EAUTOCLAIMS, INC
Form 10-Q
March 17, 2006

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 PERIOD ENDED JANUARY 31, 2006

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

Commission File Number 0-23903

EAUTOCLAIMS, INC.
(Exact name of registrant as specified in charter)

Nevada	95-4583945
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
110 East Douglas Road, Oldsmar, Florida	34677
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (813) 749-1020

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Indicate by check whether the registrant: (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.

[X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, or non-accellerated 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 Ruls 12b-2 of the Exchange Act.)

[ ] Yes [X] No

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, $.001 Par Value, as of February 28, 2006 was 67,687,421.

EAUTOCLAIMS, INC.

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EAUTOCLAIMS, INC.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

The financial statements of eAutoclaims, Inc. (the "Company") included herein were prepared, without audit, pursuant to rules and regulations of the Securities and Exchange Commission. Because certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles were condensed or omitted pursuant to such rules and regulations, these financial statements should be read in conjunction with the financial statements and notes thereto included in the financial statements of the Company as included in the Company's Form 10-K for the year ended July 31, 2005.

EAUTOCLAIMS, INC.

BALANCE SHEETS

	January 31, 2006 (unaudited)
ASSETS	
Current Assets:	

Cash	$ 546,431
Accounts receivable, less allowance for doubtful accounts of $193,000 and $208,000 respectively	782,368
Due from related parties	--
Prepaid expenses and other current assets	131,802
TOTAL CURRENT ASSETS	1,460,601
Property and Equipment, net of accumulated depreciation	782,543
Goodwill	1,093,843
Other Assets	85,800
Deferred Income Tax Asset, net of valuation allowance of $9,996,000 and $9,841,000 respectively	--
TOTAL ASSETS	$ 3,422,787
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
Current Liabilities:	
Accounts payable, advanced payments and accrued expenses	$ 4,794,446
Current portion of capital lease obligation	93,312
Convertible debenture	
TOTAL CURRENT LIABILITIES	4,887,758
Capital Lease Obligation, net of current portion	75,104
TOTAL LIABILITIES	4,962,862
Stockholders' Deficiency:	
Convertible preferred stock - $.001 par value; authorized 5,000,000 shares, No shares outstanding	
Common stock - $.001 par value; authorized 150,000,000 shares, issued and outstanding 67,654,921 shares and 59,488,026 shares respectively	67,655
Additional paid-in capital	26,552,288
Accumulated deficit	(28,160,018)
STOCKHOLDERS' DEFICIENCY	(1,540,075)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 3,422,787

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EAUTOCLAIMS, INC.

STATEMENTS OF OPERATIONS

	THREE-MONTH PERIOD ENDED JANUARY 31, 2006	THREE-MONTH PERIOD ENDED JANUARY 31, 2005	SIX PERI JAN

	(UNAUDITED)	(UNAUDITED)	(UNA
Revenue:			
Collision repairs management	$ 2,622,441	$ 2,699,251	$ 5
Glass repairs	61,337	107,340	
Fleet repairs management	226,436	191,861	
Fees and other revenue	723,842	527,117	1
Gain on sale of building	756,943		
TOTAL REVENUE	4,390,999	3,525,569	8
Expenses:			
Claims processing charges	2,458,586	2,674,492	5
Selling, general and administrative	1,814,826	1,326,602	3
Depreciation and amortization	113,867	133,104	
TOTAL EXPENSES	4,387,279	4,134,198	8
NET INCOME (LOSS)	$ 3,720	$ (608,629)	$
ADJUSTMENT TO NET INCOME (LOSS) TO COMPUTE INCOME (LOSS) PER COMMON SHARE:			
PREFERRED STOCK DIVIDENDS		(19,273)	
DIVIDEND TO UNIT HOLDERS		(554,051)	
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ 3,720	$ (1,181,953)	$
INCOME (LOSS) PER COMMON SHARE			
BASIC	$ --	$ (0.03)	$
DILUTED	$ --	$ (0.03)	$
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
BASIC	65,794,075	37,681,925	64
DILUTED	75,292,746	37,681,925	64

EAUTOCLAIMS, INC.

STATEMENT OF STOCKHOLDERS' DEFICIENCY

SIX MONTH PERIOD ENDED JANUARY 31, 2006 (UNAUDITED)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACC D
BALANCE AT JULY 31, 2005	59,488,026	59,488	25,081,358	(27
Issuance of common stock upon exercise of options	733,437	733	14,241	
Issuance of common stock for interest	5,651	6	898	

Issuance of common stock for employee services	1,774,768	1,775	344,626	
Dividends issued to unit holders in the form of warrants and shares	2,162,860	2,163	473,666	
Issuance of common stock upon exercise of warrants	1,371,429	1,371	218,058	
Conversion of convertible note to equity	1,718,750	1,719	273,281	
Issuance of warrants in conjunction with note payable			9,000	
Issuance of common stock in conjunction with building transaction	400,000	400	115,600	
Vesting of options granted to employees			21,560	
Net Loss				
BALANCE AT JANUARY 31, 2006	67,654,921	67,655	26,552,288	(28

EAUTOCLAIMS, INC.

