Access Plans USA, Inc.
Form 10-Q
August 14, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Three Months Ended June 30, 2008

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

Commission File Number: 001-15667

ACCESS PLANS USA, INC.

(Exact name of business issuer as specified in its Charter)

OKLAHOMA	**73-1494382**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4929 WEST ROYAL LANE, SUITE 200 IRVING, TEXAS	**75063**
(Address of principal executive offices)	*(Zip Code)*

(866) 578-1665

(Registrant s telephone number)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated in Rule 12b-2 of the Exchange Act.

Large Accelerated filer: o Accelerated filer: o Non-accelerated filer: o Smaller reporting company: þ

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of August 14, 2008 the Registrant had outstanding 20,269,145 shares of Common Stock, $.01 par value.

ACCESS PLANS USA, INC.
FORM 10-Q
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Our financial statements which are prepared in accordance with Regulation S-X are set forth in this report beginning on page 18.

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

Forward-Looking Statements

The following discussion is qualified in its entirety by the more detailed information in our 2007 Annual Report on Form 10-K and the financial statements contained in this report, including the notes thereto, and our other periodic reports filed with the Securities and Exchange Commission since December 31, 2007 (collectively referred to as the Disclosure Documents). Certain forward-looking statements contained in this report and in the Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in the forward-looking statements. Our ability to achieve these results is subject to the risks and uncertainties discussed in the Disclosure Documents. Any forward-looking statements contained in this report represent our judgment as of the date of this report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

General

We at Access Plans USA, Inc., develop and distribute quality affordable consumer driven healthcare programs for individuals, and to a lesser extent, employer groups. Our products and programs are designed to deal with the rising costs of healthcare. These programs include health insurance plans and non-insurance healthcare discount programs to help provide solutions for the millions of Americans who need access to affordable healthcare.

Since December 31, 2007, we did not actively engage in the sale and marketing of Medicare insurance programs. In June of 2008, we sold all of our rights to future override commissions on substantially all of the Medicare supplement business previously sold by agents contracted with ACP Agency, a wholly-owned subsidiary. Other business written by ACP Agency has been relatively minor and accordingly, the results of ACP Agency, which were previously included in the Insurance Marketing Division, have been reclassified as a discontinued operation.

Our current operations are organized under three business divisions:

Consumer Plan Division: Consumer Plan develops and markets non-insurance healthcare discount programs and association memberships that include defined benefit insurance features through multiple distribution channels. We offer wellness programs, prescription drug and dental discount programs, medical discount cards, limited benefit insured plans and supplemental programs. Our distribution channels currently include network marketing representatives, independent agents and consumer direct tele-sales call centers. We also market to internet portals and financial institutions and wholesale lease some of our programs. This Division operates through our wholly-owned subsidiaries, The Capella Group, Inc. (Capella) and Protective Marketing Enterprises, Inc. (PME). PME was acquired in October 2007, and operates a proprietary customer healthcare advocacy department and proprietary dental and vision networks that provide services at negotiated rates to members of our discount medical plans (program members) and to members of other plans that have contracted with us for access to our networks (network access members). PME also has a back-office support platform that includes billing, administration and commission disbursement systems. Prior to 2007, this Division was referred to as our Consumer Healthcare Savings segment.

Insurance Marketing Division: Insurance Marketing offers and sells individual major medical health insurance products and related benefit plans, including specialty insurance products, primarily through a national network of independent agents (AHCP Agency). We support AHCP agents with access to proprietary and private label products, leads for new sales, commission advance programs, incentive programs including an annual convention, web-based technology, and back-office support. Prior to the second quarter of 2008, this Division also included the results of ACP Agency (a broad network of independent agents that distributed Medicare supplement insurance programs to individuals) that is now reported as a discontinued operation, as further discussed below. This Division, which operates as Insuraco USA LLC (Insuraco), was acquired in January 2007 in connection with our merger with Insurance Capital Management USA, Inc.

