**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 1**

**TO**

**FORM 10-QSB/A**

(Mark One)

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

For the quarterly period ended September 30, 2006

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

For the transition period from _________________ to __________________

Commission file number: 000-50014

**HEALTHCARE BUSINESS SERVICES GROUPS, INC.**
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| NEVADA | 88-0478644 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

1126 West Foothill Blvd, Suite 105, Upland, CA 91786
(Address of principal executive offices)

(909) 608-2035
(Registrant's telephone number)

N/A
(Former name and address)

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

As of November 22, 2006, 33,960,450 shares, $0.001 par value of the Company s common stock ( Common Stock ) of the issuer were outstanding.

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## PART I FINANCIAL INFORMATION

### HEALTHCARE BUSINESS SERVICES GROUPS INC.

### CONSOLIDATED BALANCE SHEET

### SEPTEMBER 30, 2006

### UNAUDITED

**ASSETS**

| | RESTATED |
|---|---|
| **CURRENT ASSETS** | |
| Cash & cash equivalents | $ 244,455 |
| Prepaid expenses | 60,000 |
| **Total current assets** | 304,455 |
| | |
| **PROPERTY AND EQUIPMENT, net** | 45,578 |
| | |
| **INTANGIBLE ASSET, net** | |
| Website technology costs, net | 60,520 |
| | |
| **PREPAID EXPENSES - LONG TERM** | 105,000 |
| | |
| **DEPOSITS** | 3,650 |
| | $ 519,203 |

**LIABILITIES AND STOCKHOLDERS' DEFICIT**

| | |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts payable and accrued expenses | $ 1,388,259 |
| Due to the officer | 150,352 |
| Litigation accrual | 575,747 |
| Lines of credit | 96,360 |
| Derivative liability | 2,020,224 |
| Notes payable, net | 18,938 |
| **Total current liabilities** | 4,249,880 |

| | |
|---|---|
| **LONG TERM NOTE PAYABLE, NET** | 87,135 |
| | |
| **COMMITMENTS & CONTINGENCIES** | - |
| | |
| **STOCKHOLDERS' DEFICIT** | |
| Preferred stock, $0.001 par value; Authorized shares 5,000,000, none issued and outstanding | - |
| Common stock, $0.001 par value; Authorized shares 750,000,000, 33,960,450 shares issued and outstanding | 33,960 |
| Additional paid in capital | 1,509,864 |
| Shares to be issued | 62,250 |
| Accumulated deficit | (5,423,886) |
| **Total stockholders' deficit** | (3,817,812) |
| | $ 519,203 |

The accompanying notes are an integral part of these consolidated financial statements.

**HEALTHCARE BUSINESS SERVICES GROUPS INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**UNAUDITED**

| | For the three month periods ended September 30 | | For the nine month periods ended September 30 | |
|---|---|---|---|---|
| | 2006 RESTATED | 2005 RESTATED | 2006 RESTATED | 2005 RESTATED |
| **Net revenues** | $ 254,800 | $ 380,782 | $ 900,417 | $ 1,107,612 |
| **Operating expenses** | | | | |
| General and administrative expenses | 620,720 | 358,357 | 1,284,733 | 1,215,732 |
| Officer Compensation | 172,500 | 150,000 | 483,750 | 450,000 |
| Depreciation and amortization | 26,554 | 26,347 | 85,205 | 81,520 |
| **Total operating expenses** | 819,774 | 534,704 | 1,853,688 | 1,747,252 |
| **Loss from Operations** | (564,974) | (153,922) | (953,271) | (639,640) |
| **Other income (expenses):** | | | | |
| Interest expense and financing cost | (771,391) | (5,769) | (800,515) | (58,001) |
| Change in fair value of derivative liability | 5,605 | - | 5,605 | - |
| Gain on settlement of debt | - | 26,082 | - | 26,082 |
| **Total other income (expenses)** | (765,786) | 20,313 | (794,910) | (31,919) |
| Provision for income taxes | - | - | 1,700 | 2,400 |
| **Net loss** | $ (1,330,760) | $ (133,609) | $ (1,749,881) | $ (673,959) |
| **Basic & diluted net loss per share** | $ (0.04) | $ (0.00) | $ (0.05) | $ (0.02) |
| **Basic & diluted weighted average number of common stock outstanding** | 33,960,450 | 31,423,007 | 33,960,236 | 31,141,032 |

* Weighted average number of shares used to compute basic and diluted loss per share is the same since  the effect of dilutive securities is anti-dilutive.

The accompanying notes are an integral part of these consolidated financial statements.

## HEALTHCARE BUSINESS SERVICES GROUPS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## UNAUDITED

| | For the nine month periods ended September 30 | |
|---|---|---|
| | 2006 RESTATED | 2005 RESTATED |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (1,749,881) | $ (673,959) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 85,205 | 81,520 |
| Issuance of shares for service | 12 | 46,889 |
| Shares to be issued for compensation | 33,750 | - |
| Beneficial conversion feature expense | 724,716 | - |
| Change in fair value of derivative liability | (5,605) | - |
| Gain on settlement of debt | - | 26,082 |
| Amortization of shares issued for consulting expense | 51,611 | - |
| (Increase) decrease in current assets: | | |
| Receivables | 4,458 | - |
| Prepaid expenses | (165,000) | - |
| Other assets | - | (611) |
| Increase in current liabilities: | | |
| Accounts payable and accrued expenses | 219,726 | 24,175 |
| Derivative liability | (92,740) | - |
| Litigation accrual | (100,000) | - |
| Net cash used in operating activities | (993,748) | (495,904) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property & equipment | - | (40,830) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from notes payable | 1,300,000 | 337,259 |
| Payment of notes payable | (347,588) | (10,500) |
| Proceeds from issuance of shares for cash | - | 5,000 |
| Proceeds from line of credit | (17,332) | 17,113 |

| | | |
|---|---|---|
| Net cash provided by financing activities | 935,080 | 348,872 |
| | | |
| NET DECREASE IN CASH & CASH EQUIVALENTS | (58,668) | (187,862) |
| | | |
| **CASH & CASH EQUIVALENTS, BEGINNING BALANCE** | 303,123 | 243,604 |
| | | |
| **CASH & CASH EQUIVALENTS, ENDING BALANCE** | $ 244,455 | $ 55,742 |

Supplementary Information:

Cash paid during the year for:

| | | |
|---|---|---|
| Interest | $ 5,122 | $ 13,928 |
| Income taxes | $ 1,700 | $ - |

The accompanying notes are an integral part of these consolidated financial statements.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

### *(A) Organization and Nature of Business*

Healthcare Business Services Groups Inc. (herein referred to as "Healthcare" or "Company formerly known as Winfield Financial Group, Inc.) ("Winfield") was formed in Nevada in May 2000. On April 23, 2004, Winfield acquired 100% of the issued and outstanding shares of Healthcare, a Delaware corporation. As part of the same transaction on May 7, 2004, Winfield acquired 100% of the issued and outstanding shares of AutoMed Software Corp., a Nevada corporation ("AutoMed"), and 100% of the membership interests of Silver Shadow Properties, LLC, a Nevada single member limited liability company ("Silver Shadow"). The transactions are collectively referred to herein as the "Acquisition." As a result of the Acquisition, Winfield acquired 100% of three corporations.