STATEMENTS OF CASH FLOWS

	SIX-MONTH PERIOD ENDED JANUARY 31, 2006	SI PER JA
	(UNAUDITED)	(UN
Cash flows from operating activities:		
Net loss	$ (482,360)	$(1
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	236,151	
Gain on sale of building	(756,943)	
Common stock issued for services	346,401	
Common stock issued for interest	904	
Bad debts	(15,000)	
Vesting of options granted to employees	21,560	
Changes in operating assets and liabilities		
Accounts receivable	(25,131)	
Prepaid expenses and other current assets	(50,203)	
Accounts payable and accrued expenses	92,964	

Net cash used in operating activities	(631,657)	
Cash flows from investing activity:		
Purchases of property and equipment	(141,687)	
Proceeds from sale of building	819,634	
Payments from related parties	6,231	
Principal payments on stockholder loans		
Net cash provided by (used in) investing activities	684,178	
Cash flows from financing activities:		
Proceeds from exercise of warrants	219,429	
Proceeds from exercise of options	14,974	
Proceeds from sale of common stock		
Principal payments on capital lease	(46,773)	
Proceeds from note payable		
Payments on redemption of preferred stock		
Net cash provided by financing activities	187,630	
Net increase in cash	240,151	
Cash at beginning of period	306,280	
Cash at end of period	$ 546,431	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 31,031	$
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of debentures to common stock	$ 275,000	
Issuance of common stock for preferred stock dividends		$
Accrued dividends on preferred stock		$
Gross proceeds from sale of equity		
Less costs paid to raise equity		
Net proceeds from sale of equity	$ --	$
Warrant liability		
Shares and warrants issued to unit holders	$ 475,829	
Equipment acquired by capital lease	$ 19,567	
Fair value of warrants issued in conjunction with bridge loan	$ 9,000	

EAUTOCLAIMS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited financial statements contain all adjustments (consisting only of those of a normal recurring nature) necessary to present fairly the financial position of eAutoclaims, Inc. as of January 31, 2006 and its results of operations and cash flows for the three and six-month periods ended January 31 2006 and 2005. Results of operations for the three and six-month periods ended January 31, 2006 are not necessarily indicative of the results that may be expected for the year ending July 31, 2006.

The Company derives revenue primarily from collision repairs, glass repairs and fleet repairs. Revenue is recognized when an agreement between the Company and its customer exists, the repair services have been completed, the Company's revenue is fixed and determinable and collection is reasonably assured.

The Company records revenue gross when the Company is the primary obligor in its arrangements, the Company has latitude in establishing price, the Company controls what services are provided and where the services will take place, the Company has discretion in supplier selection, the Company is involved in the determination of product or service specifications and the Company has credit risk. The Company records revenue net when situations occur whereby the supplier (not the Company) is the primary obligor in an arrangement, the amount the Company earns is fixed or the supplier (and not the Company) has credit risk.

As shown in the financial statements, the Company has suffered recurring losses from operations, has a stockholders' deficiency and a working capital deficiency. The Company has been able to raise additional funds from debt and equity offerings and management believes it can continue to do so in the future. During the year ending July 31, 2006 the Company expects to realize increased revenue from agreements signed in prior years. In addition, the Company has secured a noncancellable line of equity from a shareholder in the amount of $2,000,000.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123R (revised 2004), "Share-Based Payment" which revised Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based compensation transactions using APB 25 and requires that the compensation costs relating to such transactions be recognized in the statement of operations. The revised statement has been implemented for the Company effective August 1, 2005.

The implementation of FAS No. 123R had the following effect on the statement of operations for six-month period ended January 31, 2006.

	2006
Net loss before stock option expense	$(460,800)
Deduct stock option expense	(21,560)

Net loss as reported	$(482,360)

NOTE 1 - BASIS OF PRESENTATION (CONTINUED)

The implementation of FASB 123R is not expected to have an impact on the basic or diluted earnings per share reported on the statement of operations.

For the 2005 fiscal year the Company accounted for its employee incentive stock option plans using the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No 25, "Accounting for Stock Issued to Employees." Had the Company determined compensation expense based on the fair value at the grant dates for those awards consistent with the method of SFAS 123, the Company's net income (loss) per share would have been increased to the following pro forma amounts:

Six-month period ended January 31,	2005
Net loss as reported	$(1,154,172)
Deduct total stock based employee compensation expense determined under fair value based methods for all awards	(33,465)
Pro forma net loss	$(1,187,637)
Basic and diluted net loss per share as reported	$ (.05)
Pro forma and diluted basic loss per share	$ (.03)

Effective August 1, 2005, the Company adopted FAS No. 123R utilizing the modified prospective method. Under the modified prospective method, the provisions of FAS No. 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, measured under the original provisions of FAS 123, "Accounting for Stock Based Compensation", shall be recognized in net earnings in the periods after the date of adoption.

Stock based compensation consists primarily of stock options. Stock options are granted to employees at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Stock options generally vest over three years and have a term of ten years. Compensation expense for stock options is recognized over the vesting period for each separately vesting portion of the stock option award.

The fair value for options issued prior to August 1, 2005 was estimated at the date of grant using a Black-Scholes option-pricing model. The risk free rate was derived from the U.S. Treasury yield curve in effect at the time of the grant. The volatility factor was determined based on a study done by an independent securities valuation firm. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

NOTE 1 - BASIS OF PRESENTATION (CONTINUED)

A summary of the status of the company's options for the six months ended January 31, 2006 is as follows:

	January 31, 2006			
	Shares	Weighted Avg Price	Remaining Life	Aggregate Intrinsic Value
Balance at beginning of year	5,197,042	$0.37		
Granted	102,500	$0.25		
Cancelled or Expired	(436,151)	$1.17		
Exercised	(733,437)	$0.20		
Outstanding at end of period	4,129,954	$0.38	2.23	568,419

NOTE 2 - PER SHARE CALCULATIONS

Basic loss per share is computed as net loss available to common stockholders' divided by the weighted- average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options, restricted stock awards, warrants and convertible securities. As of January 31, 2006 and 2005, 29,980,455 and 26,493,938 options and warrants, respectively, were excluded from the diluted loss per share computation, as their effect would be anti-dilutive.

NOTE 3 - PURCHASE AND SALE OF BUILDING

On December 9, 2005 the Company completed a transaction in which it purchased its Oldsmar facility under a purchase agreement completed with the then current landlord, and immediately sold the facility to a third party. As part of the agreement to purchase the facility, the Company issued the then current landlord 400,000 shares of the Company's common stock. The net result of the purchase and sale transaction, after deducting applicable expenses, was a gain to the Company of $756,943. As part of the agreement to sell the facility, the Company signed a new 7 year lease with the new owner, which runs through December, 2012.

