

HEALTHCARE SERVICES GROUP INC

Form 10-Q

October 22, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

(MARK ONE)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____ to _____

**Commission File Number 0-12015
HEALTHCARE SERVICES GROUP, INC.
(Exact name of registrant as specified in its charter)**

Pennsylvania

23-2018365

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification number)

3220 Tillman Drive-Suite 300, Bensalem, Pennsylvania

19020

(Address of principal executive office)

(Zip code)

Registrant's telephone number, including area code: 215-639-4274

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$.01 Par Value: 43,936,000 shares outstanding as of October 22, 2010.

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[EX-101 DEFINITION LINKBASE DOCUMENT](#)

Table of Contents**CONSOLIDATED BALANCE SHEETS**

	(Unaudited) September 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 26,109,000	\$ 31,301,000
Marketable securities, at fair value	44,498,000	52,648,000
Accounts and notes receivable, less allowance for doubtful accounts of \$5,483,000 in 2010 and \$4,640,000 in 2009	108,363,000	104,356,000
Inventories and supplies	18,858,000	16,974,000
Deferred income taxes	667,000	115,000
Prepaid expenses and other	4,825,000	6,776,000
Total current assets	203,320,000	212,170,000
Property and equipment:		
Laundry and linen equipment installations	1,774,000	1,695,000
Housekeeping equipment and office furniture	19,002,000	16,905,000
Autos and trucks	259,000	278,000
	21,035,000	18,878,000
Less accumulated depreciation	15,444,000	14,487,000
	5,591,000	4,391,000
GOODWILL	16,955,000	17,087,000
OTHER INTANGIBLE ASSETS , less accumulated amortization of \$5,470,000 in 2010 and \$4,038,000 in 2009	7,730,000	8,862,000
NOTES RECEIVABLE long term portion, net of discount	6,084,000	4,623,000
DEFERRED COMPENSATION FUNDING , at fair value	12,510,000	10,783,000
DEFERRED INCOME TAXES long term portion	10,040,000	7,907,000
OTHER NONCURRENT ASSETS	42,000	69,000
TOTAL ASSETS	\$ 262,272,000	\$ 265,892,000

See accompanying notes.

Table of Contents**CONSOLIDATED BALANCE SHEETS (continued)**

	(Unaudited) September 30, 2010	December 31, 2009
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 7,636,000	\$ 9,134,000
Accrued payroll, accrued and withheld payroll taxes	8,494,000	17,647,000
Other accrued expenses	1,841,000	3,057,000
Income taxes payable	215,000	35,000
Accrued insurance claims	6,032,000	4,844,000
Total current liabilities	24,218,000	34,717,000
ACCRUED INSURANCE CLAIMS long term portion	14,074,000	11,302,000
DEFERRED COMPENSATION LIABILITY	12,837,000	11,099,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common stock, \$.01 par value; 100,000,000 shares authorized; 46,049,000 shares issued in 2010 and 45,792,000 shares in 2009	460,000	458,000
Additional paid-in capital	97,474,000	92,339,000
Retained earnings	132,130,000	135,837,000
Accumulated other comprehensive income, net of taxes	152,000	
Common stock in treasury, at cost, 2,123,000 shares in 2010 and 2,211,000 shares in 2009	(19,073,000)	(19,860,000)
Total stockholders equity	211,143,000	208,774,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 262,272,000	\$ 265,892,000

See accompanying notes.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$ 195,114,000	\$ 178,829,000	\$ 571,868,000	\$ 510,134,000
Operating costs and expenses:				
Costs of services provided	168,384,000	155,228,000	492,196,000	438,950,000
Selling, general and administrative	14,488,000	11,936,000	41,539,000	36,328,000
Other income:				
Investment and interest	1,182,000	1,709,000	1,549,000	3,803,000
Income before income taxes	13,424,000	13,374,000	39,682,000	38,659,000
Income taxes	4,255,000	5,149,000	14,364,000	14,883,000
Net income	\$ 9,169,000	\$ 8,225,000	\$ 25,318,000	\$ 23,776,000
Basic earnings per common share	\$ 0.21	\$ 0.19	\$ 0.58	\$ 0.55
Diluted earnings per common share	\$ 0.21	\$ 0.19	\$ 0.57	\$ 0.54
Cash dividends per common share	\$ 0.23	\$ 0.19	\$ 0.66	\$ 0.54
Weighted average number of common shares outstanding				
Basic	44,026,000	43,626,000	43,964,000	43,540,000
Diluted	44,719,000	44,334,000	44,677,000	44,224,000

See accompanying notes.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOW**

	(Unaudited)	
	For the Nine Months Ended	
	September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 25,318,000	\$ 23,776,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,725,000	2,336,000
Bad debt provision	1,550,000	1,956,000
Deferred income tax benefits	(2,685,000)	(1,269,000)
Stock-based compensation expense	947,000	739,000
Amortization of premium on marketable securities	623,000	702,000
Unrealized (gain) loss on marketable securities	849,000	(589,000)
Unrealized gain on deferred compensation fund investments	(476,000)	(1,454,000)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(5,557,000)	(10,119,000)
Prepaid income taxes		2,838,000
Inventories and supplies	(1,883,000)	(449,000)
Notes receivable – long term portion	(1,461,000)	(2,192,000)
Deferred compensation funding	(1,250,000)	(500,000)
Accounts payable and other accrued expenses	(2,529,000)	(261,000)
Accrued payroll, accrued and withheld payroll taxes	(8,499,000)	10,025,000
Accrued insurance claims	3,960,000	2,864,000
Deferred compensation liability	2,055,000	2,202,000
Income taxes payable	180,000	329,000
Prepaid expenses and other assets	1,809,000	4,244,000
Net cash provided by operating activities	15,676,000	35,178,000
Cash flows from investing activities:		
Disposals of fixed assets	44,000	219,000
Additions to property and equipment	(2,537,000)	(1,593,000)
Purchases of marketable securities, net	(33,963,000)	(12,699,000)
Sales of marketable securities, net	40,792,000	10,405,000
Cash paid for acquisition		(4,613,000)
Net cash provided by (used in) investing activities	4,336,000	(8,281,000)
Cash flows from financing activities:		
Dividends paid	(29,025,000)	(23,506,000)
Repayment of debt assumed in acquisition		(4,718,000)
Reissuance of treasury stock pursuant to Dividend Reinvestment Plan	89,000	64,000
Tax benefit from equity compensation plans	1,262,000	373,000
Proceeds from the exercise of stock options	2,470,000	826,000
Net cash used in financing activities	(25,204,000)	(26,961,000)

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Net decrease in cash and cash equivalents	(5,192,000)	(64,000)
Cash and cash equivalents at beginning of the period	31,301,000	37,501,000
Cash and cash equivalents at end of the period	\$ 26,109,000	\$ 37,437,000
Supplementary Cash Flow Information:		
Income taxes cash payments, net of refunds	\$ 15,607,000	\$ 12,612,000
Issuance of 66,000 shares of Common Stock related to acquisition in 2009	\$	\$ 4,494,000
Issuance of 49,000 shares of Common Stock in both 2010 and 2009 pursuant to Employee Stock Plans	\$ 1,047,000	\$ 777,000

See accompanying notes.

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(Unaudited)**

For the Nine Months Ended September 30, 2010
Accumulated

	Common Stock Shares	Amount	Additional Paid-in Capital	Other Comprehensive Income	Retained Earnings	Treasury Stock	Stockholders Equity
Balance, December 31, 2009	45,792,000	\$ 458,000	\$ 92,339,000	\$	\$ 135,837,000	\$ (19,860,000)	\$ 208,774,000
Comprehensive income:							
Net income for the period					25,318,000		25,318,000
Unrealized gain on available for sale marketable securities, net of taxes				152,000			152,000
Comprehensive income							25,470,000
Exercise of stock options and other stock- based compensation, net of 9,000 shares tendered for payment	257,000	2,000	2,211,000			257,000	2,470,000
Tax benefit from equity compensation plans			1,262,000				1,262,000
Share-based compensation expense stock options			740,000				740,000
Treasury shares issued for Deferred Compensation			260,000			56,000	316,000

Plan funding and
redemptions
(6,000 shares)

Shares issued
pursuant to
Employee Stock
Plans (49,000
shares)

609,000

438,000

1,047,000

Cash dividends
\$0.66 per
common share

(29,025,000)

(29,025,000)

Shares issued
pursuant to
Dividend
Reinvestment
Plan (4,000
shares)

53,000

36,000

89,000

**Balance,
September 30,
2010**

46,049,000 \$ 460,000 \$ 97,474,000 \$ 152,000 \$ 132,130,000 \$ (19,073,000) \$ 211,143,000

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Reporting

The accompanying financial statements are unaudited and do not include certain information and note disclosures required by accounting principles generally accepted in the United States for complete financial statements. However, in our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The balance sheet shown in this report as of December 31, 2009 has been derived from, and does not include, all the disclosures contained in the financial statements for the year ended December 31, 2009. The financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the three and nine month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year.

As of September 30, 2010, we operate one wholly-owned subsidiary, Huntingdon Holdings, Inc. (Huntingdon). Huntingdon invests our cash and cash equivalents, as well as manages our portfolio of marketable securities.

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used for, but not limited to, our allowance for doubtful accounts, accrued insurance claims, asset valuations and review for potential impairment, stock-based compensation, and deferred tax benefits. The estimates are based upon various factors including current and historical trends, as well as other pertinent industry and regulatory authority information. We regularly evaluate this information to determine if it is necessary to update the basis for our estimates and to compensate for known changes.

Inventories and supplies include housekeeping, linen and laundry supplies, as well as dietary provisions and supplies. Inventories and supplies are stated at cost to approximate a first-in, first-out (FIFO) basis. Linen supplies are amortized over a 24 month period.

Revenues from services provided and equipment sales are recorded net of sales taxes.

Note 2 Acquisition

On May 1, 2009, we acquired essentially all of the assets of Contract Environmental Services, Inc. (CES), a South Carolina based corporation which is a provider of professional housekeeping, laundry and dietary department services to long-term care and related facilities. We believe the acquisition of CES expands and compliments our position of being the largest provider of such services to long-term care and related facilities in the United States. The aggregate consideration was approximately \$13,825,000 consisting of: (i) \$4,613,000 in cash, (ii) issuance of approximately 66,000 shares of our common stock (valued at approximately \$1,183,000) future issuance of approximately 265,000 shares (valued at approximately \$3,311,000) contingent upon the achievement of certain financial targets, and (iii) the repayment of approximately \$4,718,000 of certain debt obligations of CES. The final allocation of such consideration resulted in our recording of the following: (i) approximately \$8,998,000 of tangible assets consisting primarily of accounts receivable, (ii) \$5,700,000 of amortizable intangible assets, (iii) \$1,936,000 of goodwill and (iv) current liabilities of approximately \$2,809,000. The CES results of operations are not included in our consolidated results of operations before May 1, 2009, which was prior to the closing of the transaction. Effective January 1, 2010, all of CES operations were fully integrated with our operations.

Table of Contents**Note 3 Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of net assets acquired of businesses and is not amortized. Goodwill is evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. The goodwill associated with the CES acquisition is deductible for tax purposes over a fifteen year period.

The following table sets forth goodwill by reportable operating segment, as described in Note 6 herein, and the changes in the carrying amounts of goodwill for the nine month period ended September 30, 2010.