Winfield acquired Healthcare, AutoMed, and Silver Shadow from the sole owner, in exchange for 25,150,000 newly issued treasury shares of the Winfield's common stock. Immediately after these transactions, there were 31,414,650 shares of Winfield's common stock outstanding. As a result, control of Winfield shifted to the sole owner who owns approximately 80.0% of Winfield's common stock, and the Company changed its name to Healthcare. Here in after all references to Winfield refers to Healthcare, AutoMed, and Silver Shadow as a collective whole since their various inceptions.

The merger of the Company with Healthcare Business Services Groups Inc., has been accounted for as a reverse acquisition under the purchase method of accounting since the shareholders of Healthcare Business Services Groups Inc. obtained control of the consolidated entity. Accordingly, the merger of the two companies has been recorded as a recapitalization of the Healthcare Business Services Groups Inc., with Healthcare Business Services Groups Inc. being treated as the continuing entity. The continuing company has retained December 31 as its fiscal year end.

Healthcare is a medical billing service provider that for over fifteen years has assisted various health care providers to successfully enhance their billing function. Healthcare has a diversified market base with operations in Upland, California. Healthcare's sister company, AutoMed, has developed a proprietary software system.

On January 7, 2005, the Company changed its name to Healthcare Business Services Group, Inc.

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**PRINCIPLES OF CONSOLIDATION**

The accompanying consolidated financial statements include the accounts of Healthcare Business Services Groups Inc. and its wholly owned subsidiaries, AutoMed Software Corp. and Silver Shadow Properties, LLC (the Company ). All significant inter-company accounts and transactions have been eliminated in consolidation. The acquisition of Healthcare Business Services Groups Inc., on May 7, 2004, has been accounted for as a purchase and treated as a reverse acquisition. The historical results for the nine month periods ended September 30, 2006 and September 30, 2005 include Healthcare Business Services Groups Inc. and the Company.

***(B) Use of Estimates***

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statements disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from those estimates.

***(C) Revenue Recognition***

The Company's revenue recognition policies are in compliance with Staff accounting bulletin SAB 104. All revenue is recognized when persuasive evidence of an arrangement exists, the service or sale is complete, the price is fixed or determinable and collectibility is reasonably assured. Revenue is derived from collections of medical billing services. Revenue is recognized when the collection process is complete which occurs when the money is collected and recognized on a net basis.

License Revenue - The Company recognizes revenue from license contracts when a non-cancelable, non-contingent license agreement has been signed, the software product has been delivered, no uncertainties exist surrounding product acceptance, fees from the agreement are fixed and determinable and collection is probable. Any revenues from software arrangements with multiple elements are allocated to each element of the arrangement based on the relative fair values using specific objective evidence as defined in the SOPs. If no such objective evidence exists, revenues from the arrangements are not recognized until the entire arrangement is completed and accepted by the customer. Once the amount of the revenue for each element is determined, the Company recognizes revenues as each element is completed and accepted by the customer. For arrangements that require significant production, modification or customization of software, the entire arrangement is accounted for by the percentage of completion method, in conformity with Accounting Research Bulletin ( ARB ) No. 45 and SOP 81-1.

Services Revenue - Revenue from consulting services is recognized as the services are performed for time-and-materials contracts and contract accounting is utilized for fixed-price contracts. Revenue from training and development services is recognized as the services are performed. Revenue from maintenance agreements is recognized ratably over the term of the maintenance agreement, which in most instances is one year.

***(D) Software development Costs***

The Company complied with Statement of Position 98-1 ("SOP 98-1") "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", as accounting policy for internally developed computer software costs. Under SOP 98-1, we capitalized software development costs incurred during the application development stage.

Subsequently, the Company decided to market the software AutoMed. Therefore the Company is following the guideline under SFAS 86. SFAS 86 specifies that costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development until technological feasibility has been established for the product. Thereafter, all software production costs shall be capitalized and subsequently reported at the lower of unamortized cost or net realizable value.

Capitalized costs is being amortized based on current and future revenue for the product (AutoMed) with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product.

***(E) Impairment of Long-Lived Assets***

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal.

***(F) Stock-based Compensation***

The company adopted SFAS No. 123-R effective January 1, 2006 using the modified prospective method. Under this transition method, stock compensation expense includes Compensation expense for all stock-based compensation awards granted on or after January 1,2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

Prior to January 1, 2006, the company measured stock compensation expense using the intrinsic value method of accounting in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations (APB No. 25) and has opted for the disclosure provisions of SFAS No. 123. Thus, expense was generally not recognized for the company s employee stock option and purchase plans.

There were no unvested stock options as of December 31, 2005 and the Company has neither granted nor vested any stock options during the nine month period ended September 30, 2006.

***(G) Fair Value of Financial Instruments***

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts of the Company s accounts and other receivables, accounts payable, accrued liabilities, factor payable, capital lease payable and notes and loans payable approximates fair value due to the relatively short period to maturity for these instruments.

***(H) Concentrations of Risk***

Financial instruments which potentially subject the Company to concentrations of credit risk are cash and accounts receivable. The Company places its cash with financial institutions deemed by management to be of high credit quality. The amount on deposit in any one institution that exceeds federally insured limits is subject to credit risk. All of the Company s revenue and majority of its assets are derived from operations in Unites States of America.

(I) Reporting Segments

Statement of financial accounting standards No. 131, Disclosures about segments of an enterprise and related information (SFAS No. 131), which superceded statement of financial accounting standards No. 14, Financial reporting for segments of a business enterprise, establishes standards for the way that public enterprises report information about operating segments in annual financial statements.

Healthcare is a medical billing service provider.  Healthcare  s sister company, AutoMed, has developed a proprietary software system. In addition, Healthcare's other sister company,

There has been very insignificant activity in Automed and Silver Shadow. Hence the Company has determined it has only one segment.

***(J) Comprehensive Income***

Statement of financial accounting standards No. 130, Reporting comprehensive income (SFAS No. 130), establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity, except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in financial statements that are displayed with the same prominence as other financial statements.

***(K) Reclassifications***

For comparative purposes, prior years' consolidated financial statements have been reclassified to conform to report classifications of the current year.

***(L) New Accounting Pronouncements***

In September 2006, FASB issued SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R) This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

a)

A brief description of the provisions of this Statement b)

The date that adoption is required

c)

The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. Management is currently evaluating the effect of this pronouncement on financial statements.

In September 2006, FASB issued SFAS 157 Fair Value Measurements . This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in these accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

In March 2006 FASB issued SFAS 156 'Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1.

Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.

2.

Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

3.

