

HEALTHCARE BUSINESS SERVICES GROUPS, INC.
Form 10QSB
May 22, 2007

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2007

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

For the transition period from _____ to _____

Commission file number: 000-50014

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

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

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 No

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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-QSB. []

The issuer's revenues for the most recent fiscal year ended December 31, 2007 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]

PART 1. FINANCIAL STATEMENTS**HEALTHCARE BUSINESS SERVICES GROUPS INC.
CONSOLIDATED BALANCE SHEET****MARCH 31, 2007**

(Unaudited)

ASSETS

| | | |
|------------------------------------|----|--------|
| PROPERTY AND EQUIPMENT, net | \$ | 52,707 |
| INTANGIBLE ASSET, net | | |
| Website technology costs, net | | 19,489 |
| DEPOSITS | | 3,650 |
| | \$ | 75,845 |

LIABILITIES AND STOCKHOLDERS' DEFICIT**CURRENT LIABILITIES**

| | | |
|---------------------------------------|----|-----------|
| Accounts payable and accrued expenses | \$ | 1,481,007 |
| Accrued officer compensation | | 457,402 |
| Litigation accrual | | 209,000 |
| Lines of credit | | 92,968 |
| Derivative liability | | 1,415,030 |
| Lease Payable | | 18,938 |
| Notes payable | | 1,300,000 |
| Total current liabilities | | 4,974,345 |

COMMITMENTS & CONTINGENCIES

-

STOCKHOLDERS' DEFICIT

| | | |
|--|----|-------------|
| Preferred stock, \$0.001 par value; Authorized shares 5,000,000, none issued and outstanding | | - |
| Common stock, \$0.001 par value; Authorized shares 750,000,000, 33,960,450 shares issued and outstanding | | 33,960 |
| Additional paid in capital | | 1,509,864 |
| Shares to be issued | | 69,000 |
| Accumulated deficit | | (6,511,324) |
| Total stockholders' deficit | | (4,898,500) |
| | \$ | 75,845 |

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

HEALTHCARE BUSINESS SERVICES GROUPS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the three month periods ended | | | |
|--|-----------------------------------|------------|------|------------|
| | March 31 | | | |
| | 2007 | | 2006 | |
| Net revenues | \$ | 284,434 | \$ | 314,809 |
| Operating expenses | | | | |
| General and administrative expenses | | 258,612 | | 326,838 |
| Officer Compensation | | 136,750 | | 166,250 |
| Depreciation and amortization | | 23,960 | | 19,607 |
| Total operating expenses | | 419,322 | | 512,695 |
| Loss from Operations | | (134,888) | | (197,886) |
| Other income (expenses): | | | | |
| Interest expense and financing cost | | (27,499) | | (17,755) |
| Change in fair value of derivative liability | | 323,452 | | - |
| Total other income (expenses) | | 295,953 | | (17,755) |
| Provision for income taxes | | 800 | | 1,700 |
| Net income (loss) | \$ | 160,265 | \$ | (217,341) |
| Basic & diluted net loss per share | \$ | 0.00 | \$ | (0.01) |
| Basic & diluted weighted average number of common stock outstanding | | 33,960,450 | | 33,960,150 |

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

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

HEALTHCARE BUSINESS SERVICES GROUPS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the three month periods ended | |
|---|--|-------------------|
| | March 31 | |
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 160,265 | \$ (217,341) |
| Adjustments to reconcile net loss to net cash | | |
| Provided by (used in) operating activities: | | |
| Depreciation and amortization | 23,960 | 19,607 |
| Amortization of shares for issued for consulting | - | 18,750 |
| Shares to be issued for compensation | 1,750 | 16,250 |
| Change in fair value of derivative liability | (323,452) | - |
| (Increase) decrease in current assets: | | |
| Receivables | - | 4,458 |
| Increase in current liabilities: | | |
| Accounts payable and accrued expenses | 37,211 | 18,699 |
| Accrued officer compensation | 119,737 | - |
| Net cash provided by (used in) operating activities | 19,471 | (139,577) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property & equipment | (16,021) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of notes payable | - | (12,596) |
| Payment towards line of credit | (3,450) | (9,182) |
| Net cash used in financing activities | (3,450) | (21,778) |
| NET DECREASE IN CASH & CASH EQUIVALENTS | - | (161,355) |
| CASH & CASH EQUIVALENTS, BEGINNING BALANCE | - | 303,123 |
| CASH & CASH EQUIVALENTS, ENDING BALANCE | \$ - | \$ 141,768 |
| Supplementary Information: | | |
| Cash paid during the year for: | | |
| Interest | \$ - | \$ 4,111 |
| Income taxes | \$ - | \$ 1,700 |

