HEALTHCARE BUSINESS SERVICES GROUPS, INC.
Form 10KSB/A
April 20, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A

(Mark One)

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

For the year ended December 31, 2006

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

For the transition period from ____01/01/2006_______ to __________12/31/2006___

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)

Securities registered under Section 12(b) of the Exchange Act:

NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $.001 PAR VALUE PER SHARE

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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for the most recent fiscal year ended December 31, 2005 were $1,565,262.

The aggregate market value of the issuer's voting and non-voting common equity held by non-affiliates computed by reference to the average bid and ask price of such common equity as of April 11, 2006 , was approximately $2,207,410.

As of April 11, 2006 the issuer had 33,960,150 shares of common stock, $.001 par value per share outstanding ("Common Stock").

Documents Incorporated by Reference: NONE

Transitional Small Business Disclosure Format: Yes [ ] No [x]

HEALTHCARE BUSINESS SERVICES GROUPS, INC.

FORM 10-KSB

YEAR ENDED DECEMBER 31, 2005

INDEX

	Part I	
Item 1.	Description of Business	3
Item 2.	Description of Property	5
Item 3.	Legal Proceedings	6
Item 4.	Submission of Matters to a Vote of Security Holders	7
	Part II	
Item 5.	Market for Common Equity and Related Stockholder Matters	7
Item 6.	Management's Discussion and Analysis or Plan of Operation	9
Item 7.	Financial Statements	21
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	43
Item 8A.	Controls and Procedures	43
	Part III	
Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	44
Item 10.	Executive Compensation	46
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	48
Item 12.	Certain Relationships and Related Transactions	49
Item 13.	Exhibits and Reports	49

	(a) Exhibits	49
Item 14.	Principal Accountant Fees and Services	50

PART I

ITEM 1. DESCRIPTION OF BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-KSB (this "Form 10KSB"), including statements under "Item 1. Description of Business," and "Item 6. Management's Discussion and Analysis", constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 (collectively, the "Reform Act"). Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "should", or "anticipates", or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Healthcare Business Services Groups, Inc. (the Company", "we", "us" or "our") to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. References in this form 10-KSB, unless another date is stated, are to December 31, 2006 .

BUSINESS DEVELOPMENT

The Company was incorporated in the State of Nevada on May 2, 2000, as Winfield Capital Group, Inc. On June 6, 2001 , the Company filed a Certificate of Amendment to its Articles of Incorporation to affect a name change to "Winfield Financial Group, Inc." On April 23, 2004 , the Company acquired 100% of the equity interest of Healthcare Business Services Groups, Inc. ("Healthcare"). As part of the same transaction, the Company acquired 100% of the equity interest of AutoMed Software Corp. ("AutoMed") and Silver Shadow Properties, LLC ("Silver Shadow") on May 7, 2004 . Prior to the Acquisition (defined below), the Company was a business broker, primarily representing sellers and offering its clients' businesses for sale. As a result of the acquisition, the Company changed its business focus to medical billing. On January 7, 2005 , the Company filed a Certificate of Amendment to its Articles of Incorporation, with the Nevada Secretary of State and changed its name to "Healthcare Business Services Groups, Inc."

On April 23, 2004, the Company 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 Company 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 Company acquired Healthcare, AutoMed, and Silver Shadow from Chandana Basu, the sole owner, in exchange for 25,150,000 newly issued treasury shares of the Company's Common Stock. As a result of the Acquisition, the Company has changed its business focus. The term "Company" shall include a reference to Healthcare Business Services Groups, Inc. (the "Company").

On June 21, 2004, the Company entered into an agreement with Robert Burley (former Director, President and Chief Executive Officer of the Company) and Linda Burley (former Director and Secretary of the Company) whereby the Company agreed to transfer certain assets owned by the Company 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 Company's common stock. The Company 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 Company's business operations immediately prior to the change in control whether or not such intangible property was accounted for in the Company's financial statements. After the issuance of shares to Ms. Basu and the cancellation of 2,640,000 shares of Mr. and Mrs. Burley's Common Stock, there were 29,774,650 shares of the Company's Common Stock outstanding. As a result of these transactions, control of the Company shifted to Ms. Basu. Ms. Basu currently owns 25,750,000 shares (or approximately 81.00%) out of 33,960,150 shares of the Company's issued and outstanding Common Stock.

