, 2006 as a percentage of total revenues were 50.4%, 48.8% and 46.5%, respectively.

Direct clinical expenses as a percentage of our total revenues increased from 20.2% for the nine months ended December 31, 2005 to 21.7% for the year ended March 31, 2006 and 27.4% for the nine months ended December 31, 2006. The increase in direct clinical expenses for the nine months ended December 31, 2006 was due primarily to the growth in administrative and fee revenues and the incorporation of contracts acquired in our mergers with PATY and Haelan. As all of

the revenues under the contracts acquired in the mergers with PATY and Haelan are ASO and fee-for-service revenues, the direct clinical expenses for contracts acquired in the PATY and Haelan mergers were 79.5% of the total revenues of these PATY and Haelan contracts for the nine months ended December 31, 2006.

Our total direct service costs as a percentage of our total revenues decreased from 91.2% for the nine months ended December 31, 2005 to 86.5% for the year ended March 31, 2006 and 76.0% for the nine months ended December 31, 2006. The gross profit percentage for these periods increased from 8.8% to 13.5% to 24.0%, respectively, from the combination of the factors described in the preceding paragraphs.

Selling, General and Administrative Expenses (SG&A)

SG&A costs as a percentage of total revenues increased from 11.2% for the nine months ended December 31, 2005 to 12.7% for the year ended March 31, 2006 and 16.1% for the nine months ended December 31, 2006. This was a result of the transition from capitation risk business to primarily administrative and fee revenue and the increased costs of integration relating to our mergers with PATY and Haelan.

Depreciation and Amortization Expense

Depreciation and amortization expenses as a percentage of total revenues increased from 2.5% for the nine months ended December 31, 2005 to 2.8% for the year ended March 31, 2006 and 4.7% for the nine months ended December 31, 2006. This was a net result of the transition from capitation risk business to primarily administrative and fee revenue, the amortization of intangible assets acquired in the mergers with PATY and Haelan and the write off of certain fixed assets, in each case as discussed above.

Interest Income (Expense), net

Interest income as a percentage of our total revenues increased from 0.6% for the nine months ended December 31, 2005 to 0.6% for the year ended March 31, 2006 and 0.9% for the nine months ended December 31, 2005. This was a net result of the transition from capitation risk business to primarily administrative and fee revenue and the mergers with PATY and Haelan.

Interest expense as a percentage of our total revenues increased from 3.0% for the nine months ended December 31, 2005 to 2.9% for the year ended March 31, 2006 and 3.3% for the nine months ended December 31, 2006. This was a net result of the transition from capitation risk business to primarily administrative and fee revenue and increased interest expense for the nine months ended December 31, 2006 on the Company s Line of Credit due to higher interest rates and higher average balances outstanding in the period, as compared to the prior periods.

The loss in the trading portfolio discussed above in the nine months ended December 31, 2006 of $543 thousand was 1.3% of the total revenues for this period.

Income tax expense

Income tax expense as a percentage of total revenues increased from (0.2)% for the nine months ended December 31, 2005 to (0.1)% for the year ended March 31, 2006 and (1.0)% for the nine months ended December 31, 2006. As discussed above, the majority of the income taxes we pay are state taxes on certain regulated subsidiaries.

Loss From Continuing Operations

Our loss from continuing operations as a percentage of total revenues improved from 7.5% for the nine months ended December 31, 2005 to 4.4% for the year ended March 31, 2006 and 1.5% for the nine months ended December 31, 2006. This was a net result of all the factors discussed above, including:

- The termination of our Health Net capitated risk business as of January 1, 2006, which was unprofitable to us at that time
- The recognition of the Health Net performance bonus of $1.2 million discussed above in the three months ended March 31, 2006.
- The growth of existing and the execution of new administrative and fee revenue contracts.
- The 2006 settlement with Aetna for the 2004 and 2005 contract years, which resulted in a $2.0 million reduction in incurred claims for the nine months ended December 31, 2006. This was offset by an increase in Aetna incurred claims of $1.5 million due to increased Aetna membership in our programs and higher levels of utilization.
- The write-off of certain fixed assets of $492 thousand in the nine months ended December 31, 2006.

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An increase in state and federal tax expenses.

Discontinued Operations

Our income from discontinued operations as a percentage of total revenues improved from 0.8% for the nine months ended December 31, 2005 to 0.5% for the year ended March 31, 2006 and 1.7% for the nine months ended December 31, 2006. As discussed above, during the nine months ended December 31, 2006, we recognized a gain from an arbitration award and reduced claims payable liabilities on our discontinued Texas operations.

Net income (loss)

As a percentage of total revenues, we realized net losses of 6.7% and 3.9% for the nine months ended December 31, 2005 and the year ended March 31, 2006, respectively. We realized net income of 0.2% of our total revenues for the nine months ended December 31, 2006.

Liquidity and Capital Resources

Comerica Line of Credit.

We have obtained an $8.0 million revolving line of credit with Comerica Bank (the "Line of Credit"). The Line of Credit bears interest at Comerica s prime rate plus 1%, which was 9.25% and 8.75% at December 31, 2006 and March 31, 2006, respectively. We have fully borrowed against this facility, and the full amount is currently due and payable on October 1, 2007. The Line of Credit is collateralized by all of our tangible assets, including our investment in all of our subsidiaries. Our obligations to Comerica under the Line of Credit have been guaranteed by certain of our subsidiaries as well as certain of our principal stockholders. Under the terms of the guarantees, each such stockholder unconditionally and irrevocably guarantees prompt and complete payment of its pro rata share of the amount owed by us under the Line of Credit. As compensation for their guarantees, these stockholders were issued warrants to purchase shares of our common stock, which warrants vested based on the outstanding balance of the Line of Credit through November 2006. The warrants fully vested and were exercised in full during the nine months ended December 31, 2006. At the time of the merger with PATY, the shares of our common stock underlying the warrants had been issued into escrow, and such shares were released from escrow upon the exercise of the warrants. No additional shares were issued by us upon the exercise of the warrants by these stockholders.

As of March 31, 2005, the principal balance outstanding under the Line of Credit was $6.2 million. During June 2005, we borrowed an additional $1.2 million, bringing the total amount outstanding to $7.4 million, and in December 2005, we borrowed the remaining $650 thousand available, such that the maximum amount of $8.0 million was outstanding at March 31, 2006 and December 31, 2006.

The Loan agreement underlying the Line of Credit contains representations and warranties and affirmative and negative covenants that are customary for credit facilities of this type. The Line of Credit could restrict our ability to, among other things, sell certain assets, change our business, engage in a merger or change in control transaction, incur debt, pay cash dividends, make investments and encumber our assets. The Line of Credit also contains events of default that are customary for credit facilities of this type, including payment defaults, covenant defaults, insolvency type defaults and events of default relating to liens, judgments, material misrepresentations and the occurrence of certain material adverse events.

As described above, the full balance is due and payable on October 1, 2007. In connection with the Haelan acquisition, we committed not to extend the maturity date of or refinance the Line of Credit any further so long as the Haelan Notes are outstanding, unless such refinancing or extension allows for the Haelan Notes to be repaid in accordance with their terms. We do not anticipate that we will be able to satisfy our obligations under the Line of Credit with operating cash. As a result, we expect that it will be necessary to restructure the Line of Credit or to find an alternative lender before maturity of the Line of Credit. We may also seek to raise capital through the offering of our equity securities. We cannot assure you that we will be able to extend, replace or restructure our credit facility or procure alternate sources of financing on favorable terms prior to maturity of the Line of Credit, if at all.

Haelan Notes and Earn-Out

As described above, in connection with our acquisition of Haelan in December 2006, we issued convertible promissory notes, or Haelan Notes, in the aggregate principal amount of $6.5 million to the former securityholders of Haelan. The Haelan Notes do not mature until December 2009, although this could be accelerated in the event that we consummate a sale transaction involving our company. We may also elect to prepay amounts due under the Haelan Notes beginning in November 2007. Under the terms of the Haelan Notes, we may satisfy our obligations to the holders of such notes through the issuance of shares of our common stock, but only in the event that the average closing price of our common

stock exceeds

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certain thresholds. No assurance can be given that we will be allowed to issue shares of our common stock in satisfaction of this liability, and we may not have available capital on hand to satisfy such amounts due in cash. In such case, we may need to seek outside sources of funding.

We also have a contingent obligation to the former Haelan shareholders to pay up to $3.0 million in the event that Haelan s revenues for 2007 exceed certain agreed-upon thresholds. In the event that such revenue targets are achieved, we may elect to satisfy a portion of this obligation through the issuance of shares of our common stock valued at a trailing average closing price of such shares. In the event that this contingent obligation to the Haelan shareholders materializes, our stock price may be trading at a level that will make it prohibitively dilutive to us to issue shares of our common stock, in which case we would need to make any necessary payments in cash. As with the Haelan Notes, we may need to seek alternative sources of capital in order to satisfy this obligation.

Working Capital and Restructuring Plan

As of December 31, 2006, we had a deficit in working capital of $7.1 million. This deficit is inclusive of the $8.0 million Line of Credit discussed above, which has a maturity date of October 1, 2007. Our Aetna capitated risk contracts were terminated as of January 31, 2007. These contracts resulted in cash inflows of approximately $1.2 million a month and these inflows will not be available in the future. Additionally, there will be a delay in the reduction of cash outflows related to these Aetna risk contracts as we will be paying claims related to claims reserves as of December 31, 2006 and will incur restructuring costs as a result of our ceasing the Aetna-related operations.

We are dependent on continued growth of our ASO and fee-for-service revenue contracts to replace the cash flow that was historically generated from our capitated risk contracts. We have implemented a restructuring program in 2007 to streamline and restructure our operations to focus on our core business of population healthcare management where we are not at-risk for provider claims. Under our restructuring initiative, we expect to reduce our overall operating expenses to align with our current business model, and we believe that as a result of actions taken under that initiative, our existing cash and cash equivalents and short-term investment balances and cash from operations will be sufficient to fund our operations expenditures and growth initiatives. We do not believe that such resources will be sufficient to repay the $8.0 million Line of Credit loan that matures October 1, 2007 as discussed above.

Certain of our stockholders (Essex Woodlands Health Ventures, Psilos Group Partners, Radius Ventures Partners, John Pappajohn and Derace Schaeffer, M.D) have signed a letter dated April 16, 2007 which provides that, in the event that CareGuide should require additional funding to continue our operations through January 1, 2008, these stockholders will provide the necessary additional funding, up to $2.0 million in aggregate, to CareGuide in amounts to be determined between and among this investor group. These investors collectively own approximately 57% of our common stock.

Capitated Risk Contracts

In connection with our acceptance of capitated risk, our customers required us to provide them with letters of credit for their protection in case we did not have sufficient resources to pay the related claim liabilities. These letters of credit are generally collateralized by certificates of deposit and are shown on our consolidated financial statements as Restricted cash available for current liabilities . Such restricted cash balances as of December 31, 2006 and March 31, 2006 were $4.7 million and $4.9 million, respectively. As discussed above, Aetna was paid $1.7 million from our restricted cash in March 2007 as final payment for the negotiated settlement for the 2004 and 2005 contract years.

Our claims payable liability at December 31, 2006 was $7.3 million, which exceeded the restricted cash available for current liabilities by $2.5 million. Any excess of claim liabilities over restricted cash will have to be paid out of operating cash.

2005 Private Placement

During the months of October and December 2005, PATY issued an aggregate of 3,588,562 shares of its common stock in a private placement (the PIPE) at an average price of $3.49 per share for gross proceeds of approximately $12.5 million. After paying related commissions and other offering costs, the net proceeds of the PIPE were approximately $10.8 million. PATY used $6.0 million of the net proceeds to retire its debt obligations under a credit facility in full. Pursuant to the terms of the PIPE, we were obligated to register the resale of the PIPE shares on behalf of the PIPE investors. Under the terms of the PIPE, we incurred financial penalties of 1% of the gross proceeds (approximately $120,000) per month if the effective date of the registration statement relating to these shares was delayed past March 1, 2006. We filed a registration statement with the SEC on Form SB-2 in May, 2006 to register the PIPE shares. This registration statement was declared effective by the SEC on July 20, 2006. In accordance with the terms of the PIPE, we returned capital of $568 thousand to the PIPE investors during the nine months ended December 31, 2006 due to the delay.