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION -

(A) Organization and Nature of Business

Healthcare Business Services Groups Inc. (herein referred to as "Healthcare" or "Company") was formed in Delaware in December 1994. On April 23, 2004, the Company acquired 100% of the issued and outstanding shares of Healthcare, a Delaware corporation. 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." As a result of the Acquisition, the Company acquired 100% of three corporations.

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

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

Healthcare is a medical billing service provider that for over fifteen years has assisted various health care providers to successfully enhance their billing function. Healthcare has a diversified market servicing AZ, NY, WA, FL, TX and California.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, AutoMed Software Corp. and Silver Shadow Properties, LLC. All significant inter-company accounts and transactions have been eliminated in consolidation. The acquisition of Healthcare Business Services Groups Inc. on May 7, 2004, has been accounted for as a purchase and treated as a reverse acquisition. The historical results for the three months periods ended March 31, 2007 and March 31, 2006 include Healthcare Business Services Groups Inc. and the Company.

BASIS OF PRESENTATION

The unaudited consolidated financial statements have been prepared by Healthcare Business Services Groups Inc., (herein referred to as "Healthcare" or "Company"), in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-QSB and Regulation S-B as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, these consolidated financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto include on Form 10-KSB for the year ended December 31, 2006. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented. The results of the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007.

(B) Use of Estimates

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

(C) Revenue Recognition

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

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

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

(D) 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.

(E) Reclassifications

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

(F) New Accounting Pronouncements

In February 2007, FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. FAS159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to specific requirements outlined in the new Statement. Therefore, calendar-year companies may be able to adopt FAS 159 for their first quarter 2007 financial statements.

The new Statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. The management is currently evaluating the effect of this pronouncement on financial statements.

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:

1. A brief description of the provisions of this Statement
2. The date that adoption is required
3. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

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

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2007 consisted of the following:

| | | |
|-------------------------------|----|-----------|
| Office and computer equipment | \$ | 128,966 |
| Furniture and fixtures | | 101,889 |
| | | 230,855 |
| Less accumulated depreciation | | (178,148) |
| | \$ | 52,707 |

Depreciation expense for the three months periods ended March 31, 2007 and 2006 was \$ 4,471 and \$ 7,069, respectively.

NOTE 3 INTANGIBLE ASSETS

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

Expenditures for maintenance and repairs are expensed when incurred; additions, renewals and betterments are capitalized. Amortization is computed using the straight-line method over the estimated useful life of the asset. Amortization begins from the date when the software becomes operational. The website became operational from July 1, 2004. The Company amortized \$ 19,489 and \$12,538 for the three months periods ended March 31, 2007 and 2006 respectively. The balance at March 31, 2007 amounts to \$ 19,489.

The intangible asset will be fully amortized by June 30, 2007.

NOTE 4 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable, accrued expenses and litigation accrual consist of the following at March 31, 2007:

| | |
|---|------------------|
| Trade payable | \$ 868,875 |
| Payable to clients | 474,476 |
| Accrued interest | 55,319 |
| Income tax payable | 9,455 |
| Accrued payroll | 6,039 |
| Accrued payroll tax | 3,322 |
| Accrued expenses | 17,587 |
| Accrued vacation and sick time | 13,114 |
| Payable for purchase of equipment | 1,114 |
| Other payable | 31,706 |
| Total accounts payable and accrued expenses | \$ 1,481,007 |

NOTE 5 LINES OF CREDIT

The Company has two revolving lines of credit from two financial institutions for \$50,000 and \$75,000. The credit lines are unsecured and bear an annual interest rate of 10.75% and 16.24%, respectively. The credit lines are personally guaranteed by the CEO of the Company. The Company has borrowed \$15,837 and \$ 77,131 from the credit lines as of March 31, 2007.

