CAREGUIDE INC
Form 10-Q
August 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2007
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 0-22319

CAREGUIDE, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	16-1476509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4401 N.W. 124th Avenue, Coral Springs, FL 33065

(Address of principal executive offices)

(954) 796-3714

(Issuer s telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated Filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of August 13, 2007, 67,538,976 shares of the Company s common stock, par value $0.01 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CareGuide, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, except par values) **Assets**	**June 30, 2007 (unaudited)**	**December 31, 2006**
Current assets:		
Cash and cash equivalents	$ 2,000	$ 5,975
Restricted cash available for current liabilities	2,308	4,717
Securities available for sale	21	24
Securities held for trading	246	284
Notes receivable	-	308
Accounts receivable, net of allowance for doubtful accounts		
of $779 and $544, respectively	1,950	3,503
Prepaid expenses and other current assets	610	587
Current assets of discontinued operations	335	344
Total current assets	7,470	15,742
Property and equipment, net	2,737	2,948
Intangibles and other assets, net	5,145	5,963
Goodwill	32,692	32,629
Restricted cash	924	908
Total assets	**$ 48,968**	**$ 58,190**
Liabilities and stockholders equity		
Current liabilities:		
Claims payable	$ 4,829	$ 7,260
Line of credit	8,000	8,000
Accounts payable and accrued expenses	5,051	4,932
Deferred revenue	225	1,500
Current tax liability	286	344
Current portion of lease obligations	380	365
Current liabilities of discontinued operations	359	425
Total current liabilities	19,130	22,826
Long-term liabilities:		
Notes payable	6,682	6,520
Lease obligations, net of current portion	913	1,107
Deferred tax liability	7	7
Total liabilities	26,732	30,460
Commitments and contingencies		
Stockholders equity:		
Common stock, $.01 par value, 100,000,000 and 80,000,000 shares authorized;		
67,538,976 shares issued and outstanding	675	675
Additional paid-in capital	63,002	62,474
Other comprehensive loss	(21)	(32)
Accumulated deficit	(41,420)	(35,387)
Total stockholders equity	22,236	27,730
Total liabilities and stockholders equity	**$ 48,968**	**$ 58,190**

See notes to unaudited consolidated financial statements.

CareGuide, Inc. and Subsidiaries

Consolidated Statements of Operations (unaudited)

(Shares and dollars in thousands, except per share data)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Capitation revenue	$ -	$8,901	$3,032	$17,606
Administrative and fee revenue	4,925	4,896	10,064	11,852
Total revenues	4,925	13,797	13,096	29,458
Cost of services direct service costs, excluding depreciation and amortization of: $494, $340, $1,087 and $680, respectively	3,538	9,889	10,273	21,620
Gross profit	1,387	3,908	2,823	7,838
Operating costs and expenses:				
Selling, general and administrative expense	2,868	2,504	5,742	5,118
Restructuring costs	585	-	700	-
Depreciation and amortization	739	587	1,501	1,136
Total operating costs and expenses	4,192	3,091	7,943	6,254
Operating (loss) income from continuing operations	(2,805)	817	(5,120)	1,584
Other income (expense):				
Interest and other income	29	125	133	235
Trading portfolio loss	(59)	(213)	(37)	(229)
Interest expense	(491)	(406)	(980)	(808)
(Loss) income from continuing operations before income taxes and discontinued operations	(3,326)	323	(6,004)	782
Income tax expense	(41)	(119)	(85)	(98)
(Loss) income from continuing operations	(3,367)	204	(6,089)	684
Income (loss) from discontinued operations	54	(286)	57	(286)
Net (loss) income	(3,313)	(82)	(6,032)	398
Accretion of preferred stock	-	-	-	(11)
Net (loss) income attributable to common stockholders	$(3,313)	$ (82)	$(6,032)	$ 387
Net (loss) income per common share-basic and diluted:				
(Loss) income from continuing operations	$ (0.05)	$ -	$ (0.09)	$ 0.01
Discontinued operations	-	-	-	-
Net (loss) income	$ (0.05)	$ -	$ (0.09)	$ 0.01
Weighted average common shares outstanding:				
Basic	67,539	67,539	67,539	59,351
Diluted	67,539	70,411	67,539	63,998

See notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2007	**2006**
Cash provided by (used in) operating activities:		
Net (loss) income	$ (6,032)	$ 398
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,501	1,136
Stock option compensation	92	51
Amortization of warrants	436	448
Interest expense on notes payable	161	-
Additional (loss) income from subleases	(243)	455
Decrease in accounts receivable	1,553	528
Increase (decrease) in prepaid expenses and other current assets	63	(42)
Decrease in claims payable	(2,431)	(2,089)
Increase (decrease) in accounts payable and accrued expenses	112	(1,526)
(Decrease) increase in deferred revenue	(1,275)	351
Increase in other assets	-	74
Reverse trading portfolio loss	54	229
(Decrease) increase in current tax liability	(54)	143
Deferred tax benefit	-	(141)
(Decrease) increase in current liabilities of discontinued operations	(57)	251
Net cash (used in) provided by operating activities	(6,120)	266
Cash provided by (used in) investing activities:		
Purchases of property and equipment	(496)	(91)
Restricted deposits, net	2,394	1,128
Collection of notes receivable	310	-
Cash (used in) acquired in merger, net of acquisition costs	(62)	4,329
Net cash provided by investing activities	2,146	5,366
Cash used in financing activities:		
Principal payments of capital lease obligations	(1)	(158)
Net cash used in financing activities	(1)	(158)
Net (decrease) increase in cash and cash equivalents	(3,975)	5,474
Cash and cash equivalents, beginning of period	5,975	2,336
Cash and cash equivalents, end of period	$ 2,000	$ 7,810

See notes to unaudited consolidated financial statements.

