EAUTOCLAIMS, INC
Form 10QSB
March 13, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the period ended January 31, 2008

o 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 o No

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o 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 29, 2008: 95,003,144 shares

Transitional Small Business Disclosure Format o Yes x No

EAUTOCLAIMS, INC.

INDEX TO FORM 10-QSB

	PART I	
	FINANCIAL INFORMATION	
Item 1.	Financial Statements	2
	Balance Sheet	3
	Statements of Operations	4
	Statement of Stockholders Equity (deficiency)	5
	Statements of Cash Flows	6
	Notes to Financial Statements	7
Item 2.	Management s Discussion and Analysis or Plan of Operations	14
Item 3.	Controls and Procedures	21
	PART II	
	OTHER INFORMATION	
Item 1.	Legal Proceedings	22
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3.	Defaults Upon Senior Securities	22
Item 4.	Submission of Matters to a Vote of Security Holders	22
Item 5.	Other Information	22
Item 6.	Exhibits	23
Signatures		23
Certifications		

Table of Contents

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 accounting principles generally accepted in the United States of America 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-KSB/A for the year ended July 31, 2007.

Table of Contents

EAUTOCLAIMS, INC.

BALANCE SHEET

	January 31, 2008
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 352,987
Accounts receivable, less allowance for doubtful accounts of $49,000	291,615
Prepaid expenses and other current assets	91,566
Total current assets	**736,168**
Property and equipment, net of accumulated depreciation	770,332
Restricted cash	420,000
Goodwill	1,081,843
Other assets	30,800
Deferred income tax asset, net of valuation allowance of $10,380,000	
Total Assets	**$ 3,039,143**
LIABILITIES AND STOCKHOLDERS DEFICIENCY	
Current Liabilities:	
Accounts payable, advanced payments and accrued expenses	$ 2,268,095
Notes payable, net of unamortized discount	549,375
Current portion of capital lease obligation	96,460
Current portion of deferred gain on building sale	108,135
Total current liabilities	**3,022,065**
Deferred gain on building sale, net of current portion	423,533
Note Payable-Related Party	100,000
Capital lease obligation	138,238

Total liabilities	**3,683,836**
Stockholders Deficiency:	
Convertible preferred stock $.001 par value; authorized 5,000,000 shares No shares outstanding	
Common stock $.001 par value; authorized 150,000,000 shares, issued and outstanding 95,003,144 shares	95,003
Additional paid-in capital	30,837,268
Accumulated deficit	(31,529,782)
Treasury Stock, at cost, 238,536 shares	(47,182)
Stockholders Deficiency	**(644,693)**
Total Liabilities and Stockholders Deficiency	**$ 3,039,143**

Table of Contents

EAUTOCLAIMS, INC.

STATEMENTS OF OPERATIONS

	Three-month Period Ended January 31, 2008 (unaudited)	**Three-month Period Ended January 31, 2007 (unaudited) (Restated)**	**Six-month Period Ended January 31, 2008 (unaudited)**	**Six-month Period Ended January 31, 2007 (unaudited) (Restated)**
Revenue:				
Collision repairs management	$ 935,573	$ 2,642,279	$ 1,966,003	$ 5,838,447
Fleet repairs management	180,926	207,210	381,148	427,779
Fees and other revenue	453,564	565,450	805,633	1,168,084
Total revenue	**1,570,063**	**3,414,939**	**3,152,784**	**7,434,310**
Expenses:				
Claims processing charges	876,592	2,340,378	1,841,743	5,182,512
Selling, general and administrative	1,018,603	1,475,543	2,179,859	2,826,452
Depreciation and amortization	109,300	114,991	216,913	226,907
Total expenses	**2,004,495**	**3,930,912**	**4,238,515**	**8,235,871**
Net loss	**$ (434,432)**	**$ (515,973)**	**$ (1,085,731)**	**$ (801,561)**
Loss per common share-basic and diluted	**$ (0.00)**	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**
Weighted-average number of common shares outstanding Basic and diluted	**94,411,595**	**81,983,348**	**94,104,102**	**81,758,666**

Table of Contents

EAUTOCLAIMS, INC.

