

Access Plans Inc  
Form 10-Q  
May 13, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011  
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 000-30099**

**Access Plans, Inc.**

(Exact name of registrant as specified in its charter)

**OKLAHOMA**

(State or other jurisdiction of  
incorporation or organization)

**27-1846323**

(I.R.S. Employer  
Identification No.)

900 36<sup>th</sup> Avenue, Suite 105, Norman, OK 73072

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (405) 579-8525

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 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

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

As of May 12, 2011, 19,927,204 shares of the registrant's common stock, \$.001 par value were outstanding.

INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2011 and September 30, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2011 and 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	30
<u>Item 1A. Risk Factors</u>	30
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3. Defaults Upon Senior Securities</u>	30
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31
<u>Signatures</u>	32
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**Access Plans, Inc.**  
**Condensed Consolidated Balance Sheets**

	<b>March 31, 2011 (Unaudited)</b>	<b>September 30, 2010 (Audited)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,889,103	\$ 5,380,571
Restricted cash	209,078	786,871
Accounts receivable, net	4,718,217	4,429,885
Advanced agency commissions, net	2,663,190	4,619,814
Deferred income taxes	844,505	1,010,000
Prepaid expenses	45,099	69,987
 Total current assets	 17,369,192	 16,297,128
 Furniture, fixtures and equipment, net	 235,183	 327,560
Goodwill	4,376,339	4,376,339
Intangibles, net	2,528,317	3,010,823
Deferred income taxes	658,614	736,000
Other assets	66,486	103,722
 Total assets	 \$ 25,234,131	 \$ 24,851,572
 <b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 930,176	\$ 907,586
Accrued commissions	733,771	582,729
Unearned commissions	2,394,179	4,571,883
Waiver reimbursement liability	645,700	846,600
Deferred revenue	670,984	857,942
Notes payable		352,298
Liability for unrecognized tax benefit	166,000	166,000
Other accrued liabilities	1,987,910	2,352,486
 Total current liabilities	 7,528,720	 10,637,524
 Total liabilities	 7,528,720	 10,637,524
 Stockholders equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 19,927,204 and 19,877,204 shares issued and outstanding, respectively	19,927	19,877
Additional paid-in-capital	11,367,874	11,259,020

Edgar Filing: Access Plans Inc - Form 10-Q

Accumulated earnings	6,317,610	2,935,151
Total stockholders' equity	17,705,411	14,214,048
Total liabilities and stockholders' equity	\$ 25,234,131	\$ 24,851,572

*See the accompanying notes to the condensed consolidated financial statements.*

**Table of Contents**

**Access Plans, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net revenues	\$ 13,781,053	\$ 13,460,566	\$ 28,057,195	\$ 26,763,214
Direct costs	8,143,065	9,460,961	16,936,184	18,260,669
 Gross profit	 5,637,988	 3,999,605	 11,121,011	 8,502,545
Marketing and sales expenses	468,604	622,964	923,266	1,204,118
General and administrative expenses	1,806,360	1,825,450	4,038,381	3,828,109
Depreciation and amortization	282,764	289,578	575,511	573,604
 Operating income	 3,080,260	 1,261,613	 5,583,853	 2,896,714
Other income (expense):				
Other income (expense)		(27,029)		67,444
Interest income	9,692	9,580	18,177	18,601
Interest (expense)	(11,979)		(16,797)	(47,140)
 Total other income (expense):	 (2,287)	 (17,449)	 1,380	 38,905
 Income before income taxes	 3,077,973	 1,244,164	 5,585,233	 2,935,619
Provision for income taxes				
Current	1,101,855	271,065	1,959,626	941,530
Deferred tax (benefit)	105,170	237,790	243,148	362,285
 Total provision for income taxes	 1,207,025	 508,855	 2,202,774	 1,303,815
 Net income	 \$ 1,870,948	 \$ 735,309	 \$ 3,382,459	 \$ 1,631,804
 Per share data:				
Basic	\$ 0.09	\$ 0.04	\$ 0.17	\$ 0.08
 Diluted	 \$ 0.09	 \$ 0.04	 \$ 0.17	 \$ 0.08
 Average Shares Outstanding:				
Basic	19,893,871	19,777,204	19,885,446	20,042,418

Diluted	20,604,722	20,044,974	20,362,334	20,251,161
---------	------------	------------	------------	------------

*See the accompanying notes to the condensed consolidated financial statements.*

**Table of Contents**

**Access Plans, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 3,382,459	\$ 1,631,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax expense	243,148	230,510
Depreciation and amortization	575,511	573,604
Amortization of loan discount to interest expense		38,643
Stock-based compensation	108,904	8,006
Gain on reduction in related party debt		(94,444)
Provision for losses on receivables	28,067	(8,126)
Disposal of assets	3,794	
Change in operating assets and liabilities:		
Receivables	(316,399)	(668,376)
Advanced agency commissions	1,956,624	1,338,858
Prepaid expenses and other assets	62,124	195,671
Accounts payable	22,590	256,287
Accrued commissions	151,042	(105,996)
Unearned commissions	(2,177,704)	(949,366)
Deferred revenue	(186,958)	(207,803)
Claims and other accrued liabilities	(565,476)	(372,448)
Net cash provided by operating activities	3,287,726	1,866,824
<b>Cash flows from investing activities</b>		
Decrease in restricted cash	577,793	262,785
Purchase of equipment	(4,689)	(84,847)
Net cash provided by investing activities	573,104	177,938
<b>Cash flows from financing activities</b>		
Increase in short term debt		195,800
Payments of related party term debt		(1,030,348)
Payments on other debt	(352,298)	(321,703)
Purchase of treasury stock		(500,000)
Net cash (used in) financing activities	(352,298)	(1,656,251)
Net increase in cash and cash equivalents	3,508,532	388,511
Cash and cash equivalents at beginning of period	5,380,571	4,108,183
Cash and cash equivalents at end of period	\$ 8,889,103	\$ 4,496,694

*See the accompanying notes to the condensed consolidated financial statements.*





Table of Contents

**ACCESS PLANS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2011**  
**(UNAUDITED)**

**NOTE 1 NATURE OF BUSINESS**

Access Plans, Inc. (the Company) develops and distributes consumer membership plans and consumer driven healthcare programs.

The Company's operations are currently organized under four segments:

**Wholesale Plans Division** plan offerings are customized membership marketing plans primarily offered at rent-to-own retail stores.

**Retail Plans Division** plan offerings are primarily healthcare savings plans. These plans are not insurance, but allow members access to a variety of healthcare networks to obtain discounts from usual and customary fees.

**Insurance Marketing Division** markets individual major medical health insurance and other insurance products through a national network of independent agents.

**Corporate** includes compensation and other expenses for individuals performing services for administration of overall operations of the Company.

**NOTE 2 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. All such adjustments made during the six months ended March 31, 2011 and 2010 are of a normal, recurring nature.

**Table of Contents****RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS****Recent Accounting Pronouncements**

In December 2010, the FASB issued Accounting Standards Update No. 2010-28 (ASU 2010-28), *Intangibles - Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. ASU 2010-28 was effective for the Company beginning January 1, 2011 and did not have a material impact on the Company's financial position, results of operations, cash flows and disclosures.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In December 2010, the FASB issued Accounting Standards Update No. 2010-29 (ASU 2010-29), *Business Combinations (Topic 805) - Disclosure of Supplementary Pro Forma Information for Business Combinations*. ASU 2010-29 requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 effective for the Company beginning September 30, 2011. The adoption of this accounting standard is not expected to have a material impact on the Company's financial position, results of operations, cash flows and disclosures.

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES****Accounts Receivable and Credit Policies**

Accounts receivable are presented net of the allowance for doubtful accounts established to provide for losses on uncollectible accounts based on management's estimates and historical collection experience. The allowance for doubtful accounts was \$124,331 and \$98,929, respectively, at March 31, 2011 and September 30, 2010. The Company recorded bad debt expense of \$28,067 for the six months ended March 31, 2011 and (\$8,126) for the six months ended March 31, 2010.

**Advanced Agent Commissions**

For the Company's Insurance Marketing Division, the allowance for doubtful recoveries for advanced agent commissions is determined based primarily upon estimates of the recovery of future commissions expected to be earned by the insurance agents to whom advances are outstanding and, where applicable, the agents responsible for the management of those agents. The allowance for doubtful recoveries was \$1,472,939 at March 31, 2011 and September 30, 2010. The Company did not recognize any bad debt expense on advanced agent commissions during the six month periods ended at March 31, 2011 and 2010.