Permits an entity to choose 'Amortization method' or Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities:

4.

At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

5.

Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the financial statement.

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAF No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. Management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

***(M) Basis of presentation***

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for the presentation of interim financial information, but do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited consolidated financial statements for the year ended December 31, 2005 were filed on April 15, 2006 with the Securities and Exchange Commission and are hereby referenced. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

***(N) Issuance of shares for service***

The Company accounts for the issuance of equity instruments to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable.

***(O) Basic and Diluted Net Loss Per Share***

Net loss per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share". Basic net loss per share is based upon the weighted average number of common shares outstanding. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to e exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti- dilutive.

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**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment at September 30, 2006 consisted of the following:

| | |
|---|---|
| Office and computer equipment | $ 124,965 |
| Furniture and fixtures | 89,868 |
| | 214,833 |
| Less accumulated depreciation | (169,255) |
| | $ 45,578 |

Depreciation expense for the three month and nine month periods ended September 30, 2006 was $ 4,898 and $18,421, respectively. Depreciation expense for the three month and nine month periods ended September 30, 2005 was $8,252 and $ 25,103, respectively.

**NOTE 3 INTANGIBLE ASSETS**

The Company is accounting for computer software technology costs under the Capitalization criteria of Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

Expenditures for maintenance and repairs are expensed when incurred; additions, renewals and betterments are capitalized. Amortization is computed using the straight-line method over the estimated useful life of the asset (3 years). Amortization begins from the date when the software becomes operational. The website became operational from July 1, 2004. The Company amortized $ 21,626 and $ 66,784 for the three month and nine month periods ending September 30, 2006, respectively. The Company amortized $18,808 and $ 56,417 for the three month and nine month periods ending September 30, 2005 respectively. The balance at September 30, 2006 amounts to $ 60,520.

The amortization for the remaining period of 2006 will be $ 20,173 and for the year 2007 is 40,347. The software development cost will be 100% amortized at the end of 2007.

**NOTE 4 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

| | |
|---|---|
| Trade payable | $ 278,361 |
| Accrued expenses | 103,737 |
| Accrued interest | 16,500 |
| Income tax payable | 7,955 |
| Accrued payroll liabilities | 12,627 |
| Accrued vacation and sick time | 13,114 |
| Equipment payable | 1,115 |
| Payable to clients | 914,574 |
| Credit cards payable | 40,277 |
| Total accounts payable and accrued expenses | $ 1,388,259 |

**NOTE 5 LINE OF CREDIT**

The Company has two revolving lines of credit from two financial institutions for $50,000 and $75,000. The credit lines are unsecured and bear an annual interest rate of 10.75% and 16.24%, respectively. The credit lines are personally guaranteed by the CEO of the Company. The Company has borrowed $22,412 and $73,948 from the credit lines as of September 30, 2006.

**NOTE 6 NOTES PAYABLE**

Notes payable are summarized as follows:

| | **September 30, 2006** |
|---|---|
| CURRENT | |
| Equipment loan: May 2003 due April 2008; payable in monthly installments of $1,030; annual interest of 14%; secured | $ 18,938 |
| LONG TERM | |
| $ 1,300,000 callable convertible secured note net of the unamortized discount ( See note 7) | $ 87,135 |

The Company recorded interest expense of $ 30,876 and $ 60,843 on notes for the three and nine month periods ended September 30, 2006, respectively. The Company recorded interest expense of $15,337 and $ 42,418 on notes for the three and nine month periods ended September 30, 2005 respectively.

The Company had note payable of $350,000, which was settled on July 3, 2006 from the funds received from the new Convertible Promissory Notes. Interest payment of $68,353 was paid on August 14, 2006 from the Second trench funds received from the new Convertible Promissory Notes. (See note 7 for details). The Company recorded $88,248 as change in fair value of derivative liability.

The Company had another note payable of $75,258 which was also settled during the quarter along with interest payment of $10,742.

**NOTE 7 CALLABLE CONVERTIBLE SECURED NOTE AND SECURITIES PURCHASE AGREEMENT**

On June 27, 2006, the Company entered into a Securities Purchase Agreement (the Securities Purchase Agreement ) with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the Investors ). Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) $2,000,000 in callable convertible secured notes (the Notes ) and (ii) warrants to purchase 50,000,0000 shares of our common stock (the Warrants ).

Pursuant to the Securities Purchase Agreement, the Investors will purchase the Notes and Warrants in three tranches as set forth below:

1.

At closing on June 29, 2006 ( Closing ), the Investors purchased Notes aggregating $700,000 and warrants to purchase 50,000,0000 shares of our common stock;

2.

Upon the filing of a registration statement registering the shares of common stock underlying the Notes ( Registration Statement ), the Investors will purchase Notes aggregating $600,000; and,

3.

Upon effectiveness of the Registration Statement, the Investors will purchase Notes aggregating $700,000.

The Notes carry an interest rate of 6% and a maturity date of June 27, 2009. The notes are convertible into our common shares at the Applicable Percentage of the average of the lowest three (3) trading prices for our shares of common stock during the twenty (20) trading day period prior to conversion. The Applicable Percentage means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing and (ii) 60% in the event that the Registration Statement becomes effective within one hundred and twenty days from the Closing.

The Company has an option to prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below $.05 per share. In addition, in the event that the average daily price of the common stock, as reported by the reporting service, for each day of the month ending on any determination date is below $.05, the Company may prepay a portion of the outstanding principal amount of the Notes equal to 101% of the principal amount hereof divided by thirty-six (36) plus one month s interest. Exercise of this option will stay all conversions for the following month. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

The Company simultaneously issued to the Investors seven year warrants to purchase 50,000,000 shares of common stock at an exercise price of $0.07.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of the Company s common stock such that the number of shares of the Company s common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company s common stock.

The Company has received the $ 1,300,000 through September 30, 2006.

The Company recorded the note at $ 87,135 net of unamortized discount of $ 1,212,865.

The Company computed the beneficial conversion liability of $ 1,300,000 and warrant liability of $ 720,224 based on Black Scholes model. These amounts have been reflected on the financials as derivative liability in amount of $ 2,020,224.

The Company prepaid lender attorney fees and broker commission of $ 180,000. The Company has amortized $ 15,000 in the accompanying financials and the balance of $165,000 has been reflected as prepaid expenses.

The Company is in default of the note as its registration statement has not become effective as stipulated by the agreement. The note is immediately due and payable and has been shown as a current liability in the accompanying financials.

**NOTE 8 RELATED PARTY TRANSACTION**

The Company recorded $ 33,750 as officer compensation for 750,000 shares to be issued pursuant to the employment agreement. The Company has note payable of $ 150,352 to the officer as of September 30, 2006. The note is interest free, unsecured and due on demand.

**NOTE 9 STOCKHOLDERS' DEFICIENCY**

**Common Stock**

The Company increased its authorized capital to 750,000,000 shares from 50,000,000 shares of common stock $0.001 par value as of September 30, 2006. The Company currently has 33,960,450 common shares issued and outstanding.