NOTE 4 - NOTE PAYABLE

The Company entered into temporary financing through a $500,000 bridge loan from an investor on October 26, 2005 in order to secure additional working capital. The loan was repaid in full, along with $9,792 of interest, from the proceeds of the sale of the Oldsmar facility which occurred in December, 2005.

NOTE 5 - EQUITY TRANSACTIONS

As part of the provisions of the sales of equities in March through May of 2004 there is a requirement to meet certain claims volume targets under the ADP Co-Marketing Agreement. If we fail to meet those targets, up to 100% of the original Units (as defined in that document) would have to be issued to those 2004 investors for no additional consideration (True up). In order to help resolve this open issue, in December 2004 we offered the 2004 investors 50% of the total potential True up Units in exchange for releasing the Company from the remaining target volume commitment.

On August 1, 2005, the Company evaluated the claims volume that it had received from customers generated by the ADP Claims Service Group Co-marketing agreement as specified in the subscription agreements from the 2004 capital raise. In accordance with those agreements, the Company did not meet the minimum volume requirements and therefore had to issue 2,162,860 Units (one share of common stock and one, 3-year, $0.16 warrant to purchase a common share) to the investors who did not accept our December 2004 offer. Issuing these units resulted in the Company recording a stock dividend of approximately $476,000.

During the six-months ended January 31, 2006 two investors exercised warrants to purchase 1,371,429 shares of common stock with a strike price of $0.16 per share. The Company received $219,429 from these transactions.

On August 15, 2005 the holder of the convertible debenture converted the note into 1,718,750 shares of the Company's common stock. In addition, interest on the note from the end of July 2005 until August 15, 2005 was paid to the holder of the note with 5,651 shares of the Company's common stock.

During the six months ended January 31, 2006 the Company issued a total of 1,774,768 shares of common stock in exchange for services. A total of 200,000 shares of stock were issued to an officer as a result of a modification to his employment contract. A total of $30,000 was charged to expense during this time period, which was approximately equal to the fair market value of the shares at the time of issuance. On November 8, 2005 the Board of Directors gave approval for, and the Company subsequently issued, 1,000,000 shares of the Company's common stock to the Chairman of the Board to compensate him for his past services and his role as Chairman. The Company expensed a total of $190,000 for these shares, which was equal to the fair market value of the shares at the grant date. In addition, the Board also approved future compensation for the Chairman of the Board to include the same annual retainer of $25,000 to be paid in shares of the Company's common stock as well as the same quarterly stock compensation currently paid to non-employee directors. The Company issued 574,768 shares of common stock to three non-employee directors and the Chairman of the Board in exchange for their services. Of this total, 443,576 shares were issued for services to be rendered for fiscal year 2006. These shares are being expensed over the year as they are earned. During the six months ended January 31, 2006 the Company expensed $40,093, or 190,919 shares, which was approximately equal to the fair market value of the shares when earned. In addition, a total of 131,192 shares were issued to these same directors and the Chairman of the Board for services rendered during the six months ended January 31, 2006. A total of $33,250 was charged to expense during this time period, which was approximately equal to the fair market value of these shares when earned.

On November 8, 2005 the Board voted to adjust the strike price from $0.35 to $0.16 on 1,000,000 warrants owned by an investor, who is also a director, in order to match the strike price of other investor's warrants issued under the anti-dilution provisions of their agreements.

On November 29, 2005 the Company issued 400,000 shares of common stock in the name of its landlord at that time as part of an agreement to facilitate the sale of the building (See Note 3: Purchase and Sale of Building). These shares were part of the building sale transaction and were delivered to the landlord at the December 9, 2005 closing.

During the six months ended January 31, 2006 options to purchase a total of 733,437 shares of the Company's common stock were exercised. Of this total, 200,000 options were exercised by a director, 100,000 by an officer and director, 250,000 by two officers combined, 120,000 by a consultant and 4,104 by an employee all with a strike price of $0.01. In addition, a consultant and two employees exercised a total of 59,333 options to purchase shares of the Company's common stock with exercise prices ranging from $0.13 to $0.15 per share.

In October 2005, the Company issued 200,000 warrants with a strike price of $0.20 to an investor for providing the Company with bridge loan financing and an additional 250,000 warrants with a strike price of $0.20 were issued to two finders for helping to facilitate the transaction. The Company valued these warrants at $0.02 each, utilizing a warrant valuation provided by an independent investment banker, and recorded a charge of $9,000 for these warrants during the period ended October 31, 2005.

NOTE 6 - SUBSEQUENT EVENT

On February 28, 2006 an investor exercised 32,500 warrants to purchase the Company's stock with an exercise price of $0.16 per share. The Company received $5,200 from this transaction.

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

The statements contained in this Report on Form 10-Q, that are not purely historical, are forward-looking information and statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include statements regarding our expectations, intentions, or strategies regarding future matters. All forward-looking statements included in this document are based on information available to us on the date hereof. It is important to note that our actual results could differ materially from those projected in such forward-looking statements contained in this Form 10-Q. The forward-looking statements contained herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments regarding, among other things, our ability to secure financing or investment for capital expenditures, future economic and competitive market conditions, and future business decisions. All these matters are difficult or impossible to predict accurately and many of which may be beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this form 10-Q will prove to be accurate.