	Housekeeping Segment	Dietary Segment	Total
Balance as of December 31, 2009	\$ 14,913,000	\$ 2,174,000	\$ 17,087,000
Goodwill adjusted for final purchase price adjustments	(19,000)	(113,000)	(132,000)
Balance as of September 30, 2010	\$ 14,894,000	\$ 2,061,000	\$ 16,955,000

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 7 and 8 years). The following table sets forth the amounts of our identifiable intangible assets subject to amortization, which were acquired in acquisitions.

	September 30, 2010	December 31, 2009
Customer relationships	\$ 12,400,000	\$ 12,100,000
Non-compete agreements	800,000	800,000
Total other intangibles, gross	\$ 13,200,000	\$ 12,900,000
Less accumulated amortization	(5,470,000)	(4,038,000)
Other intangibles, net	\$ 7,730,000	\$ 8,862,000

The customer relationships have a weighted-average amortization period of seven years and the non-compete agreements have a weighted-average amortization period of eight years. The following table sets forth the estimated amortization expense for intangibles subject to amortization for the following five fiscal years:

Period/Year	Customer Relationships	Non-Compete Agreements	Total
October 1 to December 31, 2010	\$ 443,000	\$ 25,000	\$ 468,000
2011	1,771,000	100,000	1,871,000
2012	1,771,000	100,000	1,871,000
2013	1,452,000	100,000	1,552,000
2014	814,000	67,000	881,000
2015	814,000		814,000

Amortization expense for the three and nine month periods ended September 30, 2010 were \$468,000 and \$1,432,000, respectively.

Table of Contents**Senior Notes Due 2015**

Our senior notes maturing March 1, 2015 are registered with the SEC and bear interest at 6.25% (the Senior Notes). The Senior Notes are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the Senior Notes.

Indebtedness under the Senior Notes is recourse to HEP Logistics Holdings, L.P., our general partner, and guaranteed by our wholly-owned subsidiaries. However, any recourse to HEP Logistics Holdings, L.P. would be limited to the extent of their assets, which other than their investment in HEP, are not significant.

The carrying amounts of our long-term debt are as follows:

	September 30, 2008	December 31, 2007
	(In thousands)	
Credit Agreement	\$ 195,000	\$
Senior Notes		
Principal	185,000	185,000
Unamortized discount	(2,439)	(2,724)
Fair value hedge - interest rate swap	961	(841)
	183,522	181,435
Total Debt	378,522	181,435
Less net short-term borrowing under credit agreement	24,000	
Total long-term debt	\$ 354,522	\$ 181,435

Interest Rate Risk Management

As of September 30, 2008, we have two interest rate swap contracts.

We entered into an interest rate swap to hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on the \$171.0 million Credit Agreement advance that we used to finance our purchase of the Crude Pipelines and Tankage Assets from Holly. This interest rate swap effectively converts our \$171.0 million LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 2.0%, which equaled an effective interest rate of 5.74% as of September 30, 2008. The maturity date of this swap contract is February 28, 2013. We intend to renew our Credit Agreement prior to its expiration in August 2011 and continue to finance the \$171.0 million balance until the swap matures.

We have designated this interest rate swap as a cash flow hedge. Based on our assessment of effectiveness using the change in variable cash flows method, we have determined that this interest rate swap is effective in offsetting the variability in interest payments on our \$171.0 million variable rate debt resulting from changes in LIBOR. Under hedge accounting, we adjust our cash flow hedge on a quarterly basis to its fair value with a corresponding offset to accumulated other comprehensive income. Also on a quarterly basis, we measure hedge effectiveness by comparing the present value of the cumulative change in the expected future interest to be paid or received on the variable leg of our swap against the expected future interest payments on our \$171.0 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of September 30, 2008, we had no ineffectiveness on our cash flow hedge.

We also have an interest rate swap contract that effectively converts interest expense associated with \$60.0 million of our 6.25% Senior Notes from a fixed to a variable rate. Under this swap contract, interest on the \$60.0 million notional amount is computed using the three-month LIBOR plus an applicable margin of 1.1575%, which equaled an effective interest rate of 3.97% as of September 30, 2008. The maturity date of this swap contract is March 1, 2015, matching the maturity of the Senior Notes.

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This interest rate swap has been designated as a fair value hedge and meets the requirements to assume no ineffectiveness. Accordingly, we use the shortcut method of accounting. Under this method, we adjust the carrying value of the swap to its fair value on a quarterly basis, with an offsetting entry to our Senior Notes, effectively adjusting the carrying value of \$60.0 million of principal on the Senior Notes to its fair value.

We record interest expense equal to the variable rate payments under the swaps. Receipts under the swap agreements are recorded as a reduction of interest expense.

Additional information on our interest rate swaps are as follows:

Interest Rate Swaps	Balance Sheet Location	Fair Value (In thousands)	Location of Offsetting Balance
Cash flow hedge \$171 million LIBOR based debt	Other assets	\$ 825	Accumulated other comprehensive income
Fair value hedge \$60 million of 6.25% Senior Notes	Other assets	\$ 961	Long-term debt

Interest Expense and Other Debt Information

Interest expense consists of the following components:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Interest on outstanding debt:		
Senior Notes, net of interest rate swap	\$ 7,901	\$ 8,839
Credit Agreement, net of interest rate swap	5,320	
Amortization of discount and deferred issuance costs	739	917
Commitment fees	241	356
Net interest expense	\$ 14,201	\$ 10,112
Cash paid for interest ⁽¹⁾	\$ 11,414	\$ 11,300

(1) Net of cash received under our interest rate swap agreements of \$3.8 million for the nine months ended September 30, 2008 and 2007.

The estimated fair value of our Senior Notes was \$148.0 million as of September 30, 2008.

Note 6: Employees, Retirement and Benefit Plans

Employees who provide direct services to us are employed by Holly Logistic Services, L.L.C., a Holly subsidiary. Their costs, including salaries, bonuses, payroll taxes, benefits, and other direct costs, are charged to us monthly under certain provisions of an omnibus agreement we entered into with Holly in July 2004. These employees participate in the retirement and benefit plans of Holly. Our share of retirement and benefits costs was \$0.6 million and \$0.2 million for the three months ended September 30, 2008 and 2007, respectively, and \$1.6 million and \$1.0 million for the nine months ended September 30, 2008 and 2007, respectively.

We have adopted an incentive plan (Long-Term Incentive Plan) for employees, consultants and non-employee directors who perform services for us. The Long-Term Incentive Plan consists of four components: restricted units, performance units, unit options and unit appreciation rights.

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On September 30, 2008, we had two types of equity-based compensation, which are described below. The compensation cost charged against income for these plans was \$0.6 million and \$0.3 million for the three months ended September 30, 2008 and 2007, respectively, and \$1.4 million and \$1.0 million for the nine months ended September 30, 2008 and 2007, respectively. It is currently our policy to purchase units in the open market instead of issuing new units for settlement of restricted unit grants. At September 30, 2008, 350,000 units were authorized to be granted under the equity-based compensation plans, of which 231,988 had not yet been granted.

Restricted Units

Under our Long-Term Incentive Plan, we grant restricted units to selected employees and directors who perform services for us, with vesting generally over a period of one to five years. Although full ownership of the units does not transfer to the recipients until the units vest, the recipients have distribution and voting rights on these units from the date of grant. The vesting for certain key executives is contingent upon certain earnings per unit targets being realized. The fair value of each unit of restricted unit awards was measured at the market price as of the date of grant and is being amortized over the vesting period, including the units issued to the key executives, as we expect those units to fully vest.

A summary of restricted unit activity and changes during the nine months ended September 30, 2008, is presented below:

Restricted Units	Grants	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding January 1, 2008 (not vested)	44,711	\$ 44.77		
Granted	27,088	38.43		
Forfeited	(303)	44.62		
Vesting and transfer of full ownership to recipients	(18,025)	45.60		
Outstanding at September 30, 2008 (not vested)	53,471	\$ 41.28	1.0 year	\$ 1,606

There were 18,025 restricted units having an intrinsic value of \$0.5 million and a fair value of \$0.8 million that were vested and transferred to recipients during the nine months ended September 30, 2008. As of September 30, 2008, there was \$0.9 million of total unrecognized compensation costs related to nonvested restricted unit grants. That cost is expected to be recognized over a weighted-average period of 1 year.

Performance Units

Under our Long-Term Incentive Plan, we grant performance units to selected executives and employees who perform services for us. These performance units are payable upon meeting the performance criteria over a service period, and generally vest over a period of three years. Our initial performance grant of 1,514 units in 2005 vested in the first quarter of 2008. Payment was based upon our unit price and upon our total unitholder return during the requisite period as compared to the total unitholder return of a selected peer group of partnerships. The amount payable under all other performance unit grants is based upon the growth in distributions per limited partner unit during the requisite period.

We granted 14,337 performance units to certain officers in March 2008. These units will vest over a three-year performance period ending December 31, 2010 and are payable in HEP common units. The number of units actually earned will be based on the growth of distributions to limited partners over the performance period, and can range from 50% to 150% of the number of performance units issued. The fair value of these performance units is based on the grant date closing unit price of \$40.54 and will apply to the number of units ultimately awarded.

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A summary of performance unit activity and changes during the nine months ended September 30, 2008 is presented below:

Performance Units	Payable In Units
Outstanding at January 1, 2008 (not vested)	24,148
Granted	14,337
Forfeited	
Vesting and payment of cash benefit to recipients	(1,514)
Outstanding at September 30, 2008 (not vested)	36,971

There were 1,514 performance units having an intrinsic and fair value of \$0.1 million that were vested and transferred to recipients during the nine months ended September 30, 2008. Based on the weighted average fair value of \$42.10 at September 30, 2008 there was \$0.8 million of total unrecognized compensation cost related to nonvested performance units. That cost is expected to be recognized over a weighted-average period of 1.3 years.

Note 7: Significant Customers

All revenues are domestic revenues, of which over 90% are currently generated from our three largest customers: Holly, Alon and BP Plc (BP). The major concentration of our petroleum products pipeline system's revenue is derived from activities conducted in the southwest United States. The following table presents the percentage of total revenues generated by each of these three customers:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Holly	77%	65%	73%	61%
Alon	13%	25%	15%	27%
BP	6%	7%	8%	9%

Note 8: Related Party Transactions**Holly and Alon**

As of September 30, 2008, we serve Holly's refineries in New Mexico and Utah under three 15-year pipeline and terminal and tankage agreements. The substantial majority of our business is devoted to providing transportation, storage and terminalling services to Holly.

We have an agreement that relates to the pipelines and terminals contributed by Holly to us at the time of our initial public offering and expires in 2019 (the Holly PTA). Our second agreement with Holly relates to the Intermediate Pipelines acquired from Holly in July 2005 and expires in 2020 (the Holly IPA). And third, we have the Holly CPTA that relates to the Crude Pipelines and Tankage Assets acquired from Holly and expires on February 29, 2023 (collectively the agreements).

Under these agreements, Holly agreed to transport and store volumes of refined product and crude oil on our pipelines and terminal and tankage facilities that result in minimum annual payments to us. The agreed upon tariffs are adjusted each year on the anniversary date of the agreement at a rate equal to the percentage change in the producer price index (PPI), but will not decrease as a result of a decrease in the PPI. Following our July 1, 2008 PPI rate adjustments, these agreements will result in minimum payments to us of \$81.2 million for the twelve months ended June 30, 2009.

We also have a 15-year pipelines and terminals agreement with Alon (the Alon PTA), expiring in 2020, under which Alon has agreed to transport on our pipelines and throughput through our terminals volumes of refined products that results in a minimum level of annual revenue. The agreed upon tariffs are increased or decreased annually at a rate equal to the percentage change in PPI, but not below the initial

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tariff rate. Following the March 1, 2008 PPI rate adjustment, Alon's total minimum commitment for the twelve months ending February 28, 2009 is \$22.0 million.

