



Healthcare Business Services Group (OTCBB: HBSV)

Institutional Research Report

Gary Vassalotti
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Symbol (OTCBB):	HBSV	Nine Months Ending March				
Recent Price:	0.12	Year	E/S	PER	REVS	PSR
Avg. Daily Vol. (3-Mo.):	10,295	2003	0.003	50.0	0.07	2.14X
Industry	Management Services	2004	(0.063)	NA	0.06	2.50
12 Month Target Valuation:	\$0.27	2005E	(0.005)	NA	0.06	2.68
Market Capitalization (\$mil):	6.21	Estimated 2002- 2005 Annualized				
Capitalization: 09/30/04		Growth Rate:	43.3%			
Shares O/S:	29,820,184	Dividend:	Nil			
Cash & Equiv. (03/31/05)	0	Yield:	Nil			
Net Working Capital:	(1,955,513)	Insider Ownership:	25,150,000	84.5%		
Long-term Debt:	375,189	Rating:	Speculative / 3			
Shareholders Equity (03/31/05)	(1,591,113)					

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Healthcare Business Services Groups, Inc., is rated as “Speculative / 3” for the following reasons:

- Competent, and experienced management
- Very small capitalization
- Fragmented Market
- Low / No Cash Assets
- Potential windfall from land sale (on the market for \$1.6mm)

Winfield Financial Group, Inc was incorporated in Nevada on May 2, 2000. The company primary business function was as a business broker. In April of 2004, Winfield filed paperwork with Nevada stating the intent to acquire Vanguard Commercial, Inc; however, before the acquisition was to occur, Winfield canceled the purchase.

Instead, Winfield acquired the assets of Healthcare Business Services Groups, Automated Software, and Silver Shadow Properties, LLC from Chandana Basu, the sole owner of the acquired properties. The purchase was paid with 25,150,000 shares of Treasury stock.

At the time of these transactions, Robert and Linda Burley controlled Winfield Financial. However, in June of 2004, Winfield Financial entered into an agreement with the Burleys that transferred certain rights and assets to the Burley’s in exchange for the cancellation of 2,640,000

shares of stock they owned. These assets and rights included: The rights to the Winfield Financial Group name; contracts agreements, rights and other intangible assets related to business operations that existed immediately prior to the acquisition of Healthcare Business Services Groups.

After all the transfers and cancellations were affected, Chandana Basu became the controlling shareholder with 25,150,000 shares, 84.5% of the outstanding issued.

Winfield Financial Group, Inc became Healthcare Business Services Groups, Inc, a company now involved in healthcare billing services, medical billing software, and soon, management and operation of outpatient surgical care centers. Winfield changed its name to Healthcare Business Services Groups, Inc (HBSGI) on 1/13/2005.

The Medical Billing Industry

The medical billing industry evolved from the medical industry's need to outsource tedious and complex-billing procedures to specialized firms. Billing firms gather patient information, such as procedures and insurance coverage, and then submit this information to insurance companies for reimbursement.

These firms track the payment process from submission to final payment to ensure payment is actually received. Since insurance companies deny payments for many minor 'problems,' such as a wrong procedure code, this follow through alleviates a major labor intensive, and error prone, activity for most medical facilities.

Some background information on the billing industry (from HBSGI's business plan document):

- Healthcare providers spend \$7 billion annually processing insurance claims.
- Paper claims take about 35 minutes to complete, and are rejected at a rate of 30-35% for typos, errors, and omissions.
- Less than 1% of electronic claims are rejected.
- The AMA projects that paper claims cost \$10-15 in direct processing costs.

HBSGI Business Strategy

HBSGI main business, for over 14 years, is medical billing (revenues 2003 \$1.798 million) physician practices. The company processes the bills received from the medical facility through the insurance providers, through to final payment from the patients.

Billing is generally considered a tedious chore by most medical facilities. In addition, maximizing the payment received from the various responsible parties, i.e. the insurance companies and the patients, takes time and attention to minute detail. HBSGI's system allows it to follow through on this process and offers the client's the potential to receive more revenue than what they may be able to collect themselves.

The billing service uses company owned software titled 'AutoMed,' soon to become HBSGI's second business focus. AutoMed was originally developed to be utilized in the company's billing services. HBSGI will be selling AutoMed through its AutoMed Software subsidiary.

