Access Plans Inc
Form 10-Q
February 14, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2011**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number 000-30099**

# Access Plans, Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **OKLAHOMA** | **27-1846323** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**900 36th Avenue, Suite 105, Norman, OK 73072**

**(Address of principal executive offices) (zip code)**

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | þ |

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

As of February 10, 2012, 19,927,204 shares of the registrant s common stock, $.001 par value were outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Access Plans, Inc.**

**Condensed Consolidated Balance Sheets**

| | September 30, December 31, 2011 (Unaudited) | September 30, September 30, 2011 (Derived From Audited Statements) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 14,637,508 | $ 12,258,258 |
| Restricted cash | 50,208 | 213,178 |
| Accounts receivable, net | 3,895,490 | 4,738,314 |
| Advanced agency commissions, net | 14,588 | 15,660 |
| Deferred income taxes | 483,000 | 359,000 |
| Current assets from discontinued operations | 2,463,416 | 2,903,760 |
| Prepaid expenses | 78,033 | 49,217 |
| Total current assets | 21,622,243 | 20,537,387 |
| Furniture, fixtures and equipment, net | 115,367 | 121,862 |
| Goodwill | 3,271,028 | 3,271,028 |
| Intangibles, net | 577,189 | 744,565 |
| Deferred income taxes | 398,000 | 691,000 |
| Other assets from discontinued operations | 1,475,141 | 1,962,224 |
| Other assets | 47,775 | 47,774 |
| Total assets | $ 27,506,743 | $ 27,375,840 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 989,870 | $ 859,998 |
| Waiver reimbursement liability | 557,800 | 699,500 |
| Deferred revenue | 200,164 | 218,008 |
| Liability for unrecognized tax benefit | 166,000 | 166,000 |
| Current liabilities from discontinued operations | 1,931,595 | 2,921,144 |
| Other accrued liabilities | 1,753,145 | 1,820,833 |
| Total current liabilities | 5,598,574 | 6,685,482 |
| Total liabilities | 5,598,574 | 6,685,482 |
| Stockholders equity: | | |
| Common stock, $.001 par value; 100,000,000 shares authorized; 19,927,204 shares issued and outstanding | 19,927 | 19,927 |

| | | | | |
|---|---|---|---|---|
| Additional paid-in-capital | | 11,503,724 | | 11,468,724 |
| Accumulated earnings | | 10,384,518 | | 9,182,502 |
| Total stockholders equity | | 21,908,169 | | 20,671,153 |
| Total liabilities and stockholders equity | $ | 27,506,743 | $ | 27,375,840 |

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

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**Access Plans, Inc.**

**Condensed Consolidated Statements of Operations**

**(Unaudited)**

| | September 30, | September 30, |
|---|---|---|
| | Three Months Ended December 31, | |
| | 2011 | 2010 |
| Revenues | $ 8,469,260 | $ 9,212,640 |
| Direct costs | 3,630,132 | 4,511,031 |
| Gross profit | 4,839,128 | 4,701,609 |
| Marketing and sales expenses | 343,636 | 299,919 |
| General and administrative expenses | 1,490,252 | 1,741,005 |
| Depreciation and amortization | 190,520 | 202,873 |
| Operating income | 2,814,720 | 2,457,812 |
| Other income (expense): | | |
| Interest income, net | 19,100 | 19,144 |
| Total other income | 19,100 | 19,144 |
| Income from continuing operations, before taxes | 2,833,820 | 2,476,956 |
| Provision for income taxes | | |
| Current | 1,035,184 | 847,440 |
| Deferred tax | 169,000 | 137,978 |
| Total provision for income taxes | 1,204,184 | 985,418 |
| Income from continuing operations | 1,629,636 | 1,491,538 |
| Income (loss) from discontinued operations, net of taxes | (427,620) | 19,972 |
| Net income | $ 1,202,016 | $ 1,511,510 |
| Per share data: | | |
| Basic, from continuing operations | $ 0.08 | $ 0.08 |
| Basic, from discontinued operations | (0.02) | 0.00 |
| | $ 0.06 | $ 0.08 |
| Diluted, from continuing operations | $ 0.08 | $ 0.08 |

| | | |
|---|---|---|
| Diluted, from discontinued operations | (0.02) | 0.00 |
| | $ 0.06 | $ 0.08 |
| Average Shares Outstanding: | | |
| Basic | 19,927,204 | 19,877,204 |
| Diluted | 21,076,789 | 20,028,482 |