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Cash Flows

Cash received from customers, as shown in the statement of cash flows, is generally less than revenues recorded, primarily due to our Aetna capitated risk contracts. In connection with these contracts, we recorded 100% of the capitated revenues and 100% of the capitated incurred claims. However, we did not pay all the claims. Aetna also paid a portion of the claims, and consequently retained cash to pay these claims. Reconciliations are performed periodically for the claims Aetna paid for periods in time that is compared to the cash Aetna retained for such period. If Aetna pays less than the cash it retained, it will owe this amount to us. If Aetna pays more than the cash it retained, we will owe Aetna this excess. As described above, we paid $1.0 million to Aetna during the nine months ended December 31, 2006 for partial settlement of one such reconciliation for 2004 and 2005. The remaining $1.7 million for this settlement was paid to Aetna in March 2007, but this did not affect our operating cash as the amount was paid from reductions in restricted cash.

The net cash used in operating activities for the nine months ended December 31, 2005 and the year ended March 31, 2006 were $4.8 and $4.0 million, respectively. These net uses of cash were due primarily to the payment of Health Net related capitated risk claims. These payments of capitated risk claims were offset by releases in restricted cash of $4.8 million and $5.9 million, respectively.

During the nine months ended December 31, 2006, we generated net cash provided by operating activities of $726 thousand. This amount was net of the $1.0 million payment described above to Aetna for the 2004 and 2005 contract year settlement. The improvement from the prior periods was due primarily to the reduction in capitated risk claims paid, partially offset by increases in general expenses due to the growth of the administrative and fee contracts and the merger with PATY.

The acquisition of PATY used cash of $643 thousand during the year ended March 31, 2006, including $513 thousand used during the nine months ended December 31, 2005. On the merger completion date of January 25, 2006, PATY added $4.4 million of cash. Therefore, the net cash acquired from the PATY acquisition during the year ended March 31, 2006 aggregated $3.8 million. We paid additional expenses in connection with this merger during the nine months ended December 31, 2006 of $586 thousand. The acquisition of Haelan used cash of $1.4 million, net of cash acquired, during the nine months ended December 31, 2006.

As discussed above, we borrowed $1.85 million during the nine months ended December 31, 2005 from the Line of Credit. During the nine months ended December 31, 2006, we paid to certain investors in the PIPE $568 thousand for the return of capital due to a delay in registering for resale the shares issued in the PIPE.

We had $6.0 million of unrestricted cash and cash equivalents at December 31, 2006. Of this amount, $1.5 million was for revenue received in advance for future periods.

Effects of Restructuring

As discussed above, our capitated risk contracts with Aetna were terminated effective January 31, 2007. This termination completed our exit from the capitated risk business. The acquisition of Haelan in December 2006 has allowed us to transition to an integrated disease and care management product. Additionally, we are implementing a new technology platform to support the integrated product. We have also recently moved certain office spaces to new locations to improve efficiencies. In connection with these actions, we have undertaken restructuring initiatives. As a result of these initiatives, we anticipate reductions in force aggregating approximately 50 full-time employees with annual salaries and benefits in excess of $3.5 million. We currently estimate severance and other termination costs in connection with these restructuring initiatives of approximately $0.5 million. These restructurings are expected to be completed by the fall of 2007.

Inflation

Inflation did not have a significant impact on our operations during the nine months ended December 31, 2005, the year ended March 31, 2006 and the nine months ended December 31, 2006. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of SFAS Statement No. 109, to clarify certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the impact of FIN 48 on our consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, with FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We have not yet assessed the impact, if any, of SFAS No. 157 on our consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R" ("SFAS No. 158"). SFAS No. 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS No. 158 also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 will be effective as of the end of the fiscal year ending after December 15, 2006. We have not yet assessed the impact, if any, of SFAS No. 158 on our consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement, which is consistent with the FASB s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. We have not yet assessed the impact, if any, of SFAS No. 159 on our consolidated balance sheets.

Item 7 Financial Statements.

Our consolidated financial statements, together with the reports thereon by our independent registered public accounting firm, begin on page F-1 of this Form 10-KSB.

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

None.

Item 8A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. The Company has recently identified a material weakness in its internal controls over the accounting for lease modifications. Controls surrounding lease modifications did not ensure that such modifications were properly recognized in the accounting records on a timely basis. This identification has resulted in the restatement of previously issued consolidated financial statements (see Note 3 to the accompanying consolidated financial statements). The Company is correcting the internal controls over the accounting for lease modifications. Based upon this evaluation and as a result of the identified material weakness, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13-15(e) and 15(d)-15(e) under the Securities and Exchange Act of 1934) were not effective for the recording, processing, summarizing and reporting the information that we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC s rules and

forms. Management nevertheless has concluded that the accompanying consolidated financial statements included in this Form 10-KSB present fairly, in all material respects, the results of our operations and our financial position for the periods presented in conformity with generally accepted accounting principles.

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(b) Changes in Internal Controls.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 8B. Other Information.

None.

PART III

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

The information requested by this item is incorporated herein by reference to our definitive Proxy Statement to be filed within 120 days of December 31, 2006.

Item 10 Executive Compensation.

The information requested by this item is incorporated herein by reference to our definitive Proxy Statement to be filed within 120 days of December 31, 2006.

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

The information requested by this item is incorporated herein by reference to our definitive Proxy Statement to be filed within 120 days of December 31, 2006.

Item 12 Certain Relationships and Related Transactions, and Director Independence.

The information requested by this item is hereby incorporated by reference to our definitive Proxy Statement to be filed within 120 days of December 31, 2006.

Item 13 Exhibits

(a) Exhibits.

Exhibit #		Description of Exhibits
2.1	$$	Agreement and Plan of Merger, dated September 19, 2005, by and among Patient Infosystems, Inc., PATY Acquisition Corp. and CCS Consolidated, Inc.
2.2	@	Amendment No. 1 to the Agreement and Plan of Merger, dated November 22, 2005, by and among Patient Infosystems, Inc., PATY Acquisition Corp. and CCS Consolidated, Inc.
2.3	@@	Amendment No. 2 to the Agreement and Plan of Merger, dated December 23, 2005, by and among Patient Infosystems, Inc., PATY Acquisition Corp. and CCS Consolidated, Inc.
2.4	##	Agreement and Plan of Merger, dated November 3, 2006, by and among CareGuide, Inc., Haelan Acquisition Corporation and Haelan Corporation
3.1	++	Certificate of Incorporation
3.2	^^	Certificate of Amendment to Certificate of Incorporation
3.3	*	By-Laws
4.1	++	Form of Common Stock Certificate
4.2	**	Amended and Restated Stock Option Plan of the Registrant
4.3	++	CCS Consolidated, Inc. 2005 Equity Incentive Plan
4.4	***	Form of Registration Rights Agreement dated on or about March 31, 2000 between the Registrant and John Pappajohn, Derace Schaffer, M.D., Gerald Kirke and Michael Richards for Series C 9% Cumulative Convertible Preferred Stock
4.5	^	Series D Convertible Preferred Stock Registration Rights Agreement dated April 10, 2003
4.6	$$$	Form of Registration Rights Agreement entered into in connection with PIPE financing
4.8	+++	Form of Warrant to Purchase Shares of Common Stock in connection with PIPE financing
4.9		Form of Warrant to Purchase Common Stock issued to certain directors and officers of the Registrant.
4.10		Form of Warrant to Purchase Common Stock for director service.
9.1	++	Voting Trust Agreement, dated as of January 25, 2006, by and among Steven Morain as Trustee, John Pappajohn and the Registrant.
10.1	+	Lease Agreement dated as of February 15, 2007 between the Registrant and Nordis, Inc.
10.2	^^	Office Lease, dated as of September 29, 2006, between the Registrant and UCB Technologies, Inc.
10.6	@@@	Stockholders Agreement, dated as of January 25, 2006, by and among the Registrant and certain of its stockholders
10.7 (%)	$$	Employment Agreement, dated September 19, 2005, by and between the Registrant and Chris Paterson
10.8 (%)	$$	Employment Agreement, dated September 19, 2005, by and between the Registrant and Glen Spence
10.9 (%)	@@@	Employment Agreement, dated December 5, 2005 and effective as of January 25, 2006, by and between the Registrant and Kent A. Tapper
10.10	@@@	Form of Lockup Agreement executed by certain stockholders of the Registrant in connection with the merger with CCS Consolidated, Inc.
10.11	@@@	Form of Lockup Agreement signed by certain executive officers of the Registrant
10.12	++	Loan and Security Agreement, dated as of October 9, 2002, by and between the Registrant and Comerica Bank, as amended
10.13 (%)	^^^	Employment Agreement, effective as of June 23, 2006, by and between the Registrant and Ann Boughtin
10.14 (%)	^^^	Employment Agreement, effective as of June 23, 2006, by and between the Registrant and Rex Dendinger
10.15 (%)	^^^	Amendment No. 1 to Employment Agreement, effective as of June 23, 2006, by and between the Registrant and Kent Tapper

10.16 (%)	#	Employment Agreement, effective as of December 8, 2006, by and between the Registrant and Julie A. Meek
10.17		Fourth Amendment to Loan and Security Agreement entered into as of November 10, 2006, by and between Comerica Bank and CCS Consolidated, Inc.
11.1		Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this report).
21.1		List of Subsidiaries
31.1		Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2		Certification of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1		Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

%	Denotes management contract or compensatory plan.
*	Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-1 filed on July 3, 1996 and incorporated herein by reference.
**	Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-8 filed on October 8, 2004 and incorporated herein by reference.
***	Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 2, 2001 and incorporated herein by reference.
+	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.
++	Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-KSB filed on March 31, 2006 and incorporated herein by reference.
+++	Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form SB-2/A filed on July 19, 2006 and incorporated herein by reference.
^	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on April 23, 2003 and incorporated herein by reference.
^^	Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on November 14, 2006 and incorporated herein by reference.
^^^	Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-KSB filed on June 29, 2006 and incorporated herein by reference.
$$	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on September 23, 2005 and incorporated herein by reference.
$$$	Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on November 14, 2005 and incorporated herein by reference.
@	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on November 29, 2005 and incorporated herein by reference.
@@	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on December 23, 2005 and incorporated herein by reference.
@@@	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on January 31, 2006 and incorporated herein by reference.
#	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on December 12, 2006 and incorporated herein by reference.
##	Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on November 6, 2006 and incorporated herein by reference.

Item 14 Principal Accounting Fees and Services.

The information requested by this item is hereby incorporated by reference to our definitive Proxy Statement to be filed within 120 days of December 31, 2006.

SIGNATURE PAGE

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.

CAREGUIDE, INC.

By: /s/ Chris E. Paterson
Chris E. Paterson, Ph.D.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this report has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ Albert S. Waxman Albert S. Waxman, Ph.D.	Chairman of the Board of Directors	April 17, 2007
/s/ John Pappajohn John Pappajohn	Vice Chairman of the Board of Directors	April 17, 2007
/s/ William Stapleton William Stapleton	Director, Chairman of the Audit Committee	April 17, 2007
/s/ Michael Barber Michael Barber, MD	Director	April 17, 2007
/s/ Daniel C. Lubin Daniel C. Lubin	Director	April 17, 2007
/s/ Mark L. Pacala Mark L. Pacala	Director	April 17, 2007
/s/ Derace L. Schaffer Derace L. Schaffer, M.D.	Director	April 17, 2007
/s/ Chris E. Paterson	President and Chief Executive Officer (Principal Executive	April 17, 2007

Chris E. Paterson, Ph.D.	Officer)	
/s/ Glen A. Spence Glen A. Spence	Chief Financial Officer (Principal Financial and Accounting Officer)	April 17, 2007

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CareGuide, Inc. and Subsidiaries

Consolidated Financial Statements

Nine Months Ended December 31, 2006 and Year Ended March 31, 2006

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Report of Independent Registered Public Accounting Firm

Board of Directors of CareGuide, Inc.