The software features the ability to customize the processing process for the unique requirements of different insurance providers. This allows for electronic submission, and verification of the data being submitted, to the insurance companies. The result is fewer rejections and faster claims paying to the medical facility.

The company intends for AutoMed to be a one-stop shopping type of product. They intend the software to be able to:

- Automatic patient record setup using patient completed electronic registration forms.
- Automatic electronic and manual medical claims filing submissions or regular and Medicare Insurance coverage's.
- Automatic patient statement (initial and monthly statements);
- Auto tracking and auto-reminder to order drugs, materials, and supplies;
- Electronic prescription tracking;
- Automatic follow up collection notices to patients within a certain number of days of nonpayment;
- Automatic follow up to insurance companies if payment has not been received within a certain number of days;
- Automatic practice management reports generated for printing on a local printer and accessible over the internet;
- Automated transcription services; and
- Access to electronic medical records

The company intends to price the product at \$50,000 for one person/one computer installation. This seems to be about a mid-market price, as I have found this type of software sells for between \$15,000 to \$100,000 (the \$15,000 version does require each user to be trained and certified prior to using the software and the vendor charges \$200 per hour to go through the process. Total fees for that product would be around \$75,000 according to one estimate I received).

In addition, HBSGI is also developing a surgery center business. This business will be conducted through the Silver Shadows, LLC subsidiary. The company believes that the Surgery Centers, with hard assets, will improve the stability of the companies' financial condition.

There are significant risks to starting two businesses at the same time with little sales history. However, the software business ties in directly with the Billing Services that has provided HBSGI with operating revenue for the past fifteen years. This expansion is a logical step. HSBCG has used the software since 2003, and it is ready to package for marketing.

They are starting the surgery center portion of the business with an experienced officer/director of the company that has run a surgical center for a number of years, but they are in a state that has over 457 existing centers. Even though it will develop into 'hard assets' that can be used to strengthen the balance sheet, it will take funding to get to that point. Currently HSBCG has no significant amounts of debt. This venture may force the company to change that part of their financial structure.

HBSGI Business Unit Breakdown

Billing Services

Billing services are the main focus of the company, and is currently the only business segment to provide revenue.

Billing has shown a 43% annual growth rate from 2001 to 2003. Although this is a short period of time, given the fragmented industry, we can expect solid growth in the next few years.

The majority of the segments revenue is from billing directly, but it does receive a portion from record copying fees. This fee revenue has grown substantially in the past 3 years from \$120 to \$3,910. This is a very small portion of the overall revenues, representing only 0.18% of total revenues.

Auto-Med

The software itself is web based and is about ready to go. The company has stated that it is currently developing the documentation for the product, but that most of the software development is already in place. With this model of distribution the incremental costs involved with adding additional practices to the client list should be minimal; revenue from new clients should immediately add to the bottom line.

Silver Shadow Properties, LLC – Surgical Centers

HBSGI plan for the Surgical Centers is to be the manager of the center. It will employ or contract with physicians who will provide the services to the end user. HBSGI will then provide staffing and billing services to these physicians. In addition, the company intends to lease out unused space in the buildings to generate additional revenue

Currently, the U.S. has about 1,500 companies that operate over 4,000 ambulatory surgical centers (ASC), controlling over \$6 billion in revenues. These surgical centers concentrate on minor surgeries, such as cataracts, lens insertions, and pain management procedures.

ASC's are not the same as diagnostic centers, a type of non-hospital based facility that has also become popular method of treatment. Instead, ASC's treat patients that have already consulted a health care provider and selected surgery as a treatment option. As such, ASC's must have at least one operating room with the equipment and staff required to safely perform procedures.

ASC's can also be Medicare certified, and 85% of them currently meet this certification. In addition, 43 states require these centers to be licensed, and centers can seek accreditation to further enhance their reputations and marketability.

Cost wise, ASC's, on average, are about 47% less expensive than comparable operations at hospitals, according to a study by the Blue Cross Blue Shield. One center can generate revenues of 6-10 million per year.

HBSGI Financials

HBSV may have some hidden value on its balance sheet. The company owns land that has been valued around \$1.6mm, and is currently for sale at that price. If the company succeeds in selling for this sum, it will be able to pay off all outstanding debts. This hidden value should be kept in mind when reading the following financials.