GENERAL
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eAutoclaims provide Internet based collision claims services for automobile insurance companies, Managing General Agents (MGA) and third party claims administrators (TPA) and self-insured automobile fleet management companies. Our business strategy is to use the Internet to streamline and lower the overall costs of automobile repairs and the claims adjustment expenses of our clients. We believe that our proprietary web-based software products and services make the management of collision repairs more efficient by controlling the cost of the repair and by facilitating the gathering and distribution of information required in the automobile repair process.

eAutoclaims controls the vehicle repair process from the reporting of the accident through the satisfactory repair of damage. We bring together and coordinate the activities of the insurance company, its insured, and the various parties involved in evaluating a claim, negotiating the cost of the repair, and performing necessary repair services. We have contracted with approximately 2700 body shops throughout the United States to repair vehicles. These shops, referred to as our "provider network," provide us 10% to 15% discount on the vehicle repair because of the volume of repairs we provide to them. Because we audit every line of every repair estimate and because we share a portion of the volume discount with our customer, we are able to lower the average cost being paid by our customer.

Our product, eJusterSuite, provides both outsourcing and ASP (application service provider) solutions. The outsourcing solution requires eAuto personnel to audit and coordinate the vehicle repair. The ASP solution allows the customer to use our technology independent of our personnel; thereby, providing a solution for the largest insurance companies that already have the staff to process and control the claims process, while paying us a fee for every transaction that is run through our system. The ASP model provides margin without the associated personnel and operating costs.

eJusterSuite also builds in service partners that can provide the needed services such as Independent adjustors, car rentals, tow trucks and accident reporting by only clicking an Icon that is added to the screen of the customer's desk top in the current system. The system automatically provides the service partner the information already in our system via the Internet. The service partner will systematically provided the requested services and pay us a fee for each assignment they receive through our system. This process significantly reduces the customers' time and cost to process claims as well as reduces the number of mistakes that occur in a manual process. In many cases it also reduces the cost of the service partner to obtain and process the transaction, even after paying our transaction fee. This revenue provides additional margin without the additional personnel and operation costs.

For our outsourcing customers, we approve all repair shops for inclusion in our network and determine which repair shop will ultimately perform the repairs. We receive a discount, ranging from 10% to 15%, from repair facilities that are members of our provider network. The revenues generated from the vehicle repair facilities through our provider network accounted for 81% and 80% of the revenue for the six and three-months ended January 31, 2006. We are paid on a per claims basis from our insurance and fleet company customers for each claim that we process through our system. These fees vary from $10 to $65 per claim depending upon the level of service required. For the six and three-months ended January 31, 2006, 19% and 20%, respectively, of the revenue has been received from claims processing fees and other income. Other income consists mostly of the sale of estimating software, fees from service partners (ASP fees) and subrogation income.

eAutoclaims has focused more resources on marketing products whereas eAutoclaims serves in the capacity of an Application Service Provider (ASP). eAutoclaims applications are user-friendly, customizable to meet the client's unique workflow, and are scalable. The applications currently offered under the ASP category include eJusterSuite, AuditPro, the Appraisal Management System, eDataTransfer and several custom applications for automotive collision and auto glass industry repair providers.

eAutoclaims recently released AuditPro, a rules-based estimate auditing application that has been well received by existing clients and prospects, which has allowed eAutoclaims to grow our high margin ASP revenue. Large carriers can use AuditPro as a stand-alone model that can be integrated within their organization without the need for significant initial cost and without materially changing their internal workflow.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and the results of our operations are based upon our financial statements and the data used to prepare them. The Company's financials have been prepared in accordance with accounting principles generally accepted in the United States. On an ongoing basis we re-evaluate our judgments and estimates including those related to revenues, bad debts, long-lived assets, and income taxes. We base our estimates and judgments on our historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Our estimates are guided by observing the following critical accounting policies.

REVENUE RECOGNITION

The Company derives revenue primarily from collision repairs, glass repairs and fleet repairs.

Revenue is recognized when an agreement between the Company and its customer exists, the repair services have been completed, the Company's revenue is fixed and determinable and collection is reasonably assured.

The Company records revenue gross in the areas of collision and fleet repairs. It also records at gross in certain glass repair transactions. Revenue is recorded at gross in these areas when:

- The Company is the primary obligor in its arrangements. The Company is responsible for the quality of the repair and must satisfy the customer if the body shop fails to repair the vehicle properly.

- The Company has latitude in establishing price. The price is established based on the Company's audit of the repair estimate submitted by the repair facility. The repair facility cannot begin the repair until an agreed upon price is established between the facility and the Company for the repair.

- The Company controls what is repaired with their contracted shops, as they audit the estimate submitted by the repair facility. The Company must agree that the repair is reasonable and necessary before the repair facility is allowed to proceed with the work being requested.

- The Company has discretion in supplier selection. Through the use of software, the Company prioritizes which repair facility is used based on the efficiency and effectiveness of the repair facility, and

- The Company has credit risk. The Company is responsible to pay the repair facility even if the customer does not pay for the repair.

The Company records revenue net of the repair costs in certain glass transactions when the supplier, not the Company, is the primary obligor in an arrangement, the amount the Company earns is fixed or the supplier has credit risk. This occurs when the repair has been performed before it is referred to the Company. When the Company receives notice of the transaction, we call the glass repair facility to ask them to become part of our network and to negotiate a better price on the repair. If the Company is able to negotiate a better price for the customer we keep a portion of the added discount. In that situation the revenue is recorded net of the repair costs even though the Company pays for the entire claim and are reimbursed by the insurance company, since we did not have the risk of loss and are not responsible for the repair.

The revenue generated from a co-marketing agreement with the ADP Claims Services Group (ADP) will be recorded net of the repair costs because in the agreement the Company is performing a fee for service. The insurance company is the customer of ADP, who will be collecting the revenue and paying the shop.

The Company maintains an allowance for doubtful accounts for losses that they estimate will arise from the customers' inability to make required payments. Collectability of the accounts receivable is estimated by analyzing historical bad debts, specific customer creditworthiness and current economic trends. At January 31, 2006 the allowance for doubtful accounts was approximately $193,000.