We have audited the accompanying consolidated balance sheets of CareGuide, Inc. and subsidiaries as of December 31, 2006 and March 31, 2006, and the related consolidated statements of operations, stockholders equity and cash flows for the nine months ended December 31, 2006 and the year ended March 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CareGuide, Inc. and subsidiaries as of December 31, 2006 and March 31, 2006, and the results of their operations and their cash flows for the nine months ended December 31, 2006 and the year ended March 31, 2006 in conformity with U.S. generally accepted accounting principles.

As described in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation in the nine months ended December 31, 2006. As described in Note 3 to the consolidated financial statements, the March 31, 2006 consolidated financial statements have been restated to reflect a correction in the accounting for certain leases.

/s/McGladrey & Pullen LLP

Des Moines, Iowa

April 17, 2007

CareGuide, Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except shares and par values)

	December 31, 2006	March 31, 2006 (Restated See Note 3)
Assets		
Current assets:		
Cash and cash equivalents	$ 5,975	$ 8,399
Restricted cash available for current liabilities	4,717	4,894
Securities available for sale	24	99
Securities held for trading	284	827
Notes receivable	308	340
Accounts receivable, net of allowance for doubtful accounts of $544 and $465, respectively	3,503	3,859
Prepaid expenses and other current assets	587	440
Current assets of discontinued operations	344	351
Total current assets	15,742	19,209
Property and equipment, net	2,948	1,225
Intangibles and other assets, net	5,963	4,219
Goodwill	32,629	28,666
Restricted cash	908	618
Total assets	**$ 58,190**	**$ 53,937**
Liabilities and stockholders equity		
Current liabilities:		
Claims payable	$ 7,260	$ 8,260
Line of credit	8,000	-
Accounts payable and accrued expenses	4,932	6,395
Deferred revenue	1,500	1,355
Current tax liability	344	93
Current portion of lease obligations	365	356
Current liabilities of discontinued operations	425	1,018
Total current liabilities	22,826	17,477
Long-term liabilities:		
Line of credit	-	8,000
Convertible notes payable	6,520	-
Deferred tax liability	7	28
Lease obligations, net of current portion	1,107	1,172
Legal settlement payable, net of current portion	-	300
Total liabilities	30,460	26,977
Commitments and contingencies		
Stockholders equity:		
Common stock, $.01 par value, 80,000,000 shares authorized; 67,538,976 shares issued and outstanding	675	675
Additional paid-in capital	62,474	61,742
Accumulated other comprehensive loss	(32)	(1)
Accumulated deficit	(35,387)	(35,456)
Total stockholders equity	27,730	26,960
Total liabilities and stockholders equity	**$ 58,190**	**$ 53,937**

See accompanying notes.

CareGuide, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share data)

	Nine Months Ended December 31, 2006	**Year Ended March 31, 2006**	**Nine Months Ended December 31, 2005**
Revenues:		(Restated See Note 3)	(Unaudited)
Capitation revenue	$ 27,061	$ 39,508	$ 30,803
Administrative and fee revenue	14,277	15,186	8,230
Total revenues	41,338	54,694	39,033
Cost of services direct service costs, excluding depreciation and amortization of $808, $843 and $619, respectively	31,429	47,331	35,600
Gross profit	9,909	7,363	3,433
Operating costs and expenses:			
Selling, general and administrative expense	6,641	6,964	4,350
Depreciation and amortization	1,959	1,504	981
Total operating costs and expenses	8,600	8,468	5,331
Operating income (loss) from continuing operations	1,309	(1,105)	(1,898)
Other income (expense):			
Interest and other income	360	361	251
Trading portfolio loss	(543)	(16)	-
Interest expense	(1,355)	(1,616)	(1,188)
Loss from continuing operations before income taxes and discontinued operations	(229)	(2,376)	(2,835)
Income tax expense	(377)	(54)	(75)
Loss from continuing operations	(606)	(2,430)	(2,910)
Income from discontinued operations	675	290	290
Net income (loss)	69	(2,140)	(2620)
Accretion of preferred stock	-	(125)	(114)
Net income (loss) attributable to common stockholders	$ 69	$ (2,265)	$ (2,734)
Net income (loss) common share-basic and diluted:			
Continuing operations	$ (0.01)	$ (0.14)	$ (0.37)
Discontinued operations	0.01	0.02	0.04
Net income (loss)	$ -	$ (0.12)	$ (0.33)
Weighted average common shares outstanding:			
Basic	67,539	18,814	8,256
Diluted	67,539	18,814	8,256

See accompanying notes.

CareGuide, Inc. and Subsidiaries
Consolidated Statements of Stockholder s Equity
Nine Months Ended December 31, 2006 and Year Ended March 31, 2006
(Dollars in Thousands)

	Common Stock		Series C Convertible Preferred Stock		Series AA Convertible Preferred Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Loss**	**Deficit**	**Total**
Balance at March 31, 2005, as previously reported	8,256,446	$ 83	3,184,010	$ 32	3,044,619	$ 30	$ 27,250	$ -	$ (31,778)	$ (4,383)
Effect of restatement (see Note 3)									(1,538)	(1,538)
Balance at March 31, 2005, as restated	8,256,446	83	3,184,010	32	3,044,619	30	27,250	-	(33,316)	(5,921)
Issuance of Series AA preferred stock					2,572,095	26	(26)			-
Conversion of preferred stock to common stock	29,477,823	295	(3,184,010)	(32)	(5,616,714)	(56)	(207)			-
Stock option exercises	1,167,910	11					(11)			-
Issuance of stock related to debt warrants	3,558,552	36					(36)			-
Issuance of stock for success fee escrow	516,795	5					495			500
Shares issued for Series AA dividends	246,826	2					(2)			-
Merger with Patient Infosystems	24,314,624	243					33,311			33,554
Stock option compensation expense							84			84
Amortization of warrants							884			884
Comprehensive loss:										
Unrealized loss on securities available for sale								(1)		(1)
Net loss, as restated									(2,140)	(2,140)
Total comprehensive loss, as restated										(2,141)
Balance at March 31, 2006, as restated	67,538,976	675	-	-	-	-	61,742	(1)	(35,456)	26,960
Stock option compensation expense							65			65
Amortization of warrants							657			657
Warrant exercises							10			10
Comprehensive income:										
Unrealized loss on securities available for sale								(31)		(31)
Net income									69	69
Net comprehensive income										38
Balance at December 31, 2006	67,538,976	$ 675	-	$ -	-	$ -	$ 62,474	$ (32)	$ (35,387)	$ 27,730

See accompanying notes.

CareGuide, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Nine Months Ended		Nine Months Ended
	December 31, 2006	Year Ended March 31, 2006	December 31, 2005 (Unaudited)
Cash provided by (used in) operating activities:			
Cash received from customers	$ 25,612	$ 35,425	$ 23,891
Direct provider costs and claims settlements paid	(4,859)	(19,979)	(15,268)
Salary and benefits paid	(12,536)	(12,400)	(8,178)
Rent expense paid	(1,425)	(1,674)	(1,174)
Professional fees paid	(1,346)	(635)	(608)
Other operating expenses paid	(4,375)	(4,496)	(3,269)
Other income received	360	361	251
Interest expense paid	(566)	(564)	(398)
Income taxes paid	(139)	(24)	(20)
Net cash provided by (used in) operating activities	726	(3,986)	(4,773)
Cash provided by (used in) investing activities:			
Purchases of property and equipment	(381)	(280)	(250)
Restricted deposits, net	(113)	5,882	4,783
Cash (used in) acquired in mergers, net of acquisition costs	(2,596)	3,814	(513)
Net cash (used in) provided by investing activities	(3,090)	9,416	4,020
Cash provided by (used in) financing activities:			
Principal payments of capital lease obligations	(70)	(313)	(193)
Proceeds from borrowing under line of credit facility	-	1,850	1,850
Proceeds received from warrant exercises	10	-	-
Net cash (used in) provided by financing activities	(60)	1,537	1,657
Net (decrease) increase in cash and cash equivalents	(2,424)	6,967	904
Cash and cash equivalents, beginning of period	8,399	1,432	1,432
Cash and cash equivalents, end of period	$ 5,975	$ 8,399	$ 2,336

See accompanying notes.

CareGuide, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Nine Months Ended December 31, 2006	**Year Ended March 31, 2006** (Restated See Note 3)	**Nine Months Ended December 31, 2005** (Unaudited)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:			
Net income (loss)	$ 69	$ (2,140)	$ (2,620)
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operations:			
Depreciation and amortization	1,959	1,504	981
Stock option compensation	65	84	54
Amortization of warrants	657	884	655
Unrealized loss in trading portfolio	543	16	-
Decrease in accounts receivable	480	2,046	2,401
(Increase) decrease in prepaid expenses and other current assets	(137)	82	(178)
Decrease in claims payable	(1,000)	(6,772)	(5,603)
Decrease in accounts payable and accrued expenses	(1,577)	(237)	(663)
Increase in deferred revenue	12	622	193
Increase (decrease) in current tax liability	251	(98)	-
Deferred tax (expense) benefit	(10)	16	-
Decrease in current assets of discontinued operations	7	578	570
Decrease in current liabilities of discontinued operations	(593)	(571)	(563)
Net cash provided by (used in) operating activities	$ 726	$ (3,986)	$ (4,773)

See accompanying notes.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

1. Organization and Description of Business

On January 25, 2006, CareGuide, Inc. (the "Company" or "CareGuide", f.k.a. Patient Infosystems, Inc.) acquired all the outstanding common stock of CCS Consolidated, Inc., ("CCS") through the issuance of 43,224,352 shares of CareGuide common stock. CCS was the accounting acquirer, but CareGuide was the surviving legal entity. The financial statements presented herein are the historical financial statements of the former CCS Consolidated, Inc., with the combined results of operations reflected since the date of the merger.

On December 8, 2006, the Company acquired Haelan Corporation, a privately held corporation ("Haelan"). As of the closing of the acquisition, Haelan became a wholly owned subsidiary of the Company. The financial statements presented herein as of and for the nine months ended December 31, 2006 include the combined results of operations since the date of the acquisition.

CCS was incorporated on March 4, 1998. On April 10, 1998, CCS acquired the stock of Integrated Health Services Network, Inc. and IHS Network Services, Inc. from Integrated Health Services, Inc. (IHS). Subsequent to the acquisition, the name Integrated Health Services Network, Inc. was changed to Coordinated Care Solutions, Inc. As a result of the merger with Patient Infosystems, CCS became a wholly owned subsidiary of the Company. During the nine months ended December 31, 2006, the Company changed its name from Patient Infosystems, Inc. to CareGuide, Inc.

The Company is a population health management company that provides a full range of healthcare management services to health plans, work/life companies, government entities, and self-funded employers to help them to reduce health care costs while improving the quality of care for the members. The Company has approximately 80 customers across the United States.

The Company s services may be provided under a variety of contractual arrangements, including capitation, fee-for-service, and case rates. CareGuide also provides case management and disease management for administrative fees only. Contracts may include performance bonuses and shared cost savings arrangements.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, CCS, Haelan, Coordinated Care Solutions, Inc. (formerly Integrated Health Services Network, Inc.), Coordinated Care Solutions, IPA, Inc., Coordinated Physician Solutions, Inc., Coordinated Care Solutions of Texas, Inc. (CCS of Texas), Careguide, Inc. (a California company), CCS New Jersey Inc., Coordinated Care Solutions of Connecticut, Inc., IHS Network Services, Inc., CCS/CG Holdings, Inc., CCS Merger Corp., Professional Review Network, Inc. and CBCA Care Management, Inc. The accompanying consolidated statements of operations and statements of cash flows for the year ended March 31, 2006 include the accounts of the former Patient Infosystems, Inc. and its wholly owned subsidiary, CBCA Care Management, Inc. from the merger date of January 25, 2006 through March 31, 2006. The accompanying consolidated statements of operations and statements of cash flows for the nine months ended December 31, 2006 include the accounts of Haelan from the merger date of December 8, 2006 through December 31, 2006. All material intercompany accounts and transactions have been eliminated in consolidation. The Company and its subsidiaries collectively do business under the name "CareGuide".