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

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**Access Plans, Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

| | September 30, Three Months Ended December 31, 2011 | September 30, 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 1,202,016 | $ 1,511,510 |
| Less: Net income (loss) from discontinued operations | (427,620) | 19,972 |
| Net income from continuing operations | 1,629,636 | 1,491,538 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred tax expense | 169,000 | 137,978 |
| Depreciation and amortization | 190,520 | 202,873 |
| Stock-based compensation | 35,000 | 17,720 |
| Provision for losses on receivables | | 7,067 |
| Change in operating assets and liabilities: | | |
| Receivables | 842,824 | (35,827) |
| Prepaid expenses and other assets | (28,816) | 13,298 |
| Deposits and other assets | | (9,324) |
| Accounts payable | 129,872 | 129,773 |
| Unearned commissions | | 413,229 |
| Deferred revenue | (17,844) | (45,709) |
| Claims and other accrued liabilities | (209,388) | (15,911) |
| Net cash provided by operating activities from continuing operations | 2,740,804 | 2,306,705 |
| Net cash provided by (used in) discontinued operations | (662,386) | 192,497 |
| **Net cash provided by operating activities** | 2,078,418 | 2,522,452 |
| **Cash flows from investing activities** | | |
| Decrease in restricted cash | 162,970 | 67,044 |
| Purchase of equipment | (29,253) | (4,501) |
| Net cash provided by investing activities from continuing operations | 133,717 | 62,543 |
| Net cash provided by investing activities from discontinued operations | | 5,479 |
| **Net cash provided by investing activities** | 133,717 | 68,022 |
| Cash flows from financing activities from continuing operations | | |
| Cash flows from financing activities from discontinued operations | | (198,397) |
| **Net cash (used in) financing activities** | | (198,397) |
| Net increase in cash and cash equivalents | 2,212,135 | 2,392,077 |
| Cash and cash equivalents at beginning of period | 13,464,618 | 5,380,571 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | 15,676,753 | 7,772,648 |
| Cash and cash equivalents of discontinued operations at end of period | 1,039,245 | 79,041 |
| Cash and cash equivalents of continuing operations at end of period | $ 14,637,508 | $ 7,693,607 |

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**ACCESS PLANS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

**(UNAUDITED)**

**NOTE 1 NATURE OF BUSINESS**

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

The Company s operations are currently organized under three segments:

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

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

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

In November 2011, the Company s board of directors advised management to use its best efforts to explore the sale or discontinue the Insurance Marketing segment business. America s Health Care Plan/Rx Agency, Inc. (AHCP) is the centerpiece of the Insurance Marketing Division. AHCP distributes major medical, short term medical, critical illness and related health insurance products to small businesses, self-employed and other individuals and families through a network of independent agents which have carrier appointments through AHCP. As a result of the pending sale or discontinuing operations of AHCP, the related assets, liabilities, results of operations and cash flows have been classified as discontinued operations in the accompanying consolidated financial statements.

Due to the significant change in which this asset is used, the Company evaluated the impairment of goodwill and determined the entire carrying value may not be recoverable. The Company recognized goodwill impairment expense of $400,000 during the quarter ended December 31, 2011.

**NOTE 2 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended September 30, 2011.

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

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**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

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

**Accounts Receivable and Credit Policies**

Accounts receivable are presented net of the allowance for doubtful accounts established to provide for losses on uncollectible accounts based on management s estimates and historical collection experience. The allowance for doubtful accounts was $102,242 at December 31, 2011 and September 30, 2011. The Company recorded bad debt expense of $0 and $7,067, respectively for the three months ended December 31, 2011 and 2010.

**Goodwill and Intangible Assets**

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

**Stock Based Compensation**

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

**Restricted Cash**

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

**Earnings per Share**

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

**Certain Reclassifications**

Certain prior comparative items were reclassified to conform to the current quarter presentation. Such reclassifications had no effect on 2011 1st quarter net income.

**Recently issued Accounting Pronouncements**

There were various accounting standards and interpretations issued in the three months ended December 31, 2011, none of which are expected to have a material impact on the Company s financial position, operations or cash flows.