The allowance for doubtful recoveries reflects significant judgment regarding the estimates used in the determination of the allowance. Accordingly, subsequent actual results may differ from the assumptions and estimates utilized for the analysis at March 31, 2011.

**Revenue Recognition**

The Company recognizes revenue when four basic criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;

The seller's price to the buyer is fixed or determinable; and,  
Collectability is reasonably assured.

The Company's revenue recognition varies based on source.

## **Table of Contents**

**Wholesale and Retail Plans** - membership fees are paid to the Company on a weekly, monthly or annual basis, and fees paid in advance are recorded as deferred revenue and recognized monthly over the applicable membership term. The Company's wholesale and private label partners bill their customers for the membership fees and periodically remit to the Company its portion of the fees. For the Company's retail members that are typically billed directly, the billed amount is collected by electronic charge to the member's credit card, automated clearinghouse or electronic check.

**Insurance Marketing** - revenue reflects commissions and fees reported to the Company by insurance companies for policies sold by the division's agents. Commissions and fees collected are recognized as earned on a monthly basis until the time that the underlying contract is reported to the division as terminated. The Company's commission rates vary by insurance carrier, the type of policy purchased by the policyholder and the amount of time the policy has been active, with commission rates typically being higher during the first 12 months of the policy period. Revenue also includes administrative fees the Company charges and the interest income earned on commissions advanced to the division's agents.

Unearned commissions comprise commission advances received from insurance carriers but not yet earned or collected. These advances are subject to repayment to the carrier in the event that the policy lapses before the advanced commissions are earned and collected. Additionally, enrollment fees received are recorded as deferred revenue and amortized over the expected weighted average life of the policies sold which currently approximates 18 months. Policy acquisition costs, principally lead and marketing credits, are capitalized and amortized over the same weighted average life, to the extent the deferred costs do not exceed the related gross deferred revenue. Any excess costs are expensed as incurred.

### **Commission Expense**

Commission expense is based on the applicable rates applied to membership revenues billed or insurance commissions collected, and are recognized as incurred on a monthly basis until the underlying program member or insurance policy is terminated.

The Insurance Marketing Division advances agent commissions, up to nine months, for certain insurance programs. The advance commissions to the Company's agents are funded partly by the insurance carriers represented and partly by the Company. These commissions advanced to agents are reflected on the balance sheet as advanced agent commissions. Collection of the commissions advanced (plus accrued interest) is accomplished by withholding amounts earned by the agent on the policy upon which the advance was made. In the event of early termination of the underlying policy, the division seeks to recover the unpaid advance balance by withholding advanced and earned commissions on other policies sold by the agent. This division also has the contractual right to pursue other sources of recovery, including recovery from the agents managing the agent to whom advances were made.

This allowance requires judgment and is based primarily upon estimates of the recovery of future commissions expected to be earned by the agents with outstanding balances and, where applicable, the agents responsible for their management. Advances are written off when determined to be non-collectible.

The Retail Plans Division advances agents' commissions for certain retail plan programs. The advance commissions to the Company's agents are funded by the Company and are reflected on the balance sheet as advanced agent commissions. Collection of the commissions advanced is accomplished by withholding amounts earned by the agent on the memberships upon which the advance was made. In addition, certain membership persistency levels must be maintained.

### **Restricted Cash**

Restricted cash represents investments with original maturities of one year or less pledged to obtain bonds for regulatory licenses and processing and collection arrangements for credit card and automated clearing house payments.

### **Goodwill and Intangible Assets**

Goodwill associated with business acquisitions and combinations represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. U.S. generally accepted accounting principles specify criteria used in determining whether intangible assets acquired in a business acquisition or combination must be recognized and reported separately from goodwill.

Amounts assigned to goodwill and other intangible assets are based on independent appraisals or internal estimates.

**Table of Contents****Earnings per Share**

Basic net earnings (loss) per common share is computed by dividing net earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted-average number of common share shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that may be issued upon exercise of common stock options. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

**Fair Value of Financial Instruments**

The carrying amounts reflected in the balance sheets for cash, cash equivalents, restricted cash, accounts receivable, advanced agency commissions, accounts payable and accrued expenses approximate the respective fair values due to the short maturities of those instruments. The fair value of the notes payable approximates carrying value since stated rates are similar to rates currently available to the Company for debt with similar terms and remaining maturities.

**NOTE 4 ADVANCED AGENT COMMISSIONS**

Advanced agent commissions at March 31, 2011 and September 30, 2010 consist of:

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
Advances funded by:		
Insurance carriers	\$ 2,411,476	\$ 4,571,883
Specialty lending corporation		352,298
Self-funded	1,724,653	1,168,572
Sub-total	4,136,129	6,092,753
Allowance for doubtful recoveries	(1,472,939)	(1,472,939)
Advanced agent commissions, net	\$ 2,663,190	\$ 4,619,814

The allowance for doubtful recoveries for advanced agent commissions was determined based primarily upon estimates of the recovery of future commissions expected to be earned by the agents to whom advances are outstanding and, where applicable, the agents responsible for the management. The Company did not recognize any bad debt expense on advanced agent commissions during the six month periods ended March 31, 2011 and 2010.

**NOTE 5 GOODWILL AND INTANGIBLE ASSETS**

We account for goodwill in accordance with FASB Topic 350, Intangible-Goodwill and Other. We evaluate goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second step is performed to measure the amount of impairment loss, if any. The Company evaluates the impairment of goodwill and the recoverability of other intangible assets as of the end of each fiscal year or whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. These circumstances include:

- a significant decrease in the market value of an asset;
- a significant adverse change in the extent or manner in which an asset is used; or
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset.

The Company did not recognize an impairment loss related to intangible assets during the six month periods ended March 31, 2011 and 2010. There were no changes in the carrying amount of goodwill during the six month periods ended March 31, 2011 and 2010.





**Table of Contents**

Goodwill allocated to each reportable segment consists of the following:

	March 31, 2011	September 30 2010
Wholesale Plans	\$ 455,000	\$ 455,000
Retail Plans	2,816,027	2,816,027
Insurance Marketing	1,105,312	1,105,312
Total	\$ 4,376,339	\$ 4,376,339

Intangible assets consist of the following:

	Useful Life (Years)	Gross Amount	March 31, 2011 Accumulated Amortization	Net	September 30, 2010 Accumulated Amortization	Net
<b>Alliance HealthCard</b>						
Customer lists	5	\$ 2,500,000	\$ (2,041,683)	\$ 458,317	\$ (1,791,677)	\$ 708,323
<b>Access Plans USA</b>						
In-force books of business	5	1,200,000	(480,000)	720,000	(360,000)	840,000
Agency relationships	8	1,500,000	(375,000)	1,125,000	(281,250)	1,218,750
Proprietary programs	8	300,000	(75,000)	225,000	(56,250)	243,750
Total		\$ 5,500,000	\$ (2,971,683)	\$ 2,528,317	\$ (2,489,177)	\$ 3,010,823

Amortization expense for each of the six month periods ended March 31, 2011 and 2010 was \$482,506.

**NOTE 6 SUPPLEMENTAL CASH FLOWS INFORMATION**

Cash payments for interest and income taxes for the six months ended March 31, 2011 and 2010 are as follows:

	2011	2010
Interest	\$ 8,064	\$ 41,420
Income taxes paid	\$ 2,104,683	\$ 1,087,263

**NOTE 7 OTHER BORROWINGS**

During March 2008, Access Plans USA, Inc. obtained a loan of \$1,605,000 from Commission Funding Group (CFG), a specialty lending corporation. The CFG loan was paid in full in March 2011, and the loan principal was repayable in equal monthly installments. Collateral provided to CFG includes rights, only in the event of a default, to cash, accounts receivable, and certain Insurance Marketing commissions from insurance carriers. Principal and interest payments on this loan were \$302,744 and \$8,064, respectively for the six months ended March 31, 2011.

In January 2010, America's Healthcare/Rx Plan Agency (AHCP) obtained a loan of \$195,800 from Loyal American Life Insurance Company (Loyal). The loan was paid in full in December 2010. The loan represents AHCP's unsecured obligations or advances from Loyal. The loan matured in December 2010. Principal payments made on this loan were \$49,554 for the six months ended March 31, 2011.