DESCRIPTION OF THE COMPANY'S FORMER BUSINESS OPERATIONS

Prior to the Acquisition of Healthcare, AutoMed, and Silver Shadow (described above), the Company operated as a business broker, primarily representing sellers and offering its clients' businesses for sale. The Company limited its business to asset sale transactions and not transactions in which businesses are sold through the sale of stock.

DESCRIPTION OF THE COMPANY'S CURRENT BUSINESS OPERATIONS

As a result of the Acquisition, discussed above, the Company operates as a medical billing service provider which attempts to assist various health care providers to enhance their billing functions. The Company has a diversified market base with customers in Texas , California, Florida , New York and Washington . The Company has developed a proprietary medical billing software system named AutoMed. The Company has beta tested AutoMed, is currently using AutoMed in-house for its billing service operations, and plans to market AutoMed commercially in 2006. The Company expects that after AutoMed is launched, the Company's revenues will grow over the next three to five years, as the Company extends its billing model into the technology era, however, the Company can give no assurances that it will see increases in revenue, when AutoMed is launched, if ever.

The Company, through a reimbursement account bills and collects on medical billings. The Company retains a percentage of the collection as a fee, typically 10%, and remits the balance to the client.

DESCRIPTION OF THE COMPANY'S PRINCIPAL PRODUCTS AND SERVICES

The Company is a medical reimbursement consulting firm dedicated to helping medical practices become more efficient and save money by allowing them to out-source their insurance processing and medical billing functions. The Company currently provides medical billing services ("Medical Billing") to various health care providers within the United States . The Company is in the process of entering into another new line of business: the research, development and marketing of its proprietary medical billing software ("AutoMed").

The Company's traditional core competency is Medical Billing. The Company conducts the Medical Billing line of business through its Delaware subsidiary, Healthcare Business Services Groups, Inc. With Medical Billing, the Company has a successful track record of assisting various health care providers to successfully enhance their billing function. The Company also continues to increase relationships with physicians and medical specialty practices around the country to provide its Medical Billing services. The Company believes that the automated medical billing software business will provide higher margins to the Company's overall business operations.

COMPETITIVE BUSINESS CONDITIONS

MEDICAL BILLING

Due to today's extremely competitive healthcare industry, many healthcare providers are outsourcing their billing operations. Medical billing services exist to help healthcare providers better manage their medical practices. These services relieve medical professionals of tedious detail work, but rarely do they offer a means to substantially maximize the medical practice's bottom line.

Medical billing companies generally gather patient information and billing details from a physician or clinic and submit these details to insurance carriers for payment. A billing company may also submit statements to a patient for payment of the patient's portion. The Company distinguishes itself from thousands of other billing agencies in the industry as a customized billing agency and a "one-stop shopping" service for all medical practice administrative functions. The Company considers its medical billing service to be the key to its clients getting paid efficiently and quickly by private and government administered insurance companies.

The Company provides a customized medical billing service that can be fine tuned to any medical practice or specialty. The Company provides a wide range of billing services including:

- Delinquent account management

- Surgery center setup and management
- Assessment of practice cash flow
- Practice management
- Health Maintenance Organization (HMO), Preferred Provider Organization
- (PPO) and capitation contract management
- Business Auditing

The medical billing business is labor intensive; however, the Company believes that its clients collect more revenue than they otherwise would collect without the Company's services. Due to this benefit to its clients, Healthcare has experienced continued growth since its inception in 1990. By outsourcing the medical billing function, the Company believes its clients have been able to maximize their return from insurance carriers, and to allocate their office staff capacity to more crucial tasks.

4

Electronic submission of insurance claims provides cost savings and decreases in payment time over traditional paper based submissions. These factors have made electronic submission much more appealing to clients and have sparked a growing demand. Potential users of electronic submission include family practice, internal medicine, surgeons, psychologists, chiropractors, physical therapists, podiatrists, specialists, ambulance services, medical laboratories, ambulatory surgery centers and hospitals. In order to service this growing demand, the Company has developed AutoMed (discussed below) which it has installed, and is currently beta testing, with few of its existing Medical Billing clients.