If Holly or Alon fail to meet their minimum volume commitments under the agreements in any quarter, it will be required to pay us in cash the amount of any shortfall by the last day of the month following the end of the quarter. With the exception of the Holly CPTA, a shortfall payment may be applied as a credit in the following four quarters after minimum obligations are met.

In October 2007, we entered into an agreement with Holly that amends the Holly PTA under which we have agreed to expand our refined products pipeline system between Artesia, New Mexico and El Paso, Texas (the South System). The expansion of the South System includes replacing 85 miles of 8-inch pipe with 12-inch pipe, adding 150,000 barrels of refined product storage at our El Paso Terminal, improving existing pumps, adding a tie-in to the Kinder Morgan pipeline to Tucson and Phoenix, Arizona and making related modifications. The cost of this project is estimated to be \$48.3 million. Currently, we are expecting to complete the majority of this project in early 2009. Under certain provisions of the Omnibus Agreement that we entered with Holly in July 2004 and that expires in 2019, we pay Holly an annual administrative fee for the provision by Holly or its affiliates of various general and administrative services to us. Effective March 1, 2008, the annual fee was increased from \$2.1 million to \$2.3 million to cover additional general and administrative services attributable to the operations of our Crude Pipelines and Tankage Assets. This fee does not include the salaries of pipeline and terminal personnel or the cost of their employee benefits which are separately charged to us by Holly. We also reimburse Holly and its affiliates for direct expenses they incur on our behalf.

In consideration for Holly's assistance in obtaining our joint venture opportunity in a new 95-mile intrastate pipeline system (the SLC Pipeline) now under construction by Plains All American Pipeline, L.P. (Plains), we will pay Holly a \$2.5 million finder's fee upon the closing of our investment in the joint venture with Plains. See Note 11 for further information on this proposed joint venture.

Pipeline, terminal and tankage revenues received from Holly were \$22.7 million and \$14.8 million for the three months ended September 30, 2008 and 2007, respectively, and \$61.2 million and \$44.9 million for the nine months ended September 30, 2008 and 2007, respectively. These amounts include the revenues received under the Holly PTA, Holly IPA and Holly CPTA.

Other revenues received from Holly were \$2.7 million for the three and nine months ended September 30, 2007 related to our sale of inventory of accumulated terminal overages of refined product. These overages arose from net product gains at our terminals from the beginning of 2005 through the third quarter of 2007. In the fourth quarter of 2007, we amended our pipelines and terminals agreement with Holly to provide that, on a go-forward basis, such terminal overages of refined product belong to Holly.

Holly charged general and administrative services under the Omnibus Agreement of \$0.6 million for each of the three months ended September 30, 2008 and 2007, and \$1.6 million for each of the nine months ended September 30, 2008 and 2007.

We reimbursed Holly for costs of employees supporting our operations of \$3.7 million and \$2.0 million for the three months ended September 30, 2008 and 2007, respectively, and \$9.8 million and \$6.6 million for the nine months ended September 30, 2008 and 2007, respectively.

Holly reimbursed us zero and \$80,000 for certain costs paid on their behalf for the three months ended September 30, 2008 and 2007, respectively, and zero and \$179,000 for the nine months ended September 30, 2008 and 2007, respectively.

We distributed \$6.5 million and \$5.8 million for the three months ended September 30, 2008 and 2007, respectively, to Holly as regular distributions on its subordinated units, common units and general partner interest. We distributed \$18.9 million and \$16.9 million to Holly for the nine months ended September 30, 2008 and 2007, respectively.

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Our accounts receivable from Holly were \$9.1 million and \$5.7 million at September 30, 2008 and December 31, 2007, respectively.

Holly has failed to meet its minimum volume commitment for each of the thirteen quarters since inception of the Holly IPA. We have charged Holly \$6.5 million for these shortfalls to date, \$0.8 million and zero million of which is included in affiliate accounts receivable at September 30, 2008 and December 31, 2007, respectively.

For the three and nine months ended September 30, 2008, our revenues from Holly included \$0.4 million and \$1.2 million, respectively, of shortfalls billed under the Holly IPA in 2007 as Holly did not exceed its minimum volume commitment in any of the subsequent four quarters. Deferred revenue in the consolidated balance sheets at September 30, 2008 and December 31, 2007, includes \$1.9 million and \$1.1 million, respectively, relating to the Holly IPA. It is possible that Holly may not exceed its minimum obligations under the Holly IPA to allow Holly to receive credit for any of the \$1.9 million deferred at September 30, 2008.

BP

We have a 70% ownership interest in Rio Grande and BP owns the other 30%. Due to the ownership interest and resulting consolidation, BP is a related party to us.

BP's agreement to ship on the Rio Grande pipeline expired on March 31, 2008. Rio Grande is currently serving multiple shippers on the pipeline. We recorded revenues from them of \$1.7 million and \$2.0 million for the three months ended September 30, 2008 and 2007, respectively, and \$6.6 million and \$6.8 million for the nine months ended September 30, 2008 and 2007, respectively.

Rio Grande paid distributions to BP of \$0.3 million and \$0.8 million for the three months ended September 30, 2008 and 2007, respectively, and \$1.2 million and \$1.3 million for the nine months ended September 30, 2008 and 2007, respectively.

Included in our accounts receivable trade at September 30, 2008 and December 31, 2007 were \$0.7 million and \$1.5 million, respectively, which represented the receivable balance of Rio Grande from BP.

Alon

Alon became a related party when it acquired all of our Class B subordinated units in connection with our acquisition of assets from them on February 28, 2005.

We recognized \$1.9 million and \$5.0 million of revenues for pipeline transportation and terminalling services under the Alon PTA and \$1.8 million and \$1.8 million under a pipeline capacity lease for the three months ended September 30, 2008 and 2007, respectively. We recognized \$6.8 million and \$15.8 million of revenues for pipeline transportation and terminalling services under the Alon PTA and \$5.3 million under pipeline capacity leases for the nine months ended September 30, 2008 and 2007.

We paid \$0.7 million to Alon for distributions on our Class B subordinated units for each of the three months ended September 30, 2008 and 2007 and \$2.1 million and \$1.9 million for the nine months ended September 30, 2008 and 2007, respectively.

Included in our accounts receivable trade at September 30, 2008 and December 31, 2007 were \$6.7 million and \$3.5 million, respectively, which represented the receivable balance from Alon.

Our revenues from Alon for the three and nine months ended September 30, 2008 included \$0.9 million and \$2.2 million, respectively, of shortfalls billed under the Alon PTA in 2007 as Alon did not exceed its minimum revenue obligation in any of the subsequent four quarters. Deferred revenue in the consolidated balance sheets at September 30, 2008 and December 31, 2007 includes \$12.4 million and \$2.6 million, respectively, relating to the Alon PTA. It is possible that Alon may not exceed

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its minimum obligations under the Alon PTA to allow Alon to receive credit for any of the \$12.4 million deferred at September 30, 2008.

Other income of \$1.0 million for the three and nine months ended September 30, 2008 represents a reimbursement from Alon for certain pipeline repair and maintenance costs that were incurred and expensed over a two year period.

Note 9: Partners Equity, Allocations and Cash Distributions

Issuances of units

As partial consideration for our purchase of the Crude Pipelines and Tankage Assets, we issued 217,497 of our common units having a fair value of \$9.0 million to Holly. Also, Holly purchased an additional 2,503 of our common units for \$0.1 million and HEP Logistics Holdings, L.P., our general partner, contributed \$0.2 million as an additional capital contribution in order to maintain its 2% general partner interest.

Holly currently holds 7,000,000 of our subordinated units and 290,000 of our common units, which constitutes a 46% ownership interest in us, including the 2% general partner interest. The subordination period applicable to Holly's subordinated units extends until the first day of any quarter beginning after June 30, 2009 that certain tests based on our exceeding minimum quarterly distributions are met.

Under our registration statement filed with the SEC using a shelf registration process, we may offer from time to time up to \$800.0 million of our securities, through one or more prospectus supplements that would describe, among other things, the specific amounts, prices and terms of any securities offered and how the proceeds would be used. Any proceeds from the sale of securities would be used for general business purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities.

Allocations of Net Income

Net income is allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. Net income allocated to the general partner includes any incentive distributions declared in the period. After the amount of incentive distributions is allocated to the general partner, the remaining net income for the period is generally allocated to the partners based on their weighted average ownership percentage during the period.

Cash Distributions

We consider regular cash distributions to unitholders on a quarterly basis, although there is no assurance as to the future cash distributions since they are dependent upon future earnings, cash flows, capital requirements, financial condition and other factors. Our Credit Agreement prohibits us from making cash distributions if any potential default or event of default, as defined in the Credit Agreement, occurs or would result from the cash distribution.

Within 45 days after the end of each quarter, we will distribute all of our available cash (as defined in our partnership agreement) to unitholders of record on the applicable record date. The amount of available cash generally is all cash on hand at the end of the quarter; less the amount of cash reserves established by our general partner to provide for the proper conduct of our business, comply with applicable law, any of our debt instruments, or other agreements; or provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters; plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our revolving Credit Agreement and in all cases are used solely for working capital purposes or to pay distributions to partners.

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We make distributions of available cash from operating surplus for any quarter during any subordination period in the following manner: firstly, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; secondly, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period; thirdly, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and thereafter, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages below.

The general partner, HEP Logistics Holdings, L.P., is entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds specified target levels shown below:

	Total Quarterly Distribution	Marginal Percentage Interest in	
		Unitholders	General Partner
Minimum Quarterly Distribution	\$ 0.50	98%	2%
First Target Distribution	Up to \$0.55	98%	2%
Second Target Distribution	above \$0.55 up to \$0.625	85%	15%
Third Target distribution	above \$0.625 up to \$0.75	75%	25%
Thereafter	Above \$0.75	50%	50%

The following table presents the allocation of our regular quarterly cash distributions to the general and limited partners for each period in which declared.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except per unit data)			
General partner interest	\$ 264	\$ 232	\$ 776	\$ 681
General partner incentive distribution	788	592	2,205	1,548
Total general partner distribution	1,052	824	2,981	2,229
Limited partner distribution	12,200	11,359	35,927	33,336
Total regular quarterly cash distribution	\$ 13,252	\$ 12,183	\$ 38,908	\$ 35,565
Cash distribution per unit applicable to limited partners	\$ 0.745	\$ 0.705	\$ 2.205	\$ 2.070

On October 24, 2008, we announced a cash distribution for the third quarter of 2008 of \$0.755 per unit. The distribution is payable on all common, subordinated, and general partner units and will be paid November 14, 2008 to all unitholders of record on November 5, 2008. The aggregate amount of the distribution will be \$13.5 million, including \$0.9 million to be paid to the general partner as an incentive distribution.

As a master limited partnership, we distribute our available cash, which has historically exceeded our net income because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in partners' equity since our regular quarterly distributions have exceeded our quarterly net income.

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Note 10: Supplemental Guarantor/Non-Guarantor Financial Information

Obligations of Holly Energy Partners, L.P. (Parent) under the 6.25% Senior Notes have been jointly and severally guaranteed by each of its direct and indirect wholly-owned subsidiaries (Guarantor Subsidiaries). These guarantees are full and unconditional. Rio Grande (Non-Guarantor), in which we have a 70% ownership interest, is the only subsidiary that has not guaranteed these obligations.