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Regional Healthcare Division: Regional Healthcare provides third-party claims administration, healthcare provider network management, and utilization management services primarily for El Paso-based employer groups that utilize partially self-funded strategies to finance their employee benefit programs. Regional Healthcare also owns and manages a proprietary network of medical providers. Prior to 2007, this Division, which currently operates as Foresight TPA, was referred to as or Employer and Group Healthcare Services segment.

Results of Operations

A summary of our results of operations for the three and six months ended June 30, 2008 and 2007 is set forth below. The financial statements appearing elsewhere in this report provide additional related information. Certain reclassifications have been made to prior period financial statements to conform to the current presentation of the financial statements.

{$ in thousands}	**Three Months Ended June 30,**			**Six Months Ended June 30,**		
	2008	**2007(a)**	**Change**	**2008**	**2007(a)**	**Change**
Total revenue	**$ 10,058**	**$ 9,065**	**11%**	**$ 19,739**	**$ 16,363**	**21%**
Direct expenses	6,612	4,843	37%	12,895	8,252	56%
Gross margin	3,446	4,222	-18%	6,844	8,111	-16%
Total operating expenses	4,212	9,694	-57%	8,708	13,920	-37%
Loss from continuing operations before income taxes	**$ (766)**	**$ (5,472)**		**$ (1,864)**	**$ (5,809)**	
Net loss	**$ (325)**	**$ (5,452)**		**$ (1,369)**	**$ (5,777)**	

a) Reclassified to conform to the current period s presentation.

Total revenue: The 11% increase in second quarter revenue to $10,058,000 reflects a 29% growth in Insurance Marketing revenue and increased revenue attributable to Consumer Plan s October 1, 2007 acquisition of Protective Marketing Enterprises, Inc. (PME) being partially offset by a 60% decrease in Regional Healthcare revenues driven by this Division s previously disclosed loss of two major contracts. The 21% year-to-date revenue growth to $19,739,000 reflects a comparable trend - compounded by the inclusion of only five months of Insurance Marketing revenues in 2007 (Insurance Marketing was acquired January 30, 2007).

Gross margin: Gross margin comprises commission and services revenues, plus interest income, less commission costs, healthcare provider network benefit costs, other costs that are directly related to the generation of revenue, and interest expense. The 18% second quarter and 16% year-to-date decline in gross margin to $3,446,000, and $6,844,000, respectively, was driven by the previously disclosed 2007 termination of two major Regional Healthcare contracts. The significant decline in Regional Healthcare gross margin was partially offset by some growth in Consumer Plan and Insurance Marketing gross margins, as more fully discussed below.

Total operating expenses: The substantial quarter and year-to-date reductions in operating expenses were driven by the absence of the $4,092,000 prior year goodwill impairment charge attributable to the termination of two major Regional Healthcare contracts and lower restructuring charges compared to the prior year. Additionally, we benefited from lower quarterly and year-to-date Regional Healthcare costs, reflecting actions taken to reduce expenses in this division. In the second quarter of 2008, we also realized a net reduction in operating costs compared to the prior quarter reflecting the transfer of the call center billing and administration functions onto the PME platform and a curtailment of Insurance Marketing administrative costs.

Loss from continuing operations before income taxes: The loss from continuing operations before income taxes aggregated $766,000 for the second quarter and $1,864,000 year-to-date. The earnings resulting from the maturity of Insurance Marketing s AHCP Agency into a profitable operation, combined with the modest turnaround in Consumer

Plan s second quarter operating results, were more than offset by Regional Healthcare s 2008 losses and the substantial, albeit lower second quarter, costs attributable to operating as a publicly-held company, that are included in Corporate and Other.

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Net loss: The inclusion of results from discontinued operations, principally the $385,000 second quarter 2008 net gain on sale of the Medicare supplement override commissions, reduced the net loss to $325,000 for the second quarter and $1,369,000 year-to-date. The modest income tax expense is attributable to state franchise taxes. We have not recognized any tax benefits attributable to net operating loss carry-forwards, as currently it is more likely than not that all, or a portion of this benefit, which approximates $500,000 at June 30, 2008, will not be realized.
The following table sets forth revenue, gross margin and the income (loss), by segment, from continuing operations.