STATEMENT OF STOCKHOLDERS EQUITY (DEFICIENCY)

Six-month period ended January 31, 2008
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders Equity (Deficiency)
	Shares	Amount				
Balance at July 31, 2007	93,736,071	$93,736	$30,739,288	$(30,444,051)	$(47,182)	$341,791
Issuance of common stock upon exercise of options	367,074	367	3,304			3,671
Issuance of common stock for services	899,999	900	68,600			69,500
Vesting of options granted to employees			26,076			26,076
Net loss				(1,085,731)		(1,085,731)
Balance at January 31, 2008	95,003,144	$95,003	$30,837,268	$(31,529,782)	$(47,182)	$(644,693)

Table of Contents

EAUTOCLAIMS, INC.

STATEMENTS OF CASH FLOWS

	Six-month Period Ended January 31, 2008 (Unaudited)	Six-month Period Ended January 31, 2007 (Unaudited) (Restated)
Cash flows from operating activities:		
Net loss	$ (1,085,731)	$ (801,561)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	216,913	226,907
Non-cash compensation expense	69,500	211,373
Impairment expense	17,000	
Recognition of deferred gain on building sale	(54,066)	(54,064)
Bad debts	(1,000)	(13,000)
Amortization of debt discount	4,531	

Vesting of options granted to employees	26,076	12,163
Changes in operating assets and liabilities		
Accounts receivable	(31,274)	(6,526)
Prepaid expenses and other assets	(3,151)	(79,695)
Accounts payable, advance payments and accrued expenses	205,590	(73,952)
Net cash used in operating activities	(635,612)	(578,355)
Cash flows from investing activities:		
Purchases of property and equipment	(140,905)	(195,957)
Change in restricted cash	310,000	
Proceeds from note payable related party	100,000	
Net cash provided by provided by (used in) investing activities	269,095	(195,957)
Cash flows from financing activities:		
Proceeds from exercise of options	3,671	2,398
Purchase of treasury stock		(9,125)
Principal payments on capital lease	(79,214)	(48,081)
Net cash used in financing activities	(75,543)	(54,808)
Net decrease in cash and cash equivalents	(442,060)	(829,120)
Cash and cash equivalents at beginning of period	795,047	1,524,239
Cash and cash equivalents at end of period	$ 352,987	$ 695,119
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 52,044	$ 8,725

Table of Contents

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, 2008 and its results of operations and cash flows for the three and six-month periods ended January 31, 2008 and 2007. Results of operations for the three and six-month periods ended January 31, 2008 are not necessarily indicative of the results that may be expected for the year ending July 31, 2008.

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.

In addition, the Company has secured commitment from a majority shareholder, the Chairman of the Board of Directors, to purchase $2,000,000 of the Company s common stock if the Company needs additional financing.

Note 2 Summary of Significant 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 for collision and fleet repairs and for certain glass repairs. This occurs 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 of repair costs for certain glass repairs. Revenue is recorded 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.

The Company records revenue generated from a co-marketing agreement net of the repair costs because in the agreement the Company is performing a fee for service. The party to the agreement sells and markets the Company s services to the insurance companies, who are its customers and it collects the revenue and pays the repair shop.

The Company derives revenue from the sale of estimating software to shops within the Company s repair shop network. Since the Company only resells and does not service the estimating software, the revenue and cost of revenue from the transaction is recognized on the date of shipment.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term, highly liquid investments with original maturities of three months or less. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Table of Contents

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to specific customer s ability to pay and current economic trends. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible. The Company believes that the concentration of credit risk in its trade receivables, with respect to its limited customer base, is substantially mitigated by its credit evaluation process. The Company does not require collateral.

Fair Value

The carrying value of accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value because of short-term maturity. The fair value of the notes payable approximate their principal amount.

Warranty

The Company provides a warranty on the repairs performed at its network shops and an accrual of $20,000 has been established as of January 31, 2008 for estimated future warranty costs. This accrual amount is reviewed periodically and adjusted as necessary based on factors including historical warranty expense and current economic trends.

Advertising Expense

The Company expenses costs for advertising as they are incurred. In the three and six months ended January 31, 2008 a total of $1,000 and $1,863, respectively, was expensed for advertising. This compares to $500 and $2,500, respectively, expensed for advertising in the three and six-months ended January 31, 2007.