The following financial information presents condensed consolidating balance sheets, statements of income, and statements of cash flows of the Parent, the Guarantor Subsidiaries and the Non-Guarantor. The information has been presented as if the Parent accounted for its ownership in the Guarantor Subsidiaries, and the Guarantor Subsidiaries accounted for the ownership of the Non-Guarantor, using the equity method of accounting.

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Table of Contents**Condensed Consolidating Balance Sheet**

September 30, 2008	Parent	Guarantor Subsidiaries	Non- Guarantor (In thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2	\$ 106	\$ 2,010	\$	\$ 2,118
Accounts receivable		15,931	660		16,591
Intercompany accounts receivable (payable)	(183,007)	183,168	(161)		
Prepaid and other current assets	261	597			858
Total current assets	(182,744)	199,802	2,509		19,567
Properties and equipment, net		250,915	32,713		283,628
Investment in subsidiaries	382,982	24,205		(407,187)	
Transportation agreements, net		121,975			121,975
Other assets	2,244	2,672			4,916
Total assets	\$ 202,482	\$ 599,569	\$ 35,222	\$ (407,187)	\$ 430,086
LIABILITIES AND PARTNERS EQUITY					
Current liabilities:					
Accounts payable	\$	\$ 4,889	\$ 407	\$	\$ 5,296
Accrued interest	(835)	1,846			1,011
Deferred revenue		14,338			14,338
Accrued property taxes		1,229	148		1,377
Other current liabilities	2,210	(1,193)	88		1,105
Short-term borrowings under credit agreement		24,000			24,000
Total current liabilities	1,375	45,109	643		47,127
Long-term debt	183,522	171,000			354,522
Other long-term liabilities		478			478
Minority interest				10,374	10,374
Partners equity	17,585	382,982	34,579	(417,561)	17,585
Total liabilities and partners equity	\$ 202,482	\$ 599,569	\$ 35,222	\$ (407,187)	\$ 430,086

Condensed Consolidating Balance Sheet

December 31, 2007	Parent	Guarantor Subsidiaries	Non- Guarantor (In thousands)	Eliminations	Consolidated
ASSETS					

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Current assets:					
Cash and cash equivalents	\$ 2	\$ 8,060	\$ 2,259	\$	\$ 10,321
Accounts receivable		10,820	1,491		12,311
Intercompany accounts receivable (payable)	(141,175)	141,553	(378)		
Prepaid and other current assets	183	363			546
Total current assets	(140,990)	160,796	3,372		23,178
Properties and equipment, net		125,383	33,217		158,600
Investment in subsidiaries	353,235	25,059		(378,294)	
Transportation agreements, net		54,273			54,273
Other assets	1,302	1,551			2,853
Total assets	\$ 213,547	\$ 367,062	\$ 36,589	\$ (378,294)	\$ 238,904

LIABILITIES AND PARTNERS

EQUITY

Current liabilities:					
Accounts payable	\$	\$ 8,499	\$ 533	\$	\$ 9,032
Accrued interest	(2,932)	5,928			2,996
Deferred revenue		3,700			3,700
Accrued property taxes		1,021	156		1,177
Other current liabilities	6,387	(5,661)	101		827
Total current liabilities	3,455	13,487	790		17,732
Long-term debt	181,435				181,435
Other long-term liabilities	841	340			1,181
Minority interest				10,740	10,740
Partners equity	27,816	353,235	35,799	(389,034)	27,816
Total liabilities and partners equity	\$ 213,547	\$ 367,062	\$ 36,589	\$ (378,294)	\$ 238,904

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Operations		7,514	721	(296)	7,939
Depreciation and amortization		3,267	327		3,594
General and administrative	707	586	113		1,406
	707	11,367	1,161	(296)	12,939
Operating income (loss)	(707)	14,184	797		14,274
Equity in earnings of subsidiaries	14,495	543		(15,038)	
Interest income (expense)	(3,098)	(186)	2		(3,282)
Minority interest				(233)	(233)
	11,397	357	2	(15,271)	(3,515)
Income (loss) before income taxes	10,690	14,541	799	(15,271)	10,759
State income tax		(46)	(23)		(69)
Net income	\$ 10,690	\$ 14,495	\$ 776	\$ (15,271)	\$ 10,690

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Table of Contents**Condensed Consolidating Statement of Income**

Nine months ended September 30, 2008	Parent	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
			(In thousands)		
Revenues:					
Affiliates	\$	\$ 61,210	\$	\$	\$ 61,210
Third parties		16,735	6,584	(967)	22,352
		77,945	6,584	(967)	83,562
Operating costs and expenses:					
Operations		28,908	2,804	(967)	30,745
Depreciation and amortization		15,262	997		16,259
General and administrative	2,389	1,856	(4)		4,241
	2,389	46,026	3,797	(967)	51,245
Operating income (loss)	(2,389)	31,919	2,787		32,317
Equity in earnings of subsidiaries	28,923	1,947		(30,870)	
Interest income (expense)	(8,300)	(5,795)	40		(14,055)
Gain on sale of assets		36			36
Other income		1,007			1,007
Minority interest				(834)	(834)
	20,623	(2,805)	40	(31,704)	(13,846)
Income (loss) before income taxes	18,234	29,114	2,827	(31,704)	18,471
State income tax		(191)	(46)		(237)
Net income	\$ 18,234	\$ 28,923	\$ 2,781	\$ (31,704)	\$ 18,234

Condensed Consolidating Statement of Income

Nine months ended September 30, 2007	Parent	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
			(In thousands)		
Revenues:					
Affiliates	\$	\$ 44,942	\$	\$	\$ 44,942
Third parties		24,611	6,804	(889)	30,526
		69,553	6,804	(889)	75,468
Affiliates other		2,748			2,748
		72,301	6,804	(889)	78,216
Operating costs and expenses:					

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Operations		22,300	2,450	(889)	23,861
Depreciation and amortization		9,341	1,532		10,873
General and administrative	2,212	1,621	129		3,962
	2,212	33,262	4,111	(889)	38,696
Operating income (loss)	(2,212)	39,039	2,693		39,520
Equity in earnings of subsidiaries	40,579	1,896		(42,475)	
Interest income (expense)	(9,237)	(516)	72		(9,681)
Gain on sale of assets		298			298
Minority interest				(814)	(814)
	31,342	1,678	72	(43,289)	(10,197)
Income (loss) before income taxes	29,130	40,717	2,765	(43,289)	29,323
State income tax		(138)	(55)		(193)
Net income	\$ 29,130	\$ 40,579	\$ 2,710	\$ (43,289)	\$ 29,130

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Table of Contents**Condensed Consolidating Statement of Cash Flows**

Nine months ended September 30, 2008	Parent	Guarantor	Non-	Eliminations	Consolidated
		Subsidiaries	Guarantor		
Cash flows from operating activities	\$ (44,408)	\$ 81,053	\$ 4,245	\$ (2,800)	\$ 38,090
Cash flows from investing activities					
Additions to properties and equipment		(28,530)	(494)		(29,024)
Acquisition of crude pipelines and tankage assets		(171,000)			(171,000)
Proceeds from sale of assets		36			36
		(199,494)	(494)		(199,988)
Cash flows from financing activities					
Net borrowings under credit agreement	9,000	186,000			195,000
Proceeds from issuance of common units		104			104
Distributions to partners	(38,908)		(4,000)	4,000	(38,908)
Distributions to minority interest				(1,200)	(1,200)
Contribution from general partner	186				186
Purchase of units for restricted grants	(795)				(795)
Deferred financing costs		(692)			(692)
	(30,517)	185,412	(4,000)	2,800	153,695
Cash and cash equivalents					
Increase (decrease) for the period	(74,925)	66,971	(249)		(8,203)
Beginning of period	2	8,060	2,259		10,321
End of period	\$ (74,923)	\$ 75,031	\$ 2,010	\$	\$ 2,118

Condensed Consolidating Statement of Cash Flows

Nine months ended September 30, 2007	Parent	Guarantor	Non-	Eliminations	Consolidated
		Subsidiaries	Guarantor		
Cash flows from operating activities	\$ 36,647	\$ (1,179)	\$ 5,669	\$ (3,010)	\$ 38,127
Cash flows from investing activities					
Additions to properties and equipment		(2,580)	(539)		(3,119)
Proceeds from sale of assets		325			325
		(2,255)	(539)		(2,794)
Cash flows from financing activities					
Distributions to partners	(35,565)		(4,300)	4,300	(35,565)
Distributions to minority interest				(1,290)	(1,290)

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Purchase of units for restricted grants	(1,082)				(1,082)
Deferred financing costs		(225)			(225)
Other		(16)			(16)
	(36,647)	(241)	(4,300)	3,010	(38,178)
Cash and cash equivalents					
Increase (decrease) for the period		(3,675)	830		(2,845)
Beginning of period	2	9,819	1,734		11,555
End of period	\$ 2	\$ 6,144	\$ 2,564	\$	\$ 8,710

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Note 11: Proposed Joint Ventures

In November 2007, we executed a definitive agreement with Plains to acquire a 25% joint venture interest in a new 95-mile intrastate pipeline system now under construction by Plains for the shipment of up to 120,000 bpd of crude oil into the Salt Lake City area. Under the agreement, the SLC Pipeline will be owned by a joint venture company that will be owned 75% by Plains and 25% by us. We expect to purchase our 25% interest in the joint venture in early 2009 when the SLC Pipeline is expected to become fully operational. The SLC Pipeline will allow various refiners in the Salt Lake City area, including Holly's Woods Cross refinery, to ship crude oil into the Salt Lake City area from the Utah terminus of the Frontier Pipeline as well as crude oil from Wyoming and Utah that is currently flowing on Plains Rocky Mountain Pipeline. The total cost of our investment in the SLC Pipeline is expected to be \$28.0 million, including the \$2.5 million finder's fee that is payable to Holly upon the closing of our investment in the SLC Pipeline. On January 31, 2008, we entered into an option agreement with Holly granting us an option to purchase all of Holly's equity interests in a joint venture pipeline currently under construction. The pipeline will be capable of transporting refined petroleum products from Salt Lake City, Utah to Las Vegas, Nevada (the UNEV Pipeline). Holly currently owns 75% of the equity interests in the UNEV Pipeline. Under this agreement, we have an option to purchase Holly's equity interests in the UNEV Pipeline, effective for a 180-day period commencing when the UNEV Pipeline becomes operational, at a purchase price equal to Holly's investment in the joint venture pipeline plus interest at 7% per annum. Holly is currently working on a project to delivery additional crude oils to its Navajo Refinery, including a pipeline from Slaughter, Texas to Lovington, New Mexico and pipeline from Lovington to Artesia, New Mexico. We have an understanding with Holly that we will be the operator and will have an option to purchase Holly's investment in the projects at a purchase price to be negotiated with Holly.

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Table of Contents**HOLLY ENERGY PARTNERS, L.P.****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Re-issuance of Series A Preferred Stock previously contributed for acquisitions in 2006

1,460,268

1,460

Net loss

Balance December 31, 2007

3,810,262

\$ 3,810

16,419,262

\$ 16,419

INTEGRATED MEDIA HOLDINGS, INC.