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported and disclosures at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Company s business could be impacted by continuing price pressure on new and renewal business, the Company s ability to effectively control provider costs, additional competitors entering the Company s markets and changes in federal and state legislation or governmental regulations. Changes in these areas could adversely impact the Company s financial position, results of operations and/or cash flows in the future.

Direct service costs are comprised of the incurred claims paid to third-party providers for services for which the Company is at risk and the related expenses of the Company associated with the providing of its services. Network provider and facility charges for authorized services that have yet to be billed to the Company are estimated and accrued in its Incurred But Not Reported (IBNR) claims payable liability. Such accruals are based on historical experience, current enrollment statistics, patient census data, adjudication and authorization decisions and other information. The IBNR liability is adjusted as changes in these factors occur and such adjustments are reported in the period of determination. Although it is possible that actual results could vary materially from recorded claims in the near term, management believes that the recorded IBNR liability is adequate.

Reclassification

Certain prior year balances have been reclassified to agree with the current year presentation. There was no effect from these reclassifications on the net loss reported in the prior year.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

Reportable Operating Segments

The operations of the Company are reported herein as one reportable segment for the nine months ended December 31, 2006 and year ended March 31, 2006. The Company uses the "management approach" for reporting information about segments in annual and interim financial statements. The management approach is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management disaggregates a company. Based on the "management approach" model, the Company has determined that its business is comprised of a single reportable segment. Revenues from the other non-reporting segment, whose financial amounts are below the quantitative thresholds for separate disclosure, totaled approximately $1.3 million and $0.5 million for the nine months ended December 31, 2006 and year ended March 31, 2006, respectively. The non-reporting segment ceased operation as of December 31, 2006; there will be no further revenues from this non-reporting segment.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash on deposit, and amounts invested in short-term financial instruments with a maturity of three months or less from the date of acquisition, the use of which is not restricted.

Accounts Receivable

The Company s accounts receivable, which are unsecured, are due from companies who have contracted through the Company for care management services. The Company does not charge interest on accounts receivable. Accounts receivable are recorded net of an estimated allowance for doubtful accounts in the accompanying financial statements, which is recorded primarily based upon an analysis of the individual accounts. Accounts are written off only after all collection efforts are exhausted. During the nine months ended December 31, 2006 and year ended March 31, 2006, net expenses related to doubtful accounts were approximately $79,000 and $124,000, respectively.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using accelerated and straight-line methods, as deemed appropriate, over the estimated useful lives of the related assets ranging from three to ten years. Leasehold improvements are amortized over the lesser of the remaining lease term or the asset s useful life.

Intangible and Other Assets

Intangible and other assets consist primarily of a website, trademarks, customer relationships and other intangibles associated with acquisitions. Amortization is computed using accelerated and straight-line methods, as deemed appropriate, over the estimated useful lives of the related assets ranging from three to ten years. Any asset deemed to have an indefinite life will be tested at least annually for impairment; the extent of any impairment will be recorded in the period in which any such impairment determination is made.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

Restricted Cash

On March 31, 2001, the Company was licensed to operate as a limited service HMO in the State of Texas. In accordance with the regulations of the Texas Department of Insurance, the Company was required to maintain a statutory deposit in a restricted account. Interest earned on these funds accrues to the Company. As of December 31, 2006 and March 31, 2006, the Company included the deposits of $325,000 in current assets of discontinued operations in the consolidated balance sheets (see Note 7).

In connection with several of the Company s customer contracts and office leases, the Company is required to maintain unconditional, irrevocable letters of credit totaling $4,999,000 and $5,282,000 at December 31, 2006 and March 31, 2006, respectively. At December 31, 2006 and March 31, 2006, the Company has secured these letters of credit by establishing certificates of deposit totaling $5,018,000 and $5,294,000, respectively. These certificates of deposit are included in restricted cash in the consolidated balance sheets.

In addition, at December 31, 2006 and March 31, 2006, CCS New Jersey, Inc. was required to deposit $607,000 and $218,000, respectively, with the State of New Jersey as a condition of licensure as an Organized Delivery System in New Jersey. This deposit is included as restricted cash in the consolidated balance sheets.

The portion of restricted cash that is available and that the Company intends to use to satisfy current liabilities is included in current assets. The fair value of restricted cash approximates its carrying value.

Securities

Securities available-for-sale and held for trading each consists solely of common shares of American Caresource Holdings, Inc. ("ACSH") acquired in the merger with Patient Infosystems, Inc. The available-for-sale portfolio consisting of 13,092 shares of ACSH common stock is carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders equity. The remaining 153,518 shares of ACSH common stock are classified as a trading portfolio as such shares may be needed to satisfy a call option granted on those shares (see Note 16). Such trading portfolio is carried at fair value, with unrealized loss of approximately $543,000 and $16,000 included in the consolidated statements of operations for the nine months ended December 31, 2006 and year ended March 31, 2006, respectively. No securities have been sold to date.

Long-Lived Assets

In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company reviews the carrying value of its long-lived assets to assess recoverability and impairment when ever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairments were recorded for the nine months ended December 31, 2006 and year ended March 31, 2006.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

Goodwill and Indefinite Lived Intangible Assets

In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets", the goodwill and intangible assets with indeterminable useful lives are not amortized, but instead tested annually for impairment on March 31 or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Due to the loss of a significant customer, the Company performed a goodwill impairment test as of December 31, 2006 which resulted in no goodwill impairment. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144.

No impairments were recorded for the nine months ended December 31, 2006 and the year ended March 31, 2006.

Claims Payable

The Company provides for claims incurred but not yet reported based primarily on past experience, together with current factors, using generally accepted actuarial methods. Estimates are adjusted as changes in these factors occur and such adjustments are reported in the period of determination. Accordingly, amounts designated as prior periods relate to the favorable or unfavorable settlement of claims for services incurred prior to the beginning of each period presented below. Although it is reasonably possible that actual results could vary materially from recorded claims in the near term, management believes that recorded reserves are adequate.

The estimates for claims payable are continually reviewed and adjusted as necessary, as experience develops or new information becomes known. Such adjustments are included in current operations. Incurred claims for the nine months ended December 31, 2006 and year ended March 31, 2006 are as follows (dollars in thousands):

	Nine Months Ended December 31, 2006	**Year Ended March 31, 2006**
Claims payable, beginning of period	**$ 8,260**	**$ 15,032**
Claims Incurred:		
Current period	23,255	35,937
Prior periods	(3,181)	(498)
Net incurred claims	**20,074**	**35,439**
Paid Claims:		
Current period	(2,500)	(10,300)
Prior periods	(2,359)	(9,679)
Claims paid by health plan	(16,215)	(22,232)
Total paid claims	**(21,074)**	**(42,211)**
Claims payable, end of period	**$ 7,260**	**$ 8,260**

Cost of services for the nine months ended December 31, 2006 and year ended March 31, 2006 include a benefit of approximately $3.2 million and $0.5 million, respectively, related to the favorable settlement of claims for services included in the prior reporting periods.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, available-for-sale and trading securities, accounts receivable, restricted cash, accounts payable, accrued expenses, a line of credit and long-term debt. The fair value of instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair value of short-term financial instruments approximates their recorded values due to the short-term nature of the instruments. Securities are valued using market trading prices and are carried at market value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying value.

Revenue and Major Customers

Capitated fees are due monthly and are recognized as revenue during the period in which the Company is obligated to provide services to members. Administrative fees are recognized during the period in which case management and disease management services are provided. Fee-for-service revenues are recognized during the period in which the related services are provided to members. Fees received in advance are deferred to the period in which the Company is obligated to provide service to members.

Certain of the Company s receivables are based on contractual arrangements which may be subject to retroactive adjustments as final settlements are determined. Such amounts are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods upon final settlement.

For the nine months ended December 31, 2006 and year ended March 31, 2006, approximately 66% and 61%, respectively, of the Company s total revenue from continuing operations was earned under contracts with affiliates of a single company, Aetna, Inc. (Aetna). In addition, during the nine months ended December 31, 2006 and year ended March 31, 2006, approximately 2% and 28%, respectively, of the Company s total revenue was earned under contracts with Health Net, Inc. (HealthNet). The capitated-risk contracts with Aetna were terminated effective as of January 31, 2007 and the contracts with Health Net were terminated effective as of May 1, 2006.

Other than these customers, no other one customer accounted for more than 10% of the Company s total revenue for the nine months ended December 31, 2006 and year ended March 31, 2006.

Direct Service Costs

Direct service costs are comprised principally of expenses associated with providing the Company s services, including third-party network provider charges. The Company s direct service costs require pre-authorization and are recognized in the month in which services are rendered. Network provider and facility charges for authorized services that have not been billed to the Company (known as incurred but not reported expenses) are estimated and accrued based on the Company s historical experience, current enrollment statistics, patient census data, adjudication decisions and other information. The liability for such costs is included in the caption Claims payable in the accompanying consolidated balance sheets. For the nine months ended December 31, 2006 and the year ended March 31, 2006, direct service costs excluded $808 thousand and $843 thousand, respectively, of depreciation and amortization which were attributable to direct service operations but is reported as operating expenses.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company and its subsidiaries file federal tax returns on a consolidated basis, and certain of its subsidiaries file state income tax returns on a separate basis. The Company s provision for income taxes includes federal and state income taxes currently payable and changes in deferred tax assets and liabilities, excluding the establishment of deferred tax assets and liabilities related to acquisitions. Deferred income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes* and represent the estimated future tax effects resulting from temporary differences between financial and tax reporting bases of certain assets and liabilities. In addition, future tax benefits, such as net operating loss (NOL) carryforwards, are required to be recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets are reduced by a valuation allowance when, in the opinion of the management, it is more likely than not that some or all of the deferred tax assets will not be realized.

Earnings Per Share

The calculations for the basic and diluted loss per share were based on net income attributable to common stockholders of $69,000 and net loss attributable to common stockholders of $2,265,000 and a weighted average number of common shares outstanding of 67,538,976 and 18,813,609 for the nine months ended December 31, 2006 and year ended March 31, 2006, respectively. In accordance with SFAS No. 128 "Earnings per Share", the computation of fully diluted loss per share for such periods did not include 2, 831,418 and 2,936,903 shares of common stock, respectively, which consist of the common equivalents of outstanding convertible preferred shares, options and warrants, because the effect would be antidilutive due to the net losses from continuing operations in those years. The calculation of the Company's net income (loss) per share for the nine months ended December 31, 2006 and year ended March 31, 2006 is as follows (dollars in thousands, except for per share amounts):

	Nine Months Ended December 31, 2006	**Year Ended March 31, 2006**
		(Restated See Note 3)
Net loss from continuing operations	$ (606)	$ (2,430)
Income from discontinued operations	675	290
Net income (loss)	69	(2,140)
Accretion of preferred stock	-	(125)
Net income (loss) attributable to common stockholders	$ 69	$ (2,265)
Net income (loss) per common share-basic and diluted:		
Continuing operations	$ (0.01)	$ (0.14)
Discontinued operations	0.01	0.02
Loss attributable to common stockholders	$ -	$ (0.12)
Weighted average common shares outstanding - basic	67,538,976	18,813,609
Weighted average common shares outstanding - diluted	67,538,976	18,813,609

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation Plans

The Company continues to administer the Patient Infosystems 1995 Stock Option Plan (the PATY Plan). As of December 31, 2006, there are options to purchase 327,628 shares of the Company's common stock outstanding under the PATY Plan, with a weighted average exercise price of $2.83 per share. The PATY Plan expired in 2005 and no further grants of options may be awarded under the PATY Plan.