AUTOMED

The Company initially designed AutoMed to satisfy its custom medical billing needs. The Company began implementing AutoMed in the Company's Medical Billing line of business in July 2003. The Company has been using AutoMed since October 2003 for all new medical billing. The Company intends to use AutoMed for other aspects of medical office management as well, as discussed below. The Company is currently beta testing certain aspects of AutoMed at existing medical billing clients and developing certain other aspects of AutoMed.

DEPENDENCE ON ONE OR A FEW CUSTOMERS

The Company has approximately 12 customers throughout the United States.

NEED FOR GOVERNMENTAL APPROVAL AND THE EFFECTS OF REGULATIONS

The Company offers medical business services which are subject to the compliance requirements of the Health Insurance Portability and Accountability Act ("HIPPA") and the billing guidelines of the Health Care Financing Administration ("HCFA"). As a result, Medical Billing and AutoMed are subject to government regulation and government approval.

RESEARCH & DEVELOPMENT OVER THE PAST TWO YEARS

The Company has spent less than 10% of its time during the last two years on research and development. The Company has generated a predominate portion of its business through word of mouth.

EMPLOYEES

The Company has a total of 5 full-time employees, none of which are members of any union in connection with the Company's operations.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases office space in Upland, California. The Upland lease is being extended through November 2007. The Company pays $3,337 per month for 3,800 square feet of office space in Upland, California .

ITEM 3. LEGAL PROCEEDINGS

The Company is The Company is currently plaintiff to two and defendant to two law suits. The Company filed claims for non payment of fees by former clients due to clients diverted funds billed by company and did not pay Billing fees.

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. 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. This matter was dismissed by arbitrator for non payment of arbitrator's fee.

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

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. 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.

3. Company recently filed new legal actions against Solonuik for fraud, deception, and intentional non disclosure of money received from HBSGI collection to the arbitration hearing to gain advantage. Company also filed an application of injunction to prevent Solonuik to use HBSGI billing method. Hearing is set for May 10, 2007. Company is suing Solonuik for $750,000 plus cost of lawsuit.

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. Kamran Ghadimi bought the Tariq judgment in April 28, 2006 and pursuing collection in California.

This matter was settled on November 8, 2006 for $185,000. The Company paid $140,000 out of $185,000 and making payments monthly for $3000.00. As of filing this report company owes 15 months of payment equal to $45,000. Case was dismissed in 2007.

5. Healthcare filed a collection action against Frank Zondlo, and Zondlo also filed across-complaint against Healthcare. The matter is now in the discovery and law and motion stage.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 12, 2004 the majority shareholder of the Company ("Majority Shareholder") pursuant to a written consent to action without meeting, voted to repeal the Company's current Bylaws and to adopt amended Bylaws to take its place. The action was approved by 25,150,000 shares, which at that time represented 81.5% of the Company's outstanding Common Stock, which were voted solely by the Company's Majority Shareholder.

On November 12, 2004 , the Majority Shareholder pursuant to a written consent to action without a meeting of the shareholders, voted to remove Dr. Thomas Guthrie as a director of the Company and to appoint Chandana Basu as a Director of the Company to fill the vacancy left on the board.

On January 7, 2005 , the Majority Shareholder pursuant to a written consent to action without a meeting of the shareholders, instructed the officers to take whatever action necessary to amend the Company's Articles of Incorporation to reflect a name change to "Healthcare Business Services Groups, Inc."

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

"Bid" and "asked" offers for the common stock are listed on the NASDAQ OTC-Bulletin Board published by the National Quotation Bureau, Inc. below are the high and low bid prices for the Company's Common Stock for the past two (2) fiscal years. Prior to January 12, 2005 , the Company's trading symbol was "WFLD," however in connection with the Company's change in business focus and name change, the Company's securities began trading under the symbol "HBSV," on January 12, 2005 .