Property and Equipment

Property and equipment are stated at cost. Additions and improvements to property and equipment are capitalized. Maintenance and repairs are expensed as incurred. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. Depreciation is computed on the straight-line method over the estimated useful lives of the assets or the lease term.

The costs of software developed for internal use, including web site development costs, incurred during the preliminary project stage are expensed as incurred. Direct costs incurred during the application development stage are capitalized. Costs incurred during the post implementation/operation stage are expensed as incurred. Capitalized software development costs are amortized on a straight-line basis over their estimated useful lives.

Impairment

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. During the period ended January 31, 2008 the Company recorded $17,000 of expense for impairment of goodwill and from the write-off of software that were no longer in use.

Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Table of Contents

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable based on its technical merits. The Company adopted the provisions of FIN 48 effective August 1, 2007. The adoption of FIN 48 did not have a material effect on the Company s consolidated financial condition or results of operations.

Use of Estimates in Financial Statements

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

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements , or SFAS No. 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of this statement are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its financial statements.

In February, 2007 the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , or SFAS No. 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effects, if any, that SFAS No. 159 will have on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations , or SFAS No. 141(R). This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS No. 141(R) are effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company will adopt this statement, as applicable, in its fiscal year beginning August 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements-An Amendment to Accounting Research Bulletin (ARB) No. 51 , or SFAS No. 160. This statement amends ARB No. 51, Consolidated Financial Statements , to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement also amends certain of ARB No. 51 s consolidation procedures for consistency with the requirements of SFAS No. 141(R). In addition, SFAS No. 160 also includes expanded disclosure requirements regarding interests of the parent and its non-controlling interest. The provisions of SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company will adopt this statement, as applicable, in its fiscal year beginning August 1, 2009.

Table of Contents

Note 3 Restatement of Previously Issued Financial Statements

The Company has restated its operating results for fiscal year 2006 for the manner in which it accounted for the gain on the sale of its building. The Company has adjusted its reported results to reflect only that portion of the gain on the sale that corresponds with the term of the new lease applicable to fiscal 2006. The information below reflects the restatement.

	3 months ended January 31, 2007	6 months ended

			January 31, 2007	
	As Reported	As Restated	As Reported	As Restated
Statement of Operations				
Selling, general and administrative	$ 1,502,575	$ 1,475,543	$ 2,880,518	$ 2,826,452
Total expenses	3,957,944	3,930,912	8,289,936	8,235,871
Net loss	(543,005)	(515,973)	(855,626)	(801,561)
Statement of Cash Flows				
Net loss			(855,626)	(801,561)
Recognition of deferred gain on building sale				(54,064)

	January 31, 2007	
Balance Sheet		
Current portion of deferred gain on building sale	$	$ 108,135
Total current liabilities	4,370,324	4,478,458
Deferred gain on building sale, net of current portion		531,665
Total liabilities	4,373,772	5,013,571
Accumulated deficit	(30,227,276)	(30,867,075)
Stockholders deficiency	(1,172,166)	(1,811,965)

Note 4 Restricted Cash

At January 31, 2008, the Company had $420,000 in a certificate of deposit as collateral for a Letter of Credit issued to satisfy a contractual requirement with a client. In January 2008 the Company reached an agreement with the beneficiary of this Letter of Credit to reduce the required amount from $730,000 to $420,000. Accordingly, the Company reduced the value of the certificate of deposit being held as collateral for the Letter of Credit from $730,000 to $420,000 and returned $310,000 to working capital. According to the terms of the agreement, the client has the right to draw on the Letter of Credit if the client elects to terminate the contract, which has approximately two years remaining on the original three-year term, in the event the Company fails to meet certain service level and financial covenants. Failure to meet these covenants does not automatically invoke the contract termination. The Company also has the ability to reduce further or terminate the Letter of Credit when certain financial benchmarks are attained.

Table of Contents

Note 5 Notes Payable

The Company received a total of $550,000 from the issuance of notes in February and March 2007 to multiple investors. The proceeds were used to help fund the CD used as collateral for a Letter of Credit. The one year notes, which require repayment in full of the principal on various dates between February 8, 2008 and March 30, 2008, pay monthly interest at a rate of 12%. In addition to the interest earned, each investor received three-year, $0.16 warrants to purchase shares of the Company s common stock equal to 93,750 warrants for each $50,000 invested. A total of 1,031,250 warrants were issued to these investors. The Company also agreed that, in the event of default of the principal repayment, each investor would be issued shares of the Company s common stock in an amount equal to 450,000 shares for each $50,000 invested and additional warrants equal to 30% of the amount invested. Under these terms, if a default occurs, the Company would be required to issue a total of 4,950,000 shares and 165,000 additional new three-year warrants with an exercise price equal to eighty percent (80%) of the average closing price per share of the Company s common stock for a period of ten (10) consecutive business days ending immediately prior to the date which causes a default.