**Table of Contents****NOTE 8 INCOME TAXES**

Components of income tax expense for the six months ended March 31, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Current income tax expense		
Federal	\$ 1,952,967	\$ 865,610
State	6,659	75,920
Total current income tax expense	1,959,626	941,530
Deferred income tax (benefit)		
Federal	235,928	319,940
State	7,220	42,345
Total deferred income tax (benefit)	243,148	362,285
Net income tax expense	\$ 2,202,774	\$ 1,303,815

**NOTE 9 WAIVER REIMBURSEMENTS LIABILITY**

The Company has entered into contractual arrangements to administer certain membership programs for its clients, primarily in the rental purchase industry. For some clients, the administration duties include reimbursing the client for certain expenses incurred in the operation of a particular membership program. Under these arrangements, the Company is responsible for reimbursing the client when (under the terms of the agreement with the client's customer) the client waives rental payments required of the client's customer under specifically defined and limited circumstances, including the situation when the customer becomes unemployed for a stated time period or when the Company's client provides product service to its customer.

The life of the contracts subject to our reimbursement of clients for the waiver of rental payments and product service commitments is generally one week. Our Wholesale Plans division clients in the rental purchase industry enter into agreements with their customers for the rental of merchandise that have a term equivalent to their scheduled payment period and for the majority of agreements that period is one week. The agreement is renewed weekly by the customer by making its scheduled weekly payment. The average length of a customer relationship under such an agreement lasts for 4 months as approximately 75% of the customers return the rented item within the four months, 17% exercise early purchase options and 8% rent for the full term and become owners. The customer may return the merchandise and terminate the rental agreement at any time without any future obligation.

Product service expense represents costs the Company incurs on the repair of household merchandise. Plan members that complete their rental purchase term and choose to continue their membership on a month to month basis are entitled to repair or replacement of such merchandise by the dealer in cases of mechanical failure. The Company reimburses the dealer for those costs. This element of a member's plan terminates 12 months following their date of product ownership (12 months following the end of the member's rental term) or at any time that the member does not maintain its month to month membership.

The Company's policy is to reserve the necessary funds in order to meet the anticipated reimbursement obligation owed to the Company's clients in the event the Company's reimbursement obligations require payment in the future. The Company's obligations for these reimbursements do not have any kind of a tail that extends beyond Company's client's payment obligations following termination of the contractual arrangement or agreement with either the Company's client or the client's customer. The Company's estimated incurred-but-not-reported-reimbursements obligation consists of the following:

Balance at September 30, 2010	\$ 846,600
Claims paid, 10/1/10 - 03/31/11	(2,465,297)

Claims accrued, 10/1/10 – 03/31/11	2,264,397
Balance at March 31, 2011	\$ 645,700

**NOTE 10 RELATED PARTY TRANSACTIONS**

The Company occupies its corporate offices and Wholesale Plans Division in Norman, Oklahoma under a lease that expires September 30, 2011. The total leased space is approximately 6,523 square feet. The lease agreement is with Southwest Brokers, Inc., a company owned by Brett Wimberley, one of the Company’s Directors, President and Chief Financial Officer. This lease was executed on May 1, 2005, amended on August 1, 2006 and August 1, 2008, September 30, 2009, and September 30, 2010. In the event the Company is required to move from the current Norman, Oklahoma office facilities, the terms and cost of occupancy may be substantially different than those under which the office space is currently occupied and the rental rate may be substantially greater.

**Table of Contents**

The Company's rent expense associated with related party transactions was approximately \$49,492 and \$47,311 for the six month periods ending March 31, 2011 and 2010, respectively.

**NOTE 11 SEGMENT REPORTING**

The Company operates in four reportable business segments; a) Wholesale Plans; b) Retail Plans; c) Insurance Marketing; and d) Corporate (holding company).

Reportable business segment information follows.

The following tables set forth revenue, gross margin and operating income by segment.

(\$ in thousands)	For the Three Months Ended March 31,			For the Six Months Ended March 31,		
	2011	2010	% Change	2011	2010	% Change
<b>Net revenues by segment</b>						
Wholesale Plans	\$ 6,316	\$ 5,637	12%	\$ 12,369	\$ 10,775	15%
Retail Plans (a)	4,276	4,129	4%	8,850	8,010	10%
Insurance Marketing	4,630	4,949	(6%)	9,695	10,424	(7%)
Corporate (holding company)						
Intercompany Eliminations	(1,441)	(1,254)	(15%)	(2,857)	(2,446)	17%
<b>Total</b>	<b>\$ 13,781</b>	<b>\$ 13,461</b>	<b>2%</b>	<b>\$ 28,057</b>	<b>\$ 26,763</b>	<b>5%</b>
<b>Gross margin by segment</b>						
Wholesale Plans	\$ 2,278	\$ 1,033	121%	\$ 4,590	\$ 2,253	104%
Retail Plans (a)	2,634	2,102	25%	5,034	4,339	16%
Insurance Marketing	726	865	(16%)	1,497	1,911	(22%)
Corporate (holding company)						
<b>Total</b>	<b>\$ 5,638</b>	<b>\$ 4,000</b>	<b>41%</b>	<b>\$ 11,121</b>	<b>\$ 8,503</b>	<b>31%</b>
<b>Operating income by segment</b>						
Wholesale Plans	\$ 1,846	\$ 514	259%	\$ 3,657	\$ 1,221	200%
Retail Plans (a)	1,742	945	84%	2,980	1,880	59%
Insurance Marketing	73	67	9%	108	323	(66%)
Corporate (holding company)	(581)	(264)	(120%)	(1,161)	(527)	(121%)
<b>Total</b>	<b>\$ 3,080</b>	<b>\$ 1,262</b>	<b>144%</b>	<b>\$ 5,584</b>	<b>\$ 2,897</b>	<b>93%</b>

(a) Gross of intercompany eliminations

	March 31, 2011	September 30, 2010
<b>Segment assets</b>		
Wholesale Plans	\$ 25,150	\$ 18,998
Retail Plans	30,186	26,369

Edgar Filing: Access Plans Inc - Form 10-Q

Insurance Marketing	7,339	8,499
Corporate	(37,441)	(29,014)
Intercompany Eliminations		
<b>Total</b>	<b>\$ 25,234</b>	<b>\$ 24,852</b>

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Except as otherwise indicated, the first personal plural pronoun in the nominative case form we and its objective case form us, its possessive and the intensive case forms our and ourselves and its reflexive form ourselves in this report refer collectively to Access Plans, Inc. and its subsidiaries and its executive officers and directors.*

**Overview**

The Company's operations are currently organized under four segments:

**Wholesale Plans Division** plan offerings are customized membership marketing plans primarily offered at rent-to-own retail stores.

**Retail Plans Division** plan offerings are primarily healthcare savings plans. These plans are not insurance, but allow members access to a variety of healthcare networks to obtain discounts from usual and customary fees.

**Insurance Marketing Division** markets individual major medical health insurance and other insurance products through a national network of independent agents.

**Corporate** includes compensation and other expenses for individuals performing services for administration of overall management and operations of the Company.

**Wholesale Plans**

The Wholesale Plans Division provides our clients with customized membership marketing plans that leverage their brand names, customer relationships and typically their payment mechanism, plus offer benefits that appeal to their customers. The value provided by the plans to our clients, includes increased customer attraction and retention, plus incremental fee income with limited risk or capital cost.

Our plans are primarily offered at rent-to-own retail stores. Nationwide there are approximately 8,600 locations serving approximately 4.1 million households at any given time during the year according to the Association of Progressive Rental Organizations (APRO). It is estimated that the two largest rent-to-own industry participants account for approximately 4,800 of the total number of stores, and the majority of the remainder of the industry consists of companies each with fewer than 50 stores. The industry has been consolidating and is expected to continue, resulting in an increased concentration of stores in the two largest rent-to-own industry participants. The rent-to-own industry serves a highly diverse customer base. According to the APRO, approximately 83% of rent-to-own customers have household incomes between \$15,000 and \$50,000 per year. The rent-to-own industry serves a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. APRO also estimates that 96% of customers have high school diplomas.