ACCOUNTING FOR INCOME TAXES

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While we consider historical levels of income, expectations and

risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. We have recorded valuation allowances against our deferred tax assets of $9,996,000 at January 31, 2006. The deferred tax asset consists mainly of net operating losses previously not realized and stock compensation currently not deductible. The valuation allowance was necessary because the use of these deductions is not reasonably assured since the company has not reached profitability.

VALUATION OF LONG-LIVED ASSETS

The Company identifies and records impairment on long-lived assets, including goodwill, when events and circumstances indicate that such assets have been impaired. The Company periodically evaluates the recoverability of its long-lived assets based on expected undiscounted cash flows, and recognizes impairment, if any, based on expected discounted cash flows. Factors we consider important which could trigger an impairment review include the following:

- Significant negative industry trends
- Significant underutilization of the assets
- Significant changes in how we use the assets of our plans for their use.

MANAGEMENT'S OPERATING PLAN

Management has taken specific actions to mitigate the effects of the events of fiscal 2005, which included the loss of revenue from our first and second largest customers and the longer than expected time taken to implement the national Sales and Marketing efforts associated with the ADP Co-Marketing agreement. Although this delay resulted in the company incurring additional expenses for carrying support personnel, we have begun to feel the effects of new sales and are realizing the expected return on investment in the way of new long-term sales contracts and new pilot agreements, and more specifically the rollout of Continental Casualty Company (C N A Insurance) that began in late July 2005 and the utilization of our shop network by C N A that began in late October 2005. We have also entered into a new long-term contract with Safe Auto Insurance, a large Insurance client based in Ohio who has been rolling out their business on our shop network.

Specifically, management is taking the following actions that are expected to positively impact the Company's financial position in fiscal 2006:

- ADP Co-Marketing Agreement - Management continues to focus on the sales development of the ADP Co-Marketing Agreement, which is part of the Company's Special Markets Division. The most material development is the rollout of Continental Casualty Company (C N A Insurance), a top 20 insurance carrier that is described above and the rollout of Safe Auto Insurance. Once both rollouts are completed, the Company expects meaningful improvement in its operating results. As these new clients mature they will become eAutoclaims largest clients.

  The Company was also notified in September 2005 that it had been selected by a second top 20 insurance client through the ADP Co-marketing agreement. Although the process is still in the early stages, the

  Company expects rollout to be completed in fiscal 2006 and meaningful revenues to be produced by the completion of the fourth quarter of fiscal 2006.

  Since August 2004 the ADP agreement has produced twenty signed pilot agreements with insurance Companies or third party administrators, and has produced seven annual agreements after the pilot periods were completed. In addition, other than the two top 20 insurance clients listed above, there are other accounts in the sales cycle that are expected to mature into new accounts. While there are no guarantees that these pilot agreements will mature into annual or multi-year contracts, maturing these accounts past the pilot stage would produce significant claims volume. The Company would share the associated revenues with ADP Claims Services Group.

- Rolling out Higher Margin Product Lines - Management continues to make progress in building our operating margins by focusing on higher margin products. The results have been an increase in gross margin to 31% for the first six months of fiscal 2006 as compared to 23% from the same reporting period last year. While future reports on margin will be influenced by the revenue recognition related to the ADP Co-Marketing Agreement, this quarter still reflects the greatest impact coming from new high margin sales. Management is leveraging internally developed ASP/technologies that will allow other companies in related industries to significantly reduce labor costs and improve operating efficiencies, as is the case with the Company's recently announced new product "Audit Pro", a programmatic electronic estimate auditing tool. Many of these technologies have already been implemented in the Company's operating processes and have shown themselves to be of significant value. By modifying the interface to these technologies, the Company can produce significant click fee revenue without adding significant operating costs. The target market for these technologies will include a wide range of organizations, including the largest (tier 1) insurance companies. The Company's management believes this additional product line will result in a greater growth in high volume, high margin revenues that will have a meaningful impact to the Company's bottom-line. While there are no guarantees these transactions or that the new business will mature, management believes this will be a growth market for the Company in the future.

- Direct Sales Channel - While the Company has focused much of its efforts on the building of clients through the ADP Co-Marketing agreement for our Collision Management product, the company continues to market its services to the insurance industry through its direct sales channel. The company continues to make sales progress in this area. One specific new client is a meaningful size carrier who entered into an annual contract and is testing our product in a district office, utilizing our network of shops and traditional eJusterSuite product. While this test is in early stages and there are no guarantees the client will expand the program, the early test results have been very positive. Should this test continue to yield such results, the client would likely roll the program out to all of its district offices over the course of the calendar year 2006. The potential sales volume and the full revenues of our direct sales channel model would make this account's contribution to profit the most material of all current clients under contract, inclusive of our clients from the ADP Co-Marketing agreement.

- Raising Additional Capital - In December, 2005 the Company completed a transaction where it purchased the building it was leasing and immediately sold the facility to a third party. This transaction resulted in the Company netting over $800,000 in cash. The Company has additional avenues available to raise capital, one of which is the exercising of currently outstanding warrants. We believe that a substantial number of the outstanding warrants will be exercised in the next 90 days, resulting in a significant influx of capital.

Based on the early results of the ADP Co-Marketing agreement and the expansion of the Company's ASP/Technology sales, we are required to build current staff levels to manage the growth in business. The growth in staff will negatively affect our operating results until the business matures, however we are

currently experiencing the anticipated growth. We will need to mature the new accounts to their full potential, which is expected to occur by the end of the fiscal year. However, there are no guarantees this new expected business will materialize; therefore the Company has developed a contingency plan in the event these events do not occur. If necessary, the Company would reduce staff positions currently being carried for the expected new business from the ADP Co-Marketing agreement. In addition, our management team would also take a second round of salary reductions ranging from 5% to 15%. The senior management team would once again take the highest percentage reductions.