In December 2004, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 123(Revised), Share-Based Payment (SFAS No.123(R)), establishing accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments, or that may be settled by the issuance of those equity instruments. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based stock awards, stock appreciation rights, and employee stock purchase plans. SFAS No. 123(R) replaces existing requirements under SFAS No. 123, Accounting for Stock-Based Compensation, and eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25. SFAS 123(R) was adopted by the Company on April 1, 2006.

The Company's net income for the nine months ended December 31, 2006 gives effect to $65 thousand of expense related to certain stock options and warrants. Upon adoption of SFAS No. 123(R), the Company used the modified prospective transaction method, which requires that compensation expense be recorded for all non-vested options beginning with the first quarter of adoption. Prior periods were not restated to reflect the impact of adopting SFAS No. 123(R) on April 1, 2006. Operating income from continuing operations, net income, cash flows from operating activities, cash flows from financing activities and basic and diluted EPS for the nine months ended December 31, 2006 were lower by approximately $9 thousand, $6 thousand, $0, $0, $0.00 and $0.00, respectively, than if the Company had continued to account for stock-based compensation under APB Opinion No. 25 for awards under its stock option plans. During the year ended March 31, 2006 the Company reported such stock option expenses on a pro-forma basis only, in accordance with SFAS No. 123. The Company determines the stock-based employee compensation using the Black-Scholes Option Pricing Model. For comparative purposes, the pro forma net income (loss) for the year ended March 31, 2006 is indicated below (dollars in thousands):

	Year Ended March 31, 2006 (Restated See Note 3)	
Net loss attributable to common stockholders - as reported	$	(2,265)
Stock-based compensation expense	(103)	
Net loss attributable to common stockholders - pro forma	$	(2,368)
Net loss per share - basic and diluted - as reported	$	(0.12)
Net loss per share - basic and diluted - pro forma	$	(0.13)

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

All of the options for which the performance compensation expense is presented were granted when CCS Consolidated, Inc. was a private company. As a private company, CCS computed the pro forma stock-based compensation expense using the minimum value method using an assumed average life of 5 to 7 years and a risk-free interest rate of between 4.5% and 4.72% in the year ended March 31, 2006.

The Company did not grant any options during the nine months ended December 31, 2006.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade receivables and deposits in banks. Concentrations of credit risk with respect to trade receivables are limited by the fact that the Company s customers are primarily large and well-established companies. As of December 31, 2006 and March 31, 2006, approximately $692,000 and $1,845,000, respectively, of the Company s total accounts receivable were due from Health Net. As of December 31, 2006 and March 31, 2006, approximately $326,000 and $548,000, respectively, of the Company s total accounts receivable were due from Blue Cross Blue Shield of Michigan. As of December 31, 2006, approximately $85,000 of the Company s total accounts receivable was due from Aetna. There was no receivable from Aetna as of March 31, 2006.

The Company has deposits exceeding the federal deposit insurance limits in three commercial banks. The Company has not experienced any losses in such accounts.

Recently Issued Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of SFAS Statement No. 109, to clarify certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, with FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not yet assessed the impact, if any, of SFAS No. 157 on its consolidated financial statements.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

2. Summary of Significant Accounting Policies (continued)

In September 2006, FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R" ("SFAS No. 158"). This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 will be effective as of the end of the fiscal year ending after December 15, 2006. The Company has not yet assessed the impact, if any, of SFAS No. 158 on its consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board s long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Company has not yet assessed the impact, if any, of SFAS No. 159 on its consolidated financial statements.

3. **Restatement of Prior Year Consolidated Financial Statements**

The accompanying consolidated financial statements include the impact of a restatement to correct the accounting and record the fair value of a liability in connection with the remaining lease rentals due under an operating lease without any remaining economic benefit to the Company. The Company has an operating lease for office space that was entered into in May 2000 which expires in July 2010. In December 2003 and March 2006, the Company began to sublease approximately 63% and 21%, respectively, of the office space at a lease rate below the rate being paid under the primary lease agreement, through the remainder of the primary lease term. A liability for costs that will continue to be incurred under the remaining primarily lease term without any remaining economic benefit to the Company should have been recognized and measured at its fair value upon executing the various sublease agreements in prior periods.

The accompanying consolidated financial statements reflect the impact of the inclusion of the fair value of future costs of the incurred liability, beginning with the reduction of opening stockholders equity as of April 1, 2005 of $1,538,000. The impact of the restatement for the year ended March 31, 2006 was to increase rent expense by $91,000, increase depreciation and amortization expense by $20,000 and record additional interest expense of $98,000, resulting in a reduction of net income of $209,000. Compared to previously reported amounts, assets decreased by $286,000, liabilities increased by $1,461,000 and stockholders equity decreased as of March 31, 2006 by $1,747,000. Net loss per common share - basic and diluted from continuing operations and in total increased by $0.01 for the year ended March 31, 2006.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

4. Merger with Patient Infosystems, Inc. (PATY)

On September 19, 2005, CCS entered into an agreement to merge with PATY Acquisition Corp., a wholly owned subsidiary of the Company, which was then known as Patient Infosystems, Inc. (PATY and such

transaction the "PATY Merger"). The PATY Merger was completed on January 25, 2006. As a result, CCS became a wholly-owned subsidiary of PATY. The PATY Merger was undertaken because the companies believe that by combining the product offerings of CCS and PATY, customers would respond more favorably to the more complete service capability and the inherent efficiencies associated with merging the two companies could be achieved.

Because (i) CCS s securityholders owned approximately 63% of the fully diluted number of shares of PATY common stock after the transaction, (ii) CCS s designees to the combined company s board of directors represented a majority of the combined company s directors and (iii) CCS s executive management represented a majority of the initial executive management of the combined company, CCS was deemed to be the acquiring company for accounting purposes. Accordingly, the assets and liabilities of PATY were recorded, as of the date of the business combination, at their respective fair values and added to those of CCS. PATY issued approximately 43.2 million shares of its common stock, plus options and warrants to purchase shares of its common stock, in exchange for all of the outstanding shares and certain options to purchase common stock of CCS.

All common shares and common share equivalents presented in the accompanying consolidated financial statements have been adjusted for the effects of the merger. Each common share and common share equivalent of CCS was exchanged for 1.25606819 shares of PATY common stock on the merger date.

The accompanying consolidated balance sheets as of December 31, 2006 and March 31, 2006 include the assets and liabilities of PATY. The accompanying consolidated statements of operations and cash flows for the nine months ended December 31, 2006 include the operations and cash flows of PATY for the entire period. The accompanying consolidated statements of operations and cash flows for the year ended March 31, 2006 include the operations and cash flows of PATY from the merger date of January 25, 2006 through March 31, 2006.

Prior to the merger, PATY issued approximately 3.6 million shares of its common stock in a series of private equity transactions (collectively the PIPE). PATY used $6.0 million of the net proceeds of $11.5 million to retire its debt outstanding. The remaining proceeds of the PIPE were available for working capital purposes. On December 16, 2005, PATY effected a spin-off of ACSH, its wholly-owned subsidiary, as a dividend. PATY retained 166,610 shares of ACSH and issued a dividend of the remaining ACSH shares, which aggregated 12,066,240 shares.

The number of shares to be allocated between the stockholders of CCS and PATY for purposes of the merger exchange ratio became fixed at the closing of the majority of the PIPE discussed above on October 31, 2005. As a result, the measurement date for the determination of the value of PATY was October 31, 2005.

Under generally accepted accounting principles, the cost of an acquisition in a stock for stock exchange is determined by the market price of the securities exchanged using trading days just before and after the measurement date. Prior to the merger with PATY, CCS was a privately held company and its common shares were not listed or traded on any market or exchange, whereas PATY was a SEC registrant whose shares are listed and traded on the NASD OTC Bulletin Board. Even though CCS was the accounting acquirer, the Company has determined that the purchase price to be used for accounting purposes should be determined by reference to the market trading price of PATY shares, due to the lack of a trading market in CCS's shares.

On September 19, 2006, the company formerly known as Patient Infosystems, Inc. filed an amendment to its certificate of incorporation which changed the name of this entity to CareGuide, Inc. (the "Company" or "CareGuide").

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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4. Merger with Patient Infosystems, Inc. (PATY) (continued)

At the measurement date, the trading price of PATY common shares included the value of ACSH, which was subsequently spun-off and, therefore, the trading price of PATY common shares excluding ACSH at

that date was not readily determinable. Therefore, as permitted by paragraph 23 of SFAS No. 141, the Company used the market price of PATY shares just after the spin-off adjusted for an estimate of the change in the trading price between the measurement date and the spin-off date. The average market trading price of PATY for the first five days after the ACSH spin-off (December 19, 2005 through December 23, 2005) was $1.28 per share. The average trading price around the measurement date of PATY shares (including ACSH) was $0.29 higher than the average trading price just prior to the ACSH spin-off. Using the ratio of the trading price before and after the spin-off, PATY estimated the price change for PATY (without ACSH) between the measurement date and the spin-off date at $0.10 per share, resulting in a PATY trading price of $1.38 per share to be used in measuring the value of PATY in the acquisition.

On September 19, 2006, the Company filed an amendment to its certificate of incorporation, which changed its name from Patient Infosystems, Inc. to CareGuide, Inc.

In accordance with SFAS No. 141, the total purchase price was allocated to the acquired tangible and intangible assets and assumed liabilities of PATY based on their estimated fair values as of the PATY Merger closing date of January 25, 2006. A third party valuation consultant was engaged to assist in the process of determining the fair value of the assets acquired and liabilities assumed. The excess of the purchase price over the fair value of assets acquired and liabilities assumed was allocated to goodwill**.**

The purchase price of PATY in the PATY Merger was as follows:

PATY shares outstanding at merger date	24,314,624
Measurement price per share	$ 1.38
Fair value of PATY shares	33,554,181
Expenses of the PATY Merger (a)	1,936,819
Total purchase price	$ 35,491,000

(a) Includes the $500,000 success fee to Psilos Group Partners II, L.P., a stockholder of the Company (see Note 11).

The purchase price was allocated to the assets and liabilities of PATY as of the merger date of January 25, 2006, as follows (dollars in thousands):

Cash acquired	$ 4,457
Other current assets	2,129
Identified intangible assets	2,470
Goodwill	28,608
Current liabilities	(2,173)
Net assets acquired	$ 35,491

The weighted-average amortization period of intangible assets acquired is 4.4 years. None of the goodwill acquired is expected to be deductible for tax purposes.

During the nine months ended December 31, 2006, the results of operations of PATY were consolidated with those of CCS. See Note 5 for unaudited pro forma summary information.

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CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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5. Merger with Haelan Corporation (Haelan)

On December 8, 2006, pursuant to an Agreement and Plan of Merger, dated as of November 3, 2006, by and among CareGuide, Haelan Acquisition Corporation, an Indiana corporation and a newly formed wholly-owned subsidiary of CareGuide (Merger Sub), Haelan Corporation, an Indiana corporation (Haelan) and Richard L. Westheimer, as securityholders representative (the Haelan Merger Agreement), Merger Sub merged with and into Haelan (the Haelan Merger), and as a result Haelan became a wholly-owned subsidiary of CareGuide. The Haelan Merger Agreement and the Haelan Merger

were approved by the shareholders of Haelan at a meeting held on November 20, 2006. In the Haelan Merger, CareGuide paid $1.5 million in cash to Haelan to satisfy certain liabilities of Haelan existing at the closing and specified in the Haelan Merger Agreement, and all outstanding securities of Haelan were exchanged for convertible promissory notes of CareGuide (the Convertible Notes) in the aggregate principal amount of $6.5 million. The Convertible Notes are subordinated to the rights of CareGuide s senior lender (see Note 10).

The Convertible Notes carry an interest rate of 5% per year, compounding annually, mature on December 8, 2009 and are convertible at maturity into shares of common stock of CareGuide, valued based upon the average closing price of the common stock for the 20 consecutive trading days ending on the date prior to conversion. The maturity date of the notes may be accelerated in the event of a sale transaction, as defined in the Convertible Notes, involving CareGuide.