Balance Sheet (12/31/04 and 3/31/05)

Assets

	12/31/04	3/31/05
Cash	243,604	
Accts Receivable		17,149
Total Current Assets	243,604	17,149
Property Plant and Equip	543,698	565,794
Intangible Asset, Web Site Technology Costs	188,049	169,244
Deposits	4,335	4,551
Total Assets	979,686	756,738

Liabilities

Current Liabilities		
Accts. Payable	151,776	584,673
Accrued Expenses	472,207	
Contingent Liabilities	263,829	263,829
Accrued Officer Compensation	348,142	416,828
Line of Credit	100,335	117,658

Notes Payable	342,079	339,674
Convertible Notes Payable	250,000	250,000
Total Current Liabilities	<u>1,928,368</u>	<u>1,972,662</u>
Notes Payable	378,119	375,189
Stock Holders Deficit		
Common Stock, 0.001 par value	30,940	31,040
Additional Paid in Capital	537,668	556,768
Accumulated Deficit	(1,895,609)	(2,178,921)
Total Deficit	<u>(1,326,801)</u>	<u>(1,591,113)</u>
Total Liabilities	979,686	756,738

The above balance sheet is from the financial statements for periods ending 12/31/2004 and 3/31/05, respectively. The balance sheet does not show significant cash positions for the quarter ending 3/31, but HBSGI did show \$243,604 at year-end 2004.

Income Statement

Shown below is an income statement generated for 2003 and 2004. This statement shows selected financial entries and helps to illustrate the company's revenues during period.

	<u>2004</u>	<u>2003</u>
Revenues		
Billing Fees	\$1,667,282	1,977,913
	<u>1,667,282</u>	<u>1,977,913</u>
Operating expenses		
General and administrative expenses	2,346,946	1,891,633
Officer Compensation	450,000	
Depreciation and amortization	74,858	29,795
Consulting fees	524,278	\$ -
	<u>\$3,396,082</u>	<u>\$1,921,428</u>
Gain (Loss) from Operations	<u>\$ (1,728,800)</u>	<u>\$ 56,485</u>

Non-operating (income) expense:

Interest Expense	64,064	24,378
Interest Income	(30)	(4,425)
Miscellanies	83,333	
	<u>147,367</u>	<u>19,953</u>
Loss before income taxes	<u>\$ (1,876,167)</u>	<u>\$ 36,532</u>
Provision for income taxes	2,400	19,626
Net Gain (loss)	<u><u>\$ (1,878,567)</u></u>	<u><u>16,906</u></u>

Selected Cash Flow Items

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	\$ (1,878,568.00)	\$ 16,906.00
Adjustments to reconcile net loss to net cash provided by		
(Used in) operating activities:		
Depreciation and amortization	\$ 74,858.00	\$ 29,796.00
Issuance of shares for service	\$ 475,476.00	
Beneficial Conversion Feature Expense	\$ 83,333.00	
Issuance of notes payable for service	\$ 250,000.00	
(Increase) decrease in current assets:		
Receivables	\$ 78,306.00	\$ (19,335.00)
Other assets	\$ (391.00)	\$ (4,486.00)
Increase in current liabilities:	\$ 621,880.00	\$184,905.00
Accounts payable and accrued expense		
Net cash provided by (used in) operating activities	<u>\$ (295,106.00)</u>	<u>\$ 207,786.00</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property & equipment	\$ (67,699.00)	\$ (669,797.00)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Note Payable	\$ 543,000.00	\$ 290,557.00
Proceeds from Note Payable - Officer	\$ 125,505.00	\$ 146,113.00
Payment of Notes Payable 1	\$(119,665.00)	
Proceeds from Line of Credit	\$ 56,967.00	\$ 8,859.00
Payment on Line of Credit	\$ (314.00)	

Net cash provided by financing activities	\$ 605,493.00	\$ 445,529.00
NET DECREASE IN CASH & CASH EQUIVALENTS	<u>\$ 242,688.00</u>	<u>\$ (16,482.00)</u>

Earnings Model

The chart below gives my estimated of the earnings power of HBSGI for the next year. Please keep in mind that two of the three business segments of the company currently have no significant revenues, and this EPS forecast must be generated using estimated revenues for these segments.