RESULTS OF OPERATIONS

For the six and three-months ended January 31, 2006 compared to the six and three-months ended January 31, 2005.

Revenue

Total revenue, excluding gain on the sale of the building of $756,943, for the six-months ended January, 31, 2006 was $7.4 million, which is a 3% decrease from the $7.6 million of revenue for the six-months ended January 31, 2005. For the three months ended January 31, 2006 total revenue, excluding gain on the sale of the building of $756,943, was $3.6 million, which is a 3% increase over the $3.5 million for the three months ended January 31, 2005. During the six and three-months ended January 31, 2006 we derived 51% of our revenue from one customer. The contract with this customer will expire in April, 2006. The business associated with this client has been sold by the client to a third party. We have been working with the new owner regarding an extension of the old contract or a new contract. While we do not anticipate any short term loss of business from this client and expect the Company will receive an extension on the servicing contract, we cannot guarantee that we will be able to secure a long term contract with the new client, or that any new contract will be on more favorable terms.

Collision repair management revenue decreased 10% to $5.4 million for the six-months ended January 31, 2006 from $6.0 million for the six-months ended January 31, 2005. For the three-months ended January 31, 2006, collision management revenue was $2.6 million, which is a 3% decrease from the $2.7 million for the three-months ended January 31, 2005. The decrease in revenue is partially the result of a reduction by consumers in the usage of network shops. Also included in the collision management revenue is the revenue earned through repairs processed for clients acquired as a result of the ADP Co-Marketing agreement. As previously stated, this revenue is recorded at net, which significantly reduces the amount of gross revenue reported, although the overall gross margin is increased as a result of not having to pay the shops for the work performed. During the six and three-months ended January 31, 2006 we earned over $248,000 and $148,000, respectively, in net revenue from clients acquired as a result of the agreement with ADP. This additional revenue, which increased 59% in the quarter ended January 31, 2006 over the quarter ended October 31, 2005, resulted in the gross margin percent for collision management to increase from 10% to 14% for the-six months ended January 31, 2006, not including fees. The Company anticipates continued meaningful growth in new clients as a result of its co-marketing agreement with ADP Claims Services Group. However, because of the competitive nature of our business and the uncertainty of bringing on enough business to offset the loss of business, we may be unable to increase revenues quickly enough to return to profitability. However, the company's management will cut expenses in the event we are unable to obtain profitability.

Glass repair revenues decreased by approximately $112,000 from approximately $268,000 for the six months ended January 31, 2005 to approximately $156,000 for the six months ended January 31, 2006. For the three months ended January 31, 2006 glass revenues were $61,000 compared to $107,000 for the three months ended January 31, 2005. This decrease is primarily due to the reduction in claim volume for our existing customers. The Company continues to pursue additional glass customers as the glass repair business complements our core business and allows our customers to use a single source for all their repair needs.

Fees and other revenue increased by approximately $354,000 from approximately $1,081,000 for the six months ended January 31, 2005 to approximately $1,435,000 for the six months ended January 31, 2006. For the three months ended January 31, 2006 fees and other revenue increased approximately $197,000 to approximately $724,000 from approximately $527,000 for the three months ended January 31, 2005. This increase is primarily a result of additional revenue earned from current clients by taking increased numbers of first notice loss reports as a result of damages sustained by consumers due to the hurricanes of 2005. Total first notice of loss revenue was $292,000 higher for the six-months ended January 31, 2006 over the six-months ended January 31, 2005. We also experienced a 20% growth in our click fee revenue for the six months ended January 31, 2006 compared to the six months ended January 31, 2005. This growth was primarily from our regular click fee assignments, however we also had increases in our Audit Pro revenue as well as revenue from assignments to our network of independent appraisers. Revenue earned from the sale of estimatic software increased from approximately $347,000 for the six-months ended January 31, 2005 to approximately $380,000 for the six-months ended January 31, 2006.

Claims Processing Charges

Claims processing charges include the costs of collision and glass repairs paid to repair shops within our repair shop network. Claims processing charges for the six-months ended January 31, 2006 were approximately $5.1 million, or 69% of total revenue, compared to approximately $5.9 million, or 77% of total revenue for the six-months ended January 31, 2005. For the three months ended January 31, 2006, claims processing charges were approximately $2.5 million, or 68% of total revenue compared to approximately $2.7 million, or 76% of total revenue for the three-months ended January 31, 2005. Claims processing charges are primarily the costs of collision repairs paid by the Company to its collision repair shop network. The decrease in claims processing charges as a percentage of total revenue is a result of the change in the product mix with a higher percentage of higher margin products as compared to lower margin products. This also includes the growth in click fees, which are fees charged when a client uses our technology that has little to no associated cost of sale.

We are dependent upon our third party collision repair shops for insurance claims repairs. eAutoclaims currently has approximately 2,700 affiliated repair facilities in its network for claims repairs. We electronically and manually audit individual claims processes to their completion using remote digital photographs transmitted over the Internet. However, if the number of shops or the quality of service provided by collision repair shops fall below a satisfactory level leading to poor customer service, this could have a harmful effect on our business.

Selling, General and Administrative (SG&A) Expenses

SG&A expense is mainly comprised of salaries and benefits, facilities related expenses, telephone and internet charges, legal and other professional fees, and travel expenses. SG&A expenses for the six and three-months ended January 31, 2006 were $3.3 million and $1.8 million, respectively. This

is compared to approximately $2.7 million and $1.3 million for the six and three-months ended January 31, 2005. Payroll and benefit related expenses for the six and three-months ended January 31, 2006 totaled approximately $2.1 million and $1.1 million respectively. This is compared to $1.7 million and $.9 million for the six and three months ended January 31, 2005. The increase is primarily the result of increases in health care costs, non-cash compensation expenses as provided for in management contracts and of increasing staff in preparation for the significant new business expected to be forthcoming as a result of new clients acquired through the ADP Co-Marketing Agreement. In response to the increasing costs of health care and insurance, the Company signed a PEO contract, effective in February 2006, with ADP TotalSource. The Company anticipates significant savings, primarily in health care costs, will be realized as a result of the reduced costs for these services according to the terms of the contract.