In the event that the average closing price of the common stock of CareGuide for the 20 consecutive trading days ending on the date prior to conversion is equal to or greater than $1.50 per share, the outstanding principal and accrued interest under the Convertible Notes will automatically convert into shares of common stock at $1.50 per share. In the event that such average closing price at the time of conversion is less than $1.50 per share, the outstanding principal and accrued interest under the Convertible Notes will convert into shares of common stock at such average closing price, but not less than $1.00 per share, and in such case each holder of a Convertible Note may elect to receive all or a portion of the amounts due under the note in cash in lieu of shares of common stock of CareGuide. After December 8, 2007, or upon a sale transaction, CareGuide may elect to prepay the amounts then outstanding under the Convertible Notes in cash, subject to the prior approval of CareGuide s senior lender under its credit facility, but upon any such election by CareGuide, if the average closing price of CareGuide s common stock for the 20 consecutive trading days ending on the date prior to conversion is at least $1.00 per share, each holder of a Convertible Note may elect to receive all or any portion of the amounts due under the Convertible Note in the form of shares of common stock valued at such average closing price.

The Haelan Merger Agreement also contains an earn-out provision under which CareGuide is required to pay additional amounts to the former Haelan securityholders in the event that Haelan s revenues during the year ending December 31, 2007 exceed $4,380,000. For each $1.00 of revenue above this target, CareGuide will pay $1.875, up to a maximum of $3,000,000, in the event that Haelan s revenues for 2007 equal or exceed $5,980,000. The maximum amount will also be payable by CareGuide in the event of a sale transaction involving CareGuide that is consummated on or before December 31, 2007. The earn-out consideration is payable by CareGuide in cash, although CareGuide may elect to pay up to two-thirds of any amounts due under this provision by the issuance of shares of common stock, with such shares being valued by reference to the average closing price of CareGuide s common stock for the 20 consecutive trading days ending on the last trading day before December 31, 2007. In the event that CareGuide issues shares of its common stock in satisfaction of any earn-out obligations, CareGuide has agreed to file with the Securities and Exchange Commission, and thereafter use its commercially reasonable efforts to have declared effective as soon as practicable, a shelf registration statement under the Securities Act covering the resale of such shares.

CareGuide, Inc. and Subsidiaries

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5. Merger with Haelan Corporation (continued)

The accompanying consolidated balance sheet as of December 31, 2006 includes the assets and liabilities of Haelan as of that date. The accompanying consolidated statements of operations and cash flows for the nine months ended December 31, 2006 include the operations and cash flows of Haelan from the merger date of December 8, 2006 through December 31, 2006.

In accordance with SFAS No. 141, the total purchase price was allocated to the acquired tangible and intangible assets and assumed liabilities of Haelan based on their estimated fair values as of the Haelan Merger closing date of December 8, 2006. A third party valuation consultant has been engaged to assist in

the process of determining the fair value of the assets acquired and liabilities assumed. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is allocated to goodwill. The allocation of the identifiable intangible assets and goodwill has not yet been finalized, and any required adjustments will be recorded as necessary when the information becomes available. The resulting goodwill

is subject to an annual impairment test. If the goodwill is impaired, the Company will recognize a non-cash charge to earnings during the period in which the impairment is determined.

The purchase price of Haelan in the Haelan Merger was calculated as follows (dollars in thousands):

Cash paid at closing	$	1,500
Estimated expenses of the Haelan Merger	246	
Notes issued to the former Haelan securityholders	6,500	
Total estimated purchase price	$	8,246

The purchase price was preliminarily allocated to the assets and liabilities of Haelan as of the merger date of December 8, 2006 as follows (dollars in thousands):

Cash acquired	$	133
Other current assets	156	
Property and equipment	2,389	
Identified intangible assets	2,600	
Goodwill	3,726	
Current liabilities	(751)	
Long-term liabilities	(7)	
Net assets acquired	$	8,246

The weighted-average amortization period of amortizing intangible assets acquired is 4.3 years. None of the goodwill acquired is expected to be deductible for tax purposes.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

5. Merger with Haelan Corporation (continued)

The following unaudited pro forma summary presents CareGuide's consolidated results of operations for the nine months ended December 31, 2006 and year ended March 31, 2006 had the Haelan Merger had been consummated on first day of each of those respective periods and had the PATY Merger had been consummated on April 1, 2005. The pro forma consolidated results of operations include certain pro forma adjustments, including the amortization of identifiable intangible assets, interest and expenses on certain debt (dollars in thousands, except for share and per share data).

	Nine Months Ended	**Year Ended**
	December 31, 2006	**March 31, 2006**
Total revenues	$ 44,425	$ 64,844
Cost of services direct service costs	(32,704)	(54,344)
Total operating costs and expenses	(10,819)	(15,694)
Other income and expenses, net	(2,189)	(1,593)
Accretion of preferred stock	-	(125)
Net income (loss) attributable to common stockholders	$ (1,287)	$ (6,912)
Net loss per common share attributable to common stockholders - basic and diluted	$ (0.02)	$ (0.10)
Weighted average shares outstanding - basic	67,538,976	67,538,976
Weighted average shares outstanding - diluted	67,538,976	67,538,976

The pro forma results are not necessarily indicative of those that would have occurred had the acquisition taken place at the beginning of the periods presented.

6. Business Operations

The Company incurred a net loss from continuing operations of approximately $606,000 for the nine months ended December 31, 2006 and a net loss from continuing operations of $2,430,000 for the year ended March 31, 2006. At December 31, 2006 the Company had a working capital deficit of $7,084,000. The Company s ability to continue as a going concern is dependent upon achieving profitability from future operations sufficient to maintain adequate working capital. These financial statements have been prepared assuming the Company will continue as a going concern. Until the Company has sufficient profitable operations or other revenue-generating activities to be self sufficient, the Company will remain dependent on other sources of capital. Currently, such capital has been obtained from the issuance of common and preferred stock and borrowings from a financial institution. The Company s primary investors have guaranteed the borrowings from a financial institution through October 1, 2007 (see Note 10) and committed to provide additional funding to the Company, if required, through January 1, 2008.

Management s plans for dealing with the adverse effects of these conditions include entering into contracts with additional health plans, achieving positive gross margins by exiting or renegotiating under-performing contracts, reducing operating expenses by challenging staffing levels at all of the Company s locations and considering strategic partnerships with other healthcare companies. The Company has eliminated several staff positions and plans additional eliminations of positions as it transitions from risk-based contracts to contracts under which the Company is not at risk for provider claims. However, there can be no assurance that the Company will be successful in achieving positive financial results.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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7. Discontinued Operations

During the year ended March 31, 2005, the Company decided to terminate its contractual relationship with Oxford. Pursuant to the contract termination provisions, the Company performed under the terms of the contract through May 31, 2005 and provided transitional assistance to Oxford's members through July 31, 2005. The Company had no continuing involvement thereafter. Therefore, the operations of Oxford are accounted for as discontinued operations, and accordingly, the operating results and related assets and liabilities of Oxford are segregated in the accompanying consolidated financial statements.

The Oxford contract included risk-sharing provisions and provided for an annual settlement after the conclusion of each contract year. During the year ended March 31, 2006, Oxford submitted its calculation of the amount due from the Company for the contract year ended December 31, 2004 which included many matters which management believed were contrary to the terms of the contract, and management notified Oxford of the disputed items. Oxford did not agree with the Company s position on these matters, and Oxford drew down a $500,000 letter of credit that had been established for Oxford s benefit pursuant to this contract. At March 31, 2006, the Company recorded a liability based upon management s best estimate of the ultimate liability to settle the contractual dispute with Oxford for services rendered through March 31, 2006. The parties agreed to arbitration in 2006. In September 2006, the arbitration panel rendered a decision in the Company's favor. On November 10, 2006, Oxford paid the Company the award in the amount of approximately $661,000. The related legal costs, net of the elimination of the liability the Company had recorded at March 31, 2006, resulted in $131 thousand of expenses related to Oxford for the nine months ended December 31, 2006.

During the year ended March 31, 2003, the Company decided to cease operations in Texas and began the process of dissolving CCS of Texas. The operations of CCS of Texas are accounted for as discontinued operations, and accordingly, the operating results and related assets and liabilities of CCS of Texas are

segregated in the accompanying consolidated financial statements. During the nine months ended December 31, 2006, the Company revised the estimate of the ultimate settlement to providers. The Company released $171,000 of claims payable liabilities as a result of this revision.

Income (expense) of discontinued operations consist of the following (dollars in thousands):

	Nine Months Ended December 31, 2006		**Year Ended March 31, 2006**	
Revenues from Oxford	$	661	$	297
Revenues from CCS of Texas	5		1	
Total revenues from discontinued operations	666		298	
Cost and expenses from Oxford	(131)		-	
Net reductions in expense (expense) from CCS of Texas	140		(8)	
Net reductions in expense (expense) from discontinued operations	9		(8)	
Net income from discontinued operations	$	675	$	290

In connection with the discontinuation of the Company s Texas operations, the remaining long-lived assets associated with the operations of CCS of Texas have been transferred to the Company s corporate headquarters. No tax expense or tax benefit has been allocated to the above results of discontinued operations, since no such expense or benefit would have been recorded by Oxford or CCS of Texas on a separate return basis.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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8. Property and Equipment

Property and equipment consisted of the following (dollars in thousands):

	December 31, 2006	March 31, 2006 (Restated See Note 3)
Computer equipment and software	$ 6,087	$ 4,033
Furniture and equipment	1,326	1,195
Equipment held under capital leases	2,335	2,665
Leasehold improvements	978	965
	10,726	8,858
Accumulated depreciation	(7,778)	(7,633)
Total property and equipment, net	$ 2,948	$ 1,225

Depreciation and amortization expense related to property and equipment was approximately $961,000 and $767,000 for the nine months ended December 31, 2006 and the year ended March 31, 2006, respectively. Included in the depreciation and amortization expense related to property and equipment for the nine months ended December 31, 2006 was $325,000 related to unamortized software the Company determined was of no further value and $221,000 of unamortized leasehold improvements that were deemed to have no further use. For the year ended March 31, 2006, depreciation and amortization expense included $70,000 of unamortized leasehold improvements that were deemed to have no further value.

9. Professional Malpractice Insurance

The Company maintains general liability and professional malpractice liability insurance on its staff and other insurance coverage appropriate for its operations. The general liability policy is occurrence based and provides coverage of $2,000,000 per occurrence and $2,000,000 in the aggregate. The professional liability

9. Professional Malpractice Insurance (continued)

policy is on a claims-made basis and provides coverage for professional medical activities. This policy provides coverage of $5,000,000 per occurrence and $5,000,000 in the aggregate, subject to a deductible of $250,000 per claim and annual aggregate. In addition, the Company maintains an umbrella policy which provides coverage of $3,000,000 per claim and in the aggregate.

10. Long-Term Obligations

Line of Credit

The Company has an $8,000,000 revolving line of credit (the "Line of Credit") with an outside lender for working capital purposes. The Line of Credit bears interest at the outside lender s prime rate plus 1%, which was 9.25% and 8.75% at December 31, 2006 and March 31, 2006, respectively, and is due in full on October 1, 2007. The Line of Credit is collateralized by all of the Company s assets, including its investment in all of its subsidiaries. In addition, the outside lender required that the Company obtain unconditional guarantees (the "Guarantees") from its primary investors. Under the terms of the Guarantees, each participating primary investor unconditionally and irrevocably guarantees prompt and complete payment of its pro rata share of the amount the Company owes under the Line of Credit. As of December 31, 2006 and at March 31, 2006, $8,000,000 was outstanding under the Line of Credit.

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CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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10. Long-Term Obligations (continued)

In exchange for the Guarantees, the primary investors were issued warrants to purchase up to 2,000,000 shares of Series AA Convertible Preferred Stock of CCS, par value of $0.01 per share, in the aggregate. Such warrants each had an exercise price of $0.01 per share and a ten-year exercise period through November 17, 2014 and vested based on the outstanding balance of the Line of Credit as a percentage of the total available amount under the Line of Credit at each quarterly vesting date. In January 2006, warrants to purchase an additional 400,000 shares of Series AA Preferred Stock of CCS in the aggregate were issued under similar terms in exchange for extending the then guarantee period to June 30, 2007, except that such additional warrants were fully vested at the time of grant (collectively the "Guaranty Warrants").