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**Waiver Reimbursements**

The Wholesale Plans Division has contractual arrangements to administer certain membership programs primarily in the rental purchase industry under which clients are reimbursed when the clients waive rental payments required of their customers under specifically defined and limited circumstances. These circumstances include situations in which the customers become unemployed for a stated period of time or when the clients provide product service to their customers. These reimbursement obligations do not have any kind of a tail that extends beyond the clients payment obligations following termination of the Division s contractual arrangement or agreement with the clients or the clients customers. The estimated waiver reimbursement obligations are recorded as a liability. The amount of the waiver reimbursement liability requires the exercise of judgment and is based primarily upon number of members of clients that have waiver reimbursement contractual rights, trends in the unemployment rates within the applicable geographical areas and waiver reimbursement expenses incurred in prior periods.

**Revenue Recognition**

Revenue for each of the Company s segments is presented on a gross basis. The Company contracts with its clients to offer the Company s products to client s consumers at a contractually agreed upon per member, per month rate, which is the amount of revenue recognized on a monthly basis. The Company s clients determine their own markup above their contracted rate with us and that amount has no impact on our revenue.

The Company recognizes revenue when four basic criteria are met:

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

***Wholesale Plans*** The Wholesale Plans membership offerings are made primarily through Rental Purchase businesses to their customers as an incremental add-on sale to their rental of durable household merchandise. These businesses contract with the Company to provide a package of benefits to their enrolled customers that the Company supports with member fulfillment and customer service. They pay the Company a per enrolled member fee per month.

***Retail Plans*** The Retail Plans membership offerings are in conjunction with non-Rental Purchases businesses, direct to consumers via the internet or a multi-level marketing channel. The Company s clients in this segment include insurance companies, household product retailers, pharmacies, employer groups, financial organizations and associations. About half of the revenue of this segment is derived from membership plans whereby consumers make periodic membership payments directly to the Company generally on a monthly basis via credit card, debit card or automated clearing house transactions. The Company recognizes this revenue on a monthly basis. The remainder of revenue within this segment is derived from membership plan sales whereby the fees are collected by the Company s clients or where the Company has contractual arrangements to provide administrative services for a membership offering.

Benefits and costs associated with our Wholesale and Retail Plans membership offerings are as follows:

- ***Discount Medical*** In order to deliver the Company s discount medical membership offerings, the Company contracts with third parties having established national networks of service providers which have agreed to provide discounts to the Company s members. The Company paid the company that organized the network a per member, per month fee for the Company s members to access the network of providers and the Company expenses these fees on a monthly basis as incurred. The network service providers were responsible for funding the discounts to the Company s members. In addition, the Company maintains networks of dental and vision providers, under the brand names Access Dental and Access Vision, through which the Company s members may obtain discounts from usual and customary charges.

***Insurance*** For its insurance offerings, the Company contracts with a third party insurance company to provide the coverage the Company s members have selected. Multiple insurance products are available and each product has a contractually agreed upon premium associated with it. The Company pays and expenses the premium for each member s plan on a monthly basis. The third party insurance company is responsible for providing the coverage.

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***Automotive Discounts*** The automotive service offerings are furnished by a third party provider whose services are outsourced to independent contractors of the provider. The Company paid the third party provider a per member, per month fee for its services. The third party provider was responsible for funding the services to its independent contractors.

***Food and Entertainment and Other Miscellaneous Benefits*** These services are also furnished by a third party provider who has established a network of 250,000 retail locations that has agreed to provide discounts to the Company s members. The Company paid the third party provider a per member, per month fee for the Company s members to access provider s network of retail locations. Each retail location was responsible for funding the discounts to the Company s members.

The Wholesale Plans segment also includes reimbursement of the client for certain expenses incurred in the operation of a particular membership program. Under these arrangements, the Company was responsible for reimbursing the client when (under the terms of the agreement with its customer) the client waives rental payments required of the customer under specifically defined and limited circumstances, including when the customer becomes unemployed for a stated period of time or when the Company s client provides product service to its customer. These client reimbursements are expensed as incurred. See Note 9 Waiver Reimbursements Liability, below.