(formerly ENDAVO MEDIA AND COMMUNICATIONS, INC.)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT (continued)

Years Ended December 31, 2007 and 2006 (As Restated)

	Additional Paid-in Capital	Deferred Compensation	Subscriptions Receivable	Accumulated Deficit
Balance December 31, 2005	\$16,339,567	\$ -	\$ -	\$(21,488,264)
Issuance of common stock for:				
Cash (common stock purchase or purchase warrant exercise)	1,206,000	-	-	-
Services	1,325,000	-	-	-
Conversion of notes payable and interest to common stock	967,000	-	-	-
Stock issued for compensation	1,430,904	-	-	-
	8,538,110	-	-	-

Stock issued to acquire operating assets of WV Fiber, LLC			
Stock issued to acquire BidChaser ownership.	1,989,285		
Reverse stock split (1:40)	35,000		
Preferred stock conversion to common stock			
Deemed dividend on preferred shares	(1,072,992)		
Discount on preferred shares associated with deemed dividend	1,072,992		
Investor contribution of Series A Preferred Stock for acquisitions	2,121		
Net loss		(16,332,162)	
Balance December 31, 2006	\$31,832,986	\$ -	\$ - \$(37,820,426)
Issuance of common stock for services	52,139		
Stock issued for compensation	784,615		
Issuance of common stock for unpaid rent of subsidiary	4,370		
Settlement of unpaid note interest by issuance of common stock	51,750		
Conversion of notes to common stock	48,560		
Surrender for cancellation of common stock on disposal of WV Fiber	(486,900)		
	106,893		

Common stock issued for cash	
Preferred shares issued for consulting services	208,687
Re-acquisition of Series A Preferred Shares on disposal of WV Fiber	(930,708)
Re-issuance of Series A Preferred Stock previously contributed for acquisitions in 2006	1,106,912
Net loss	
Balance December 31, 2007	\$ 32,779,304

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INTEGRATED MEDIA HOLDINGS, INC.
(formerly ENDAVO MEDIA AND COMMUNICATIONS, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2007	2006 (Restated)
Cash flows from operating activities:		
		\$
Net income (loss)	570,097	(16,332,162)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock and options issued for services	1,045,915	2,763,589
Amortization of discount on notes payable	103,459	712,500
Interest expense converted to equity or debt	471,237	204,904
Gains on derivative liability	(724,320)	(532,603)
Gains on sale of subsidiary	(3,510,458)	-
Decrease (increase) in:		
Other assets	10,000	-
Increase (decrease) in:		
Accounts payable	(131,017)	242,057
Net cash used by operating activities before discontinued operations	(2,165,087)	(12,941,715)
Net cash provided by discontinued operations	2,056,087	10,494,900
Net cash used by operating activities	(108,785)	(2,446,815)
Cash flows used in investing activities		
Purchases of property and equipment		
Purchase of business assets		
Additions to security deposits		
Net cash provided by investing activities	-	-
Net increase (decrease) in cash and cash equivalents	(1,382)	(3,741)
Cash and cash equivalents at beginning of period	1,382	5,123
Cash and cash equivalents at end of period	\$ -	\$ 1,382

INTEGRATED MEDIA HOLDINGS, INC.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Integrated Media Holdings, Inc. and subsidiaries (collectively referred to as IMHI) provides digital content distribution and management solutions for content owners seeking to distribute online and over broadband, or Internet Protocol, networks. Prior to September 2005, the Company integrated broadband services, including voice, video, and data services to residential customers through IP based networks. The Company, formed in December 1999, relocated to Atlanta, Georgia in December 2005 from Salt Lake City, Utah. IMHI was formerly known as CeriStar Inc. and Endavo Media Communications, Inc, which is also the current name of one of our subsidiaries. The results of operations of Endavo, Bidchaser and WV Fiber (to April 11, 2007 – date of disposal) have been included in these statements and are presented as discontinued operations in the financial statements.

Effective February 21, 2008, IMHI completed the Plan and Agreement of Merger between IMHI, TeleChem International, Inc., the majority shareholders of TeleChem, Endavo Media and Communications, Inc., a Delaware corporation and TCI Acquisition Corp., a Nevada corporation, and wholly-owned subsidiary of IMHI. Consummation of the merger did not require a vote of our shareholders. IMHI issued 103,143 shares of Series C Convertible Preferred Stock to the Shareholders of TeleChem in exchange for 100% of the equity interests of TeleChem resulting in TeleChem being a wholly owned subsidiary of the Company. The former shareholders of TeleChem now own approximately 73.5% of the outstanding interest and voting rights of the parent company. The Preferred Stock is convertible into 36,100,000 shares of common stock after, but not before, the effective date of the reverse split of the outstanding IMHI common stock.

For SEC reporting purposes, the merger between IMHI and TeleChem will be treated as a reverse merger with TeleChem being the “accounting acquirer” and, accordingly, it will assume the Company’s reporting obligations with the SEC after the effective date of the merger.

Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements reflect the consolidated results of Integrated Media Holdings, Inc. and its wholly owned subsidiaries Endavo Media and Communications, Inc. (fka, Susquima Inc), WV Fiber Inc. (fka Louros Networks, Inc), Bidchaser Inc. (fka BCI Acquisition Corporation) and New Planet Resources, Inc. All material inter-company transactions have been eliminated in the consolidation.

Reverse Stock Split

On March 22, 2006, IMHI completed a reverse stock split whereby the shareholders received 1 share of stock for every 40 that they previously owned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include the cash flow projections used for the impairment tests, the assumption underlying estimate of the period used to amortize deferred revenue and the assumptions used to value the stock options issued to

non-employees. It is reasonable possible that these estimates may change in the near term and that such a change may be material.

Cash and Cash Equivalents

Cash includes all cash and highly liquid investments with original maturities of three months or less. Property and Equipment Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization on property and equipment are determined using the straight-line method over the three to five year estimated useful lives of the assets.

Reclassification

Certain prior period items have been reclassified to conform to the current period presentation. Some of these reclassifications are related to discontinued operations [decision to dispose of Endavo, WV Fiber and Bidchaser] and had no impact on net income (loss).

Impairment of Long-Lived Assets

IMHI reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. IMHI evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of operations.

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment annually or whenever events or circumstances indicate that the estimated fair value is less than the related carrying value as determined on a reporting unit basis.

Effective December 31, 2006, IMHI reviewed goodwill for impairment consistent with the guidelines of SFAS 142 using a discounted future cash flow approach to approximate fair value. As a result of testing our goodwill for impairment the Company determined that there was no value to the goodwill and recorded a goodwill impairment of \$3,142,219.

Convertible Debt

IMHI reviews its convertible instruments for embedded derivatives. Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires all derivatives to be recorded on the balance sheet at fair value. These derivatives, including embedded derivatives, are separately valued and accounted for on our balance sheet.

Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock" ("EITF 00-19"), requires freestanding contracts that are settled in a company's own stock, including warrants to purchase common stock, to be designated as an equity instrument, asset

or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the company's results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required.

Income Taxes

Deferred taxes are computed using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are not recognized unless it is more likely than not that the asset will be realized in future years.

Earnings per Common and Common Equivalent Share

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. Options, warrants, convertible debt and convertible preferred stock which are common stock equivalents are not included in the diluted earnings per share calculation for 2007 and 2006, respectively, since their effect is anti-dilutive.

Stock-Based Compensation

The Company accounts for stock issued to employees, officers and directors in accordance with Statement of Financial Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), which is a revision of SFAS No. 123. SFAS No. 123 (R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach to accounting for share-based payments in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all new share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140, to simplify and make more consistent the accounting for certain financial instruments. SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, Accounting for the Impairment or Disposal of Long-Lived Assets, to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. This standard is not expected to have a significant effect on the Company's future reported financial position or results of operations.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109 "Accounting for Income Taxes." FIN

48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures. FIN 48 is effective for the Company on January 1, 2007. Based on the Company's evaluation and analysis, FIN 48 is not expected to have a material impact on the Company's financial statements.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("FAS 157"), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the requirements and impact of FAS 157 on the Company's consolidated financial statements, and will adopt the provisions on January 1, 2008. FAS 157 is not expected to have a material impact on the Company's financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin 108 ("SAB 108"), which expresses the Staff's views regarding the process of quantifying financial statement misstatements. The bulletin was effective at fiscal year end 2006. The implementation of this bulletin had no impact on the Company's results of operations, cash flows or financial position.

2. Going Concern

IMHI has a working capital deficit, a stockholders' deficit, and recurring net losses. These factors create substantial doubt about IMHI's ability to continue as a going concern. The financial statements do not include any adjustment that might be necessary if IMHI is unable to continue as a going concern.

The ability of IMHI to continue as a going concern is dependent on IMHI generating cash from the sale of its common stock or obtaining debt financing and attaining future profitable operations. Management's plans include selling its equity securities and obtaining debt financing to fund its capital requirement and ongoing operations; however, there can be no assurance IMHI will be successful in these efforts.

3. Restatement of Previously Issued Financial Statements as of and for the Period ended December 31, 2006

IMHI concluded as a result of various SEC comments letters to restate its financial results for the year ended December 31, 2006 to reflect additional non-operating gains/losses related to the classification of and accounting for (1) the conversion feature of the SSCN and SOVcap convertible notes and the warrants associated, (2) write off of certain uncollectible accounts receivable, (3) re-measurement of the goodwill associated with the purchase of WV Fiber, LLC and Bidchaser related to the preferred stock that was given in consideration of the merger; (4) impairment of the goodwill associated with WV Fiber and Bidchaser. The accompanying financial statements for the year ended December 31, 2006 have been restated to effect the changes described above:

	As Initially Reported	Adjustment		As Adjusted
Consolidated Income Statement for the year ended December 31, 2006				
Total revenues	1,504,000	(1,504,000)	(a)	-
Cost of sales	1,464,000	1,464,000	(a)	-
	5,901,000	4,055,035	(b)	(1,845,965)

Selling, general, and administrative expense

Loss from operations	(5,861,000)	4,015,035		(1,845,965)
Other income (expense)	1,150,000	(1,150,000)	(a)	-
Gain on derivative liability		532,603	(c)	532,603
Interest expense	(1,002,000)	84,596	(a)	(917,404)
Loss from continuing operations	(5,713,000)	3,482,234		(2,230,766)
Loss from discontinued operations	-	(14,101,396)	(a)	(14,101,396)
Net loss	(5,713,000)	(10,619,162)		(16,332,162)
Deemed dividend on preferred stock	-	(1,072,992)	(d)	(1,072,992)
Net (loss) attributable to common shareholders	(5,713,000)	(11,692,154)		(17,405,154)
Net (loss) per common share - basic and diluted	\$ 0.63	(2.44)	(e)	(1.81)
Weighted average shares - basic and diluted	9,041,961			9,041,961

(a) Change due to reclass to discontinued operations. See Note 6.

(b) Change due to reclass to discontinue operations, correction to reduce stock based compensation of \$1,229,906 in accordance with vesting terms, write-off of uncollectible receivables of \$158,545 and impairment of fixed assets of \$53,908

(c) To record gain on derivative liability based upon fair values at December 31, 2006. See Note 5.