The following table sets forth the high and low bid prices for the Company's common stock for the periods indicated as reported by the NASDAQ OTC-Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	BID PRICES	
QUARTER ENDED	HIGH	LOW
December 31, 2006	0.20	0.17
September 30, 2006	0.13	0.11
June 30, 2006	0.15	0.11
March 31, 2006	0.07	0.06

There were 71 holders of record of the common stock as of April 11, 2007. The Company has never paid a cash dividend on its common stock and does not anticipate the payment of a cash dividend in the foreseeable future. The Company intends to reinvest in its business operations any funds that could be used to pay a cash dividend. The Company's common stock is considered a "penny stock" as defined in the Commission's rules promulgated under the Exchange Act. In general, a security which is not quoted on NASDAQ or has a market price of less than $5.00 per share where the issuer does not have in excess of $2,000,000 in net tangible assets (none of which conditions the Company meets) is considered a penny stock. The Commission's rules regarding penny stocks impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally persons with net worth in excess of $1,000,000 or an annual income exceeding $200,000 or $300,000 jointly with their spouse). For transactions covered by the rules, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Thus the Rules affect the ability of broker-dealers to sell the Company's shares should they wish to do so because of the adverse effect that the Rules have upon liquidity of penny stocks. Unless the transaction is exempt under the Rules, under the Securities Enforcement Remedies and Penny Stock Reform Act of 1990, broker-dealers effecting customer transactions in penny stocks are required to provide their customers with (i) a risk disclosure document; (ii) disclosure of current bid and ask quotations if any; (iii) disclosure of the compensation of the broker-dealer and its sales personnel in the transaction; and (iv) monthly account statements showing the market value of each penny stock held in the customer's account. As a result of the penny stock rules the market liquidity for the Company's securities may be severely adversely affected by limiting the ability of broker-dealers to sell the Company's securities and the ability of purchasers of the securities to resell them.

RECENT SALES OF UNREGISTERED RESTRICTED SECURITIES

During the year, the Company issued 905,000 restricted Common Shares to various consultants valued at $117,255 for business consulting and advisory services. The Company has expensed $ 65,644 and has recorded the prepaid consulting expenses of $ 51,611 based on the term of the consulting agreements. The prepaid consulting expenses will be amortized over the term of the consulting contracts.

During the year, the Company issued 600,000 to the officer of the Company pursuant to her employment agreement valued at $ 42,000. The Company has 400,000 shares to be issued to the officer valued at $28,500 as of December 31, 2005.

During the year, the Company issued 15,000 shares for cash amounting to $ 5,000.

During the year, the Company entered into a settlement agreement for the payment of the note by authorizing the payment of $ 100,000 in cash and issuance of 1,500,000 restricted shares of the Company. The Company paid $

43,500 in cash during the year. The Company valued the shares based on the market value of the shares on agreement date. The shares have been valued at $ 150,000.

The Company sold 15,000 shares to an investor in consideration for $5,000 (or $0.33 per share) in the year ended December 31, 2004. While the Company has received the $5,000 in connection with the purchase of these shares, the Company has not issued the shares to the investor as of the date of this report. The Company plans to claim an exemption from registration afforded by Section 4(2) of the Act for this issuance, since the foregoing issuance will not involve a public offering, the recipient will take the shares for investment and not resale and the Company will take appropriate measures to restrict transfer. No underwriters or agents will be involved in the foregoing issuance and no underwriting discounts or commissions will be paid by the Company.

In December 2004, the Company issued an aggregate of 665,500 shares of the Company's restricted Common Stock to Twenty-Eight (28) in consideration for general business and consulting services provided to the Company. The Company claims an exemption from registration for these issuances afforded by Rule 506 of the Securities Act of 1933.

ITEM 6. 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."

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 headquartered in Upland , California . The Company has developed a proprietary medical billing software system named AutoMedÖ. The Company has installed, and is currently ready to market and install, AutoMedÖ 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

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

Revenue for the year ended December 31, 2006 were $ 1,011,644 compared to $ 1,565,262 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 year ended December 31, 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 year ended December 31, 2006 was $ 1,430,130 compared to $ 1,758,137 for the same period in 2005. The decrease in G&A expenses in 2006 was due to decrease 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 $ 118,459 for the year ended December 31, 2006 as compared to $ 101,347 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 year ended December 31, 2006 was $ 2,201,173 compared to $ 80,559 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 $ 2,997,584 (or basic and diluted net loss per share of $(0.05) for the year ended December 31, 2006 as compared to net loss of $ 1,236,297 (or basic and diluted net loss per share of $0.04) for the same period in 2005. Net loss for the year ended December 31, 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 a working capital deficiency of $ 5,144,299 as of December 31, 2006 . The Company had total assets of $ 83,784 as of December 31, 2006, which consisted of $ 41,156 of property and equipment, $ 38,978 of intangible assets from the Company's website technology costs and $3,650 of deposits.