During the nine month period ended September 30, 2006, the Company issued 300 shares to consultants for services rendered. The Company recorded expense in the books based on the market value of the shares on the date of issuance of shares to the consultants.

The Company recorded $ 33,750 as officer compensation for 750,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market rate.

**Class B Preferred Stock**

The Company  s Articles of Incorporation (Articles  ) authorize the issuance of 50,000,000 shares of no par value Class B Preferred Stock.  No shares of Preferred Stock are currently issued and outstanding.

**NOTE 10  COMMITMENTS AND CONTINGENCIES**

During the nine month period ended September 30, 2006, the Company leased its corporate offices space in Upland, California under operating lease agreements.  The Upland facility lease calls for a monthly rent of $3,387. The operating lease expires in November 2006 and has renewal options.  Rent expense under operating leases for the nine month period ended September 30, 2006 was $ 37,669.

Future minimum lease payments are as follows:

| Year | Amount |
|---|---|
| 2006 | $ 6,774 |

**NOTE 11 GOING CONCERN**

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the company as a going concern. As of September 30, 2006 the accumulated deficit amounting to $ 5,423,886, net loss amounting $ 1,749,881 and working capital deficit amounting to $3,945,425. In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheet is dependent upon continued operations of the company, which in turn is dependent upon the Company s ability to raise additional capital, obtain financing and succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. The Company is actively pursuing additional funding and seeking new clients for medical billings, which would enhance stockholders investment. Management believes that the above actions will allow the Company to continue operations through the next fiscal year.

**NOTE 12 LITIGATION**

The Company is defendant in multiple lawsuits initiated either by the company or former clients of the Company. The complaints allege that the Company and its officers improperly withheld monies from the clients. The complaints allege, among others, claims for breach of contract and breach of fiduciary duty. The plaintiffs seek compensatory and punitive damages, prejudgment interest, costs and attorney fees. The parties have conducted discovery and permission to take additional discovery is being sought.

1.

On July 12, 2004, Nimish Shah, M.D. d/b/a New Horizon Medical, Inc. ( New Horizon ) initiated a lawsuit against the Company in the Superior Court of California, County of Los Angeles, Case No. VC 042695, styled New Horizon Medical, Inc. v. HBSGI, et al. The complaint raises a claim for breach of contract against the Company. The complaint alleges that the Company failed to remit sums due to New Horizon. On April 8, 2005, the court dismissed the action and referred it to arbitration. Since May 2005, there have been a number of telephonic conferences held with the assigned arbitrator. Each of these calls has focused on the voluntary exchange of insurance payment records by the parties. In connection with arbitration, the Company has claimed against New Horizon the compensatory damages in the amount of $75,000 (subject to amendment), prejudgment interest, costs and attorneys fees in an unspecified amount. New Horizon has not submitted a cross-complaint against the Company for the breach of contract alleging that there is substantial discrepancy between the amounts of bills provided by New Horizon to the Company, for the purpose of securing payment from various insurance companies, and the funds actually received from the Company. The arbitrator has suspended this case for non payment of arbitration fees.

New Horizon contends that the there are amounts in controversy of around $ 1,000,000. The Company has denied the allegations. The matter is in its initial stages. Healthcare contends that it does not hold or owe any money to defendant and has made counter claim. Hearing on this is suspended due to non payment.

2.

On July 11, 2002, Plaintiff Kamran Ghadimi initiated a lawsuit against HBSGI and others in the Superior Court of California, County of San Bernardino, Case No. RCV 064904, styled Karman Ghadimi v. Chandana Basu, et al.

The complaint alleges that HBSGI, its president and certain affiliated companies, improperly withheld approx. $ 400,000 from Ghadimi. The complaint alleges, among others, claims for breach of contract and breach of fiduciary duty. Plaintiff seeks compensatory and punitive damages, prejudgment interest, costs and attorney s fees. HBSGI refutes Ghadimi s claim and denied the allegations and filed counter claim. Company settled this dispute on May 17, 2006 for an amount of $95,000. $50,000 paid on May 17, 2006 and we have been paying $5,000 per month. As of September 30, 2006 the Company owes $25,000 which has bee accrued.

3.

In January 2004, Claimant Leonard J. Soloniuk, MD initiated an arbitration against HBSGI with the American Arbitration Association, Case No. 72 193 00102 04 TMS, styled Leonard J. Soloniuk, MD v. HBSGI

The complaint alleges that HBSGI failed to properly bill and collect fees, intentionally miscoded bills, intentionally withheld collection proceeds due to Soloniuk, breached its billings agreement, and otherwise engaged in fraudulent conduct.

HBSGI refuted Soloniuk s claims and filed a counter claim.

In a decision dated April 5, 2006, the arbitrator awarded HBSGI nothing against Soloniuk. The arbitrator further awarded Soloniuk $ 275,000 against the HBSGI as well as interest accruing from June 1, 2006, at the rate of ten percent per annum on the unpaid balance. The arbitrator further ordered HBSGI to reimburse Soloniuk costs in the amount of $ 1,875.

The Company filed motion to vacate this judgment. This motion was denied; however, the Company is challenging the decision on other grounds. Specifically, the Company argues that of this $275,000, $210,000 was already paid to Soloniuk since November 4, 2002, last date of payment were considered by arbitrator and therefore the judgment should be reduced accordingly. The Company can provide no assurances that it will be successful in this argument.

4.

On September 20, 1999, Mohammad Tariq, MD was granted a default judgment in the District Court of Collin County, Texas, 380th Judicial District in the amount of $280,835.10, plus prejudgment and post-judgment interest against Healthcare Business Services Group, Inc., d/b/a/ Peacock Healthcare. This entity is unrelated to HBSGI. Accordingly, we never received notice of this action or judgment nor have we paid any money with respect to such default judgment. The default judgment relates to a contract for billing services between Healthcare and Dr. Tariq entered into in 1996. After termination of the contract, Dr. Tariq requested an accounting of the amounts collected from his patients by Healthcare in connection with the billing services. In July 1999, Healthcare sent an accounting to Dr. Tariq in the amount of $275,355 collected, $42,512 charged by Healthcare as its fee, and $222,298 paid to Dr. Tariq. Tariq diverted the rest of the collection from Healthcare billing and did not pay Healthcare fees. Although Healthcare has not taken legal steps to defend itself against the default judgment, Healthcare claims to have not received proper notice from Dr. Tariq of the civil action and default judgment.

Kamran Ghadimi bought the Tariq judgment in April 28, 2006 and pursuing collection in California. Healthcare now attacked the complaint on the basis of improper service, misconducts committed by Tariq and interlocutory judgment was not final and filed answer to the original complaints and filed claims for fees and damages and seeking a new trial in Texas. Hearing for interlocutory judgment is set for Friday Oct 13, 2006. Healthcare filed motion to vacate the sister state judgment in California on the grounds of defective service and misconducts by Tariq. Hearing in California is not set as of this date

This matter was settled on November 8, 2006 for $185,000. The Company paid $15,000 as of September 30, 2006, $110,000 to be paid on or before February 7, 2007 and $3,000 per month for 60 months starting January 1st, 2007.