In accordance with Accounting Principles Board Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants (APB 14), proceeds received from the sale of debt with detachable stock purchase warrants should be allocated to both debt and warrants based on their relative fair value, with the portion allocable to the warrants to be accounted for as Additional Paid in Capital and reduce the carrying value of debt. In order to determine the fair value of the warrants, the Company hired an outside investment firm who employed several valuation models to arrive at a value of $5,156 for the warrants. This amount will be amortized to interest expense over the twelve-month term of the notes. At January 31, 2008, the unamortized discount on the notes is approximately $625.

Note 6 Related Party Transaction

The Company received $100,000 for working capital in January 2008 from the Chairman of the Board for the issuance of a note. The note, which is non-interest bearing, requires repayment in full eighteen months from the date of issuance.

Note 7 Line of Credit

The Company has a $75,000 line of credit established with its bank. Under the terms of the agreement, the Company may borrow any amount up to the maximum value of the line and will pay monthly interest at a rate of prime plus 7% on the unpaid balance. As of January 31, 2008, the Company had no outstanding borrowings against this credit line.

Note 8 Stock Based Compensation

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 five or ten years. Compensation expense for stock options is recognized over the vesting period for each separately vesting portion of the stock option award.

Effective August 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123R Share Based Payment (SFAS No. 123R) utilizing the modified prospective method. Under the modified prospective method, the measurement provisions of SFAS 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 SFAS 123, Accounting for Stock Based Compensation , is recognized in net earnings in the periods after the date of adoption. The compensation cost charged to operations pursuant to SFAS No. 123R was $26,076 and $12,163 for the six-months ended January 31, 2008 and 2007, respectively and $844 and $5,830 for the three month period ended January 31, 2008 and 2007, respectively.

Table of Contents

The fair value for options was estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions for the six months ended January 31, 2008 and 2007. The risk-free interest rate was derived from the U.S. Treasury yield curve in effect at the time of the grant and was assumed to be 2.11% and 4.88% for the six months ended January 31, 2008 and 2007, respectively. The volatility factor was

determined based on an independent study and the assumed market volatility was 45% for both periods presented. The assumed dividend yield was 0% and an expected option life was assumed to be four years for both periods presented. The assumption for the expected life is based on evaluations of historical and expected future exercise behavior.

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.

A summary of the status of the company s options for the six months ended January 31, 2008 is as follows:

	Shares	Weighted Average Exercise Price	Remaining Life
Balance at beginning of period	2,030,348	$ 0.28	
Granted	75,000	$ 0.09	
Cancelled or Expired	(333,000)	$ 0.15	
Exercised	(367,074)	$ 0.01	
Outstanding at end of period	1,405,274	$ 0.37	2.73

At January 31, 2008, intrinsic value of outstanding options was $10,164.

In accordance with Emerging Issues Task Force No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or In Conjunction with Selling, Goods or Services , the Company measures the fair value of the equity instruments issued to non-employees using the stock price and other measurement assumptions as of the earlier of the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or the date at which the counterparty s performance is complete.

Note 9 Per share calculations

Basic loss per share is computed as 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. For the three and six-month periods ended January 31, 2008 and 2007, during which the Company reported a loss, 16,077,458 and 25,468,664, respectively, of options and warrants were excluded from the diluted loss per share computation, as their effect would be anti-dilutive. Additionally, as of January 31, 2008 and 2007, there were no convertible securities outstanding.

Table of Contents

Note 10 Litigation

The Company is currently subject to a lawsuit with its former Chief Executive Officer. This lawsuit is in its early stage. Management believes there are meritorious defenses and claims against this action, but it is too early to predict the ultimate outcome of this dispute. Management believes that the probable resolution of this matter will not materially affect the financial position, results of operations or cash flows of the Company.