The Company had total current liabilities of $ 5,144,299 as of December 31, 2006, consisting of accounts payable and accrued expenses of $ 1,327,796, litigation accrual of $ 325,000, line of credit of $96,418, note payable to third parties of $ 1,300,000, lease payable of $18,938, due to officer of $ 337,665 and $ 1,738,482 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 $74,006 from the credit lines as of December 31, 2006.

Net cash used in operating activities was $94,588 during the year ended December 31, 2006 , as compared to net cash used in operating activities of $ 212,807 during the same period in 2005.

Net cash used in investing activity during the year ended December 31, 2006 was $7,290 as compared to net cash used in investing activities of $ 21,512 during the same period in 2005.

Net cash provided by financing activities was $ 201,245 during the year ended December 31, 2006 , as compared to net cash provided by financing activities of $ 293,838 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 50,000,000 shares of our common stock (the "Warrants").

Pursuant to the Securities Purchase Agreement, the Investors purchased the Notes and Warrants in three trenches as set forth below:

1. At closing, on July 1, 2006 ("Closing"), the Investors purchased Notes aggregating $700,000 and warrants to purchase 17,500,000 shares based on the prorate shares of our common stock;

2. On August 8, 2006 the investors purchased Notes aggregating $600,000 and warrants to puchase 15,000,000 shares based on the prorate shares of our common stock and,

3. Upon effectiveness of the Registration Statement, the Investors will purchase Notes aggregating $700,000. The Company has withdrawn the third trench as the Registration Statement was not effective to bring more funds into the Company.

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 December 31, 2006.

The Company amortized the entire unamortized beneficial conversion feature amount of $1,103,741 as of December 31, 2006 due to the default on the note.

The Company prepaid lender attorney fees and broker commission of $ 180,000. The Company amortized the entire amount of $180,000 as of December 31, 2006 due to the default on the note.

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 does not believe 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 $4 to $5 million of additional financing to implement its business plan with respect to billing operation and software AutoMed.

The Company anticipates the need for approximately $3 to $5 million dollars of financing for development and marketing its software. 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 the 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 which accrues if not paid each month. Ms. Basu also serves as the Chief Executive Officer and President of AutoMed. The Company does have an employment agreement with Ms. Basu; however, the Company expects to continue to pay Ms. Basu such salary or more for the foreseeable future. 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 ABLE TO COMPLETE THE DEVELOPMENT OF AUTOMED AS A STAND-ALONE, COMMERCIALLY VIABLE PRODUCT.

The Company is currently developing additional features for AutoMed with the intent that the AutoMed software package will be used for medical office management. The Company intends to make the AutoMed software applications available based on what the Company calls "one-stop shopping." The Company intends for a medical practice to be able to customize AutoMed based on the particular needs of each medical specialization, office or hospital. The Company is currently using AutoMed to perform the medical billing function for some of its existing Medical Billing clients. Further development will be required before AutoMed is commercially viable as a stand-alone product for its intended use for medical office management. There is no assurance that the Company will complete the development. In the event that the Company does not complete the development of AutoMed as a stand-alone, commercially viable product, the Company will not generate revenue from AutoMed unless the Company charges an additional fee for AutoMed in connection with Medical Billing. The failure to develop AutoMed would have a materially adverse effect on the Company's potential for future revenues and as a result, the value of the Company's securities would likely decrease in value.

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

For the year ended December 31, 2005 , the Company received approximately 50% of its revenue or $1,095,683, from six major clients. If the Company were to lose any or all of these three 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.

WE MAY NOT BE ABLE TO DEVELOP A MARKET FOR AUTOMED IN THE EVENT THAT WE ARE ABLE TO RAISE ENOUGH MONEY TO MARKET AUTOMED.