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. Other than the legal proceedings listed below, we are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. However, we may become involved in material legal proceedings in the future.

**NOTE 13 RESTATEMENTS**

Subsequent to the issuance of the Company's financial statements for the nine month periods ended September 30, 2006 and 2005, the Company determined that certain transactions and presentation in the financial statements had not been accounted for properly in the Company's financial statements. Specifically, the amount of derivative liability arising from the issuance of convertible notes was not recorded correctly.

The Company has restated its financial statements for these adjustments as of September 30, 2006 and 2005.

The effect of the restatement is as follows:

| BALANCE SHEET: | RESTATED | REPORTED |
|---|---|---|
| CURRENT LIABILITIES | | |
| Derivative liability | $ 2,020,224 | $ 1,374,965 |
| | | |
| STOCKHOLDERS' DEFICIT: | | |
| Accumulated Deficit | $ (5,423,886) | $ (4,778,627) |
| TOTAL STOCKHOLDERS' DEFICIT | $ (3,817,812) | $ (3,172,553) |
| | | |
| STATEMENTS OF OPERATION: | | |
| OTHER INCOME/EXPENSE: | | |
| Interest expense and financing cost | | |
| Three-month period ended Sep. 30, 2006 | $ (771,391) | $ (227,428) |
| Nine-month period ended Sep. 30, 2006 | $ (800,515) | $ (256,552) |
| | | |
| Change in fair value of derivative liability | | |
| Three-month period ended Sep. 30, 2006 | $ 5,605 | $ 106,901 |
| Nine-month period ended Sep. 30, 2006 | $ 5,605 | $ 106,901 |
| | RESTATED | REPORTED |
| Gain on sale of land | | |
| Nine-month period ended Sep. 30, 2005 | $ 0 | $ 261,863 |
| | | |
| Total other income (expense) | | |
| Three-month period ended Sep. 30, 2006 | $ (765,786) | $ (120,527) |
| Nine-month period ended Sep. 30, 2006 | $ (794,910) | $ (149,651) |
| Nine-month period ended Sep. 30, 2005 | $ (31,919) | 229,944 |

| NET LOSS | | |
|---|---|---|
| Three-month period ended Sep. 30, 2006 | $ (1,330,760) | $ (685,501) |
| Nine-month period ended Sep. 30, 2006 | $ (1,749,881) | $ (1,104,622) |
| Nine-month period ended Sep. 30, 2005 | $ (673,959) | $ (438,173) |

| | RESTATED | REPORTED |
|---|---|---|
| STATEMENTS OF CASH FLOWS: | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | | |
| Nine-month period ended Sep. 30, 2006 | $ (1,749,881) | $ (1,104,622) |
| Nine-month period ended Sep. 30, 2005 | $ (673,959) | $ (438,173) |
| | | |
| Adjustments to reconcile net loss to net cash used in | | |
| operating activities: | | |
| Beneficial conversion feature | | |
| Nine-month period ended Sep. 30, 2006 | $ 724,716 | $ 87,135 |
| | | |
| Change in fair value of derivative liability | | |
| Nine-month period ended Sep. 30, 2006 | $ (5,605) | $ (106,901) |
| | | |
| Gain on sale of land | | |
| Nine-month period ended Sep. 30, 2005 | $ 0 | $ (261,863) |
| | | |
| Increase in accounts payable & accrued expenses | | |
| Nine-month period ended Sep. 30, 2006 | $ 219,726 | $ 214,121 |
| Nine-month period ended Sep. 30, 2005 | $ 24,175 | $ 50,258 |
| | | |
| Increase/(decrease) in derivative liability | | |
| Nine-month period ended Sep. 30, 2006 | $ (92,740) | $ 112,556 |
| | | |
| Net cash used in operations | | |
| Nine-month period ended Sep.30, 2006 | $ (993,748) | $ (887,675) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of notes payable | | |
| Nine-month period ended Sep.30, 2006 | $ (347,588) | $ (453,661) |
| | | |
| Net cash provided by financing activities | | |
| Nine-month period ended Sep.30, 2006 | $ 935,080 | $ 829,007 |

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

This report contains forward looking statements within the meaning of section 27a of the securities act of 1933, as amended and section 21e of the securities exchange act of 1934, as amended. The company's actual results could differ materially from those set forth on the forward looking statements as a result of the risks set forth in the company's filings with the securities and exchange commission, general economic conditions, and changes in the assumptions used in making such forward looking statements.

**OVERVIEW**

Winfield Financial Group, Inc. (the Registrant ) was incorporated in the State of Nevada on May 2, 2000. Prior to the Acquisition, discussed below, the Registrant was a business broker, primarily representing sellers and offering its clients' businesses for sale. As a result of the Acquisition, the Registrant changed its business focus.

On April 7, 2004, the Registrant filed Articles of Exchange with the State of Nevada to take effect on such date. Under the terms of the Articles of Exchange, the Registrant was to acquire Vanguard Commercial, Inc., a Nevada corporation ( Vanguard ) whereby the Registrant was to issue 197,000 of its shares of Common Stock in exchange for all of the issued and outstanding Common Stock of Vanguard. Robert Burley, a former Director of the Registrant and the Registrant s former President, Chief Executive Officer and Treasurer is also an officer and director of Vanguard. Subsequent to the effective date of the exchange with Vanguard, the Registrant and Vanguard mutually agreed to rescind the transaction. The Registrant filed a Certificate of Correction with the State of Nevada rescinding the exchange with Vanguard, which never took place and the Registrant never issued any of its shares with respect thereto.

On April 22, 2004, the Registrant amended its Articles of Incorporation to increase the authorized shares to Fifty Million (50,000,000) shares of Common Stock, to reauthorize the par value of $.001 per share of Common Stock and to reauthorize 5,000,000 shares of preferred stock with a par value of $.001 per share of preferred stock.

On April 23, 2004, the Registrant acquired 100% of the issued and outstanding shares of Healthcare Business Services Groups, Inc., a Delaware corporation ( Healthcare ). As part of the same transaction on May 7, 2004, the Registrant acquired 100% of the issued and outstanding shares of AutoMed Software Corp., a Nevada corporation ( AutoMed ), and 100% of the membership interests of Silver Shadow Properties, LLC, a Nevada single member limited liability company ( Silver Shadow ). The transactions are collectively referred to herein as the Acquisition. The Registrant acquired Healthcare, AutoMed, and Silver Shadow from Chandana Basu, the sole owner, in exchange for 25,150,000 newly issued treasury shares of the Registrant s Common Stock. The term Company shall include a reference to Winfield Financial Group, Inc., Healthcare, AutoMed and Silver Shadow unless otherwise stated. Healthcare, AutoMed and Silver Shadow are sometimes collectively referred to herein as HBSGII.