The product service costs relate to an element of some of the Company s plan offerings in the Wholesale Plans division. This product service expense represents costs the Company incurs on the repair of household merchandise. Plan members that complete their rental purchase term and choose to continue on a month-to-month membership were entitled to repair or replacement of such merchandise by the dealer in cases of mechanical failure. The Company reimbursed the dealer for these costs. This element of a member s plan terminates 12 months following the member s date of product ownership (12 months following the end of the member s rental term), or at any time that membership lapsed.

**NOTE 4 DISCONTINUED OPERATIONS**

In November 2011, the Company s board of directors advised management to use its best efforts to explore the sale or discontinue the Insurance Marketing segment business. America s Health Care Plan/Rx Agency, Inc. (AHCP) is the centerpiece of the Insurance Marketing Division. AHCP distributes major medical, short term medical, critical illness and related health insurance products to small businesses, self-employed and other individuals and families through a network of independent agents which have carrier appointments through AHCP. As a result of the pending sale or discontinuing operations of AHCP, the related assets, liabilities, results of operations and cash flows have been classified as discontinued operations in the accompanying consolidated financial statements.

Due to the significant change in which this asset is used, the Company evaluated the impairment of goodwill and determined the entire carrying value may not be recoverable. The Company recognized goodwill impairment expense of $400,000 during the quarter ended December 31, 2011.

The operating results of AHCP classified as discontinued operations are summarized below:

| | September 30,<br>Three Months Ending December 31,<br>2011 | September 30,<br><br>2010 |
|---|---|---|
| Revenues | $ 2,895,809 | $ 5,063,502 |
| Income (loss) before taxes | $ (440,084) | $ 30,303 |
| Income tax provision (benefit) | (13,184) | 10,331 |
| Income (loss) from discontinued operations, net of tax | $ (427,620) | $ 19,972 |

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The balance sheet items for AHCP classified as discontinued operations are summarized below:

| | September 30, December 31, 2011 | September 30, September 30, 2011 |
|---|---|---|
| Cash and cash equivalents | $ 1,039,245 | $ 1,206,360 |
| Accounts receivable, net of allowances | 74,873 | 158,272 |
| Advanced agent commissions | 1,340,225 | 1,530,375 |
| Other current assets | 9,073 | 8,753 |
| Total current assets | 2,463,416 | 2,903,760 |
| Fixed assets, net | 23,743 | 36,951 |
| Intangible assets, net | 1,227,375 | 1,301,250 |
| Goodwill | 205,311 | 605,311 |
| Other long term assets | 18,712 | 18,712 |
| Total assets | $ 3,938,557 | $ 4,865,984 |
| Payables | $ 77,946 | $ 856,057 |
| Unearned commissions | 1,533,267 | 1,656,650 |
| Accrued commissions | 320,382 | 408,437 |
| Total current liabilities | 1,931,595 | 2,921,144 |
| Total liabilities | $ 1,931,595 | $ 2,921,144 |

**NOTE 5 GOODWILL AND INTANGIBLE ASSETS**

Goodwill allocated to each reportable segment consists of the following:

| | September 30, December 31, 2011 | September 30, September 30 2011 |
|---|---|---|
| Wholesale Plans | $ 455,000 | $ 455,000 |
| Retail Plans | 2,816,028 | 2,816,028 |
| Total | $ 3,271,028 | $ 3,271,028 |

Intangible assets consist of the following:

| September 30, Useful Life (Years) | September 30, Gross Amount | September 30, December 31, 2011 Accumulated Amortization | September 30, Net | September 30, September 30, 2011 Accumulated Amortization | September 30, Net |
|---|---|---|---|---|---|

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Alliance HealthCard** | | | | | | | | | | |
| Customer lists | 5 | $ | 2,500,000 | $ | (2,416,686) | $ | 83,314 | $ | (2,291,685) | $ | 208,315 |
| **Access Plans USA** | | | | | | | | | | |
| In-force books of business | 5 | | 660,000 | | (363,000) | | 297,000 | | (330,000) | | 330,000 |
| Proprietary programs | 8 | | 300,000 | | (103,125) | | 196,875 | | (93,750) | | 206,250 |
| Total | | $ | 3,460,000 | $ | (2,882,811) | $ | 577,189 | $ | (2,715,435) | $ | 744,565 |