We currently deliver membership plans to over 220 companies, including retail purchase dealers, insurance companies, financial institutions, retail merchants, and consumer finance companies. At March 31, 2011, our wholesale plans were offered at approximately 4,910 locations. Of the locations at March 31, 2011, 2,880 locations were Rent-A-Center owned locations operated under their brand, Rent-A-Center, Inc., a Nasdaq (symbol RCII) traded company. Rent-A-Center, Inc. is the largest rent-to-own company in the United States, Puerto Rico and Canada. Our revenue attributable to the contractual arrangements with Rent-A-Center was approximately \$3.2 million (24% of total revenue) and \$6.4 million (23% of total revenue) during the three and six months ended March 31, 2011, respectively compared to \$3.0 million (22% of total revenue) and \$5.7 million (21% of total revenue) during the three and six months ended March 31, 2010, respectively. Revenue attributable to our Wholesale Plans Division accounted for \$6.3 million (46% of total revenue) and \$12.4 million (44% of total revenue) during the three and six months ended March 31, 2011, respectively compared to \$5.6 million (42% of total revenue) and \$10.8 million (40% of total revenue) during the three and six months ended March 31, 2010, respectively. Our growth in wholesale plans revenue is dependent in significant part on an increase in the number of rent-to-own locations at which our plans are offered and the sales efforts of those locations. Although we have contracts with Rent-A-Center and other rent-to-own companies, loss of which, especially Rent-A-Center would or may have a significant impact on our revenues, profitability and our ability to negotiate discounts with our vendors.





**Table of Contents****Retail Plans**

Our Retail Plans Division offerings include healthcare savings plans, auto related discount plans and association memberships that are not insurance, but may provide insurance features and benefits. These membership savings plans allow members access to a variety of healthcare, auto related and retail merchant networks to obtain discounts from usual and customary fees or charges. Additionally, we offer wellness programs, prescription drug and dental discount programs, medical discount cards, and limited benefit insurance plans. Our members pay healthcare providers the discounted rate at the time services are provided to them. These plans are designed to serve the markets in which individuals either have no health insurance or limited healthcare benefits. Revenue attributable to our Retail Plans Division was approximately \$4.3 million (31% of total revenue) and \$8.8 million (32% of total revenue) during the three and six months ended March 31, 2011, respectively compared to \$4.1 million (31% of total revenue) and \$8.0 million (30% of total revenue) during the three and six months ended March 31, 2010, respectively.

This division is comprised of the membership business of Alliance Healthcard, The Capella Group, Inc. ( Capella ) and Protective Marketing Enterprises, Inc. ( PME ). Capella and PME are subsidiaries of Access Plans USA which was acquired on April 1, 2009. PME also owns and manages proprietary networks of dental and vision providers that provide services at negotiated rates to certain members of our plans and other plans that have contracted with us for access to our networks.

Through our healthcare savings plans, we believe customers save an average of 35% on their medical costs and between 10% and 50% on services through other discount medical providers. These discounts for services that do not require the use of a medical preferred provider organization (PPO) are more difficult to track because our members pay a discounted rate at point of service.

Some of our Retail Plans clients choose to include our benefits with their own membership plan offering. In these instances, the client bears the cost of marketing and fulfillment, and we provide customer service. These offerings are designed to enhance our clients existing offering and improve their product value relative to their competition and in some instances to improve their customer retention. While these plans provide lower periodic member fees, we incur limited implementation costs and receive higher revenue participation rates. Other target distribution channels for this division include retailers, insurance companies, network marketing organizations, independent insurance agencies and agents, consumer direct sales call centers, and financial institutions.

In order to deliver our membership offerings, we contract with a number of different vendors to provide various products and services to our members. The majority of these vendor relationships involve the vendor providing our members access to their network or providers or their locations and our members obtain a discount at the time of service. We have vendor relationships with medical networks, automotive service companies, insurance companies, travel related entities and food and entertainment consumer discount providers. Our vendors value the relationship with us because we deliver many customers to them without incremental capital cost or risk on their part and these relationships are governed by multi-year agreements and aggregated volume scaling.

**Insurance Marketing**

Our Insurance Marketing Division offers and sells individual major medical health insurance products and related benefit plans, including specialty insurance products, primarily through a national network of independent agents. America's Healthcare/Rx Plan Agency (AHCP) is the centerpiece of the Insurance Marketing Division. AHCP distributes major medical, short-term medical, critical illness and related health insurance products to small businesses, self-employed and other individuals and families through a network of approximately 7,790 independent agents. Our primary carriers that we represent include Golden Rule Insurance Company, World Insurance Company, Aetna and Colorado Bankers.

We support our agents and recruit new agents via access to proprietary and private label products, leads for new sales, commission advance programs, incentive programs, including an annual convention, web-based technology, and back-office support. More specifically, our agent support and recruiting tools include:

- e-Agent Center provides agents with access to real-time rate quoting, on-line licensing and contracting, insurance application submission, access to brochures and other marketing materials.

- Lead Distribution we utilize an electronic system to connect agents with an on-line lead ordering and delivery system. Leads are also provided in certain situations as incentives to sell certain policies.

Incentive programs to assist with agent motivation and recruitment, we provide paid annual convention trips and periodic sales contests.

## **Table of Contents**

Agent advances with the major medical products we represent, agents are entitled to three to nine months of advance commissions either funded by AHCP or our insurance carrier partner. Our ability to grow this segment will depend, in part, on our continued access to working capital to fund these advances.

Home office support this includes agent and product training, marketing materials and agent communication. The training programs include both on-site and in-house schools, DVDs and webcasts covering product knowledge and sales techniques as well as market conduct and regulatory compliance issues. In addition, our support includes development and distribution of a wide variety of marketing materials including flyers, brochures, email blasts and letters. We also promote and inform our agents on important news and updates via a weekly newsletter.

Our strategy for the Insurance Marketing Division is to:

Continue working with insurance carriers in the development of proprietary products for our agents to represent and offer;

Expand the number of carriers that we represent for more product choice for customers and expanded geographic representation; and

Enhance our e-agent platforms in order to better serve our existing agents and improve attraction to new agents to sell plans we represent.

The revenue of our Insurance Marketing Division is primarily from earned sales commissions paid by the insurance companies this Division represents. These sales commissions are generally a percentage of premium revenue. Revenue attributable to our Insurance Marketing Division was approximately \$4.6 million (34% of total revenue) and \$9.7 million (35% of total revenue) during the three and six months ended March 31, 2011, respectively compared to \$4.9 million (37% of total revenue) and \$10.4 million (39% of total revenue) during the three and six months ended March 31, 2010, respectively. We estimate we had 24,830 and 25,200 policies in force as of March 31, 2011 and September 30, 2010, respectively.

The Health Care and Education Affordability Reconciliation Act of 2010 (Health Care Reform Law) was enacted on March 30, 2010. Beginning in August 2010 insurers were required to implement a number of changes related to major medical insurance policies. These changes include, but are not limited to changes to required coverage, elimination of most preexisting condition exclusions, and a minimum loss ratio of 80%. The minimum loss ratio requires health insurance companies to maintain premium levels so that 80% of the premium is utilized for claims on medical services and related expenses (85% for group health). The law requires certain people to purchase health insurance and will set up subsidies to assist certain people in purchasing health insurance and allows certain people to obtain insurance from the federal government. The Health Care Reform Act has had an impact on the products we offer and has changed the number of customers or potential customers for our products. As a result of the minimum loss ratio requirement in the Health Care Reform Act, commissions on the sale of individual major medical insurance policies were reduced in January 2011. This will result in a reduction in our revenue related to the sale of major medical policies. Because most of our commission revenue is ultimately paid to our agents the reduction in revenue has not caused a reduction in our profitability in the same proportion. The reduction in commission may cause our agents to stop selling health insurance and cause them to sell other insurance products to make up for the loss of these commissions.

In response, we are endeavoring to expand the portfolio of health related insurance products that we provide to our agents. We expect these new and expanded products will furnish our agents a means to mitigate the possible financial impact that resulted from the Health Care Reform Act.

### **Critical Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates and the differences may be material to the financial statements. Certain significant estimates are required in the evaluation of goodwill for impairment and intangible assets for amortization, allowances for doubtful recoveries of advanced agent commissions, deferred income taxes, accounts receivable and the waiver reimbursements liability. Actual results could differ from those estimates and the differences could be material.



## **Table of Contents**

### **Goodwill and Intangible Assets**

Goodwill in business acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. GAAP specifies criteria to be used in determining whether intangible assets acquired in a business combination must be recognized and reported separately from goodwill. Amounts assigned to goodwill and other intangible assets are based on independent appraisals or internal estimates.

Intangible assets, other than goodwill, acquired on April 1, 2009 as part of Access Plans USA acquisition were valued at \$3,000,000 and are being amortized over the estimated useful life of those assets. The related amortization expense was \$232,500 for each of the six month periods ended March 31, 2011 and 2010.

Customer lists acquired in acquisitions are capitalized and amortized over the estimated useful lives of the customer lists.