	2005(e)
Revenues	
Billing Fees	\$ 2,250,830.70
Record Copy Fees	
Surgical Center Revenue	\$ -
Total Revenue	<u>\$ 2,250,830.70</u>
Operating expenses	
General and administrative expenses	
Development Expense	\$ 165,000.00
Surgery Center Expense	\$ 1,760,000.00
Rental Admin Expense	\$ 15,840.00
Officer Compensation	\$ 495,000.00
Depreciation and amortization	\$ 74,858.00
Consulting fees	
Total operating expenses	<u>\$ 2,510,698.00</u>
Gain (Loss) from Operations	\$ (259,867.30)
Income (Loss) before income taxes	\$ (259,867.30)
Provision for income taxes	\$ (111,275.50)
Net Gain (loss)	<u><u>\$ (148,591.80)</u></u>
Basic & diluted weighted average number of Common stock outstanding	29,803,346.00
Basic & diluted net loss per share	\$ (0.005)

Valuation and Competitors

While trying to arrive at a value for HBSV, I used as Per-Se Technologies (PSTI), IMS Health (RX), and Corvel Corp (CRVL) as a basis for comparison.

Utilizing these companies gave me an average P/Sales Ratio of 0.242x to 0.441x. Applying these values, plus an expected addition to book value due too the land sale to HBSV, I arrived at a target valuation of \$0.27 per share.

Risks Inherent the Stock

- **Control Risk**
Investment in HSBV carries with it a control risk. Ms. Chandana Basu, with over 84% of the shares outstanding, wields absolute control of the corporation, both in voting rights and managerial control as CEO. She may make decisions that are adverse to the interests of minority shareholders.
- **Financial risk associated with the expansion into the operation of surgical centers.**
- **Major Customer Risk – HSBGC relies on Dr. Grewal, a client since 1996, for 30% of its revenues. An adverse development in their relations ship could seriously jeopardize this revenue stream. Dr. Grewal is also a current director of the company, both a plus and a minus for the company. As a director, it is unlikely the business would be moved to a competitor, and he has signed a standard contract that is used for all clients.**

Management and Changes in Management and Directors

HSBCG does have in-depth management experience to guide in its target markets. This experience is evident in the bios that follow.

Chandana Basu – Ms. Basu holds a B.S. degrees and minors in physics and chemistry. She holds the position of Chief Operating Officer. She has grown HSBCG into a \$20mm (sales) with a client base of hospitals and doctors in California, Florida, Washington, and Texas. Her company has been a pioneer in medical bill collecting for over 15 years, and she has 14 years experience in computer design and programming.

Chris Madero - Chris is the Senior Accountant for HBSGI and has been working with the company for over 4 years. Under his tenure the company has reduced expenses and implemented an aggressive cash management system encompassing both the receipts and disbursement side of the business. He manages the day-to-day operations fiancés for the company.

Abhijit Bhattacharya – Abhijit has designed and constructed over 50 franchise hotels and motels, including full service restaurants. He has experience developing approximately 6-7 thousand guest rooms per project including facility management and

maintenance totaling over \$100,000,000. Before joining the company, he worked in development for companies such as Marriott, Kolt Construction, and Kowen Construction.

Narinder Grewal, MD – Dr. Grewal is an anesthesiologist, and pain management specialist. He owns and operates a surgery center, since 2000. Dr. Grewal has been involved with the company for over 8 years, and is one of the company's largest client. He brings experience in developing surgical centers and the management of surgical centers.

Bharti Shah, MD. Dr Shah is an ambassador for the company in the medical community and a credible marketing tool at conferences and association meetings as well as provides vital physician input about the services and products to be explored by the company.

Falguni Patel, MD – HBSGI is partnering with Dr. Patel, a medical doctor. Who was a client of HBSGI from 1998 to 2000. Currently she is a faculty member of the university medical school

Conclusion

HBSGI presents some very interesting possibilities, but given the low cash available, and therefore low working capital, this company faces some serious challenges ahead.

I have reviewed the company's projected revenues for their surgical center, and do not find them unreasonable. I have adjusted these to account for the construction time frame and an estimated time to being up and running. There is substantial risk to any company when entering a new market segment, and this must be considered with HBSGI.

Given the fragmented condition of the billing services industry, the potential for the surgical centers, and the company specific risks noted in a prior section, HBSGI is rated Speculative / 3.

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