Note 11 Equity Transactions

During the six-month period ended January 31, 2008 the Company issued 849,999 shares of common stock to three Directors for services rendered in accordance with the approved Board compensation plan. A total of $66,000 was charged to expense during this period, which was approximately equal to the fair market value of the shares at the time of issuance. In addition, 50,000 shares of common stock were issued to a member of management in accordance with the terms of his employment agreement. A total of $3,500 was charged to expense, which was approximately equal to the fair market value of the shares at the time of issuance.

During the six-months ended January 31, 2008 a total of 367,074 shares of common stock were issued as a result of the exercise of outstanding options, all with a strike price of $0.01. Of this total, 200,000 options were exercised by the President and CEO. The Company received proceeds of approximately $3,700.

Note 12 Subsequent Event

In February 2008 the Company received $100,000 from the Chairman of the Board for the issuance of a note. The note, which is non-interest bearing, requires repayment in full eighteen months from the date of issuance. Also in February 2008 the Company repaid in full a $100,000 note payable to an investor which had matured.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The statements contained in this Report on Form 10-QSB, 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-QSB. 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-QSB will prove to be accurate.

General

We 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.

We control 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 2500 body shops throughout the United States to repair vehicles. These shops, referred to as our provider network, provide us a 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 our 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 provide 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.

Table of Contents

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 from repair facilities that are members of our provider network. The revenues generated from the vehicle repair facilities through our provider network accounted for 71% and 74%, respectively, of the revenue for the three and six-months

ended January 31, 2008. We are paid a fee on a per claims basis from our insurance and fleet company customers for each claim that we process through our system. For the three and six-months ended January 31, 2008, 29% and 26% respectively, of the revenue has been received from claims processing fees and other revenue. Other revenue consists mostly of the sale of estimating software, license fees, fees from taking first notice of loss reports, fees from service partners (ASP fees) and subrogation income.

We have focused more resources on marketing products where we serve in the capacity of an Application Service Provider (ASP). Our 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.

Our AuditPro product is a rules-based estimate auditing application that has been well received by existing clients and prospects, which has allowed us 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. Our financial statements 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 for collision and fleet repairs and for certain glass repairs. This occurs 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 of repair costs for certain glass repairs. Revenue is recorded 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.

The Company records revenue generated from a co-marketing agreement net of the repair costs because in the agreement the Company is performing a fee for service. The party to the agreement sells and markets the Company s services to the insurance companies, who are its

customers and it collects the revenue and pays the repair shop.

The Company derives revenue from the sale of estimating software to shops within the Company s repair shop network. Since the Company only resells and does not service the estimating software, the revenue and cost of revenue from the transaction is recognized on the date of shipment.

Table of Contents

We maintain an allowance for doubtful accounts for losses that we 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, 2008 the allowance for doubtful accounts was approximately $49,000.

Accounting for income taxes

We record a valuation allowance to reduce our 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 $10,380,000 as of January 31, 2008. 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

We identify and record impairment on long-lived assets, including goodwill, when events and circumstances indicate that such assets have been impaired. We periodically evaluate the recoverability of our long-lived assets based on expected undiscounted cash flows, and recognize 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 or our plans for their use.

Management s Operating Plan

We continue to pursue our growth strategy, the main points of which are outlined below, and have achieved success in fiscal 2008 in certain specific areas. We have recently concluded a modification to a client contract whereby we have migrated their business to our ASP model, thereby reducing significantly the costs associated with processing their business transactions. We have also completed the stand alone version of our Audit Pro estimating tool and anticipate deploying this product to several new clients beginning in the third quarter of fiscal 2008. We continue to enhance our current co-marketing relationships and continue to explore additional opportunities with other partners, both in the insurance industry and in compatible industries, which we anticipate will provide significant opportunities for revenue growth in the latter part of fiscal 2008 and into fiscal 2009. We have also substantially completed our business to consumer program and expect to have it deployed by the end of the third quarter of fiscal 2008.

Specifically, the main points of our growth strategy are as follows:

Grow direct sales channel.

Grow the number of Tier One insurance providers.

Expand our offerings of newly enhanced applications and tools to our existing client base on an ASP transactional or monthly license fee basis.

Table of Contents

Explore possible new or additional strategic partners in the industry, or in compatible industries, who have a large client base and represent additional new sales with a short sales cycle and acquisition cost.