Customer lists acquired in 2007 were valued at \$2,500,000 and are being amortized over 60 months, the estimated useful life of the lists. The related amortization expense was \$250,002 for each of the six month periods ended March 31, 2011 and 2010.

### **Stock Based Compensation**

We measure stock based compensation expense using the modified prospective method. Under the modified prospective method, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service or vesting period.

### **Revenue Recognition**

We recognize revenue when four basic criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and,
- Collectability is reasonably assured.

Our revenue recognition varies based on the revenue source.

***Wholesale and Retail Plans Division*** membership fees are paid to us on a weekly, monthly or annual basis and fees paid in advance are recorded as deferred revenue and recognized monthly over the applicable membership term. Our wholesale and private label partners bill their customers for the membership fees and periodically remit our portion of the fees to us. For our retail members that are billed directly, the billed amount is collected by electronic charge to the member's credit card, automated clearinghouse or electronic check.

Our membership offerings require us to provide a package of benefits to their enrolled customers. We are responsible for member fulfillment, customer service and contract with multiple third party suppliers that have established national networks of service providers which have agreed to provide discounts to our members. We determine the price of our membership plans based on the services our customers have selected to provide to their enrolled customers. We determine the specifications of the service and contract with multiple suppliers for these services.

***Insurance Marketing Division*** revenue reflects commissions and fees reported to us by insurance companies for policies sold by the division's agents. Revenue is based on commission percentages of premium that are negotiated with each carrier and the amount earned is determined by the amount of commissionable premium collected by the carrier. Our commission rates vary by insurance carrier, the type of policy purchased by the policyholder and the amount of time the policy has been active, with commission rates typically being higher during the first 12 months of the policy period. Commissions and fees collected are recognized as earned on a monthly basis until the underlying insurance contract is reported to the division as terminated. Revenue also includes interest income and fees earned on commissions advanced to the division's agents.



## **Table of Contents**

Our Insurance Marketing Division ( IMD ) has full latitude to select the carriers and the products that it markets via its sub-agents. IMD identifies a need and finds a carrier who has an existing product that fills this need. IMD negotiates contracts with carriers and with associations to represent their products and within the contractual terms has the ability to discontinue product and/or carrier representation at its discretion. IMD provides recommendations in product design and the carrier has the ultimate responsibility for establishing the product specifications. IMD identifies and implements ongoing customer service activities with both customers and insurance agents.

IMD is the primary obligor in regard to the commission with the insurance agents. IMD holds the Master General Agent agreement with each carrier, contracting agents to market the carriers' products. The agents are contracted directly to IMD and the carrier has no direct obligation to pay the agent. IMD also receives advanced commissions from certain carriers that IMD has full repayment responsibility for. The carriers have no recourse from the agent for these advances as there is no direct contractual relationship between the carrier and the agent.

Unearned commissions comprise commission advances received from insurance carriers but not yet earned or collected. These advances are subject to repayment back to the carrier in the event that the policy lapses before the advanced commissions are earned and collected. Additionally, enrollment fees received are recorded as deferred revenue and amortized over the expected weighted average life of the policies sold which currently approximates 18 months. Policy acquisition costs, principally lead and marketing credits, are capitalized and amortized over the same weighted average life, to the extent these deferred costs do not exceed the related gross deferred revenue. Any excess costs are expensed as incurred.

### **Commission Expense**

Commission expense is based on the applicable rates applied to membership revenues billed or insurance commissions collected, and are recognized as incurred on a monthly basis until the underlying program member or insurance policy is terminated.

The Insurance Marketing Division advances agent commissions, up to nine months, for certain insurance programs. The advance commissions to our agents are funded partly by the insurance carriers we represent and partly by us. These commissions advanced to agents are reflected on our balance sheet as advanced agent commissions. Collection of the commissions advanced (plus accrued interest and fees) is accomplished by withholding amounts earned by the agent on the policy upon which the advance was made. In the event of early termination of the underlying policy, the division seeks to recover the unpaid advance balance by withholding advanced and earned commissions on other policies sold by the agent. This division also has the contractual right to pursue other sources of recovery, including recovery from the agents managing the agent to whom advances were made.

Advanced agent commissions are reviewed and an allowance is provided for those balances where recovery is considered doubtful. This allowance requires judgment and is based primarily upon estimates of the recovery of future commissions expected to be earned by the agents with outstanding balances and, where applicable, the agents responsible for their management. Advances are written off when determined to be non-collectible.

The Retail Plans Division advances agent commissions for certain retail plan programs. The advance commissions to our agents are funded by us and are reflected on the balance sheet as advanced agent commissions. Collection of the commissions advanced is accomplished by predetermined sales quotas that must be attained prior to the payment of additional commissions. In the event of early termination of the program, the division recovers the unpaid advance balance by withholding amounts earned by the agent on the memberships upon which the advance was made. In addition, certain membership persistency levels must be maintained.

### **Recent Accounting Pronouncements**

In December 2010, the FASB issued Accounting Standards Update No. 2010-28 (ASU 2010-28), *Intangibles - Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are

consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. ASU 2010-28 became effective for the Company beginning January 1, 2011 and did not have a material impact on our financial position, results of operations, cash flows and disclosures.



**Table of Contents**

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In December 2010, the FASB issued Accounting Standards Update No. 2010-29 (ASU 2010-29), *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations*. ASU 2010-29 requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 effective for us September 30, 2011. The adoption of this accounting standard is not expected to have a material impact on our financial position, results of operations, cash flows and disclosures.

**Results of Operations**

**Introduction**

We are a provider of consumer membership plans and, healthcare savings membership plans and a marketer of individual major medical health insurance products. Through working with our wholesale and retail clients, we design and build membership plans that contain benefits aggregated from our vendors that appeal to our client's customers. For our major medical health insurance products, we offer and sell these products through a national network of independent agents.

The following table sets forth selected results of our operations for the three months ended March 31, 2011 and 2010. We operate in four reportable business segments: Wholesale Plans, Retail Plans, Insurance Marketing and Corporate. The Wholesale Plans operating segment includes the operations of our customized membership marketing plans primarily offered at rent-to-own retail stores. The Retail Plans operating segment includes the operations from our healthcare and membership savings plans designed to serve those markets other than the rent to own market. The Insurance Marketing operating segment offers and sells individual major medical health insurance products and related benefit plans. The Corporate operating segment includes compensation and other expenses for individuals performing services for administration of overall operations of the Company at its holding company level.

**Table of Contents**

The following information was derived and taken from our unaudited financial statements appearing elsewhere in this report.

(\$ in thousands)	For the Three Months Ended March 31,			For the Six Months Ended March 31,		
	2011	2010	% Change	2011	2010	% Change
Net revenues	\$ 13,781	\$ 13,461	2%	\$ 28,057	\$ 26,763	5%
Direct costs	8,143	9,461	(14%)	16,936	18,261	(7%)
Operating expenses	2,558	2,738	(7%)	5,537	5,605	(1%)
Operating income	3,080	1,262	144%	5,584	2,897	93%
Net other income (expense)	(2)	(18)	(89%)	1	39	(97%)
Income before income taxes	3,078	1,244	147%	5,585	2,936	90%
Income taxes, net	1,207	509	137%	2,203	1,304	69%
Net income	\$ 1,871	\$ 735	155%	\$ 3,382	\$ 1,632	107%

The following tables set forth revenue, gross margin and operating income by segment.