Assuming that the Company completes development of the AutoMed software as a stand-alone, commercially viable product, the Company plans to market AutoMed as a "one-stop shopping" solution for medical office management. The Company plans to charge $50,000 per installation for a single user and one computer. Currently the Company generates no revenue through AutoMed. The extent to which AutoMed gains acceptance, if any, will depend, in part, on its cost effectiveness and performance as compared to conventional means of office management, as well as known or unknown alternative software packages. If conventional means of office management or alternative software packages are more cost-effective or outperform AutoMed, the demand for AutoMed may be adversely affected. Additionally, the Company anticipates the need for approximately $3 million to begin marketing AutoMed. The failure of the Company to raise an additional $3 to $5 million in financing or AutoMed to achieve and maintain levels of market acceptance would have a material adverse effect on the AutoMed line of business and the Company's overall business, financial condition and results of operations, and would likely cause the value of the Company's securities to decrease.

OUR AUDITORS HAVE EXPRESSED AN OPINION THAT THERE IS SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

As of December 31, 2006 the Company has accumulated deficit amounting to $ 6,671,589, net loss amounting $ 2,997,584, working capital deficit amounting to $ 5,144,299 and net cash used in operations of $ 94,588. 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, if we are unable to continue you will loose your investment.

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 choose 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 75.8% 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:

(A) 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.

(B) Cash and Cash Equivalents

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

(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) Property and Equipment

Property and equipment is stated at cost. Additions are capitalized and maintenance and repairs are charged to expense as incurred. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful life of the assets from three to seven years. Expenditures for maintenance and repairs are charged to expense as incurred.

(E) 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.

(F) 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.

(G) Stock-based Compensation

The Company accounts for non-cash stock-based compensation issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, Accounting for Equity Investments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling Goods or Services. Common stock issued to non-employees and consultants is based upon the value of the services received or the quoted market price, whichever value is more readily determinable. The Company accounts for stock options and warrants issued to employees under the intrinsic value method. Under this method, the Company recognizes no compensation expense for stock options or warrants granted when the number of underlying shares is known and the exercise price of the option or warrant is greater than or equal to the fair market value of the stock on the date of grant. As of December 31, 2006, there were no options or warrants outstanding.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used, on reported results. The adoption of SFAS No. 148 did not have a material affect on the net loss of the Company.

(H) Income Taxes

The Company accounts for income taxes under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ('Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(I) 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 be 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.

(J) 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.

(K) 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.

(L) Reporting Segments

Statement of financial accounting standards No. 131, Disclosures about segments of an enterprise and related information (SFAS No. 131), which superseded 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.

(M) 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.

(N) Reclassifications

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

(O) New Accounting Pronouncements

In February 2007 the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115." The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The company is analyzing the potential accounting treatment.

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 over funded or under funded 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:

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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.

d.

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. The 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 those 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. The management is currently evaluating the effect of this pronouncement on 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.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless this would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the EITF reached consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements ("EITF 05-6.") EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. The company is in the process of evaluating the effect on its consolidated financial position or results of operations.

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Other Income (Expense)

  Interest income
  11   53   (79.2)
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Interest expense
(186) (206) 9.7
Interest capitalized
10 5 91.8
Miscellaneous - net
(16) (5) * (181) (153) 18.3
Income/(Loss) Before Income Taxes
(375) (341) 10.1
Income tax
- - -
Net Income
$(375) $(341) 10.1

Earnings/(Loss) Per Share		
Basic	$ (1.35)	$ (1.37)
Diluted	$ (1.35)	$ (1.37)
Number of Shares Used in Computation		
Basic	279	249
Diluted	279	249

* Greater than 100%

AMR CORPORATION
OPERATING STATISTICS
(as reclassified)
(Unaudited)