SG&A expenses also include non-cash charges of approximately $572,000 and $406,000 for the six and three-month period ended January 31, 2006. These non-cash charges include approximately $317,000 and $228,000, respectively, of common stock issued to pay fees to directors, approximately $115,000 and $52,000, respectively, for common stock that is to be issued to management according to terms of their contracts and approximately $1,000 of common stock issued for accrued interest associated with the conversion of debt. In addition, charges of approximately $22,000 and $10,000, respectively, were taken as a result of implementing FAS123R (revised 2004), which requires expensing of stock options as they become vested. The non-cash charges of approximately $133,000 and $53,000 for the six and three-months ended January 31, 2005 include approximately $120,000 and $46,000, respectively, of common stock issued to pay fees to directors and approximately $13,000 and $7,000, respectively, of common stock issued to pay interest associated with the conversion of debt.

Also included in the SG&A is interest expense related to capital leases and notes payable. For the six and three months ended January 31, 2006, this interest expense totals approximately $31,000 and $13,000 respectively. This compares to interest expense of approximately $21,000 and $10,000, respectively for the six and three months ended January 31, 2005. Included in the interest expense for 2006 is approximately $9,800 for interest on the note for a bridge loan which the Company re-paid in full in December, 2005.

Purchase and Sale of Building

In December 2005 the Company completed a transaction where it purchased the facility it had been renting and immediately sold the facility to a third party buyer. As a result of this transaction, the Company realized a gain of approximately $756,000. The Company signed a new 7 year lease with the new owner, in conjunction with the transaction, which will result in additional rent expense of approximately $3,000 per month. The monthly rent for 2006 is $21,694.

Depreciation

Depreciation of property and equipment of approximately $236,000 and $114,000 was recognized in the six and three-months ended January 31, 2006. This is compared to approximately $267,000 and $133,000 for the six and three-months ended January 31, 2006.

Net Income/Loss

Net loss for the six-months ended January 31, 2006 totaled approximately $482,000 compared to a net loss of approximately $1,154,000 for the six-months ended January 31, 2005. Net income for the three months ended January 31, 2006 was approximately $4,000, which includes a gain on the sale

of the Oldsmar facility of approximately $756,000. This is compared to a net loss of approximately $608,000 for the three months ended January 31, 2005. Included in these numbers are non-cash expenses of approximately $808,000 and $520,000, including depreciation charges, for the six and three months ended January 31, 2006 compared to $400,000 and $186,000 for the six and three months ended January 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2006, we had approximately $546,000 in cash. This is an increase of approximately $240,000 from July 31, 2005. We have a working capital deficiency of approximately $3.4 million compared to a deficiency of approximately $3.6 million as of January 31, 2005. The primary source of our working capital during the six-months ended January 31, 2006 was from cash generated by operations and the sale of our Oldsmar facility, from which we netted over $800,000. The Company has additional avenues available to raise capital, one of which is the exercising of currently outstanding warrants. We believe that a substantial number of the outstanding warrants will be exercised in the next 90 days, resulting in a significant influx of capital. However, there is no assurance that we will be able to continue to provide cash through other financing sources.

We believe that cash generated from operations and proceeds from the sale of our securities will be sufficient to meet our working capital requirements for the next 12 months. This estimate is a forward-looking statement that involves risks and uncertainties. The actual time period may differ materially from that indicated as a result of a number of factors so that we cannot assure that our cash resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements for this period or that we will be able to generate capital from the sale of our securities.

DEBT AND CONTRACTUAL OBLIGATIONS

Our commitments for debt and other contractual arrangements as of January 31, 2006 are summarized as follows:

	Years ending January 31,					
	2007	2008	2009	2010	2011	Thereafter
Property lease	261,000	269,000	276,000	285,000	294,000	587,000
Equipment lease	93,000	71,000	4,000			
Employee compensation	615,000	670,000				
	969,000	1,010,000	280,000	285,000	294,000	587,000

The Company leases equipment and facilities under non-cancelable capital and operating leases expiring on various dates through 2012. The main operating lease consists of a 7-year lease for 30,000 square feet of a 62,000 square foot facility. This lease, which was signed as part of the agreement to sell the facility, runs through December, 2012. The lease agreement stipulates that the

Company's rent will increase at the rate of 3% per year through the end of the agreement.

Inflation

We believe that the impact of inflation and changing prices on our operations since the commencement of our operations has been negligible.

Seasonality

The Company typically experiences a slow down in revenue during November and December each year. Consumers tend to delay repairing their vehicles during the holidays.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currently, we do not have any significant market risk. Market risk is the potential loss arising from adverse change in market rates in prices such as foreign currency exchange and interest rates. We do not have any foreign currency exchange rate exposure. We do not have any long-term debt from financial institutions. We do not hold any derivatives or other financial instruments for trading or speculative purposes. Our financial position is not affected by fluctuations in currency against the U.S. dollar since all of our sales and assets occur within the United States.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of January 31, 2006. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to eAutoclaims, Inc., and was made known to them by others within those entities, particularly during the period when this report was being prepared.

The Company's management, including the principal executive officer and principal financial officer, does not expect that the Company's disclosure controls and procedures will prevent all error and fraud. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations

include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

b) Changes in internal controls over financial reporting.