(\$ in thousands)	For the Three Months Ended March 31,			For the Six Months Ended March 31,		
	2011	2010	% Change	2011	2010	% Change
<b>Net revenues by segment</b>						
Wholesale Plans	\$ 6,316	\$ 5,637	12%	\$ 12,369	\$ 10,775	15%
Retail Plans (a)	4,276	4,129	4%	8,850	8,010	10%
Insurance Marketing	4,630	4,949	(6%)	9,695	10,424	(7%)
Corporate (holding company)						
Intercompany Eliminations	(1,441)	(1,254)	15%	(2,857)	(2,446)	17%
<b>Total</b>	<b>\$ 13,781</b>	<b>\$ 13,461</b>	<b>2%</b>	<b>\$ 28,057</b>	<b>\$ 26,763</b>	<b>5%</b>

<b>Gross margin by segment</b>						
Wholesale Plans	\$ 2,278	\$ 1,033	121%	\$ 4,590	\$ 2,253	104%
Retail Plans (a)	2,634	2,102	25%	5,034	4,339	16%
Insurance Marketing	726	865	(16%)	1,497	1,911	(22%)
Corporate (holding company)						
<b>Total</b>	<b>\$ 5,638</b>	<b>\$ 4,000</b>	<b>41%</b>	<b>\$ 11,121</b>	<b>\$ 8,503</b>	<b>31%</b>

<b>Operating income by segment</b>						
Wholesale Plans	\$ 1,846	\$ 514	259%	\$ 3,657	\$ 1,221	200%
Retail Plans (a)	1,742	945	84%	2,980	1,880	59%
Insurance Marketing	73	67	9%	108	323	(66%)

Corporate (holding company)	(581)	(264)	(120%)	(1,161)	(527)	(121%)
<b>Total</b>	<b>\$ 3,080</b>	<b>\$ 1,262</b>	<b>144%</b>	<b>\$ 5,584</b>	<b>\$ 2,897</b>	<b>93%</b>

*(a) Gross of intercompany eliminations***Discussion of Three Months Ended March 31, 2011 and 2010**

*Net revenues* increased \$0.3 million (a 2% increase) during the three months ended March 31, 2011 ( the 2011 <sup>1</sup> quarter ), compared with the three months ended March 31, 2010 (the 2010<sup>2</sup> quarter ) to \$13.8 million from \$13.5 million in 2010. The increase in net revenues was primarily due to:

Growth in our Wholesale Plans Division of approximately \$0.7 million attributable to additional rent-to-own locations offering our plans and an increase in member acceptance rates among existing clients;(see the Segment Discussion Analysis below for additional information);

Growth in our Retail Plans Division of approximately \$0.1 million attributable to new business implemented beginning in the second quarter of 2010 (see the Segment Discussion Analysis below for additional information);

**Table of Contents**

Our Insurance Marketing Division experienced a decrease of \$0.3 million attributable to the minimum loss ratio requirement in the Health Care Reform Act which reduced our commissions on individual major medical insurance policies effective in January 2011 and two of our contracted insurance carriers that ceased sales of new major medical insurance policies (see the Segment Discussion Analysis below for additional information); and

Other decreases of \$0.2 million.

*Direct costs* decreased \$1.4 million (a 14% decrease) during the 2011 2<sup>nd</sup> quarter compared with the 2010 2<sup>nd</sup> quarter to \$8.1 million from \$9.5 million in 2010. The decrease in direct costs was primarily due to:

Our Wholesale Plans Division direct costs decreased \$0.6 million primarily attributable to a decline in our product service expense and waiver reimbursements liability(see the Segment Discussion Analysis below for additional information);

Decrease in our Retail Plans Division direct costs of \$0.4 million with \$0.5 million attributable to a decline in commission expense relating to a decline in revenue for an existing client, offset by an increase of \$0.1 million resulting from revenue growth for other clients(see the Segment Discussion Analysis below for additional information);

Our Insurance Marketing Division experienced a decrease in direct costs of \$0.2 million attributable to lower revenues (see the Segment Discussion Analysis below for additional information); and

Other decreases of \$0.2 million.

*Operating expenses* decreased \$0.1 million (a 7% decrease) during the 2011 2<sup>nd</sup> quarter to \$2.6 million from \$2.7 million in the 2010 2<sup>nd</sup> quarter. The decrease was attributable to a decline in outside billing and customer service expenses and compensation expense due to a decline in personnel. See the Segment Discussion Analysis below for additional information.

*Provision for income taxes, net* increased by \$0.7 million during the 2011 2<sup>nd</sup> quarter to \$1.2 million from \$0.5 million in the 2010 2<sup>nd</sup> quarter. The increase was attributable to an increase in pretax income.

*Net income* increased \$1.2 million (a 155% increase) to approximately \$1.9 million during the 2011 2<sup>nd</sup> quarter compared to \$0.7 million during the 2010 2<sup>nd</sup> quarter.

**Table of Contents****Segment Discussion Analysis****Wholesale Plans Division****Selected Operating Metrics**

(\$ in thousands except member data)

	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues	\$ 6,316	\$ 5,637	12%
Direct costs	4,038	4,604	(12%)
Operating expenses	432	519	(17%)
Operating income	\$ 1,846	\$ 514	259%
<b>Percent of revenue</b>			
Net revenues	100%	100%	
Direct costs	64%	82%	(18%)
Operating expenses	7%	9%	(2%)
Operating income	29%	9%	20%

Member count at March 31, 671,368 618,146 9%

*Net revenues* increased \$0.7 million (a 12% increase) during the 2011 2<sup>nd</sup> quarter to \$6.3 million from \$5.6 million during the 2010 2<sup>nd</sup> quarter. The increase in net revenues was related to the increase in the number of new rent-to-own locations offering our membership plans plus membership growth from existing locations.

*Direct costs* decreased \$0.6 million (a 12% decrease) during the 2011 2<sup>nd</sup> quarter to \$4.0 million from \$4.6 million during the 2010 2<sup>nd</sup> quarter. The decrease was primarily attributable to the following:

- Lower product service expense resulting from lower repair and replacement cost for electronics; and
- A decrease in client's waiver of rental payment expense due to a decline in the level of national unemployment.

We enter into contractual arrangements to administer certain membership programs for clients, primarily in the rental-purchase industry. For approximately 3,100 (78%) of our point-of-sale locations the administration duties include reimbursing the client for certain expenses it incurs in the operation of the program. Those expenses are related to product service expenses and the client's waiver of rental payments under defined circumstances including circumstances when the client's customer becomes unemployed for a stated period of time. It is our policy to reserve the necessary funds in order to reimburse our clients as those obligations become due in the future.

*Operating expenses* decreased \$0.1 million during the 2011 2<sup>nd</sup> quarter to \$0.4 million from \$0.5 million during the 2010 2<sup>nd</sup> quarter. The decrease was a result of a reclassification of compensation expense of approximately \$0.04 million to the Corporate operating segment during the 2011 2<sup>nd</sup> quarter.

*Operating income* increased \$1.3 million (a 259% increase) during the 2011 2<sup>nd</sup> quarter to \$1.8 million from \$0.5 million during the 2010 2<sup>nd</sup> quarter.

**Table of Contents****Retail Plans Operating Segment****Selected Operating Metrics**

(\$ in thousands except member data)

	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues (a)	\$ 4,276	\$ 4,129	4%
Direct costs	1,641	2,027	(19%)
Operating expenses	892	1,157	(23%)
Operating income (a)	\$ 1,742	\$ 945	84%
<b>Percent of revenue</b>			
Net revenues	100%	100%	
Direct costs	38%	49%	(11%)
Operating expenses	21%	28%	(7%)
Operating income	41%	23%	18%
Member count at March 31,	1,703,784	1,360,047	25%

*(a) Gross of intercompany eliminations*

*Net revenues* increased \$0.2 million (a 4% increase) during the 2011 2<sup>nd</sup> quarter to \$4.3 million from \$4.1 million during the 2010 2<sup>nd</sup> quarter. The increase in net revenues was primarily attributable to membership growth for new business implemented in the second quarter of 2010.

*Direct costs* decreased \$0.4 million (a 19% decrease) during the 2011 2<sup>nd</sup> quarter to \$1.6 million from \$2.0 million during the 2010 2<sup>nd</sup> quarter. The decrease in direct costs was primarily attributable to a decline in commission expense of \$0.5 million for an existing client whose revenue declined during the 2011 2<sup>nd</sup> quarter and offset by an increase of \$0.1 million resulting from revenue growth from other clients.

*Operating expenses* decreased \$0.3 million (a 23% decrease) to \$0.9 million during the 2011 2<sup>nd</sup> quarter from \$1.2 million during the 2010 2<sup>nd</sup> quarter. The decrease in operating expenses was primarily attributable to the reclassification of consulting, legal and public company fees of approximately \$0.1 million to the Corporate operating segment during the 2011 2<sup>nd</sup> quarter. Other operating expenses decreased \$0.2 million related to outside billing and customer service expenses for new business that began in the 2010 2<sup>nd</sup> quarter.

*Operating income* increased \$0.8 million (an 84% increase) to \$1.7 million during the 2011 2<sup>nd</sup> quarter from \$0.9 million in the 2010 2<sup>nd</sup> quarter.