(d) To correct accretion of preferred stock as a dividend

(e) To reflect basic and diluted earnings per share based upon corrected net income and weighted average shares

Balance Sheet Impact

In addition to the effects on IMHI's 2006 consolidated statement of operations discussed above, the restatement impacted IMHI's consolidated balance sheet as of December 31, 2006. The following table sets forth the effects of the restatement adjustments on IMHI's balance sheet as of December 31, 2006 as compared to the consolidated balance sheet as of December 31, 2006 initially reported:

	As Initially Reported	Adjustment	As Adjusted
Consolidated Balance Sheet as of December 31, 2006			

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Assets				
Current assets:				
Cash	16,000	(14,618)	(a)	1,382
Accounts receivable, net of allowance for doubtful accounts	608,000	(608,000)	(b)	-
Prepaid Expenses	4,000	(4,000)	(a)	-
Total current assets	628,000	(626,618)		1,382
Property and equipment	1,182,000	(1,182,000)	(c)	-
Other assets	66,000	(56,000)	(a)	10,000
Goodwill	3,142,000	9,023,446	(d)	-
		(12,165,446)	(d)	
Assets of discontinued operations	-	1,865,109	(a)	1,865,109
Total assets	5,018,000	(3,141,509)		1,876,491
Liabilities and Stockholders'				
Deficit				
Current liabilities:				
Accounts payable	1,388,000	(1,251,939)	(e)	136,061
Accrued liabilities	1,050,000	(489,821)	(e)	560,179
Derivative liability	-	950,865	(f)	950,865
Notes payable including related parties	2,922,000	1,315,685	(g)	3,222,515
		(1,021,003)	(e)	
		5,833	(o)	
Total current liabilities	5,360,000	(490,380)		4,869,620
Liabilities of discontinued operations	-	2,975,058	(e)	2,975,058
Total liabilities	5,360,000	2,484,678		7,844,678
Stockholders' deficit				
Preferred stock	3,000	(116)	(h)	2,884
Common stock	16,000	369	(i)	16,369
Additional paid-in capital	26,512,000	(1,425,000)	(j)	31,832,986
		(1,315,685)	(k)	
		1,495,337	(l)	
		7,528,109	(l)	
		266,953	(m)	
		368	(n)	
		(1,229,096)	(p)	
Accumulated deficit	(26,873,000)	(10,947,426)		(37,820,426)
Total stockholders' deficit	(342,000)	(5,626,187)		(5,968,187)
Total liabilities and stockholders' deficit	5,018,000	(3,141,509)		1,876,491

- (a) Change due to reclass to assets of discontinued operations. See Note 6.
- (b) Change due to reclass to assets of discontinued operations and write-off of uncollectible receivables of \$158,545
- (c) Change due to reclass to assets of discontinued operations and impairment of fixed assets of \$53,908
- (d) Change due to increase in goodwill resulting from correction of purchase price noted in (k) and impairment of goodwill of \$12,165,446
- (e) Change due to reclass to liabilities of discontinued operations. See Note 6.
- (f) To record derivative value for convertible notes and related warrants based on fair value at December 31, 2006
- (g) See (k)
- (h) To correct the par value of the Series A Preferred stock
- (i) To correct the par value of the common stock
- (j) To reverse the impact of the convertible note balance of \$1,425,000 which was discounted to zero by increasing additional paid in capital in 2005
- (k) To reverse the impact of the 2005 and 2006 debt discount amortization from additional paid in capital to net of notes payable including related parties(g)
- (l) To record the increase in purchase price related to WV Fiber and Bidchaser by \$7,528,109 and \$1,495,337, respectively due to valuation correction of preferred stock issued at time of purchase
- (m) To record fair value of warrants exercised
- (n) To adjust additional paid in capital for changes in par values of common stock
- (o) Rounding correction
- (p) To record stock based compensation decrease for \$1,229,906 in accordance with vesting terms.

The balance sheet effect of the above restatements would be to increase stockholders' equity at December 31, 2006 by \$~ and to decrease goodwill at December 31, 2006 by \$3,142,000.

Income for the nine months ended September 30, 2006 would therefore be: six months ended June 30, 2006 loss of \$(4,920,177) plus three months ended September 30, 2006 income of \$1,792,022 = \$(3,128,055), which is off by \$1 from the 9/30/06 10-QSB due to rounding.

4. Purchase Of WV Fiber, LLC

On August 8, 2006, IMHI acquired 100 percent of the outstanding common shares of WV Fiber LLC ("WVF"), in exchange for the issuance of 4,055,488 common shares of IMHI's common stock. The results of WVF's operations have been included in the consolidated statement of operations since that date. WVF is a global fiber-optic and IP (Internet Protocol) network that provides Internet transit and network transport services to ISPs, carriers and enterprise customers. WV Fiber delivers digital content streaming, IP, VPN and Internet solutions. The company is also developing content delivery network capabilities to provide network distribution of video, music, games and downloads. The WV Fiber network connects with over 400 other networks via peering agreements, encompassing the U.S., Canada, Latin America, Europe, the Middle East, Asia and the Far East.

The aggregate purchase price was:

Cash	\$1,662,500
	2,554,934

4,055,488 shares of the Company's common stock valued at \$0.63	
917,486 shares of the Company's preferred stock convertible into 8,807,857 shares of the Company's common stock valued at \$0.63	5,548,980
Fees satisfied by the issuance of 72,626 shares of the Company's preferred stock convertible into 697,210 shares of the Company's common stock valued at \$0.63	439,242
Assumption of Notes Payable of \$850,000	\$850,000
	\$11,055,655

The acquisition is accounted for as a purchase. Goodwill in the amount of \$10,087,954 is recorded at the date of the acquisition. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 363,259
Property, plant and equipment	650,000
Deposits	29,910
Total assets acquired	1,043,169
Current liabilities	(75,465)
Long-term liabilities	(850,000)
Total liabilities assumed	(925,465)
Net liabilities assumed	\$ 117,704

On April 1, 2007, the board of directors recommended and majority shareholders approved by consent the sale of WV Fiber Inc. to Ultra Global Investments, LLC, a company formed by Peter Marcum and Harish Shah for the purpose of completing this purchase. The effective date of the sale is April 11, 2007. Pursuant to the sale of WV Fiber, Peter Marcum and Harish Shah resigned from our board of directors on April 11, 2007. There was no disagreement between Mr. Marcum or Mr. Shah and the board of directors

The following table summarizes the consideration received from the sale of WV Fiber. Inc.

Cash and short term notes	\$ 200,000
Surrender for cancellation 3,246,000 shares of the Company's common stock valued at \$0.15	486,900
Surrender for cancellation 646,744 shares of the Company's preferred stock convertible into 6,209,030 shares of the Company's common stock valued at \$0.15	931,355
	1,314,653

Assumption by buyers of loans payable of \$1,186,500 and accrued interest thereon of \$128,153

Total consideration \$ 2,932,908

As a result of the transaction, a gain on the sale of a subsidiary \$3,510,458 was recognized during 2007.

5. Convertible Notes and Derivative Liabilities

On February 22, 2005 the Company sold 8% senior secured convertible notes, at par, in the aggregate principal amount of \$1,425,000. The Notes carry an interest rate of 8% and a maturity date of February 22, 2007. Interest is payable in cash or shares of common stock. In the event of default, an additional penalty interest of 18% will be assessed on unpaid principal and interest.

The notes are convertible into our common shares at 85% of volume weighted average price for twenty 20 trading days prior to conversion date. The Company simultaneously issued to the Investors five year warrants to purchase 1,597,534 shares of common. During 2005, 1,585,623 warrant shares were exercised and relieved to equity on the balance sheet at December 31, 2005.

The Company evaluated the convertible debentures and the warrants under SFAS No. 133 "Accounting for Derivatives" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock". The Company determined that the convertible debentures contained an embedded derivative for the conversion option and the warrants qualified as free standing derivatives. The conversion option allows for an indeterminate number of shares to potentially be issued upon conversion.

This results in the Company being unable to determine with certainty they will have enough shares available to settle any and all outstanding common stock equivalent instruments. The Company would be required to obtain shareholder approval to increase the number of authorized shares needed to share settle those contracts. Because increasing the number of shares authorized is outside of the Company's control, this results in these instruments being classified as liabilities under EITF 00-19 and derivatives under SFAS No. 133. As a result, the Company has determined that all existing outstanding convertible notes are also subject to EITF 00-19 and SFAS No. 133. The terms of those notes were disclosed under financial footnotes No. 6- Notes Payable.

The notes are carried at full face value as they are in default. In addition, the fair market value of the derivative liability is recorded as of December 31, 2007 and 2006 to be \$228,266 and \$950,865, respectively.

Notes payable consisted of the following at December 31:

	2007	2006
Discounted convertible notes payable due to SovCap. SovCap is affiliated with an officer and director of the Company and is a significant stockholder of the Company. These notes have a face interest rate of 18%. The notes are unsecured and are due on demand. The notes are convertible at a rate of 75% of the average closing bid price of the Company's common stock for the five trading days ending on the trading day immediately preceding the conversion date. During 2007 and 2006, respectively, \$50,000 and \$195,000 of principal was converted into common stock.	\$ 405,300	\$ 455,300
Notes payable due to SovCap bearing interest at 6% -8%	118,500	118,500

Notes payable due to SovCap, bearing interest at 8% and due on February 22, 2007. The Company is presently in default of the payments on these notes, and as a result, the notes are accruing interest at the default rate of 26%. Balance is net of debt discount of \$0 and \$103,459 in 2007 and 2006, respectively.	1,425,000	1,321,541
Note payable to Dorn & Associates. Payable in 36 monthly installments of \$890 at an interest rate of 5%. The Company is presently in default of the payment terms on this note, and has classified the entire note balance as current.	25,177 *	25,177
Convertible notes due to a former officer and shareholder of the Company, These notes bear interest at 12%, are unsecured, and due on demand. The Company is presently in default of the payment terms on these notes. The notes are convertible into approximately 10,251 shares at approximately \$8.00 per share.	74,174	74,174
Notes payable to an individual with interest at 10% collateralized by receivables and due on demand.	17,826 *	17,826
Note payable to a financial group with interest rate at 12% and due on demand.	25,000	25,000
Note payable to HT Investments LLC issued during asset purchase of WV Fiber LLC. The note bears no interest and is payable on November 8, 2006, secured by the assets purchased and placed in our subsidiary, WV Fiber, Inc. The note is payable in 60% cash and 40% of the note is payable in Series ! Preferred shares of the Company. This note was sold as a part of the sale of WV Fiber, Inc. during 2007.	-	850,000
Notes payable to certain individual accredited investors with interest of 15% or 18% per annum and are payable on demand after 180 days from the issue date . Notes are convertible into units of common stock and warrants at a rate of one unit for every \$5.00 converted. Notes in the principal amount of \$1,183,500 were sold as a part of the sale of WV Fiber, Inc.	44,500	1,228,000
Notes payable to former officer and other individual accredited investors	60,250	-
Notes payable due to SovCap	161,250 *	-
Note payable to a related party assumed during merger of BidChaser	-	128,000
	\$ 2,356,978	\$ 4,243,518
	(204,254)	(1,021,003)

* Notes payables included in liabilities of discontinued operations

Notes payable including related parties	2,152,724	3,222,515
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During 2007 and 2006, respectively, \$50,000 and \$169,500 in notes payable and accrued interest was converted to 2,203,779 and 296,725 shares of common stock adjusted for 40:1 reverse split that occurred in first quarter of 2006.

6. Discontinued operations

On April 11, 2007 IMHI disposed of our wholly-owned subsidiary, WV Fiber, LLC. During the fourth quarter of 2007, IMHI approved a plan to dispose of its wholly-owned subsidiaries, Endavo and Bidchaser. The results of operations of Endavo, Bidchaser and WV Fiber (to April 11, 2007, the date of disposal) have been included in these financial statements and are presented as discontinued operations in the financial statements. The combined sales of Endavo, Bidchaser and WV Fiber, LLC, reported in discontinued operations, for the years ended December 31, 2007 and 2006, were \$1,073,540 and \$1,504,213, respectively. Endavo, Bidchaser and WV Fiber, LLC's combined pretax loss, reported in discontinued operations, for the years ended December 31, 2007 and 2006, were \$507,957 and \$1,723,205, respectively. Prior year financial statements for 2006 have been restated to present the operations of Endavo, Bidchaser and WV Fiber, LLC as discontinued operations.