Immediately prior to the PATY Merger, the vested portions of the Guaranty Warrants were net-share exercised for shares of Series AA Convertible Preferred Stock of CCS, which were then exchanged for shares of PATY common stock in the PATY Merger. As part of the PATY Merger, the unvested portions of the Guaranty Warrants were terminated and replaced by warrants to purchase an aggregate of 3,152,141 shares of PATY common stock which were issued to an escrow agent at the closing of the PATY Merger (the "Replacement Warrants"). Each of the Replacement Warrants had an exercise price of $0.003172 per share of PATY common stock. These Replacement Warrants fully vested during the nine months ended December 31, 2006 and were exercised in full, and the underlying shares were issued to the guarantors during the nine months ended December 31, 2006. The aggregate fair value of the Guaranty Warrants in the amount of $1,980,000 was amortized to interest expense over the guarantee period, and the initial value was computed using the Black-Scholes model. Approximately $657,000 and $884,000 was recognized as additional interest expense for the nine months ended December 31, 2006 and the year ended March 31, 2006, respectively.

As more fully described in Note 5, the Company completed the Haelan Merger on December 8, 2006, resulting in the issuance of $6.5 million of Convertible Notes. The Convertible Notes are subordinated to the rights to prior payment of the Company's senior lender under the Line of Credit. The Convertible Notes carry an interest rate of 5% per year, compounding annually, mature on December 8, 2009 and are convertible at maturity into shares of common stock of CareGuide, valued based upon the average closing price of the common stock for the 20 consecutive trading days ending on the date prior to conversion. The maturity date of the Convertible Notes may be accelerated in the event of a sale transaction, as defined in the Convertible Notes, involving the Company.

In the event that the average closing price of the common stock of the Company for the 20 consecutive trading days ending on the date prior to conversion is equal to or greater than $1.50 per share, the outstanding principal and accrued interest under the Convertible Notes will automatically convert into shares of common stock at $1.50 per share. In the event that such average closing price at the time of conversion is less than $1.50 per share, the outstanding principal and accrued interest under the Convertible Notes will convert into shares of common stock at such average closing price, but not less than $1.00 per share, and in such case each holder of a Convertible Note may elect to receive all or a portion of the amounts due under the note in cash in lieu of shares of common stock of CareGuide. After December 8, 2007, or upon a sale transaction, the Company may elect to prepay the amounts then outstanding under the Convertible Notes in cash, subject to the prior approval of the Company s senior lender under the Line of Credit, but upon any such election by the Company, if the average closing price of the Company s common stock for the 20 consecutive trading days ending on the date prior to conversion is at least $1.00 per share, each holder of a Convertible Note may elect to receive all or any portion of the amounts due under the Convertible Note in the form of shares of common stock valued at such average closing price.

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10. Long-Term Obligations (continued)

Lease Obligations

The Company has entered into various lease arrangements, which expire in 2007, for certain computer hardware, software, and office equipment. Such arrangements transfer to the Company substantially all of the risks and benefits of ownership of the related assets. The assets have been capitalized, and obligations have been recorded as capital lease obligations.

As of December 31, 2006, there were capital lease obligations aggregating approximately $3,000 to be paid in 2007.

At December 31, 2006 and March 31, 2006, the Company recorded an obligation for the fair value of a liability for the remaining lease rentals due under an operating lease without any remaining economic benefit to the Company aggregating $1,469,000 and $1,461,000, respectively. See Note 16 for operating lease commitments.

11. Stockholders' Equity

Capital Stock

The Company is authorized to issue up to 100,000,000 shares of capital stock, 80,000,000 designated as common stock, and 20,000,000 designated as preferred stock. As of December 31, 2006 and at March 31, 2006, there were 67,538,976 shares of common stock outstanding.

Common Stock held in Escrow

Of the common shares outstanding as of December 31, 2006, 516,796 shares are held by an escrow agent and may be released to Psilos Group Partners II, L.P. ("Psilos") upon the occurrence of certain events (the "Success Escrow"). In the event that the criteria for payment to Psilos of the shares held in the Success Escrow are not satisfied in full, all or a portion of such shares will be released from the Success Escrow to all former stockholders of CCS at the effective time of the PATY Merger based on the number of shares of the common stock of CCS, on an as-converted basis, held by each such holder at the time of the closing of the PATY Merger.

Series C and Series AA Convertible Preferred Stock

In the PATY Merger on January 25, 2006, all of the outstanding shares of Series C Convertible Preferred Stock of CCS were exchanged for 16,650,029 shares of PATY common stock in the aggregate, and all of the outstanding shares of Series AA Convertible Preferred Stock of CCS were exchanged for an aggregate of 12,827,794 shares of PATY common stock. There were an additional 246,826 shares of PATY common stock issued in satisfaction of accrued dividends in arrears on the Series AA Convertible Preferred Stock of CCS exchanged in the PATY Merger.

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12. Intangible and Other Assets

The Company s intangible and other assets consisted of the following (dollars in thousands):

Description	**December 31, 2006**	**March 31, 2006**
CareGuide trademark acquired July 2001 (i)	$ 1,513	$ 1,513
CareGuide website acquired July 2001 (ii)	1,430	1,430
PATY customer relationships acquired January 2006 (iii)	1,236	1,236
PATY non-compete agreements acquired January 2006 (iv)	718	718
PATY co-marketing agreements acquired January 2006 (v)	516	516
Haelan customer relationships acquired December 2006 (iii)*	1,460	-
Haelan non-compete agreements acquired December 2006 (iv)*	360	-
Haelan trademarks acquired December 2006 (vi)*	780	-
	8,013	5,413
Accumulated amortization	(2,214)	(1,480)
Net intangible assets	5,799	3,933
Gross deferred financing costs	550	550
Accumulated amortization of deferred financing costs	(550)	(375)
Net deferred financing costs	-	175
Security deposits and other assets	164	111
Total intangibles and other assets, net	$ 5,963	$ 4,219

(i) The acquired trademark is classified as an intangible asset with an indefinite life and is not subject to amortization, but is tested annually for impairment.
(ii) The website is subject to amortization and is being amortized using over a five-year life using the straight line method.
(iii) Customer lists are subject to amortization and are being amortized over a five-year life using an accelerated method.
(iv) The non-complete agreements are subject to amortization and are being amortized over a three-year life using the straight line method.
(v) The co-marketing agreements are subject to amortization and are being amortized over a five-year life using the straight line method.
(vi) The Haelan trademarks are subject to amortization and are being amortized over a ten-year life using the straight line method.
* Because the Haelan Merger (see Note 4) was completed on December 8, 2006, these are estimated amounts.

Amortization expense related to acquired intangible assets and other assets was approximately $998,000 and $737,000 for the nine months ended December 31, 2006 and the year ended March 31, 2006, respectively.

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12. Intangible and Other Assets (continued)

The estimated annual amortization expenses of intangible assets for the five years subsequent to December 31, 2006 are as follows (dollar in thousands):

	Estimated Intangible Amortization Expense
Years Ended December 31,	
2007	$ 1,409
2008	1,193
2009	752
2010	409
2011	140
Total	$ 3,903

13. Income Taxes

The components of the income tax (expense) benefit consist of the following (dollars in thousands):

	Nine Months Ended December 31, 2006	**Year Ended March 31, 2006**
Current federal income taxes	$ (25)	$ -
Current state income taxes	(365)	(152)
Deferred taxes	13	98
Net income tax expense	$ (377)	$ (54)

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13. Income Taxes (continued)

The tax-effected components of deferred income tax assets and (liabilities) consist of the following (dollars in thousands):

	December 31, 2006	March 31, 2006
Deferred income tax assets:		(Restated See Note 3)
Federal income tax net operating losses	$ 22,517	$ 22,529
State and other income tax net operating losses	4,636	4,800
Goodwill and intangible impairment and amortization	1,215	1,298
Accrued liabilities	954	1,757
Allowance for doubtful accounts	223	193
Depreciation	481	406
Deferred revenue	15	15
Nondeductible stock option compensation expense	144	-
Tax credits	75	75
Trading portfolio losses	249	-
Change in accounting method	142	-
Other	31	149
	30,682	31,222
Less valuation allowance	(28,358)	(30,234)
Net deferred income tax assets	2,324	988
Deferred income tax liabilities:		
Intangible assets acquired in mergers	(2,312)	(932)
Amortization of website	(2)	(27)
Other	(17)	(57)
Net deferred income tax liabilities	(2,331)	(1,016)
Net deferred income tax liability	$ (7)	$ (28)

The reconciliation of the expected income tax (expense) benefit with the actual income tax (expense) benefit from continuing operations reported for the nine months ended December 31, 2006 and the year ended March 31, 2006 computed on income (loss) before income taxes at federal statutory rates is as follows:

	Nine Months Ended December 31, 2006	Year Ended March 31, 2006 (Restated See Note 3)
Tax at federal statutory rate	34.0%	34.0%
State income taxes, net of federal income tax benefit	(159.3)	6.7
Non-deductible items	(101.7)	(0.4)
Change in valuation allowance	49.0	(39.6)
Other , net	13.4	(3.0)
Net effective tax rate	(164.6)%	(2.3)%

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13. Income Taxes (continued)

The Company accounts for income taxes in accordance with Statement of Financial Standards No. 109, Accounting for Income Taxes (SFAS 109) issued by the FASB. SFAS 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all of the evidence, both positive and negative, management has determined that a valuation allowance of approximately $28,358,000 and $30,234,000 is necessary at December 31, 2006 and March 31, 2006, respectively to reduce the deferred tax assets to the amount that will more likely than not be realized. The (decrease) increase in the valuation allowance for the nine months ended December 31, 2006 and the year ended March 31, 2006 was approximately $(1,876,000) and $15,632,000, respectively. Included in the decrease in the valuation allowance for the nine months ended December 31, 2006 was $2,312,000 for the tax effect of certain assets acquired in connection with the acquisition of Haelan. Included in the increase in the valuation allowance for the year ended March 31, 2006 was $14,788,000 acquired upon the PATY Merger.

At December 31, 2006, the Company has available federal net operating losses ("NOLs") of approximately $66,225,000 expiring between 2010 and 2026. Approximately $37,320,000 of these NOLs were acquired in the PATY Merger and $1,820,000 were acquired in the Haelan merger. In addition, the Company has tax credit carryforwards of $75,000, which are available to offset future federal income taxes, if any, which begin to expire in 2010. The NOLs and tax credit carryforwards may be subject to limitation by certain sections of the Internal Revenue Code relating to ownership changes.

14. Employee Benefit Plan

The Company has a 401(k) savings plan covering substantially all eligible employees who have completed 90 days of active employment. Under the plan, an employee may elect to contribute on a pre-tax basis to a retirement account up to 15% of the employee s compensation up to the maximum annual contribution permitted by the Internal Revenue Code. The Company matches employee contributions on a discretionary basis as determined by the Company s board of directors. The Company made discretionary contributions to the 401(k) savings plan of approximately $76,000 and $81,000 during the nine months ended December 31, 2006 and year ended March 31, 2006, respectively.

15. Stock Options and Warrants

In June 1998, CCS adopted the CCS Consolidated, Inc. Stock Option Plan (the 1998 Plan). As a result of amendments to the 1998 Plan during 2005, the maximum number of shares of CCS s common stock issuable under the 1998 Plan was 1,503,200 shares, all of which shares were reserved for issuance under options outstanding as of March 31, 2005. During the years ended March 31, 2005 and 2004, in connection with the separation of two executive officers of CCS, CCS granted these officers fully vested options to purchase up to an aggregate of 1,470,400 shares of CCS common stock at an exercise price of $0.2388 per share. Immediately prior to the PATY Merger, these fully vested options were net-share exercised and the resulting shares of CCS common stock were then exchanged for an aggregate of 1,167,910 shares of PATY common stock in the PATY Merger. The remaining options outstanding under the 1998 Plan as of the closing date of the PATY Merger were not exercised and were terminated in accordance with the terms of the 1998 Plan.