Convert our core application to a more scalable program language with a universal interface.

Roll out higher margin product lines. Management continues to make progress in building our operating margins by focusing on higher margin products and 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 Audit Pro , a programmatic electronic estimate auditing tool. We will release a stand alone version of Audit Pro in the third quarter of fiscal 2008 which functions as a rules based application that can be bolted onto any existing policy management software or integrated with newly developed claims modules. Many of these technologies have already been implemented in our operating processes and have shown themselves to be of significant value. By modifying the interface to these technologies, we 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.

Develop and deploy specialized niche programs that will require us to manage loss reserves on fleet generated risks.

Expand market driven offerings. We are exploring new and innovative ways to offer our shop network to the general public. We are currently developing a business to consumer product which we intend to have available by the end of the third quarter of fiscal

2008. Enrollment in this program by the consumer will allow them to obtain repairs on their damaged vehicles at a discounted rate through untilization of our shop network.

Reduce direct processing expense. We continue to review all aspects of our business processes and make changes where applicable, either through automation or consolidation of duties, which will achieve the desired result of reducing direct expense or increasing efficiencies.

Results of Operations

For the three and six-months ended January 31, 2008 compared to the three and six-months ended January 31, 2007.

Revenue

Total revenue for the three and six-months ended January 31, 2008 was approximately $1.6 million and $3.2 million, respectively. This is compared to the $3.4 million and $7.4 million, respectively, in revenue reported for the three and six-months ended January 31, 2007. During the three and six-months ended January 31, 2008 we derived 36% and 30% of our revenue from two customers. In April 2007, our formerly largest client completed their business migration off of our platform, thus ending our contractual relationship. This was the main reason for the decrease in total revenue as reported for the three and six-months ended January 31, 2008 as compared to the same time period in fiscal 2007.

For the three and six-months ended January 31, 2008, collision repair management revenue, including glass repair revenue, was approximately $.9 million and $2.0 million, respectively compared to $2.6 million and $5.8 million, respectively, for the three and six-months ended January 31, 2007. This decrease in revenue is the result of the loss of business from our formerly largest customer as described above as well as a reduction in revenue earned from customers acquired through our co-marketing agreement. As previously stated, the revenue from our co-marketing agreement 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.

Table of Contents

Fleet repair revenue decreased by approximately $26,000 from approximately $207,000 for the three months ended January 31, 2007 to approximately $181,000 for the three months ended January 31, 2008. For the six months ended January 31, 2008, fleet repair revenue decreased by approximately $47,000 to approximately $381,000 from approximately $428,000 for the six months ended January 31, 2007. This decrease is due to normal business fluctuations from our existing fleet customers.

For the three and six-months ended January 31, 2008, fees and other revenue decreased approximately $112,000 and $362,000, respectively as compared to the three and six-months ended January 31, 2007. The year to date decrease is primarily the result of earning approximately $120,000 less revenue this year from current clients for taking first notice of loss reports, less transaction fee revenue and less gross revenue for sales of estimatic software. The sales of estimatic software decreased by approximately $94,000 and $200,000, respectively, for the three and six-months ended January 31, 2008 as compared to the three and six-months ended January 31, 2007. The primary reason for this decrease is due to a change in the estimatic sales program. The old program required the purchase and resale of each unit sold, whereas under the terms of the new program, we are paid a net commission for the units sold which results in lower revenue being reported for each sale. Transaction, license,

subrogation and file handling fee revenue increased by approximately $33,000 for the three months ended January 31, 2008 and decreased by approximately $40,000 for the six-months ended January 31, 2008 as compared to the three and six-months ended January 31, 2007. The increase in fee revenue for the three months ended January 31, 2008 compared to the same period in fiscal 2007 is attributable to increased license fees received from a new client.

Claims Processing Charges

Claims processing charges include the costs of collision, fleet and glass repairs paid to repair shops within our repair shop network. Claims processing charges for the three and six-months ended January 31, 2008, were approximately $876,000 and approximately $1.8 million, respectively. This compares to approximately $2.3 million and approximately $5.2 million, respectively, for the three and six-months ended January 31, 2007. Claims processing charges are primarily the costs of collision repairs paid by us to our collision repair shop network.