In conjunction with the discontinuance of operations, IMHI recognized a loss of \$3,142,419 in 2007 to record the impairment of goodwill. The assets and liabilities of the discontinued operations are presented separately under the captions "Assets of discontinued operations" and "Liabilities of discontinued operations," in the accompanying Balance Sheets at December 31, 2007 and 2006, and consist of the following:

	2007	2006
Assets of discontinued operations:		
Cash	\$ 99,996	\$ 14,813
Accounts receivable	-	608,423
Prepaid expenses	-	3,570
Property and equipments	-	1,182,099
Other noncurrent assets	147,949	56,204
Total assets of discontinued operations	\$ -	\$ 1,865,109
Liabilities of discontinued operations		
Accounts payable and accrued expenses	\$ 1,463,965	\$ 1,216,021

7. Income Taxes

At December 31, 2007, IMHI has net operating loss (NOL) carry-forwards available to offset future taxable income of approximately \$11,431,338 which will begin to expire in 2019. The utilization of the net operating loss carry-forwards is dependent upon the tax laws in effect at the time the net operating loss carry-forwards can be utilized. It is also likely that utilization of the NOL's are limited based on announced changes in control of IMHI. A valuation allowance has been recorded against the deferred tax asset due to the uncertainty surrounding its realization caused by IMHI's recurring losses.

8. Stockholders' Equity (Deficit)

Conversion of Debt to Common Stock

As discussed in Note 6, pursuant to the original terms of the agreements, certain creditors converted \$102,701 (2006 -\$169,500) of loans and accrued interest into 2,390,731 (2006 -296,725) shares of common stock (adjusted for reverse split). During 2007 a subsidiary's landlord converted \$4,400 of unpaid rent into 30,345 shares of common stock.

Conversion of Preferred Stock to Common Stock

In the third quarter of 2004, certain shareholders converted 2,292,718 shares of common stock into 3,821,197 shares of Series A Convertible Preferred Stock.

The Series A Preferred Stock has no stated dividend rate and has a liquidation preference of \$.001 per share. The Series A Preferred Stock also has voting rights that entitle the preferred shareholders to vote with the common shareholders as if the preferred stock had converted to common. The conversion ratio of the preferred into common is not subject to revision upon reverse stock dividends or splits that reduce the total shares outstanding.

The 3,821,197 shares of preferred stock are convertible at a fixed conversion ratio of 9.6 into 36,683,592 shares of common stock any time after September 30, 2005. On March 22, 2006, IMHI entered into a 40 to 1 reverse stock split. As a result the conversion ratio did not the Series A Preferred stock holders received an incremental 35,766,404 shares. IMHI evaluated the effect of the reverse stock split under EITF 00-27, "Application of Issue 98-5 to Certain Convertible Instruments," and determined that a reset had occurred. IMHI recorded a beneficial conversion feature of \$1,072,992 as a deemed dividend. We have restated the 2006 financial statements to present this deemed dividend on the statement of operations.

Common Shares Issued for Service

IMHI has issued 4,871,784 common shares and 108,023 Series A Preferred shares, as well as 800,000 warrants (with exercise prices of \$0.25) to consultants under consulting agreements that are generally three years or less. The associated expenses are amortized over the term of the contracts, with the unamortized portion (totalling \$0 at December 31, 2006 and 2005) reflected as a reduction to stockholders' equity (deficit).

Options and warrants

IMHI has issued 250,000 and 1,597,529 warrants in conjunction with the issuance of its securities and convertible debt during the years ended December 31, 2006 and 2005, respectively. Warrants that were issued generally do not have a life that exceeds five years. We issued 6,907,500 options to employees and consultants in 2006. Information regarding warrants and options to purchase common shares is summarized below:

	Number of Options and Warrants	Weighted Average Exercise Price Per Share
Outstanding at January 1, 2006	112,972	\$0.05 -
Granted	6,020,000	\$0.08 -
Canceled/forfeited	-	- -
Expired	-	- -
Exercised	-	- -
		-
Outstanding at December 31, 2006	11,965,000	\$0.09 -
Granted	-	- -

Canceled/forfeited	-	-	-
Expired	-	-	-
Exercised	-	-	-
			-
Outstanding at December 31, 2007	8,952,500	\$0.10	-

The following table summarizes information about outstanding warrants and options for common stock at December 31, 2006:

Range of Exercise		Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercised	Average Exercise Price
\$0.01	- \$0.05	421,362	6	0.03	0	0.70
0.09	- 0.10	1,673,512	7	0.08	0	0.10
0.10	- 0.60	6,593,781	8	9.34	0	0.37
0.60	- 0.42	236,345	8	1.19	0	1.19

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9. Supplemental Cash Flow Information

During the year ended December 31, 2007, the Company had significant non - cash financing and investing activities as follows:

- Converted \$169,500 of notes and accrued interest into 296,725 (adjusted for reverse split)
- Issued common stock and warrants to consultants and amortized the expense over the terms of the contracts, all in 2006, resulting in non-cash compensation expense of \$4,173,541 in 2006

10. Commitments and Contingencies

IMHI may become or is subject to investigations, claims or lawsuits ensuing out of the conduct of its business. IMHI is currently unable to estimate the loss (if any) related to these matters.

11. Subsequent Events

On February 21, 2008, IMHI completed a plan and agreement of merger between IMHI and TeleChem International, Inc.. IMHI issued 103,143 shares of Series C Convertible Preferred Stock to the shareholders of Telechem in exchange for 100% of the equity interests of TeleChem. The former shareholders of TeleChem now own approximately 73.5% of the outstanding interest in IMHI. Simultaneously with the merger IMHI transferred its wholly-owned subsidiary, Endavo to Paul Hamm. The consideration received by IMHI for the transfer to Mr. Hamm is the cancellation of 1,750,000 common stock purchase warrants. As a result, the transaction will be accounted for as a reverse merger, where TeleChem is the accounting acquirer resulting in a recapitalization of IMHI's equity.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company's primary accountant, Maddox, Ungar, Silberstein, PLLC, was dismissed by the Company on March 19, 2008. No reports on the financial statements prepared by Maddox, Ungar, Silberstein, PLLC over the past two years contained any adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principles, except for concerns about the Company's ability to continue as a going concern. The decision to change accountants was, recommended and approved by the Board of Directors, on March 19, 2008. During the two most recent fiscal years, and the subsequent interim period through March 19, 2008 (the date of dismissal), there were no disagreements with Maddox, Ungar, Silberstein, PLLC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope of procedure, which disagreements, if not resolved to the satisfaction of Maddox, Ungar, Silberstein, PLLC would have caused it to make reference to the subject matter of the disagreements in connection with its report.

The Company retained the services of the accounting firm of Malone & Bailey, PC on March 19, 2008 as their principal accountant. During the Company's fiscal years ended December 31, 2005 and 2006 and any later interim period, including the interim up to and including the date the relationship with Maddox, Ungar, Silberstein, PLLC ceased the registrant did not contact the new accountant prior to its engaging the new accountant regarding the application of accounting principles to a specified transaction, or the type of audit opinion that might be rendered on the registrant's financial statements. During the Company's fiscal years ended December 31, 2005 and 2006, and any later interim period, including the interim up to and including the date the relationship with Maddox, Ungar, Silberstein, PLLC ceased the Company did not contact the new accountant prior to its engaging the new accountant regarding any matter that was either the subject of a disagreement or a reportable event.

During the two most recent fiscal years and the subsequent interim period through March 19, 2008 the Company did not contact the new accountant prior to its engaging the new accountant regarding any matter that was a reportable event (as provided in Item 304(a)(iv)(B) of Regulation S-B) during the Company's fiscal years ended December 31, 2005 and 2006, and any later interim period, including the interim up to and including the date the relationship with Maddox, Ungar, Silberstein, PLLC ceased.

ITEM 8A CONTROLS AND PROCEDURES

Evaluation of Internal Controls

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Annual Report on Form 10-KSB, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls also are designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our chief executive officer, who is also our acting chief financial officer, included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Annual Report. Our management, including our chief executive officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Assessment of Internal Control Over Financial Reporting

Based on his review and evaluation as of the end of the period covered by this Form 10-KSB, and subject to the inherent limitations all as described above, our chief executive officer, who is also our acting chief financial officer, has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) contain material weaknesses and are not effective.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The material weaknesses we have identified are the direct result of a lack of adequate staffing in our accounting department. Currently, our chief executive officer and a controller have sole responsibility for receipts and disbursements. We do not employ any other parties to prepare the periodic financial statements and public filings. Reliance on these limited resources impairs our ability to provide for a proper segregation of duties and the ability to ensure consistently complete and accurate financial reporting, as well as disclosure controls and procedures. As we grow, and as resources permit, we project that we will hire such additional competent financial personnel to assist in the segregation of duties with respect to financial reporting, and Sarbanes-Oxley Section 404 compliance.

We believe that we will be able to improve our financial reporting and disclosure controls and procedures and remedy the material weakness identified above.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our directors will serve for a term of one year unless they resign or are earlier removed. Our executive officer and key employees and consultants are appointed by our board of directors and serve at its discretion.

Current Directors and Executive Officers

Our board of directors currently consisted of four members on December 31, 2007. Peter Marcum and Harish Shah resigned from our board on April 11, 2007, as noted in the Subsequent Events section of this filing. There are no arrangements or understandings between any of the directors or any other persons pursuant to which any of the directors have been selected as directors, other than as described below. There are no "family relationships" among the directors, as that term is defined by the Securities and Exchange Commission. Set forth below is our current board of directors, including each member's age and position with the Company.

Name	Age	Position with the Company
Paul D. Hamm	40	President, Chief Executive Officer, and Chairman of the Board
Peter Marcum*	55	Director and Chief Executive Officer of WV Fiber, Inc.
Jerry Dunlap	54	Director
Harish Shah*	55	Director and President of Bidchaser, Inc.

PAUL D. HAMM . Mr. Hamm has served as our President, Chief Executive Officer and a member of our Board of Directors since June 24, 2004. Mr. Hamm is a 14-year financial services industry veteran, financial entrepreneur,

investment banking professional and private equity fund manager. In 2002, Mr. Hamm founded and is currently the Managing Partner of AlphaWest Capital Partners, a specialized capital marketing firm providing extensive market/industry research, financial planning and modeling, transaction advisory, marketing and investment banking services to emerging public and "pre-public" U.S. companies. In 1998, Mr. Hamm co-founded and currently serves as Managing Director of SovCap Investment Management Group, the investment manager to SovCap Equity Partners, Ltd., an offshore private investment partnership, and our principal stockholder. As a principal investor, Mr. Hamm has made numerous private equity investments into publicly traded companies across technology and communications related industries. He has been actively involved with portfolio companies in business planning and execution, often serving as primary financial and strategic advisor to a portfolio company's management. Mr. Hamm holds NASD securities licenses, served as a Transportation/Civil Affairs Commissioned Officer for 8 years with the U.S. Army/USAR, and has a Bachelor of Science degree in Political Science from Stetson University.