{$ in thousands}	Three Months Ended June 30,			Six Months Ended June 30,		
Total Revenue - by segment	**2008**	**2007(a)**	**Change**	**2008**	**2007(a)**	**Change**
Consumer Plan	$ 4,092	$ 3,269	25%	$ 7,998	$ 6,410	25%
Insurance Marketing	5,267	4,077	29%	10,190	6,447	58%
Regional Healthcare	685	1,709	-60%	1,532	3,479	-56%
Corporate	14	10		19	27	
Total	**$ 10,058**	**$ 9,065**	**11%**	**$ 19,739**	**$ 16,363**	**21%**
Gross margin - by segment						
Consumer Plan	$ 1,553	$ 1,420	9%	$ 2,928	$ 2,948	-1%
Insurance Marketing	1,230	1,159	6%	2,446	1,830	34%
Regional Healthcare	655	1,639	-60%	1,458	3,318	-56%
Corporate	8	4	*	12	15	*
Total	**$ 3,446**	**$ 4,222**	**-18%**	**$ 6,844**	**$ 8,111**	**-16%**
Income (loss) from continuing operations before taxes - by Segment						
Consumer Plan	$ 116	$ (640)	*	$ (152)	$ (484)	*
Insurance Marketing	189	(150)	*	371	(231)	*
Regional Healthcare	(478)	(4,085)	*	(885)	(3,819)	*
Corporate	(593)	(597)	*	(1,198)	(1,275)	*
Total	**$ (766)**	**$ (5,472)**	*	**$ (1,864)**	**$ (5,809)**	*

a) Reclassified to conform to the current period s presentation.
* Percent change not meaningful.

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Consumer Plan Division. The operating results for our Consumer Plan Division are set forth below.

{$ in thousands}	Three Months Ended June 30,			Six Months Ended June 30,		
Results of Operations	2008	2007(a)	Change	2008	2007(a)	Change
Total revenue	**$ 4,092**	**$ 3,269**	25%	**$ 7,998**	**$ 6,410**	25%
Direct expenses	2,539	1,849	37%	5,070	3,462	46%
Gross margin	**1,553**	**1,420**	**9%**	**2,928**	**2,948**	**-1%**
Personnel costs	855	527	62%	1,740	1,037	68%
Other sales, general and administrative expenses	492	985	-50%	1,159	1,772	-35%
Depreciation and amortization	90	26	246%	181	101	79%
Restructuring and severance	-	522	*	-	522	*
Total operating expenses	**1,437**	**2,060**	**-30%**	**3,080**	**3,432**	**-10%**
Operating income (loss) before income taxes	**$ 116**	**$ (640)**	*	**$ (152)**	**$ (484)**	*
Percent of revenue:						
Total revenue	100%	100%		100%	100%	
Direct expenses	62%	57%		63%	54%	
Gross margin	**38%**	**43%**		**37%**	**46%**	
Personnel costs	21%	16%		22%	16%	
Other sales, general and administrative expenses	12%	30%		15%	28%	
Depreciation and amortization	2%	1%		2%	2%	
Restructuring and severance	0%	16%		0%	8%	
Total operating expenses	**35%**	**63%**		**39%**	**54%**	
Operating income (loss) before income taxes	**3%**	**-20%**		**-2%**	**-8%**	

	2008		2007			
Selected Metrics	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Program members:						
New members enrolled	17,621	25,912	12,789	6,771	7,483	6,461
Members at end of period	49,709	55,535	39,737	27,902	28,965	30,649
Change from prior quarter	-10%	40%	42%	-4%	-5%	
Network access members:						

Members at end of period		38,278		37,950		46,718						
Change from prior quarter		1%		-19%								
Total revenue	**$**	**4,092**	**$**	**3,906**	**$**	**4,238**	**$**	**3,146**	**$**	**3,269**	**$**	**3,141**
Change from prior quarter		5%		-8%		35%		-4%		4%		-2%
Direct expenses (a)		2,539		2,531		2,503		1,904		1,849		1,613
Gross margin (a)		**1,553**		**1,375**		**1,735**		**1,242**		**1,420**		**1,528**
Gross margin ratio		38%		35%		41%		39%		43%		49%
Change from prior quarter		13%		-21%		40%		-13%		-7%		-13%
Operating expenses (b)		1,437		1,643		1,467		4,421		2,060		1,372
Operating income (loss) before income taxes (b)	**$**	**116**	**$**	**(268)**	**$**	**268**	**$**	**(3,179)**	**$**	**(640)**	**$**	**156**

a) Reclassified to conform to the current period s presentation.
b) Third quarter 2007 operating expenses include a $3,377,000 goodwill impairment charge.
* Percent change not meaningful.