Amortization expense for each of the three month period ended December 31, 2011 and 2010 was $167,376

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**NOTE 6 SUPPLEMENTAL CASH FLOWS INFORMATION**

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

| | September 30, 2011 | September 30, 2010 |
|---|---|---|
| Interest expense | $ | $ 5,963 |
| Income taxes paid | $ 31,406 | $ 126,158 |

**NOTE 7 INCOME TAXES**

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

| | September 30, 2011 | September 30, 2010 |
|---|---|---|
| Current income tax expense | | |
| Federal | $ 956,472 | $ 779,645 |
| State | 78,712 | 67,795 |
| Total current income tax expense | 1,035,184 | 847,440 |
| Deferred income tax (benefit) | | |
| Federal | 164,000 | 133,777 |
| State | 5,000 | 4,201 |
| Total deferred income tax (benefit) | 169,000 | 137,978 |
| Net income tax expense | $ 1,204,184 | $ 985,418 |

**NOTE 8 WAIVER REIMBURSEMENTS LIABILITY**

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

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

Product service expense represented costs the Company incurred on the repair of household merchandise. Plan members that completed their rental purchase term and choose to continue their membership on a month-to-month basis were entitled to repair or replacement of such merchandise by the dealer in cases of mechanical failure. The Company reimbursed the dealer for those costs. This element of a member s plan terminated 12 months following their date of product ownership (12 months following the end of the member s rental term) or at any time that the member did not maintain its month-to-month membership.

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

| | September 30, Quarter Ended, December 31 | September 30, September 30 |
|---|---|---|
| Balance, beginning | $ 699,500 | $ 644,300 |
| Claims paid, | (1,144,964) | (1,460,764) |
| Claims accrued, | 1,003,264 | 1,515,964 |
| Balance, ending | $ 557,800 | $ 699,500 |

**NOTE 9 RELATED PARTY TRANSACTIONS**

The Company occupies its corporate offices and Wholesale Plans Division in Norman, Oklahoma under a lease that expires September 30, 2012. The total leased space is approximately 6,523 square feet. The lease agreement was with Southwest Brokers, Inc., a company owned by Brett Wimberley, one of the Company s Directors, President and Chief Financial Officer. This lease was executed on May 1, 2005, amended on August 1, 2006 and August 1, 2008, September 30, 2009, September 30, 2010 and September 30, 2011. In the event the Company is required to move from the current Norman, Oklahoma office facilities, the terms and cost of occupancy may be substantially different than those under which the office space is currently occupied and the rental rate may be substantially greater.

The Company s rent expense associated with this related party transaction was approximately $25,000 for the each of the three month periods ending December 31, 2011 and 2010.

**NOTE 10 SEGMENT REPORTING**

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

In November, 2011 the Company s board of directors advised management to use its best efforts to explore the sale of or discontinue the Insurance Marketing segment business. AHCP is the centerpiece of the Insurance Marketing Division. AHCP distributes major medical, short term medical, critical illness and related health insurance products to small businesses, self-employed and other individuals and families through a network of independent agents which have carrier appointments through AHCP. As a result of the pending sale or discontinuing operations of AHCP, the related assets, liabilities, results of operations and cash flows have been classified as discontinued operations in the accompanying consolidated financial statements.

Reportable business segment information follows.

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

*($ in thousands)*

| | September 30, For the Three Months Ended December 31, 2011 | September 30, 2010 | September 30, % Change |
|---|---|---|---|
| **Revenues by segment** | | | |
| Wholesale Plans | $ 6,452 | $ 6,054 | 7% |
| Retail Plans (a) | 3,524 | 4,574 | (23%) |
| Corporate (holding company) | | | |
| Intercompany Eliminations | (1,507) | (1,415) | 6% |
| **Total** | **$ 8,469** | **$ 9,213** | **(8%)** |
| **Gross margin by segment** | | | |
| Wholesale Plans | $ 2,642 | $ 2,312 | 14% |
| Retail Plans (a) | 2,197 | 2,390 | (8%) |
| Corporate (holding company) | | | |
| **Total** | **$ 4,839** | **$ 4,702** | **(3%)** |
| **Operating income by segment** | | | |
| Wholesale Plans | $ 2,226 | $ 1,810 | 23% |
| Retail Plans (a) | | | |