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December 31, 2006

15. Stock Options and Warrants (continued)

During the year ended March 31, 2006, CCS's board of directors and stockholders adopted the CCS Consolidated, Inc. 2005 Equity Incentive Plan (the 2005 Plan) and reserved 1,776,238 shares of CCS common stock for issuance under the 2005 Plan. CCS granted options to certain of its officers under the 2005 Plan to purchase an aggregate of 1,090,095 shares of CCS common stock at $0.30 per share. These options were assumed by CareGuide as part of the PATY Merger and were converted into options to purchase an aggregate of 1,399,290 shares of CareGuide common stock at an exercise price of $0.2337 per share, based on the exchange ratio for CareGuide s common stock in the PATY Merger. The options granted under the 2005 Plan and assumed by CareGuide have a term of ten years from the date of grant. The options were accelerated in connection with the PATY Merger so that they were 25% vested as of January 25, 2006 and vest in 36 monthly installments thereafter. CareGuide recorded approximately $63,000 and $84,000 in compensation expense associated with these grants during the nine months ended December 31, 2006 and year ended March 31, 2006, respectively.

As a result of the PATY Merger, CareGuide continues to administer the PATY 1995 Stock Option Plan (the PATY Plan). As of December 31, 2006, there were options to purchase 327,628 shares of CareGuide common stock outstanding under the PATY Plan, with a weighted average exercise price of $2.83 per share. The PATY Plan expired in 2005 and no further grants of options may be awarded under the PATY Plan.

A summary of the status of and the changes in the options outstanding under all plans maintained by CareGuide during the nine months ended December 31, 2006 and year ended March 31, 2006 is presented below.

	Shares	Weighted Average Exercise Price
Outstanding at March 31, 2005	1,503,200	$ 1.67
Granted	1,399,290	0.23
Options outstanding at merger date for PATY Plan	448,077	2.82
Exercised	(1,470,400)	0.24
Forfeited	(32,800)	(71.59)
Outstanding at March 31, 2006	1,847,367	0.86
Forfeited	(120,449)	(2.79)
Outstanding at December 31, 2006	1,726,918	$ 0.72

The options granted during the year ended March 31, 2006 had a grant date fair value of $0.25 per option; there were no options granted during the nine months ended December 31, 2006.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

15. Stock Options and Warrants (continued)

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

Options Outstanding				**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.23	1,399,290	9.1	$0.23	670,484	$ 0.23
2.25 - 2.80	319,583	5.9	2.40	319,583	2.40
16.50 - 33.00	8,045	1.8	20.01	8,045	20.01
$0.23 - $33.00	1,726,918			998,112	

The following table summarizes the intrinsic value of in-the-money options at December 31, 2006 (dollars in thousands, except per-share amounts)

	Number of Options	Weighted Average Exercise Price	Intrinsic Value of Options	Unrecognized compensation expense
Fully Vested	670,484	$ 0.23	$ 255	$ -
Non-vested	728,806	0.23	277	150

As described in Notes 9 and 10, during the year ended March 31, 2006, CCS issued warrants to purchase shares of its Series AA Convertible Preferred Stock of CCS. All such preferred stock warrants were exercised prior to the PATY Merger or terminated upon the closing of the PATY Merger and were replaced by the Replacement Warrants. All other then outstanding warrants to purchase common stock of the CCS terminated upon the closing of the PATY Merger.

During the nine months ended December 31, 2006, the Company issued a warrant to purchase up to 100,000 shares of CareGuide's common stock at $0.76 per share to a director of the Company. Such warrant provides that 25,000 shares shall become exercisable on each of August 16, 2007, 2008, 2009 and 2010 and that the warrant must be exercised on or before August 16, 2016. No warrants to purchase common stock of the Company were issued during the year ended March 31, 2006.

At the closing of the PATY Merger, and excluding the Replacement Warrants issued to certain stockholders of the Company, there were common stock warrants outstanding to purchase an aggregate of 1,089,536 shares of CareGuide's common stock. All such warrants were outstanding as of December 31, 2006 and March 31, 2006. There are no warrants outstanding to purchase any preferred stock of the Company.

Excluding the Replacement Warrants, the common stock warrants outstanding and exercisable as of the nine months ended December 31, 2006 and year ended March 31, 2006 are as follows:

	Warrants outstanding at December 31, 2006		**March 31, 2006**	
		Weighted average exercise price		**Weighted average exercise price**

	Shares		**Shares**	
Warrants outstanding				
Common Stock	1,189,536	$ 1.12	1,089,536	$ 1.16
Warrants exercisable				
Common Stock	1,089,536	1.16	1,089,536	1.16

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

16. Commitments and Contingencies

Commitments

The Company has operating lease agreements principally for its corporate office space and for certain contract site offices. Future minimum lease payments under noncancelable operating leases as of December 31, 2006 are as follows (dollars in thousands):

Year Ending December 31,	Operating Leases	Non-Cancelable Sub Leases	Net
2007	$ 2,181	$ (889)	$ 1,292
2008	2,308	(947)	1,361
2009	2,212	(940)	1,272
2010	1,325	(436)	889
2011	586	-	586
Total	$ 8,612	$ (3,212)	$ 5,400

The table above includes lease payments and related sublease rental income related to a leasing arrangement where there is no further economic benefit to the Company and for which a liability is accrued (see Note 10). Net rent expense for the nine months ended December 31, 2006 and the year ended March 31, 2006 was approximately $803,000 and $888,000, respectively.

Employment Agreements

The Company has entered into employment agreements with certain management employees, which include, among other things, annual base salaries, non-competition provisions, salary continuation benefits, performance bonuses based upon the overall profitability of the Company and certain other non-cash benefits, including life, health and disability insurance. Employment agreements are automatically renewed for successive one-year terms.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

16. Commitments and Contingencies (continued)

Call Option Liability

The Company is party to a call option agreement with an underwriter which entitles the holder to purchase up to 153,518 shares of ACSH common stock from the Company for $6.00 per share at any time until October 31, 2010. The option was granted in connection with an offering of the Company's securities underwritten by the holder. The 153,518 shares held for trading are valued at market price, and the call option is considered a derivative instrument and is carried at its estimated fair value. The estimated fair value of the call option liability was approximately $48 thousand and $351 thousand at December 31, 2006 and March 31, 2006, respectively, and is included in accounts payable and accrued expenses. The fair value of the call option is determined using the Black-Scholes method using the following assumptions:

	December 31, 2006	**March 31, 2006**
Volatility	83.7%	74%
Interest rate	4.72%	4.72%
Average life	1.88 years	2.29 years

Changes to the fair market value of the trading portfolio and the call option obligation are recognized in the accompanying consolidated statement of operations.

As of December 31, 2006, the Company held 166,610 shares of ACSH common stock and has designated 153,518 shares as trading securities because these shares would be used to satisfy the call option.

Provisions of Contractual Arrangements

The Company has entered into contracts in the ordinary course of business which include reconciliation or savings sharing provisions. In such contracts, savings achieved by the Company against contractual benchmarks are measured to determine a potential penalty or bonus to be paid by or to the Company. No additional revenue is recognized under the contractual provisions until the amount is estimable and realization is reasonably assured. At this time, the Company has no losses under such arrangements which appear to be probable of assertion and for which a reasonable estimate can be determined.

Litigation

During the fiscal year ended March 31, 2005, the Company settled a lawsuit with the State of Florida (the State). The Company and the State filed lawsuits against each other related to amounts due under a disease management contract that the Company managed for the State. Under the terms of this settlement, the Company agreed to pay the State a total of $500,000 over a three-year period beginning April 1, 2005. The Company recorded the settlement plus the estimated remaining legal costs in the accompanying consolidated financial statements for the fiscal year ended March 31, 2005. The Company paid the first $100,000 installment during the year ended March 31, 2006.

The Company resolved a dispute with Oxford during the nine months ended December 31, 2006, which is described in Note 7.

CareGuide, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006

16. Commitments and Contingencies (continued)

The Company is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material adverse effect on the Company s results of operations or financial position.

17. Quarterly Results (unaudited)

The following is a summary of the unaudited interim results of operations by quarter (dollars in thousands, except per share amounts). The amounts presented for the year ended March 31, 2006 as well as the first and second quarter for the nine months ended December 31, 2006 have been restated to reflect the correction in accounting for leases, as described in Note 3.

	First	**Second**	**Third**	**Fourth(1)**
Nine months ended December 31, 2006:				
Revenues	$ 13,797	$ 13,751	$ 13,790	$ -
Gross profit	3,908	2,951	3,050	-
Net income (loss) - continuing operations	204	(85)	(725)	-
Net income (loss) - discontinued operations	(286)	711	250	-
Net income (loss)	(82)	626	(475)	-
Net income (loss) per common share-basic and diluted:				
Income (loss) from continuing operations	-	-	(0.01)	-
Discontinued operations	-	0.01	-	-
Net income (loss)	-	0.01	(0.01)	-
Year ended March 31, 2006 (restated):				
Revenues	$ 14,560	$ 12,107	$ 12,366	$ 15,661
Gross profit	1,024	570	1,839	3,930
Net income (loss) - continuing operations	(891)	(1,405)	(614)	480
Accretion of preferred stock	(38)	(38)	(38)	(11)
Net income (loss) attributable to common shareholders - continuing operations	(929)	(1,443)	(652)	469
Net income (loss) - discontinued operations	221	73	(4)	--
Net income (loss)	(670)	(1,332)	(618)	480
Net income (loss) attributable to common shareholders	(708)	(1,370)	(656)	469
Net income (loss) per common share-basic and diluted:				
Income (loss) from continuing operations	(0.12)	(0.18)	(0.08)	0.01
Discontinued operations	0.03	0.01	-	-
Net income (loss)	(0.09)	(0.17)	(0.08)	0.01

(1) During the nine months ended December 31, 2006, the Company changed its fiscal year end from March 31, to December 31 and, therefore, the period ended December 31, 2006 only contains three fiscal quarters.

17. Quarterly Results (unaudited) (continued)

As described in Note 3, the Company has restated historical financial statements to reflect a correction in the accounting for certain leases. The effects of the restatement on previously reported consolidated financial statements are as follows (dollars in thousands, except for per share amounts):

	First	Second	Third	Fourth
Nine months ended December 31, 2006:				
(Increase) decrease in selling, general and administrative expenses	$ (145)	$ 121		
(Increase) decrease in depreciation and amortization expense	(34)	19		
(Increase) in interest expense	(32)	(38)		
Increase (decrease) in net income (loss) from continuing operations	$ (211)	$ 102		
Net income (loss):				
As previously reported	$ 129	$ 524		
Effect of restatement	(211)	102		
As restated	$ (82)	$ 626		
Net income (loss) attributable to common per share:				
As previously reported	$ -	$ 0.01		
Effect of restatement	-	-		
As restated	$ -	$ 0.01		
Year ended March 31, 2006:				
(Increase) decrease in selling, general and administrative expenses	$ 73	$ 73	$ 73	$ (310)
(Increase) decrease in depreciation and amortization expense	13	12	12	(57)
(Increase) in interest expense	(25)	(24)	(23)	(26)
Increase (decrease) in net income (loss) from continuing operations	$ 61	$ 61	$ 62	$ (393)
Net income (loss):				
As previously reported	$ (731)	$ (1,393)	$ (680)	$ 873
Effect of restatement	61	61	62	(393)
As restated	$ (670)	$ (1,332)	$ (618)	$ 480
Net income (loss) attributable to common per share:				
As previously reported	$ (0.10)	$ (0.18)	$ (0.09)	$ 0.02
Effect of restatement	0.01	0.01	0.01	(0.01)
As restated	$ (0.09)	$ (0.17)	$ (0.08)	$ 0.01