In addition, there were no significant changes in our internal control over financial reporting that could significantly affect these controls during the quarter ended January 31, 2006. We have not identified any significant deficiency or materials weaknesses in our internal controls, and therefore there were no corrective actions taken.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS

As part of the provisions of the sales of equities in March through May of 2004 there is a requirement to meet certain claims volume targets under the ADP Co-Marketing Agreement. If we fail to meet those targets, up to 100% of the original Units (as defined in that document) would have to be issued to those 2004 investors for no additional consideration (True up). In order to help resolve this open issue, in December 2004 we offered the 2004 investors 50% of the total potential True up Units in exchange for releasing the Company from the remaining target volume commitment.

On August 1, 2005, the Company evaluated the claims volume that it had received from customers generated by the ADP Claims Service Group Co-marketing agreement as specified in the subscription agreements from the 2004 capital raise. In accordance with those agreements, the Company did not meet the minimum volume requirements and therefore had to issue 2,162,860 Units (one share of common stock and one, 3-year, $0.16 warrant to purchase a common share) to the investors who did not accept our December 2004 offer. Issuing these units resulted in the Company recording a stock dividend of approximately $476,000.

During the six-months ended January 31, 2006 two investors exercised warrants to purchase 1,371,429 shares of common stock with a strike price of $0.16 per share. The Company received $219,429 from these transactions.

On August 15, 2005 the holder of the convertible debenture converted the note into 1,718,750 shares of the Company's common stock. In addition, interest on the note from the end of July 2005 until August 15, 2005 was paid to the holder of the note with 5,651 shares of the Company's common stock.

During the six months ended January 31, 2006 the Company issued a total of 1,774,768 shares of common stock in exchange for services. A total of 200,000 shares of stock were issued to an officer as a result of a modification to his employment contract. A total of $30,000 was charged to expense during this time period, which was approximately equal to the fair market value of the shares at the time of issuance. On November 8, 2005 the Board of Directors gave approval for, and the Company subsequently issued, 1,000,000 shares of the Company's common stock to the Chairman of the Board to compensate him for his past services and his role as Chairman. The Company expensed a total of $190,000 for these shares, which was equal to the fair market value of the shares at the grant date. In addition, the Board also approved future compensation for the Chairman of the Board to include the same annual retainer of $25,000 to be paid in shares of the Company's common stock as well as the same quarterly stock compensation currently paid to non-employee directors. The Company issued 574,768 shares of common stock to three non-employee directors and the Chairman of the Board in exchange for their services. Of this total, 443,576 shares were issued for services to be rendered for fiscal year 2006. These shares are being expensed over the year as they are earned. During the six months ended January 31, 2006 the Company expensed $40,093, or 190,919 shares, which was approximately equal to the fair market value of the shares when earned. In addition, a total of 131,192 shares were issued to these same directors and the Chairman of the Board for services rendered during the six months ended January 31, 2006. A total of $33,250 was charged to expense during this time period, which was approximately equal to the fair market value of these shares when earned.

On November 8, 2005 the Board voted to adjust the strike price from $0.35 to $0.16 on 1,000,000 warrants owned

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by an investor, who is also a director, in order to match the strike price of other investor's warrants issued under the anti-dilution provisions of their agreements.

On November 29, 2005 the Company issued 400,000 shares of common stock in the name of its landlord at that time as part of an agreement to facilitate the sale of the building (See Note 3 to the financial statements: Purchase and Sale of Building). These shares were part of the building sale transaction and were delivered to the landlord at the December 9, 2005 closing.

During the six months ended January 31, 2006 options to purchase a total of

733,437 shares of the Company's common stock were exercised. Of this total, 200,000 options were exercised by a director, 100,000 by an officer and director, 250,000 by two officers combined, 120,000 by a consultant and 4,104 by an employee all with a strike price of $0.01. In addition, a consultant and two employees exercised a total of 59,333 options to purchase shares of the Company's common stock with exercise prices ranging from $0.13 to $0.15 per share.

In October 2005, the Company issued 200,000 warrants with a strike price of $0.20 to an investor for providing the Company with bridge loan financing and an additional 250,000 warrants with a strike price of $0.20 were issued to two finders for helping to facilitate the transaction. The Company valued these warrants at $0.02 each, utilizing a warrant valuation provided by an independent investment banker, and recorded a charge of $9,000 for these warrants during the period ended October 31, 2005.

On February 28, 2006 an investor exercised 32,500 warrants to purchase the Company's stock with an exercise price of $0.16 per share. The Company received $5,200 from this transaction.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On February 13, 2006, at the Company's annual meeting of stockholders, the following proposals were approved:

Proposal 1: The election of the following directors

	For	Authority Withheld
Jeffrey Dickson	46,244,274	64,316
Eric Seidel	46,244,274	64,316
Christopher Korge	46,294,274	14,316
Nicholas Trbovich, Jr.	46,294,274	14,316
John Pennington	46,294,274	14,316

A total of 46,308,590 votes representing approximately 70% of the outstanding shares were cast. Election to the board of directors required an affirmative vote of a majority of the outstanding shares.

Proposal 2: Approval to increase the authorized share count from 100,000,000 to 150,000,000 shares

A total of 44,486,549 votes (67% of the outstanding shares) were cast for the proposal, 1,508,040 were cast against the proposal, and 314,001 abstained. Approval of the proposal required an affirmative vote of a majority of the outstanding shares.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

EXHIBIT NO.	DESCRIPTION
10.71	Building Lease
10.72	PEO Contract
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

31.2	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K

Item 1.01/8.01 - Announced expansion of business relationship, dated February 1, 2006

Item 1.01/7.01/8.01 - Announced new client agreement, dated December 15, 2005

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 17, 2006 By: /s/ Eric Seidel

Eric Seidel, President and
Chief Executive Officer

Date: March 17, 2006 By: /s/ Larry Colton

Larry Colton, Chief Financial Officer
and Principal Accounting Officer