NOTE 6 NOTES PAYABLE

Notes payable are summarized as follows:

| | 2006 |
|---|--------------|
| Equipment loan: May 2003 due April 2008; payable in monthly installments of \$1,030; annual interest of 14%; secured by equipment | \$ 18,938 |
| Callable convertible secured note, due | \$ 1,300,000 |

The Company recorded interest expense of \$ 19,500 and \$ 12,753 for the three months periods ended March 31, 2007 and 2006 respectively.

NOTE 7 CALLABLE CONVERTIBLE SECURED NOTE AND SECURITIES PURCHASE AGREEMENT

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

Pursuant to the Securities Purchase Agreement, the Investors purchased the Notes and Warrants in three tranches 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 purchase 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 32,500,000 shares of common stock at an exercise price of \$0.07.

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

The company accrued interest of \$19,500 on the note during the three months periods ended March 31, 2007.

The Company is in default of the note as its registration statement has not become effective as stipulated by the agreement. The note is immediately due and payable and has been shown as a current liability in the accompanying financials. The Company has accrued interest on the note at the default interest rate of 18%.

The Company computed the beneficial conversion liability of \$ 1,300,000 and warrant liability of \$ 115,030 based on Black Scholes model. These amounts have been reflected on the financials as derivative liability in amount of \$ 1,415,030.

NOTE 8 STOCKHOLDERS' DEFICIENCY

Common Stock

The Company is presently authorized to issue 750,000,000 shares of \$0.001 par value Common Stock. The Company currently has 33,960,450 common shares issued and outstanding. The holders of common stock, and of shares issuable upon exercise of any Warrants or Options, are entitled to equal dividends and distributions, per share, with respect to the common stock when, as and if declared by the Board of Directors from funds legally available therefore. No holder of any shares of common stock has a pre-emptive right to subscribe for any securities of the Company nor is any common shares subject to redemption or convertible into other securities of the Company. Upon liquidation, dissolution or winding up of the Company, and after payment of creditors and preferred stockholders, if any, the assets will be divided pro-rata on a share-for-share basis among the holders of the shares of common stock. All shares of common stock now outstanding are fully paid, validly issued and non-assessable. Each share of common stock is entitled to one vote with respect to the election of any director or any other matter upon which shareholders are required or permitted to vote. Holders of the Company's common stock do not have cumulative voting rights, so that the holders of more than 50% of the combined shares voting for the election of directors may elect all of the directors, if they choose to do so and, in that event, the holders of the remaining shares will not be able to elect any members to the Board of Directors.

The Company did not issue any stock during the three months period ended March 31, 2007.

The Company recorded \$ 1,750 as officer compensation for 250,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market value at March 31, 2007.

The Company did not issue any stock during the three month period ended March 31, 2006.

The Company recorded \$ 16,250 as officer compensation for 250,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market at March 31, 2006.

Class B Preferred Stock

The Company's Articles of Incorporation (Articles") authorize the issuance of 5,000,000 shares of no par value Class B Preferred Stock. No shares of Preferred Stock are currently issued and outstanding. Under the Company's Articles, the Board of Directors has the power, without further action by the holders of the Common Stock, to designate the relative rights and preferences of the preferred stock, and issue the preferred stock in such one or more series as designated by the Board of Directors. The designation of rights and preferences could include preferences as to liquidation, redemption and conversion rights, voting rights, dividends or other preferences, any of which may be dilutive of the interest of the holders of the Common Stock or the Preferred Stock of any other series. The issuance of Preferred Stock may have the effect of delaying or preventing a change in control of the Company without further shareholder action and may adversely affect the rights and powers, including voting rights, of the holders of Common Stock. In certain circumstances, the issuance of preferred stock could depress the market price of the Common Stock.