CAREGUIDE, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements for the three and six month periods ended June 30, 2007

1. Organization and Description of Business

The accompanying financial statements for the three and six months ended June 30, 2007 and 2006 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for these interim periods. These financial statements should be read in conjunction with the audited financial statements and notes thereto, for the nine months ended December 31, 2006. The amounts presented for the 2006 interim periods have been restated from amounts presented in the original filing to conform to the interim results presented in the Company's Form 10-KSB for the nine month period ended December 31, 2006. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results for the entire year.

CareGuide, Inc. (the Company or CareGuide) 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.

2. Mergers

On January 25, 2006, the Company, formerly known as Patient Infosystems, Inc., or PATY, merged with CCS Consolidated, Inc. and its subsidiaries (CCS). While the Company was the surviving legal entity in such merger (which may be referred to herein as the PATY Merger), CCS securityholders acquired control of the Company, and accordingly, CCS was deemed the acquirer for purposes of accounting.

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 or "Haelan Notes") in the aggregate principal amount of $6.5 million. The Convertible Notes are subordinated to the rights of CareGuide s senior lender.

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.

The financial statements presented herein for the three and six months ended June 30, 2006 are the historical financial statements of the former CCS Consolidated, Inc., with the combined results of operations of the Company (formerly known as Patient Infosystems, Inc.) and CCS Consolidated, Inc. reflected for the period from January 25, 2006 to June 30, 2006.

2. Mergers (continued)

The following unaudited pro forma summary presents the Company s consolidated results of operations for the three and six months ended June 30, 2006 as if both the PATY Merger and the Haelan Merger had been consummated on January 1, 2006. 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 (in thousands, except for share and per share data).

	Pro Forma for the Three Months Ended June 30, 2006	Pro Forma for the Six Months Ended June 30, 2006
Total revenues	$ 14,980	$ 32,000
Cost of services direct service costs	(10,246)	(22,740)
Total operating costs and expenses	(3,999)	(8,249)
Other expenses, net	(714)	(1,073)
Net loss from continuing operations	$ 21	$ (62)
Net loss per common share - basic and diluted	$ -	$ -
Weighted average shares outstanding	67,538,976	67,538,976

The pro forma results are not necessarily indicative of those that would have occurred had the acquisitions been consummated on January 1, 2006.

3. Business Operations

The Company realized net loss of approximately $3.3 million and $6.0 million for the three and six months ended June 30, 2007, respectively, and had a working capital deficit of $11.7 million at June 30, 2007. 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 can sustain sufficient profitable operations or other revenue-generating activities to be self-sufficient, the Company will remain dependent on other sources of capital.

Through June 30, 2007, such capital has been obtained from the issuance of capital stock and borrowings from a financial institution (the "Line of Credit"). The Company s primary investors have guaranteed the borrowing from a financial institution (see Note 5) and have committed to provide additional funding to the Company, if required, through January 1, 2008 up to a maximum of $2.0 million.

The full balance to the Company's lender, plus any accrued but unpaid interest, is currently due and payable on October 1, 2007. In connection with the Haelan acquisition, the Company 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, without the consent of the holders of the Haelan Notes. The Company does not currently anticipate that it will be able to satisfy its obligations under the Line of Credit with operating cash. As a result, the Company expects that it will be necessary to restructure the Line of Credit or to find an alternative lender before maturity of the Line of Credit. The Company's lender under the Line of Credit has conditionally agreed to extend the maturity date of the Line of Credit to January 1, 2009 and increase the size of the facility by $1.0 million, subject to the negotiation and execution of definitive documentation and the receipt of necessary consents. There can be no assurance that definitive documentation will be executed or that the Company will be able to restructure the Line of Credit on terms favorable to it or at all prior to its current maturity date. If the Company is successful in negotiating an extension and/or increase in the Line of Credit, the Company believes that all or a portion of its obligations will continue to be guaranteed by certain of its subsidiaries as well as certain of its principal stockholders, which may be different from the stockholders that currently guarantee the Line of Credit. The Company also anticipates that it may be required to provide consideration, which the Company believes would likely be in the form of warrants to purchase shares of its common stock, to the guarantors of the extended Line of Credit as compensation for their guarantees, and the Company's stockholders would experience dilution of their ownership to the extent that the Company issues any such warrants, and such dilution could be substantial. The Company expects that the exercise price of such warrants would be equal to the closing price of our common stock on

the date of grant and the fair market value of any such warrants would be expensed over the life of the extension of the Line of Credit.