**Table of Contents****Insurance Marketing Operating Segment****Selected Operating Metrics**

(\$ in thousands except agent and policy data)

	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues	\$ 4,630	\$ 4,949	(6%)
Direct costs	3,904	4,084	(4%)
Operating expenses	653	798	(18%)
Operating income	\$ 73	\$ 67	9%
<b>Percent of revenue</b>			
Net revenues	100%	100%	
Direct costs	84%	83%	1%
Operating expenses	14%	16%	(2%)
Operating income	2%	1%	1%
Number of Agents	7,790	6,747	15%
Number of In-force Policies	24,830	24,304	2%

*Net revenues* decreased \$0.3 million (a 6% decrease) during the 2011 2<sup>nd</sup> quarter to \$4.6 million from \$4.9 million during the 2010 2<sup>nd</sup> quarter. The decrease in net revenues was attributable to the minimum loss ratio requirement of the Health Care Reform Act that became effective in January 2011 which reduced our commissions on individual major medical insurance policies and a decline in net revenue due to two of our contracted insurance carriers that ceased sales of new major medical insurance policies.

*Direct costs* decreased \$0.2 million (a 4% decrease) during the 2011 2<sup>nd</sup> quarter to \$3.9 million from \$4.1 million during the 2010 2<sup>nd</sup> quarter. The decrease in direct costs was attributable to the decline in net revenues.

*Operating expenses* decreased \$0.1 million (an 18% decrease) to \$0.7 million during the 2011 2<sup>nd</sup> quarter from \$0.8 million during the 2010 2<sup>nd</sup> quarter. The decrease in operating expenses was attributable to a decrease in compensation expense and outsourced data services during the current fiscal quarter.

*Operating income* remained at \$0.07 million during the 2011 and 2010 2<sup>nd</sup> quarter.

**Corporate Operating Segment****Selected Operating Metrics**

(\$ in thousands)

	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues	\$	\$	
Direct costs			
Operating expenses	581	264	120%
Operating income (loss)	\$ (581)	\$ (264)	(120%)

*Operating expenses* increased \$0.3 million (a 120% increase) to \$0.6 million during the 2011 2<sup>nd</sup> quarter from \$0.3 million during the 2010 2<sup>nd</sup> quarter. The increase was attributable to the reclassification of expenses from the Wholesale and Retail Plans Divisions of approximately \$0.2 million consisting of accounting, consulting and

compensation expenses. The remaining \$0.1 million was attributable to an increase in stock compensation expense for employees and independent members of our board of directors.



**Table of Contents**

**Discussion of Six Months Ended March 31, 2011 and 2010**

*Net revenues* increased \$1.3 million (a 5% increase) during the six months ended March 31, 2011 ( the 2011 period ), compared with the six months ended March 31, 2010 (the 2010 period ) to \$28.1 million from \$26.8 million in 2010.

The increase in net revenues was primarily due to:

Growth in our Wholesale Plans Division of approximately \$1.6 million attributable to new rent-to-own locations and growth in our existing contracts (see the Segment Discussion Analysis below for additional information);

Growth in our existing Retail Plans Division of approximately \$0.8 million ( see the Segment Discussion Analysis below for additional information);

Our Insurance Marketing Division experienced a decrease of \$0.7 million attributable to the minimum loss ratio requirement in the Health Care Reform Act that became effective in January 2011 and a decline in net revenue due to two of our contracted insurance carriers that ceased sales of new major medical insurance policies(see the Segment Discussion Analysis below for additional information); and

Other decreases of \$0.4 million.

*Direct costs* decreased \$1.4 million (a 7% decrease) during the 2011 period to \$16.9 million from \$18.3 million in the 2010 period. The increase in direct costs was attributable to the following:

Our Wholesale Plans operating segment experienced a decrease of \$0.7 million primarily related to our clients' product service and waiver of rental payment expenses (see the Segment Discussion Analysis below for additional information);

An increase of \$0.1 million in our existing Retail Plans Division due to an increase in revenue (see Segment Discussion Analysis below for additional information)

Our Insurance Marketing Division experienced a decrease in direct costs of \$0.3 million attributable to lower revenues (see the Segment Discussion Analysis below for additional information);and

Other decreases of \$0.5 million.

*Operating expenses* decreased \$0.1 million (a 1% decrease) during the 2011 period to \$5.5 million from \$5.6 million in the 2010 period. The decrease in operating expenses was attributable to a decrease in compensation expense due to a reduction of employees primarily in our Insurance Marketing Division(see the Segment Discussion Analysis below for additional information.)

*Net other income* decreased \$0.04 million during the 2011 period to \$.001 million from \$0.04 million during the 2010 period. The decrease was primarily attributable to income earned from the early retirement of notes payable to related parties during the period.

*Provision for income taxes, net* increased by \$0.9 million during the 2011 period to \$2.2 million from \$1.3 million in the 2010 period.

*Net income* was approximately \$3.4 million during the 2011 period compared to \$1.6 million during the 2010 period (a 107% increase).

**Table of Contents****Wholesale Plans Division**  
**Selected Operating Metrics**

(\$ in thousands except member data)

	<b>For the Six Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues	\$ 12,369	\$ 10,775	15%
Direct costs (a)	7,780	8,522	(9%)
Operating expenses	933	1,032	(10%)
Operating income	\$ 3,657	\$ 1,221	200%
<b>Percent of revenue</b>			
Net revenues	100%	100%	
Direct costs	63%	79%	(16%)
Operating expenses	7%	10%	2%
Operating income	30%	11%	19%
Member count	671,368	618,146	9%

*(a) Gross of intercompany eliminations*

*Net revenues* increased \$1.6 million (a 15% increase) during the 2011 period to \$12.4 million from \$10.8 million during the 2010 period. The increase in net revenues was related to the increase in the number of new rent-to-own locations offering our membership plans plus membership growth from existing locations.

*Direct costs* decreased \$0.7 million (a 9% decrease) during the 2011 period to \$7.8 million from \$8.5 million during the 2010 period. The decrease was primarily attributable to our clients' product service and waiver of rental payment expenses. We entered into contractual arrangements to administer certain membership programs for clients, primarily in the rental purchase industry. For approximately 3,100 (78%) of our point of sale locations the administration duties include reimbursing the client for certain expenses it incurs in the operation of the program. Those expenses are primarily related to product service expenses and the client's waiver of rental payments under defined circumstances when their customer becomes unemployed for a stated period of time. It is our policy to reserve the necessary funds in order to reimburse our clients as those obligations become due in the future.

*Operating expenses* decreased 10% to \$0.09 million during the 2011 period when compared to the 2010 period. The decrease was a result of a reclassification of compensation expense to the Corporate operating segment during the period.

*Operating income* increased \$2.5 million (a 200% increase) during the 2011 period to \$3.7 million from \$1.2 million in the 2010 period.

**Table of Contents****Retail Plans Operating Segment****Selected Operating Metrics**

(\$ in thousands except member data)

	<b>For the Six Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues (a)	\$ 8,850	8,010	10%
Direct costs	3,815	3,671	4%
Operating expenses	2,054	2,459	(16%)
Operating income	\$ 2,980	1,880	59%
<b>Percent of revenue</b>			
Net revenues			
Direct costs	100%	100%	
Operating expenses	43%	46%	(3%)
Operating income	23%	31%	(8%)
	34%	23%	11%
Member count	1,703,784	1,360,047	25%

*(a) Gross of intercompany eliminations*

*Net revenues* increased \$0.8 million (a 10% increase) during the 2011 period to \$8.8 million from \$8.0 million during the 2010 period. The increase in net revenues was attributable to new business implemented in the second quarter of 2010 of \$0.5 million and existing client growth of \$0.3 million.

*Direct costs* increased \$0.1 million (a 4% increase) during the 2011 period to \$3.8 million from \$3.7 million during the 2010 period. The increase in direct costs was attributable to net revenue growth.

*Operating expenses* decreased \$0.4 million (a 16% decrease) to \$2.1 million during the 2011 period from \$2.5 million during the 2010 period. The decrease was primarily attributable to the reclassification of consulting, legal and public company fees to the Corporate operating segment during the 2011 period.

*Operating income* increased \$1.1 million (a 59% increase) to \$3.0 million during the 2011 period from \$1.9 million in the 2010 period.