	Three Months Ended March 31, 2009	2008	Percent Change
American Airlines, Inc. Mainline Jet Operations			
Revenue passenger miles (millions)	28,593	32,488	(12.0)
Available seat miles (millions)	37,783	41,052	(8.0)
Cargo ton miles (millions)	371	505	(26.6)
Passenger load factor	75.7%	79.1%	(3.5) pts
Passenger revenue yield per passenger mile (cents)	12.87	13.48	(4.5)
Passenger revenue per available seat mile (cents)	9.74	10.67	(8.7)
Cargo revenue yield per ton mile (cents)	38.90	42.55	(8.6)
Operating expenses per available seat mile, excluding Regional Affiliates (cents) (1)	11.82	12.63	(6.5)
Fuel consumption (gallons, in millions)	617	680	(9.3)
Fuel price per gallon (cents)	191.1	273.2	(30.0)
Regional Affiliates			
Revenue passenger miles (millions)	1,861	2,142	(13.1)
Available seat miles (millions)	2,818	3,106	(9.3)
Passenger load factor	66.0%	69.0%	(2.9) pts
AMR Corporation			
Average Equivalent Number of Employees			
American Airlines	67,000	71,800	
Other	12,500	13,700	
Total	79,500	85,500	

(1) Excludes $596 million and $721 million of expense incurred related to Regional Affiliates in 2009 and 2008, respectively.

AMR CORPORATION
OPERATING STATISTICS
(Unaudited)

OPERATING STATISTICS BY REGIONAL ENTITY

American Airlines, Inc.	Three Months Ended March 31, 2009			
	RASM1	Y-O-Y	ASMs2	Y-O-Y
Entity Results	(cents)	Change	(billions)	Change
DOT Domestic	9.68	(7.2)%	23.1	(10.7)%
International	9.83	(11.1)	14.7	(3.3)
DOT Latin America	11.23	(8.0)	7.7	(4.5)
DOT Atlantic	7.96	(17.6)	5.3	(3.7)
DOT Pacific	9.28	(7.3)	1.7	4.2

American Airlines, Inc.	Three Months Ended March 31, 2009			
	Load Factor	Y-O-Y Change		
Entity Results	(pts)	(pts)	Yield (cents)	Y-O-Y Change
DOT Domestic	78.4	(1.8)	12.36	(5.2)%
International	71.5	(6.0)	13.75	(3.6)
DOT Latin America	73.1	(6.1)	15.37	(0.3)
DOT Atlantic	67.6	(6.1)	11.76	(10.3)
DOT Pacific	76.2	(5.7)	12.18	(0.4)

1 Revenue per Available Seat Mile
2 Available Seat Miles

AMR CORPORATION
NON-GAAP AND OTHER RECONCILIATIONS
(Unaudited)

American Airlines, Inc. Mainline Jet Operations (in millions, except as noted)	Three Months Ended March 31, 2009	2008
Total operating expenses	$ 5,061	$ 5,907
Less: Operating expenses incurred related to Regional Affiliates	596	721
Operating expenses excluding expenses incurred related to Regional Affiliates	$ 4,464	$ 5,186
American mainline jet operations available seat miles	37,783	41,052
Operating expenses per available seat mile, excluding Regional Affiliates (cents)	11.82	12.63
Percent change	(6.5)%	

American Airlines, Inc. Mainline Jet Operations (in millions, except as noted)	Three Months Ended March 31, 2009	2008
Total operating expenses	$ 5,061	$ 5,907
Less: Operating expenses incurred related to Regional Affiliates	596	721
Operating expenses excluding expenses incurred related to Regional Affiliates	$ 4,464	$ 5,186
American mainline jet operations available seat miles	37,783	41,052
Operating expenses per available seat mile, excluding Regional Affiliates (cents)	11.82	12.63
Less: Impact of special items (cents)	.04	-
Operating expenses per available seat mile, excluding impact of special items (cents)	11.78	12.63
Percent change	(6.8)%	
Less: Fuel cost per available seat mile (cents)	3.12	4.52
Operating expenses per available seat mile, excluding impact of special items and the cost of fuel (cents)	8.66	8.11
Percent change	6.8%	

Note: The Company believes that operating expenses per available seat mile, excluding the cost of fuel assists investors in understanding the impact of fuel prices on the Company’s operations.