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On June 21, 2004, the Registrant entered into an agreement with Robert Burley (former Director, President and Chief Executive Officer of the Registrant) and Linda Burley (former Director and Secretary of the Registrant) whereby the Registrant agreed to transfer certain assets owned by the Registrant immediately prior to the change in control in consideration for Mr. and Mrs. Burley s cancellation of an aggregate of 2,640,000 of their shares of the Registrant s Common Stock. The Registrant transferred the following assets to Mr. and Mrs. Burley: i) the right to the name Winfield Financial Group, Inc. ; and ii) any contracts, agreements, rights or other intangible property that related to the Registrant s business operations immediately prior to the change in control whether or not such intangible property was accounted for in the Registrant s financial statements. After the issuance of shares to Ms. Basu and the cancellation of 2,640,000 shares of Mr. and Mrs. Burley, there were 28,774,650 shares of the Registrant s Common Stock outstanding. As a result of these transactions, control of the Registrant shifted to Ms. Basu. Ms. Basu currently owns 25,150,000 shares (or approximately 81.1%) out of 31,040,150 of the Registrant s issued and outstanding Common Stock.

On January 5, 2005, the Registrant changed its name to Healthcare Business Services Groups, Inc. The Registrant is a holding company for HBSGI. The business operations discussed herein are conducted by HBSGI. The Registrant, through HBSGI, is engaged in the business of providing medical billing services to healthcare providers in the United States.

The Company is a medical billing service provider that for over fourteen years has assisted various healthcare providers to successfully enhance their billing function. The Company has a diversified market base with operations in Providence, Rhode Island and Upland, California. The Company has developed a proprietary medical billing software system named AutoMed™. The Company has installed, and is currently ready to market and install, AutoMed™ at some of the Company’s existing medical billing clients. The Company expects that after this software is launched, revenues will grow substantially over the next three to five years extending its billing model into the technology era.

**RESULTS OF OPERATIONS**

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

Revenue for the three months ended September 30, 2006 were $ 254,800 compared to $ 380,782 for the same period in 2005. The decrease in revenues was due to reduction in collections from the customers and hence decrease in commissions earned during the three months ended September 30, 2006 as compared to same period in 2005. The Company expects to earn higher revenues in future since it has hired more marketing representatives.

General & administrative ( G&A ) expense for the three months ended September 30, 2006 was $ 620,720 compared to $ 358,357 for the same period in 2005. The increase in G&A expenses in 2006 was due to increase in costs incurred by the Company in marketing the company s business as well as legal fees paid against settlement of various litigations.

Depreciation and amortization was $ 26,554 for the three months ended September 30, 2006 as compared to $ 26,347 for the same period in 2005. The depreciation and amortization expense is consistent with the prior year since the assets are being depreciated straight line over the life.

Interest expense and financing costs for the three months ended September 30, 2006 was $ 771,391 compared to $ 5,769 for the same period in 2005. The increase in interest expense and financing costs are due to $ 1,300,000 note that Company borrowed during the quarter.

Net loss was $ 1,330,760 (or basic and diluted net loss per share of $(0.04) for the three months ended September 30, 2006 as compared to net loss of $ 133,609 (or basic and diluted net loss per share of $0.00 for the same period in 2005.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

Revenue for the nine months ended September 30, 2006 were $ 900,417 compared to $ 1,107,612 for the same period in 2005. The decrease in revenues was due to reduction in collections from the customers and hence decrease in commissions earned during the nine months ended September 30, 2006 as compared to same period in 2005. The Company expects to earn higher revenues in future since it has hired more marketing representatives. The revenues are recognized on accrual basis of accounting.

General & administrative ( G&A ) expense for the nine months ended September 30, 2006 was $ 1,284,733 compared to $ 1,215,732 for the same period in 2005. The increase in G&A expenses in 2006 was also due to increase in costs incurred by the Company in marketing the company s business as well as legal fees paid against settlement of various litigations.

Depreciation and amortization was $ 85,205 for the nine months ended September 30, 2006 as compared to $ 81,520 for the same period in 2005. The depreciation and amortization expense is consistent with the prior year since the assets are being depreciated straight line over the life

Interest expense and financing costs for the nine months ended September 30, 2006 was $ 800,515 compared to $ 58,001 for the same period in 2005. The increase in interest expense and financing costs are due to $ 1,300,000 note that Company borrowed during the year.

Net loss was $ 1,749,881 (or basic and diluted net loss per share of $(0.05) for the nine months ended September 30, 2006 as compared to net loss of $ 673,959 (or basic and diluted net loss earnings per share of $(0.02) for the same period in 2005. Net loss for the nine month period ended September 30, 2006 was higher as compared to the corresponding period in the last year since the Company incurred more expenses in marketing the business.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company had $ 304,455 in current assets and a working capital deficiency of $ 3,945,425 as of September 30, 2006. The Company had total assets of $ 519,203 as of September 30, 2006, which consisted of $ 244,455 of cash, $ 45,578 of property and equipment, $ 60,520 of intangible assets from the Company s website technology costs, $3,650 of deposits and $ 165,000 in prepaid expenses.

The Company had total current liabilities of $ 4,249,880 as of September 30, 2006, consisting of accounts payable and accrued expenses of $ 1,388,259, litigation accrual of $ 575,747, line of credit of $96,360, note payable to third parties of $ 18,938, due to officer of $ 150,352 and $ 2,020,724 in derivative liability related to $ 1,300,000 note and 50,000,000 warrants associated with the note.

The Company has two revolving lines of credit from two financial institutions for $50,000 and $75,000. The credit lines are unsecured and bear an annual interest rate of 10.75% and 16.24%, respectively. The credit lines are personally guaranteed by the CEO of the Company. The Company has borrowed $22,412 and $73,948 from the credit lines as of September 30, 2006.

Net cash used in operating activities was $ 993,748 during the nine months ended September 30, 2006, as compared to net cash used in operating activities of $ 495,904 during the same period in 2005.

There was no investing activity during the nine months ended September 30, 2006 as compared to net cash used in investing activities of $ 40,830 during the same period in 2005.

Net cash provided by financing activities was $ 935,080 during the nine months ended September 30, 2006, as compared to net cash provided by financing activities of $ 348,872 for the same period in 2005.

The Company does not have any commitments or identified sources of additional capital from third parties or from its officers, directors or majority shareholders. There is no assurance that additional financing will be available on favorable terms, if at all. If the Company is unable to raise such additional financing, it would have a materially adverse effect upon the Company's ability to implement its business plan and may cause the Company to curtail or scale back its current operations.

On June 27, 2006, the Company entered into a Securities Purchase Agreement (the Securities Purchase Agreement ) with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the Investors ). Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) $2,000,000 in callable convertible secured notes (the Notes ) and (ii) warrants to purchase 50,000,0000 shares of our common stock (the Warrants ).