**Table of Contents****Insurance Marketing Operating Segment****Selected Operating Metrics**

(\$ in thousands except agent and insurance data)

	<b>For the Six Months Ended</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues	\$ 9,695	\$ 10,424	(7%)
Direct costs	8,197	8,513	(4%)
Operating expenses	1,389	1,588	(13%)
Operating income	\$ 108	\$ 323	(66%)
<b>Percent of revenue</b>			
Net revenues	100%	100%	
Direct costs	85%	82%	3%
Operating expenses	14%	15%	(1%)
Operating income	1%	3%	(2%)
Number of agents	7,790	6,747	15%
Number of in-force policies	24,830	24,304	2%

*Net revenues* decreased \$0.7 million (a 7% decrease) during the 2011 period to \$9.7 million from \$10.4 million during the 2010 period. The decrease was attributable to the minimum loss ratio requirement in the Health Care Reform Act that became effective in January 2011 which reduced our commissions on individual major medical insurance policies and a decline in net revenue due to two of our contracted insurance carriers that ceased sales of new major medical insurance policies.

*Direct costs* decreased \$0.3 million (a 4% decrease) during the 2011 period to \$8.2 million from \$8.5 million during the 2010 period. The decrease in direct costs was attributable to the decrease in net revenues.

*Operating expenses* decreased \$0.2 million (a 13% decrease) to \$1.4 million during the 2011 period from \$1.6 million during the 2010 period. The decrease in operating expenses was attributable to a decrease in compensation expense and outsourced data services during the 2011 period.

Operating income decreased \$0.2 million (a 66% decrease) to \$0.1 million during the 2011 period from \$0.3 million during the 2010 period.

**Table of Contents****Corporate Operating Segment****Selected Operating Metrics**

(\$ in thousands)

	<b>For the Six Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>% Change</b>
<b>Results of operations</b>			
Net revenues	\$	\$	
Direct costs			
Operating expenses	1,162	527	121%
Operating income (loss)	\$ (1,162)	\$ (527)	(121%)

Operating expenses increased \$0.7 million (a 121% increase) to \$1.2 million during the 2011 period from \$0.5 million during the 2010 period. The increase was attributable to:

Reclassification of expenses from the Wholesale and Retail Plans Divisions of approximately \$0.5 million consisting of accounting, legal and compensation expenses;

Stock compensation expense for employees and outside board of directors of \$0.1 million; and

Compensation expense of \$0.1 million related to salary increases for existing employees.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements.

**LIQUIDITY AND CAPITAL RESOURCES**

We had unrestricted cash of \$8.9 million and \$5.4 million at March 31, 2011 and September 30, 2010, respectively.

Our working capital was \$9.8 million at March 31, 2011 compared to \$5.7 million at September 30, 2010. The improvement of \$4.1 million was due to the following:

Cash, net of restricted cash increased \$2.9 million attributable to net income and a decrease in restricted cash;

Notes payable decreased \$0.4 million due to the full repayment of the CFG and Loyal loans paid in full in March 2011 and December 2010, respectively (see Note 7. Other Borrowings to the financial statements appearing above);

Other accrued liabilities decreased \$0.4 million attributable to income taxes payable of \$0.3 million and other accrued liabilities of \$0.1 million;

Advanced agency commissions decreased \$2.0 million which was offset by a decrease of \$2.2 million for unearned commissions. The change was attributable to a reduction of commission payments and shortened advancing periods to our agents in our Insurance Marketing Division;

Waiver reimbursements liability decreased \$0.2 million due to a reduction of product service and waiver reimbursements expenses;

Accounts receivable increased \$0.3 million due to revenue growth; and

Other decreases of \$0.1 million.

**Table of Contents**

Cash provided by operating activities was \$3.3 million for the six months ended March 31, 2011 compared to \$1.9 million for the same period in 2010. The increase of \$1.4 million was attributable to:

An increase in net income of \$1.8 million; and

Accounts receivable decreased \$0.4 million due to the decrease in revenue for our Insurance Marketing Division.

Cash provided by investing activities increased by \$0.4 million to \$0.6 million for the six months ended March 31, 2011 from \$0.2 million for the same 2010 period. The increase of \$0.4 million was primarily attributable to a decrease in restricted cash resulting from the settlement of the States General legal proceedings on October 27, 2009.

Cash used in financing activities decreased \$1.3 million to \$0.4 million for the six months ended March 31, 2011 from \$1.7 million for the same 2010 period. The decrease of \$1.3 million was attributable to:

Payments of related party term debt of \$1.0 million during the 2010 period;

Acquisition of treasury stock of \$0.5 million on October 27, 2009; and

Increase in other short term debt of \$0.2 million during the 2010 period.

We anticipate that our cash on hand, together with cash flow from operations, will be sufficient for the next 12 months and beyond to finance operations, make capital investments in the ordinary course of business, and pay indebtedness when due.

**IMPACT OF INFLATION**

Inflation has not had a material effect on us to date. However, the effects of inflation on future operating results will depend in part, on our ability to increase prices or lower expenses, or both, in amounts that offset inflationary cost increases.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

During the six months ended March 31, 2011 we did not have any risks associated with market risk sensitive instruments or portfolio securities.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.*

Our Chief Executive Officer and Chief Financial Officer and other members of our management are responsible primarily for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities and Exchange Act of 1934, as amended (the Exchange Act ) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S Securities and Exchange Commission. These controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluations, our Principal Executive Officer and Principal Financial Officer concluded that, as of March 31, 2011, our disclosure controls and procedures were effective.

Furthermore, our Chief Executive Officer and Chief Financial Officer are responsible for the design and supervision of our internal controls over financial reporting that are then effected by and through our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

**Table of Contents***Management's Assessment of Internal Control Over Financial Reporting*

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2011. Additionally, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) were effective as of March 31, 2011 in all material respects based on the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*.

Our Chief Executive Officer and Chief Financial Officer have concluded that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in accordance with U. S. generally accepted accounting principles.

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

Except as provided below, since our 2010 Annual Report for the year ended September 30, 2010 on Form 10-K there have been no new material legal proceedings, and there have been no material developments in legal proceedings reported by us in the 2010 Annual Report on Form 10-K. The following legal proceedings all involves the subsidiaries of Access Plans USA, Inc. which was acquired by us in a merger on April 1, 2009.

**Zermeno v Precis, Inc.** The case styled *Manuela Zermeno, individually and on behalf of the general public; and Juan A. Zermeno, individually and on behalf of the general public v Precis, Inc., and Does 1 through 100, inclusive* was filed on August 14, 2003 in the Superior Court of the State of California for the County of Los Angeles under case number BC 300788. The Zermeno plaintiffs are former members of the Care Entrée discount healthcare program who allege that they (for themselves and for the general public) are entitled to injunctive, declaratory, and equitable relief under Section 445 of the California Health and Safety Code. That Section governs medical referral services. The plaintiffs also sought relief under Section 17200 of the Business and Professions Code, California's Unfair Competition Law. On December 21, 2007, we received a favorable verdict based on the court's finding that the Plaintiffs did not have standing to sue since they were no longer customers of Precis. The plaintiffs appealed and on December 23, 2009 the Court of Appeals reversed the trial court's ruling on standing and remanded the case to the trial court for a ruling on the merits. On November 1, 2010 the Court issued a Statement of Decision in which it ruled that Section 445 applied to the Care Entrée program and that Section 445 had been violated. On January 21, 2011 the Court issued a judgment enjoining Defendants Precis, Inc. and The Capella Group Inc, and Defendants' agents, employees and representatives, as of six months after the effective date of the injunction, from operating the Care Entrée program in the State of California as it pertains to referring people to a physician, hospital, health-related facility, or dispensary for any form of medical care or treatment. Defendants did not appeal the Judgment and, as a result, the effective date of the injunction is March 25, 2011. Although the Judgment will prevent the Defendants from offering certain discount medical programs in California, after analyzing the impact of the Judgment we do not believe that it will have a material effect on our financial condition.

**ITEM 1A. RISK FACTORS**

Our risk factors are disclosed in its Annual Report on Form 10K for the year ended September 30, 2010.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

As part of the compensation agreements with our outside board of directors, 50,000 shares of unregistered common stock were issued in February 2011.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

There are no items to report under this item.

**Table of Contents**

**ITEM 5. OTHER INFORMATION.**

There are no items to report under this item.

**ITEM 6. EXHIBITS**

- 31.1 Certification Pursuant to Rule 13a-14(a) under the Securities Exchange act of 1934, as amended
- 31.2 Certification Pursuant to Rule 13a-14(a) under the Securities Exchange act of 1934, as amended.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



**Table of Contents**

**SIGNATURES**

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

Access Plans, Inc.

May 13, 2011

By: /s/ Danny Wright  
Danny Wright  
Chief Executive Officer  
(Principal Executive Officer)

May 13, 2011

By: /s/ Brett Wimberley  
Brett Wimberley  
Chief Financial Officer  
(Principal Financial Officer)