AMR CORPORATION
NON-GAAP AND OTHER RECONCILIATIONS
(Unaudited)

AMR Corporation (in millions, except as noted)	Three Months Ended March 31, 2009	2008
Total operating expenses	$ 5,033	$ 5,884
Available seat miles	40,600	44,158
Operating expenses per available seat mile (cents)	12.40	13.32
Less: Impact of special items (cents)	.04	-
Operating expenses per available seat mile, excluding impact of special items (cents)	12.36	13.32
Percent change	(7.2)%	
Less: Fuel cost per available seat mile (cents)	3.19	4.64
Operating expenses per available seat mile, excluding impact of special items and the cost of fuel (cents)	9.17	8.68
Percent change	5.6%	

AMR Corporation Calculation of Net Debt (in millions, except as noted)	As of March 31 2009	2008
Current and long-term debt	9,685	$ 10,157
Current and long-term capital lease obligations	626	776
Principal amount of certain airport facility tax-exempt bonds and the present value of aircraft operating lease obligations	4,068	4,239
	14,379	15,172
Less: Unrestricted cash and short-term investments	2,864	4,519
Net Debt	11,515	$ 10,653

Note: The Company believes the net debt metric assists investors in understanding changes in the Company's liquidity and the results of its efforts to build a financial foundation under the Company's Turnaround Plan.

AMR CORPORATION
NON-GAAP AND OTHER RECONCILIATIONS
(Unaudited)

American Airlines, Inc. Mainline Jet Operations (in millions, except as noted)	Estimate for Three Months Ended June 30, 2009	2008
Operating expenses per available seat mile, excluding Regional Affiliates (cents)	11.84	15.80
Less: Impact of special item (cents)	0.08	2.52
Operating expenses per available seat mile, excluding Regional Affiliates and impact of special item (cents)	11.76	13.28
Percent change	(11.5)%	
Less: Fuel expense per available seat mile (cents)	3.09	5.23
Operating expenses per available seat mile, excluding Regional Affiliates, impact of special item and fuel expense (cents)	8.67	8.05
Percent change	7.7%	

American Airlines, Inc. Mainline Jet Operations (in millions, except as noted)	Estimate for Year Ended December 31, 2009	2008
Operating expenses per available seat mile, excluding Regional Affiliates (cents)	11.83	13.87
Less: Impact of special item (cents)	0.06	0.73
Operating expenses per available seat mile, excluding Regional Affiliates and impact of special item (cents)	11.77	13.14
Percent change	(10.4)%	
Less: Fuel expense per available seat mile (cents)	3.08	4.99
Operating expenses per available seat mile, excluding Regional Affiliates, impact of special item and fuel expense (cents)	8.69	8.15
Percent change	6.6%	

AMR Corporation (in millions, except as noted)	Estimate for Three Months Ended June 30, 2009	2008
Operating expenses per available seat mile (cents)	12.41	16.60
Less: Impact of special item (cents)	0.08	2.59
Operating expenses per available seat mile, excluding impact of special item (cents)	12.33	14.01
Percent change	(12.0)%	

Less: Fuel expense per available seat mile (cents)	3.18	5.38
Operating expenses per available seat mile, excluding impact of special item and fuel expense (cents)	9.15	8.63
Percent change	6.1%	

AMR CORPORATION
NON-GAAP AND OTHER RECONCILIATIONS
(Unaudited)

AMR Corporation (in millions, except as noted)	Estimate for Year Ended December 31, 2009	 2008
Operating expenses per available seat mile (cents)	12.39	14.56
Less: Impact of special item (cents)	0.05	0.74
Operating expenses per available seat mile, excluding impact of special item (cents)	12.34	13.82
Percent change	(10.7)%	
Less: Fuel expense per available seat mile (cents)	3.18	5.12
Operating expenses per available seat mile, excluding impact of special item and fuel expense (cents)	9.16	8.70
Percent change	5.3%	

AMR Corporation (in millions, except as noted)	Three Months Ended March 31, 2009	 2008
Net Income/(Loss)	(375)	(341)
Less: Impact of special items	(13)	-
Net Income/(Loss), excluding impact of special items	(362)	(341)
Earnings/(Loss) Per Share		
Basic	(1.30)	(1.37)
Diluted	(1.30)	(1.37)

Current AMR Corp. news releases can be accessed on the Internet.
The address is: http://www.aa.com

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