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Total revenue: The 25% increase in second quarter and year-to-date revenue to $4,092,000, and $7,998,000, respectively, was primarily driven by the revenue from customers obtained in the October 2007 acquisition of PME. Revenue from new sales subsequent to this acquisition was substantially offset by the member terminations attributable to sales made by both Capella and PME prior to this date.

Gross margin: The year-to-date gross margin of $2,928,000 approximates the prior 2007 level. Additional gross margin from program and network members acquired with the PME acquisition, was offset by the continued decline in the more profitable legacy Capella multi-level-marketing book of business, and by high first durational month (accelerated) commissions paid to acquire new customers, particularly during the first quarter of 2008. During the second quarter of 2008, we experienced very high policy termination rates on the new accelerated commission call center program introduced in the prior quarter. We have subsequently curtailed new sales from this distribution channel and modified our criteria for evaluating other new sales opportunities. This was reflected in the 40% growth in program members to 55,535 at March 31, 2008, followed by the 10% decline in program members to 49,709 at June 30, 2008.

Total operating expenses: The 30% second quarter and 10% year-to-date reduction in operating expenses was primarily driven by the $522,000 restructuring charge recorded in the second quarter of 2007 in connection with an unsuccessful joint marketing initiative with Insurance Marketing and the anticipated termination of the legacy Capella administration outsourcing agreement. The second quarter and year-to-date reduction in sales, marketing and administrative costs was substantially offset by the increase in personnel costs primarily due to the addition of the PME call center personnel and the shift in expenditures resulting from the September 2007 termination of the outsourcing agreement. The 2008 increase in depreciation and amortization charges was primarily attributable to the amortization of the intangible asset established in connection with the October 2007 PME acquisition.

Operating income (loss) before income taxes: While the Consumer Plan Division returned to profitability in the second quarter of 2008 with operating income before taxes of $116,000, the 3% margin remains substantially below our blended pricing target of approximately 10%.

During the second quarter of 2008, Consumer Plan added sales and marketing resources and developed a relatively broad pipeline of new sales opportunities for the second half of 2008, principally with new call centers. We are seeking to diversify the distribution channels by adding web-portals, financial institutional relationships and new network access customers. We consider the latter opportunity to be considerably enhanced with our June 2008 partnership with Dentemax, the nation s pre-eminent dental discount card network. We have also introduced new products to the legacy Capella multi-level-marketing channel. Execution of these new sales opportunities, combined with further reductions in the cost structure, should translate into improved profitability for the balance of 2008.

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Insurance Marketing Division. The operating results for our Insurance Marketing Division are set forth below.

{$ in thousands}	Three Months Ended June 30,			Six Months Ended June 30,		
Results of Operations	**2008**	**2007(a)**	**Change**	**2008**	**2007(a)**	**Change(b)**
Total revenue	**$ 5,267**	**$ 4,077**	29%	**$ 10,190**	**$ 6,447**	32%
Direct expenses	4,037	2,918	38%	7,744	4,617	40%
Gross margin	**1,230**	**1,159**	**6%**	**2,446**	**1,830**	**11%**
Personnel costs	499	492	1%	966	797	1%
Other sales, general and administrative expenses	384	488	-21%	793	833	-21%
Depreciation and amortization	158	155	2%	316	257	2%
Restructuring and severance	-	174	*	-	174	*
Total operating expenses	**1,041**	**1,309**	**-20%**	**2,075**	**2,061**	**-16%**
Operating income (loss) before income taxes	**$ 189**	**$ (150)**				