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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 is restructuring its operations in 2007 designed to reduce annualized operating expenses by approximately $3.2 million. However, there can be no assurance that the Company will be successful in achieving positive financial results.

4. Summary of Significant Accounting Policies

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 period balances have been reclassified to agree with the current year presentation. There was no effect from these reclassifications on the net income (loss) for the three and six months ended June 30, 2006 or stockholders equity reported as of that date.

Depreciation and Amortization

The Company reports all depreciation and amortization expense as an operating expense. For the three months ended June 30, 2007 and 2006, the reported amounts included $494,000 and $340,000, respectively, of depreciation and amortization expenses that were attributable to cost of services. For the six months ended June 30, 2007 and 2006, the reported amounts included $1.1 million and $680,000, respectively, of depreciation and amortization expenses that were attributable to cost of services.

Restricted Cash

In connection with several of the Company s customer contracts and office leases, the Company is required to maintain letters of credit and has secured these letters of credit by establishing certificates of deposit totaling $2.9 million at June 30, 2007. These certificates of deposit are included in restricted cash in the consolidated balance sheets.

At June 30, 2007, CCS New Jersey, Inc., a subsidiary of the Company, had on deposit $623,000 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.

4. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS No. 144) which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, *Reporting the Results of Operations*, for a disposal of a segment of a business. The Company periodically reviews the carrying value of its long-lived assets to assess recoverability and impairment. The Company recorded no impairments during the three and six months ended June 30, 2007 or 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 year of determination. 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.

Reconciliation of Claims Payable
(Dollars in thousands)

	Six Months Ended June 30, 2007	**2006**
Claims payable, beginning of period	$ 7,260	$ 9,429
Claims Incurred:		
Current period	2,840	14,751
Prior periods	(277)	(851)
Total incurred claims	2,563	13,900
Paid Claims:		
Current period	(440)	(827)
Prior periods	(2,735)	(4,599)
Claims paid by health plan	(1,819)	(10,563)
Total paid claims	(4,994)	(15,989)
Claims payable, end of period	$ 4,829	$ 7,340

Cost of services for the six months ended June 30, 2007 and 2006 includes a benefit of approximately $277,000 and $116,000, respectively, related to the favorable settlement of claims for services included in the prior reporting periods.

4. Summary of Significant Accounting Policies (continued)

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 and ultimately recognized in 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 three months ended June 30, 2007 and 2006, 25.2% and 71.3%, respectively, and for the six months ended June 30, 2007 and 2006, 41.0% and 64.8%, respectively, of the Company s total revenue from continuing operations was earned under contracts with affiliates of two customers, Aetna Health Plans (Aetna) and Blue Cross Blue Shield of Michigan (BCBSMI). The capitated risk contacts with Aetna were terminated effective January 31, 2007. For the three and six months ended June 30, 2006, 5.1% and 14.8%, respectively, of the Company s total revenue from continuing operations was earned under contracts with Health Net, Inc. (Health Net). The Health Net contracts were terminated effective May 1, 2006. The revenues from BCBSMI for the three and six months ended June 30, 2007 were 25.2% and 17.8%, respectively, of the total revenues from continuing operations for these periods. Other than these customers, no other one customer accounted for more than 10% of the Company s total revenue for the three or six months ended June 30, 2007 and 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.

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.

In June 2006, the Financial Accounting Standards Board (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 adopted FIN 48 effective January 1, 2007. At December 31, 2006, the Company had available federal net operating loss carryforwards of $66.2 million. Any adjustment in federal income taxes would be offset by a reduction in the net operating loss carryforwards. Upon adoption of FIN 48, the Company reviewed its tax liabilities in connection with various state tax returns and determined that its recorded tax liabilities were adequate. Therefore, there was no effect on the Company s consolidated financial statements upon adoption of FIN 48 on January 1, 2007.

4. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation Plans

In December 2004, the FASB issued Statement of Financial 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, Accounting for Stock Issued to Employees. The Company adopted SFAS 123(R) on April 1, 2006. During the three and six months ended June 30, 2007, the Company recognized $71,000 and $92,000, respectively, in compensation expense for certain stock options in accordance with SFAS No. 123(R). Prior to April 1, 2006, the Company recognized and measured compensation for its stock rights and stock option plans in accordance with APB Opinion No. 25. For the three and six months ended June 30, 2006, the Company recognized $21,000 and $51,000, respectively, of compensation expense in accordance with APB No. 25.

Goodwill and Indefinite Lived Intangible Assets

In July 2001, the FASB issued SFAS No. 141, *Business Combinations* (SFAS No. 141), and SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001, as well as all purchase method business combinations completed after September 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indeterminable useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. 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. At March 31, 2007 and 2006, the Company tested goodwill and intangible assets with indeterminable useful lives for impairment and determined that no impairments had occurred.

4. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

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. The Company has not yet assessed the impact, if any, of SFAS No. 157 on its consolidated financial statements.