NOTE 9 COMMITMENTS

During the three month period ending March 31, 2007, the Company leased its corporate offices space in Upland, California under operating lease agreement. The facility lease calls for a monthly rent of \$3,387. Rent expenses under operating leases for the three months period ending March 31, 2007 and 2006 were \$ 10,161 and \$10,749. The Company is on a month to month lease as of March 31, 2007.

NOTE 10 GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the company as a going concern. Although the Company had a profit of \$ 160,265 for the three months periods ending March 31, 2007, there is working capital deficiency of \$ 4,974,345, stockholders' deficit of \$ 4,898,500, and an accumulated deficit of \$ 6,511,324. In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheet is dependent upon continued operations of the company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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

NOTE 11 LITIGATION

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. The Company has accrued \$ 209,000 in the accompanying financials statements.

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 Arbitration 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 Soloniuk 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 Soloniuk to use HBSGI billing method. Hearing is set for May 10, 2007. Company is suing Soloniuk 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 \$3,000. 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.

NOTE 12 RELATED PARTY TRANSACTIONS

The Company recorded \$ 1,750 as officer compensation for 250,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market value at March 31, 2007.

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

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

OVERVIEW

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

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

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

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

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 AutoMed™. The Company has installed, and is currently ready to market and install, AutoMed™ at some of the Company's existing medical billing clients. The Company expects that after this software is launched, revenues will grow substantially over the next three to five years extending its billing model into the technology era.

RESULTS OF OPERATIONS

THREE MONTH PERIOD ENDED MARCH 31, 2007 COMPARED TO THREE MONTH PERIOD ENDED MARCH 31, 2006

Revenue for the three month period ended March 31, 2007 were \$ 284,434 compared to \$ 314,809 for the same period in 2006. The decrease in revenues was due to reduction in collections from the customers and hence decrease in commissions earned during the three month period ended March 31, 2007 as compared to same period in 2006. 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 three month period ended March 31, 2007 was \$ 258,612 compared to \$ 326,838 for the same period in 2006. The decrease in G&A expenses in 2007 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 \$ 23,960 for the three month period ended March 31, 2007 as compared to \$ 19,607 for the same period in 2006. The depreciation and amortization expense is consistent with the prior year since the assets are being depreciated straight line over the life.

Interest expense and financing costs for the three month period ended March 31, 2007 was \$ 27,499 compared to \$ 17,755 for the same period in 2006. The increase in interest expense and financing costs are due to \$ 1,300,000 note that Company borrowed during the year.

Net income was \$ 160,265 (or basic and diluted net income per share of \$(0.00)) for the three month period ended March 31, 2007 as compared to net loss of \$ (217,341) (or basic and diluted net loss per share of \$0.01) for the same period in 2006. The net income for the three month period ending March 31, 2007 is because of the change in fair value of derivative liability associated with the \$ 1,300,000 note.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of \$ 4,974,345 as of March 31, 2007. The Company had total assets of \$ 75,845 as of March 31, 2007, which consisted of \$ 52,707 of property and equipment, \$ 19,489 of intangible assets from the Company's website technology costs and \$3,650 of deposits.

The Company had total current liabilities of \$ 4,974,345 as of March 31, 2007, consisting of accounts payable and accrued expenses of \$ 1,481,007, litigation accrual of \$ 209,000, line of credit of \$92,968, note payable to third parties of \$ 1,318,938, due to officer of \$ 452,402 and \$ 1,415,030 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 \$15,837 and \$ 77,131 from the credit lines as of March 31, 2007.

Net cash provided by operating activities was \$ 19,471 for the three month period ended March 31, 2007, as compared to net cash used in operating activities of \$ 139,577 during the same period in 2006.

Net cash used in investing activity for the three month period ended March 31, 2007 was \$16,021 as compared to no net cash used in investing activities during the same period in 2006.