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Pursuant to the Securities Purchase Agreement, the Investors will purchase the Notes and Warrants in three tranches as set forth below:

1.

At closing on June 29, 2006 ( Closing ), the Investors purchased Notes aggregating $700,000 and warrants to purchase 50,000,0000 shares of our common stock;

2.

Upon the filing of a registration statement registering the shares of common stock underlying the Notes ( Registration Statement ), the Investors will purchase Notes aggregating $600,000; and,

3.

Upon effectiveness of the Registration Statement, the Investors will purchase Notes aggregating $700,000.

The Notes carry an interest rate of 6% and a maturity date of June 27, 2009. The notes are convertible into our common shares at the Applicable Percentage of the average of the lowest three (3) trading prices for our shares of common stock during the twenty (20) trading day period prior to conversion. The Applicable Percentage means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing and (ii) 60% in the event that the Registration Statement becomes effective within one hundred and twenty days from the Closing.

The Company has an option to prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below $.05 per share. In addition, in the event that the average daily price of the common stock, as reported by the reporting service, for each day of the month ending on any determination date is below $.05, the Company may prepay a portion of the outstanding principal amount of the Notes equal to 101% of the principal amount hereof divided by thirty-six (36) plus one month s interest. Exercise of this option will stay all conversions for the following month. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

The Company simultaneously issued to the Investors seven year warrants to purchase 50,000,000 shares of common stock at an exercise price of $.07.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of the Company s common stock such that the number of shares of the Company s common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company s common stock.

The Company has received the $ 1,300,000 through September 30, 2006.

The Company recorded the note at $ 87,135 net of unamortized discount of $ 1,212,865.

The Company computed the beneficial conversion liability of $ 1,300,000 and warrant liability of $ 720,224 based on Black Scholes model. These amounts have been reflected on the financials as derivative liability in amount of $ 2,020,224.

The Company prepaid lender attorney fees and broker commission of $ 180,000. The Company has amortized $ 15,000 in the accompanying financials and the balance of $165,000 has been reflected as prepaid expenses.

**RISK FACTORS**

WE NEED A SUBSTANTIAL AMOUNT OF ADDITIONAL FINANCING.

In addition to its continued medical billing operation, the Company has planned to begin marketing AutoMed. The Company believes that it can satisfy the current cash requirements for Medical Billing, if the Company maintains its operations as they are currently. The Company needs to raise $3 to $5 million of additional financing to implement its business plan with respect to AutoMed .

The Company intends to raise the additional capital in one or more private placements. The Company does not have any commitments or identified sources of additional capital from third parties or from its officers, directors or majority shareholders. There is no assurance that additional financing will be available on favorable terms, if at all. If the Company is unable to raise such additional financing, or accepts financing on unfavorable terms to the Company, it could have a materially adverse effect upon the Company's ability to implement its business plan with respect to AutoMed, and may force the Company to curtail or scale back its current Medical Billing operations.

WE PAY A SUBSTANTIAL SALARY TO OUR CHIEF EXECUTIVE OFFICER AND TREASURER.

Chandana Basu, our Chief Executive Officer and Treasurer, receives a substantial amount of $50,000 per month (or $600,000 per year) for her services, which includes approximately $5,000 of salary and a minimum bonus of $45,000 each month. Ms. Basu also serves as the Chief Executive Officer and President of AutoMed, and the manager of Silver Shadow, both wholly-owned subsidiaries of the Company. The amount of salary that Ms. Basu receives relative to the Company's revenue and other expenses reduces the likelihood that the Company will make a profit, and increases the possibility that the Company be forced to curtail or abandon its business plan in the future if the Company fails to raise additional capital.

WE MAY NOT BE SUCCESSFUL IN SELLING AUTOMED SOFTWARE

Currently the Company is in the process of marketing the AutoMed software through distributors. There is no revenue generated as of the date of this report and there s no guarantee that the Company will be successful in selling AutoMed. The Company need additional capital to market the software.

A SUBSTANTIAL AMOUNT OF OUR REVENUES COME FROM FOUR MAIN CLIENTS.

The three major customers of the Company provided $ 201,549 or 79% of the revenues of the Company for the three month period ended September 30, 2006.. If the Company were to lose any or all of these four clients, it would have a materially adverse effect on the Company's revenue, and if the Company is unable to gain a new large client to take its place, of a sufficient number of smaller clients to take the place of the major client or clients who are lost, the Company could be forced to abandon or curtail its business plan.

ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

As of September 30, 2006 the Company has accumulated deficit amounting to $ 5,423,886, net loss amounting $ 1,749,881, working capital deficit amounting to $3,945,425. and net cash used in operations of $ 993,748. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any adjustments that might result from our inability to continue as a going concern. Our continuation as a going concern is dependent upon future events, including obtaining financing (discussed above) for expansion and to implement our business plan with respect to AutoMed and Surgery Centers. If we are unable to continue as a going concern, you will lose your entire investment.

WE MAY FACE POTENTIAL LIABILITY IN CONNECTION WITH PENDING LEGAL PROCEEDINGS AND ARBITRATION PROCEEDINGS WHICH HAVE BEEN BROUGHT AGAINST THE COMPANY.

As of the filing of this report, the Company is a party to several legal proceedings and/or arbitration (See Item 1, Part II). If the Company is unable to settle or defend against claims made by former clients and a law firm, the plaintiffs in those matters may obtain judgments against the Company. If this happens Company does not have enough cash on hand to pay amount of the judgments, which may be substantial, the Company may be forced to abandon or curtail its business operations.

WE RELY ON KEY MANAGEMENT.

The success of the Company depends upon the personal efforts and abilities of Chandana Basu. The Company faces competition in retaining Ms. Basu and in attracting new personnel should Ms. Basu chose to leave the Company. There is no assurance that the Company will be able to retain and/or continue to adequately motivate Ms. Basu in the future. The loss of Ms. Basu or the Company's inability to continue to adequately motivate her could have a material adverse effect on the Company's business and operations.

BECAUSE MS. CHANDANA BASU OWNS 81.1% OF OUR OUTSTANDING COMMON STOCK, SHE WILL EXERCISE CONTROL OVER CORPORATE DECISIONS THAT MAY BE ADVERSE TO OTHER MINORITY SHAREHOLDERS.

Chandana Basu, a Director of the Company and the Company's Chief Executive Officer and Treasurer, owns approximately 81.1% of the issued and outstanding shares of our common stock. Accordingly, she will exercise control in determining the outcome of all corporate transactions or other matters, including mergers, consolidations and the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. The interests of Ms. Basu may differ from the interests of the other stockholders and thus result in corporate decisions that are adverse to other shareholders.

IF THERE'S A MARKET FOR OUR COMMON STOCK, OUR STOCK PRICE MAY BE VOLATILE.

If there's a market for our common stock, we anticipate that such market would be subject to wide fluctuations in response to several factors, including, but not limited to:

(1)

actual or anticipated variations in our results of operations;

(2)

our ability or inability to generate new revenues;

(3)

increased competition; and

(4)

conditions and trends in the medical billing industry.