We are dependent upon our third party collision repair shops for insurance claims repairs. We currently have approximately 2,500 affiliated repair facilities in our 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 three and six-months ended January 31, 2008 were approximately $1.0 million and $2.2 million, respectively. This represents decreases of 31% and 23%, respectively, from the approximately $1.5 million and the approximately $2.8 million for the three and six-months ended January 31, 2007. Payroll and benefit related expenses for the three and six-months ended January 31, 2008 totaled approximately $.6 million and $1.4 million respectively, compared to approximately $1.1 million and $2.0 million, respectively for the three and six-months ended January 31, 2007. The decrease in payroll expense and overall SG&A expense is primarily the result of the implementation of our staff reductions, which were put in place in April 2007, as well as expense reductions in telephone expense, professional fees and travel expense.

Table of Contents

SG&A expenses also include non-cash charges. These non-cash charges, excluding depreciation and changes to the bad debt reserve, totaled approximately $30,000 and $63,000 for the three and six-months ended January 31, 2008. The non-cash charges for the three months ended January 31, 2008 included approximately $37,000 of common stock issued to pay fees to directors for services rendered and to members of management as per their employment agreements and approximately $1,000 expensed as result of implementing SFAS 123R, which requires expensing of stock options as they become vested. In addition, a reduction to non-cash expense of approximately $27,000 was realized as a result of recognizing the gain on our building sale-leaseback transaction. Approximately $2,000 was amortized for the discount on the notes payable and $17,000 was expensed for the impairment of assets. For the three month period ending January 31, 2007 the non-cash charges, excluding depreciation and changes in the bad debt reserve, totaled approximately $30,000. This included approximately $51,000 of common stock issued to pay fees to directors and management according to terms of their service. In addition, a charge of approximately $6,000 was taken as a result of implementing SFAS 123R. We also recognized a reduction to non-cash expense of approximately $27,000 for the three months ended January 31, 2007 as a result of recognizing the gain on our building sale-leaseback transaction.

For the six months ended January 31, 2008, non-cash charges, excluding depreciation and changes to the bad debt reserve, totaled approximately $63,000. This included approximately $69,000 for stock issued to directors and management according to agreements for services rendered, approximately $5,000 for amortization on the discount for the notes payable, approximately $26,000 for expensing of stock options according to SFAS 123R and $17,000 for the impairment of assets. A reduction to non-cash expense of approximately $54,000 was realized as a result of recognizing the gain on our building sale-leaseback transaction. For the six months ended January 31, 2007, non-cash charges, excluding depreciation and changes to the bad debt reserve, totaled approximately $169,000. This included approximately $211,000 for stock issued to directors for services rendered and management according to the terms of their employment agreements and approximately $12,000 for expensing of stock options according to SFAS 123R. A reduction to non-cash expense of approximately $54,000 was realized as a result of recognizing the gain on our building sale-leaseback transaction.

Also included in the SG&A is interest expense related to capital leases and notes payable. For the three and six-months ended January 31, 2008, this interest expense totaled approximately $26,000 and $52,000 respectively, of which approximately $17,000 and $33,000 respectively, was for the notes payable. This compares to interest expense on capital leases of approximately $4,000 and $9,000for the three and six-months ended January 31, 2007.

Depreciation

Depreciation of property and equipment of approximately $109,000 and $217,000 respectively, was recognized in the three and six-months ended January 31, 2008. This is compared to approximately $115,000 and $227,000 respectively, for the three and six-months ended January 31, 2007.

Net Income/Loss

For the three and six-months ended January 31, 2008 net loss totaled approximately $434,000 and $1,086,000, respectively. This amount includes approximately $27,000 and $54,000 respectively, of the gain recognized on our building sale-leaseback transaction and approximately $139,000 and approximately $280,000 respectively, of non-cash charges, including depreciation. Net loss for the three and six-months ended January 31, 2007 was approximately $516,000 and approximately $802,000 respectively, including approximately $27,000 and $54,000 respectively of the gain recognized on our building sale-leaseback transaction and approximately $145,000 and approximately $396,000 respectively, of non-cash charges, including depreciation.

Table of Contents

Liquidity and Capital Resources

At January 31, 2008, we had approximately $353,000 in cash and cash equivalents. This is a decrease of approximately $442,000 from July 31, 2007. We have a working capital deficiency of approximately $2.3 million as of January 31, 2008 compared to a deficiency of approximately $2.9 million as of January 31, 2007.