Net cash used in financing activities was \$ 3,450 for the three month period ended March 31, 2007, as compared to net cash used in financing activities of \$ 21,778 for the same period in 2006.

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 tranches 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 purchase 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 32,500,000 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 March 31, 2007.

RISK FACTORS

WE NEED A SUBSTANTIAL AMOUNT OF ADDITIONAL FINANCING.

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

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

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

Chandana Basu, our Chief Executive Officer and Treasurer, receives a substantial amount of \$50,000 per month (or \$600,000 per year) for her services, which includes approximately \$5,000 of salary and a minimum bonus of \$45,000 each month (accrues if not paid). The amount of salary that Ms. Basu receives relative to the Company's revenue and other expenses reduces the likelihood that the Company will make a profit, and increases the possibility that the Company be forced to curtail or abandon its business plan in the future if the Company fails to raise additional capital.

WE MAY NOT BE SUCCESSFUL IN SELLING AUTOMED SOFTWARE

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

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

The three major customers of the Company provided \$ 216,143 or 76% of the revenues of the Company for for the three month period ended March 31, 2007. 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.

ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Although the Company had a profit of \$ 160,265 for the three month period ending March 31, 2007 there is working capital deficiency of \$ 4,974,345, stockholders' deficit of \$ 4,898,500, an accumulated deficit of \$ 6,511,324.. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any adjustments that might result from our inability to continue as a going concern. Our continuation as a going concern is dependent upon future events, including obtaining financing (discussed above) for expansion and to implement our business plan with respect to AutoMed and Surgery Centers. If we are unable to continue as a going concern, you will lose your entire investment.

WE RELY ON KEY MANAGEMENT.

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

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

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

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

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

- (1) actual or anticipated variations in our results of operations;

(2) our ability or inability to generate new revenues;

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- (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) 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.

(I) 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.

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(J) 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 United States of America.

(K) 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.

Healthcare is a medical billing service provider. Healthcare's sister company, AutoMed, has developed a proprietary software system. In addition, Healthcare's other sister company, Silver Shadow, made an investment in real estate where Healthcare plans to construct its first surgical center and corporate office development.

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

(L) 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.

(M) Reclassifications

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

(N) New Accounting Pronouncements

In February 2007, FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. FAS159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to specific requirements outlined in the new Statement. Therefore, calendar-year companies may be able to adopt FAS 159 for their first quarter 2007 financial statements.

The new Statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. The management is currently evaluating the effect of this pronouncement on financial statements.

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:

1. A brief description of the provisions of this Statement
2. The date that adoption is required
3. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and principal financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures were

effective and designed to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act of 1934 is 1) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms; and 2) accumulated and communicated to her as appropriate to allow timely decisions regarding required disclosure.

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. The Company has accrued \$ 209,000 in the accompanying financials and has recorded them as a liability

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 Arbitration 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 Soloniuk 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 Soloniuk to use HBSGI billing method. Hearing is set for May 10, 2007. Company is suing Soloniuk 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.

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.

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.

ITEM 2. CHANGES IN SECURITIES

The Company increased its authorized capital to 750,000,000 shares from 50,000,000 shares of common stock \$0.001 par value as of March 31, 2007.

The Company did not issue any stock during the three month period ended March 31, 2007.

The Company recorded \$ 1,750 as officer compensation for 250,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market at March 31, 2007.

The Company did not issue any stock during the three month period ended March 31, 2006.

The Company recorded \$ 16,250 as officer compensation for 250,000 shares to be issued pursuant to the employment agreement. The officer is entitled to 1,000,000 shares every year pursuant to the employment agreement. The value of the stock is based on the market at March 31, 2006.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.* Description

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

* Filed Herein.

(b) Reports on Form 8-K

The Company filed no Reports on Form 8-K during the fiscal quarter ended March 31, 2007.

SIGNATURES

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

Healthcare Business Services Group, Inc.

Dated: May 19, 2007

By: /s/ Chandana Basu

Chandana Basu,

Chief Executive Officer and

Principal Financial Officer