Further, because our common stock is traded on the NASD over the counter bulletin board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock.

**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

**ITEM 3. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and principal financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures were effective and designed to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act of 1934 is 1) recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms; and 2) accumulated and communicated to her as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There were no significant changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is defendant in multiple lawsuits initiated either by the company or former clients of the Company. The complaints allege that the Company and its officers improperly withheld monies from the clients. The complaints allege, among others, claims for breach of contract and breach of fiduciary duty. The plaintiffs seek compensatory and punitive damages, prejudgment interest, costs and attorney fees. The parties have conducted discovery and permission to take additional discovery is being sought.

1.

On July 12, 2004, Nimish Shah, M.D. d/b/a New Horizon Medical, Inc. ( New Horizon ) initiated a lawsuit against the Company in the Superior Court of California, County of Los Angeles, Case No. VC 042695, styled New Horizon Medical, Inc. v. HBSGI, et al. The complaint raises a claim for breach of contract against the Company. The complaint alleges that the Company failed to remit sums due to New Horizon. On April 8, 2005, the court dismissed the action and referred it to arbitration. Since May 2005, there have been a number of telephonic conferences held with the assigned arbitrator. Each of these calls has focused on the voluntary exchange of insurance payment records by the parties. In connection with arbitration, the Company has claimed against New Horizon the compensatory damages in the amount of $75,000 (subject to amendment), prejudgment interest, costs and attorneys fees in an unspecified amount. New Horizon has not submitted a cross-complaint against the Company for the breach of contract alleging that there is substantial discrepancy between the amounts of bills provided by New Horizon to the Company, for the purpose of securing payment from various insurance companies, and the funds actually received from the Company. The arbitrator has suspended this case for non payment of arbitration fees.

New Horizon contends that the there are amounts in controversy of around $ 1,000,000. The Company has denied the allegations. The matter is in its initial stages. Healthcare contends that it does not hold or owe any money to defendant and has made counter claim. Hearing on this is suspended due to non payment.

2.

On July 11, 2002, Plaintiff Kamran Ghadimi initiated a lawsuit against HBSGI and others in the Superior Court of California, County of San Bernardino, Case No. RCV 064904, styled Karman Ghadimi v. Chandana Basu, et al.

The complaint alleges that HBSGI, its president and certain affiliated companies, improperly withheld approx. $ 400,000 from Ghadimi. The complaint alleges, among others, claims for breach of contract and breach of fiduciary duty. Plaintiff seeks compensatory and punitive damages, prejudgment interest, costs and attorney s fees. HBSGI refutes Ghadimi s claim and denied the allegations and filed counter claim. Company settled this dispute on May 17, 2006 for an amount of $95,000. $50,000 paid on May 17, 2006 and we have been paying $5,000 per month. As of September 30, 2006 the Company owes $25,000 which has bee accrued.

3.

In January 2004, Claimant Leonard J. Soloniuk, MD initiated an arbitration against HBSGI with the American Arbitration Association, Case No. 72 193 00102 04 TMS, styled Leonard J. Soloniuk, MD v. HBSGI

The complaint alleges that HBSGI failed to properly bill and collect fees, intentionally miscoded bills, intentionally withheld collection proceeds due to Soloniuk, breached its billings agreement, and otherwise engaged in fraudulent conduct.

HBSGI refuted Soloniuk s claims and filed a counter claim.

In a decision dated April 5, 2006, the arbitrator awarded HBSGI nothing against Soloniuk. The arbitrator further awarded Soloniuk $ 275,000 against the HBSGI as well as interest accruing from June 1, 2006, at the rate of ten percent per annum on the unpaid balance. The arbitrator further ordered HBSGI to reimburse Soloniuk costs in the amount of $ 1,875.

The Company filed motion to vacate this judgment. This motion was denied; however, the Company is challenging the decision on other grounds. Specifically, the Company argues that of this $275,000, $210,000 was already paid to Soloniuk since November 4, 2002, last date of payment were considered by arbitrator and therefore the judgment should be reduced accordingly. The Company can provide no assurances that it will be successful in this argument.

4.

On September 20, 1999, Mohammad Tariq, MD was granted a default judgment in the District Court of Collin County, Texas, 380th Judicial District in the amount of $280,835.10, plus prejudgment and post-judgment interest against Healthcare Business Services Group, Inc., d/b/a/ Peacock Healthcare. This entity is unrelated to HBSGI. Accordingly, we never received notice of this action or judgment nor have we paid any money with respect to such default judgment. The default judgment relates to a contract for billing services between Healthcare and Dr. Tariq entered into in 1996. After termination of the contract, Dr. Tariq requested an accounting of the amounts collected from his patients by Healthcare in connection with the billing services. In July 1999, Healthcare sent an accounting to Dr. Tariq in the amount of $275,355 collected, $42,512 charged by Healthcare as its fee, and $222,298 paid to Dr. Tariq. Tariq diverted the rest of the collection from Healthcare billing and did not pay Healthcare fees. Although Healthcare has not taken legal steps to defend itself against the default judgment, Healthcare claims to have not received proper notice from Dr. Tariq of the civil action and default judgment.

Kamran Ghadimi bought the Tariq judgment in April 28, 2006 and pursuing collection in California. Healthcare now attacked the complaint on the basis of improper service, misconducts committed by Tariq and interlocutory judgment was not final and filed answer to the original complaints and filed claims for fees and damages and seeking a new trial in Texas. Hearing for interlocutory judgment is set for Friday Oct 13, 2006. Healthcare filed motion to vacate the sister state judgment in California on the grounds of defective service and misconducts by Tariq. Hearing in California is not set as of this date

This matter was settled on November 8, 2006 for $185,000. The Company paid $15,000 as of September 30, 2006, $110,000 to be paid on or before February 7, 2007 and $3,000 per month for 60 months starting January 1st, 2007.

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. Other than the legal proceedings listed below, we are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. However, we may become involved in material legal proceedings in the future.

**ITEM 2. CHANGES IN SECURITIES**

The Company increased its authorized capital to 750,000,000 shares from 50,000,000 shares of common stock $0.001 par value as of September 30, 2006.

During the nine month period ended September 30, 2006, the Company issued 300 shares to consultants for services rendered. The Company recorded expense in the books based on the market value of the shares on the date of issuance of shares to the consultants.

The Company recorded $ 33,750 as officer compensation for 750,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market rate.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

| **Exhibit No.*** | **Description** |
|---|---|

| | |
|---|---|
| 31.1 | Certificate of the Chief Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1 | Certificate of the Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002* |

* Filed Herein.

(b) Reports on Form 8-K

The Company filed no Reports on Form 8-K during the fiscal quarter ended September 30, 2006.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Healthcare Business Services Group, Inc.

Dated: June 10, 2007

By: /s/ Chandana Basu

Chandana Basu,

Chief Executive Officer and

Principal Financial Officer

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