We have a $75,000 line of credit established with a bank. Under the terms of the agreement, we may borrow any amount up to the maximum value of the line and will pay monthly interest at a rate of prime plus 7% on the unpaid balance. As of January 31, 2008, we had no outstanding borrowings against this credit line.

We believe that cash generated from operations, 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 you that our cash resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements for this period. During the period ended January 31, 2008 we have added $410,000 to working capital as a result of receiving a non-interest bearing loan from a shareholder in the amount of $100,000 and by restructuring our agreement with the beneficiary of an outstanding Letter of Credit which reduced the requirement from $730,000 to $420,000 and allowed $310,000 to be returned to working capital. We are currently working on obtaining additional funding through the exercise of outstanding warrants, as well as exploring additional options to secure the required funds. 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 any future sale of our securities.

Debt and Contractual Obligations

Our commitments for debt and other contractual arrangements as of January 31, 2008 are summarized as follows:

	Twelve months ending January 31,					
	2009	**2010**	**2011**	**2012**	**Thereafter**	**Total**
Property lease	$277,000	$286,000	$295,000	$303,000	$259,000	$1,420,000
Equipment lease	96,000	103,000	35,000			234,000
Notes payable	550,000	100,000				650,000
Employee compensation	794,000	236,000	22,000			1,052,000
	$1,717,000	$725,000	$352,000	$303,000	$259,000	$3,356,000

We lease 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 runs through December 2012. Our rent for 2008, including applicable taxes, is $23,005 per month and increases 3% each year through the remaining life of the lease.

Inflation

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

Seasonality

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

Table of Contents

ITEM 3. 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, 2008. 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.

Our management, including the principal executive officer and principal financial officer, does not expect that our 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, 2008. We have not identified any significant deficiency or materials weaknesses in our internal controls, and therefore there were no corrective actions taken.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In December 2007, Mr. Eric Seidel, former President and CEO, filed a complaint, case number 07013596CT, in the Circuit Court of the Sixth Judicial Circuit for the State of Florida, County of Pinellas Civil Division, in which Mr. Seidel alleges we breached certain provisions of his employment agreement regarding severance payments Mr. Seidel alleges are due him under the terms of his agreement. He is seeking a judgment of $91,580 plus reasonable attorney fees and court costs. We have filed an answer to this complaint denying all allegations and have filed a counter-claim alleging Mr. Seidel was not entitled to severance payments according to the terms of his departure and was erroneously paid for a period of approximately six months. We are seeking return of all monies paid to Mr. Seidel after his departure from the Company, which amount to approximately $77,000. This case is in the early stages. Although we believe we have meritorious defenses and claims against Mr. Seidel and intend to vigorously defend against this action, it is too early to predict with any certainty the ultimate outcome.

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

On January 31, 2008 we issued 549,999 shares of common stock to three Directors for services rendered in accordance with the approved Board compensation plan. We also issued 50,000 shares of common stock on January 7, 2008 to a member of management in accordance with his employment agreement.

All such shares were issued pursuant to Section 4.2 of the Securities Act of 1933 and Regulation D promulgated thereunder. Each person to whom shares were issued is an Accredited Investor as defined in Regulation D.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On December 20, 2007, at our annual meeting of stockholders, the following proposal was approved:

Proposal 1: The election of the following directors

	For	Authority Withheld
Jeffrey D. Dickson	67,322,145	2,453,353
William Austin Lewis IV	65,882,144	3,893,354

Christopher Korge	67,382,145	2,393,353
John K.Pennington	65,882,144	3,893,354
Larry C. Colton	65,822,144	3,953,354

A total of 69,775,498 votes were cast, representing approximately 74% of the outstanding shares. Election to the board of directors required an affirmative vote of a majority of the outstanding shares.

ITEM 5. OTHER INFORMATION

None

Table of Contents

ITEM 6. EXHIBITS

	Exhibits
Exhibit No.	**Description**
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.

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 13, 2008	By: /s/ Jeffrey Dickson Jeffrey Dickson, President and Chief Executive Officer
Date: March 13, 2008	By: /s/ Larry Colton Larry Colton, Chief Financial Officer and Principal Accounting Officer