JERRY DUNLAP . Mr. Dunlap has served as a member of our Board of Directors since July 1, 2004. Mr. Dunlap is co-founder and currently serves as President and Chief Executive Officer for ISDN-Net, a internet service provider located in Nashville, Tennessee. After ten years in existence, ISDN-Net is Tennessee's oldest and largest independent Internet Service Provider serving 87 of the state's 95 counties. Mr. Dunlap oversees many of the day-to-day operations of ISDN-Net and manages the company's long-term, strategic direction. Viewed as a pioneer in telecom networking and communications, Mr. Dunlap was asked by the Tennessee Public Service Commission in 1992 to direct a pilot project that ultimately resulted in the introduction of digital connectivity services in Tennessee. Shortly after that project, in 1994, Mr. Dunlap co-founded ISDN-Net to serve the data needs of Tennessee businesses. Mr. Dunlap has a Bachelor of Science degree in pharmacy from the University of Tennessee.

PETER MARCUM - Mr. Marcum resigned from his position as Director on our Board on April 11, 2007.

HARISH SHAH - Mr. Shah resigned from his position as Director on our Board and President of Bidchaser on April 11, 2007.

Directors and Executive Officers after merger

On February 21, 2008, the following persons were elected to serve as executive officers and directors for the next year and until their successors are elected and qualified.

NAME	AGE	POSITION
Rene' A. Schena	44	Chairman , Director, CEO & CFO
Todd J. Martinsky	42	Director, Vice President & COO
Mark Schena, Ph.D.	44	Chief Technology Officer, Secretary & Treasurer
William L. Sklar	60	Director
Paul Haje	52	Director of Advertising and Public Relations

Ms. Schena holds a degree in Language Studies from the University of California Santa Cruz. She has 23 years experience in international business, including translation, contract documentation and commodities trading with a subsidiary of ConAgra from 1985 to 1988, and as a chemical import and distribution specialist, department manager, and later President of NuSource Chemical Corporation.

She founded TeleChem International, Inc. in 1993, continuing the import and export chemical distribution specialty, expanding into government bid business, and moving into the biotech sector in 1996. TeleChem is a market leader in DNA microarray technology, providing tools and expertise for the explosive functional genomics and diagnostic screening markets. In 2002 and again in 2003, TeleChem made Inc. Magazine's list of the top 500 fastest growing privately held companies in the USA. In 2005, the Silicon Valley Business Journal recognized Ms. Schena as the President of the 11th largest woman-owned business enterprise in the Silicon Valley. Ms. Schena's long-term contacts in the chemical industry, strong business background and management expertise are key contributions to TeleChem's infrastructure. Ms. Schena is the sister of Mr. Martinsky and the wife of Dr. Schena.

Mr. Martinsky, Co-founder of TeleChem International, Inc., previously served as director of education and consulting at the Codd and Date Consulting Group. Mr. Martinsky has led the ArrayIt Division to play a significant role in the microarray industry. He has authored several book chapters and other scientific literature and has become an internationally recognized lecturer, writer, consultant and teacher. In addition to providing consulting services, Mr. Martinsky has spearheaded ArrayIt's technical support team since 1997. Along with his daily technical and business direction of the ArrayIt Product line, Mr. Martinsky established successful alliances with corporate partners in manufacturing, reagents, equipment and distribution. He is responsible for an educational outreach program that ensures that the broadly patented ArrayIt Micro Spotting Device is applied in the field with optimal scientific and technological accuracy. He is currently serving on the panel that is crafting future regulatory requirements for microarray manufacturing for the United States Pharmacopeia. Mr. Martinsky is the brother of Ms. Schena.

Dr. Schena is a world-renowned biochemist whose research focuses on microarray technology, genomics, proteomics, genotyping, molecular diagnostics, and gene expression. Dr. Schena and his colleagues at Stanford University published the first paper on microarrays in 1995 (Science 270, 467-470), catalyzing the explosive proliferation of microarray technology at academic and commercial institutions internationally. The 95' Science paper is the most highly cited paper in the history of Arabidopsis research and a recent article in The Scientist places Dr. Schena at positions 1 and 2 on the "microarray family tree", confirming his role as the founder of microarray technology and substantiating his status as the Father of Microarray Technology. More than 20,000 laboratories in 35 countries are using microarrays to explore basic questions in biology, chemistry, agriculture and medicine, and the proliferation of the technology has resulted in more than 26,000 publications since the original 95' Science publication. Dr. Schena is the husband of Ms. Schena.

Dr. Schena's success can be traced to an incomparable scientific pedigree. He trained as a postdoctoral fellow with Dr. Ronald W. Davis in the Department of Biochemistry at the Beckman Center at Stanford University, and earned a Ph.D. with Dr. Keith R. Yamamoto in the Department of Biochemistry at UCSF, graduating first in an exceptional class. Dr. Schena performed his undergraduate thesis work with Dr. Daniel E. Koshland, Jr. in the Biochemistry Department at UC Berkeley, earning a baccalaureate degree with greatest achievement and highest honors in 1984. As a professional scientist, he has authored more than thirty scientific papers and books on subjects ranging from bacteria and yeast to plants and humans, and has campaigned tirelessly with scientists, physicians, federal regulatory agencies, granting agencies, and charitable organizations to promote microarray technology for the betterment of humankind. Dr. Schena edited the first two books on microarrays, DNA Microarrays: A Practical Approach by Oxford University Press, and Microarray Biochip Technology by Eaton Publishing Company, wrote the first microarray textbook Microarray Analysis for J. Wiley & Sons, and the first book on the proteomic applications of microarrays entitled Protein Microarrays by Jones & Bartlett. Dr. Schena has recently completed a new methods book DNA Microarrays-Methods Express for Scion Publishing, and continues to lecture widely, having given more than 120 speeches in 15 countries since 1995. Dr. Schena was featured as one of the "Stars of Genomics" on the NOVA television special Cracking the Code of Life, which received more than 100,000,000 viewers worldwide, and is the most highly funded science documentary in United States history.

Dr. Schena is currently a Visiting Scholar and Consultant in the ArrayIt® Life Sciences Division at TeleChem International, Inc. Dr. Schena is also the Chairman of NGS-ArrayIt, Inc and the Founder and President of Mark Schena Inc., an educational consulting company providing consulting services to a host of leading organizations such

as Affymetrix, AlphaGene, ArrayIt, Biodot, Cartesian Technologies, Clontech, diaDexus, General Scanning, Genomic Solutions, GSI Lumonics, Incyte Pharmaceuticals, Irell and Manella, Johnson & Johnson, Morrison & Foerster, Motorola, Packard Instruments, Perkins Coie, Roche, Synteni, Technology Mentors, TeleChem International, Wilson Sonsini, Goodrich & Rosati, and others. Dr. Schena resides with Ms. Rene Schena, the Founder and President of TeleChem International, Inc., in Los Altos, California.

Mr. Sklar has served as a consultant with Willmar Management Corp. since 1988. Since September 2004 Mr. Sklar has been the Chairman and a Director of PaperFree Medical Solutions, Inc., a company trading on the OTC BB. Since October 26, 2005 Mr. Sklar has been a director of Radiate Research a public company. From July 1983 to October 1988 Mr. Sklar was the owner of Western Bag & Burlap a textile manufacturer. Mr. Sklar holds a Bachelor of Commerce from the University of Toronto.

Mr. Haje joined TeleChem in 1999 as the Director of Advertising and Public Relations. He has successfully produced 63 major trade shows in the USA and Canada, 17 workshops, 11 VIP events, 76 unique full page print advertising campaigns, 18 direct mail campaigns, e-mail blasts, web site imagery and two full color company catalogs. In 2003, Mr. Haje won the 2003 Signet Advertising Award for Best Full Page Ad in the life sciences sector. Mr. Haje represented the company at the United States Food and Drug Administration's Microarray Quality Control projects I and II, drawing important attention in the scientific press to the company and its H25K Whole Human Genome Chip. H25K was one of only seven microarray platforms allowed to participate in the project, including Affymetrix, Agilent, Illumina, GE Healthcare and Applied BioSystems. Mr. Haje has promoted the ArrayIt brand name through company exposure on prime time television, in cover stories, feature articles, trade publications, newsletters and web broadcasts. TV includes PBS NOVA, ABC Night Line, CNBC Business Odyssey. He has regularly booked cover stories and feature articles in Science, The Scientist, Nature, Genetic Engineering News, BioTechniques, Genome Technology, American Chemical Society, JAMA, PharmaGenomics, Genomics and Proteomics, BioScience Technology, BioArray News, BioInform, and Genome Web.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Executive officers, directors, and greater than 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by it during the year ended December 31, 2004, we believe that during such year our executive officers, directors and 10% stockholders complied with all such filing requirements except for the following late or delinquent filings: (i) Form 3 for Mr. Dunlap reporting his appointment as a director; (ii) Form 4 for Mr. Dunlap reporting certain transactions in our common stock by a company of which he is a stockholder, officer and director; (iii) Form 4 for Mr. Hamm reporting certain transactions in our common stock; (iv) Form 3 for Mr. Hewitt reporting his appointment as a director; (v) Form 4 for Mr. Hewitt reporting certain transactions in our common stock; and (vi) Form 3 and two Form 4s for SovCap Equity Partners reporting certain transactions in our common stock.

Code of Ethics

Our board of directors is currently in the process of adopting a code of ethics that complies with the rules promulgated under the Sarbanes-Oxley Act of 2002 and that applies to our principal executive officer and principal financial and accounting officer and to all of our staff.

Audit Committee Financial Expert

The Securities and Exchange Commission has adopted rules implementing Section 407 of the Sarbanes-Oxley Act of 2002 requiring public companies to disclose information about "audit committee financial experts." We do not have a

standing Audit Committee. The functions of the Audit Committee have been assumed by our full Board of Directors. Additionally, we do not have a member of our board of directors that qualifies as an "audit committee financial expert." The Securities and Exchange Commission's rules do not require us to have an audit committee financial expert, and our Board of Directors has determined that it possesses sufficient financial expertise to effectively discharge its obligations.

ITEM 10. EXECUTIVE COMPENSATION

Summary compensation table

The following table sets forth the total compensation for the fiscal years ended December 31, 2007, 2006 and 2005 paid to or accrued for our chief executive officer and other executive officers, excluding executive officers paid less than \$100,000 annually. Each of the following executive officers is referred to as a "Named Executive Officer."

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Securities Underlying Options/SARs
		Salary(\$)	Bonus(\$)	(#)
Paul D. Hamm (1) Chief Executive Officer and President	2007	\$ 3,125	-	3,150,560
	2006	\$ 75,000	--	3,150,560
	2005	\$ 95,000	--	525,000

- (1) Consists of 35,060 shares of common stock owned directly by Mr. Hamm and 3,115,500 shares that Mr. Hamm has the right to acquire upon the exercise of currently exercisable stock options. Mr. Hamm may also be deemed to own 44,883 shares of Series A Preferred Stock owned by AlphaWest Capital Partners, of which Mr. Hamm is the sole member. However, the Series A Preferred Stock has not been converted to common stock, but may occur at a conversion ratio of 9.6 shares of common stock for each share of Series A Preferred Stock. Mr. Hamm, as a managing member of SovCap Investment Management Group, also may be deemed to beneficially own 592,294 shares of common stock and 2,280,013 shares of Series A preferred stock and approximately 2,800,000 shares related to convertible notes outstanding (based on conversion price of \$0.22) beneficially owned by SovCap Investment Equity Partners, Ltd., due to the investment management relationship between SovCap Investment Management Group LLC and SovCap Equity Partners, Ltd. Mr. Hamm is a member of SovCap Investment Management Group. Mr. Hamm disclaims beneficial ownership of the securities held by SovCap Equity Partners, as neither he nor SovCap Investment Management Group has any interest in SovCap Equity Partners Ltd.

Executive Management Stock Option Grants And Exercises

EXECUTIVE MANAGEMENT OPTION GRANTS IN LAST 2 FISCAL YEARS

Individual Grants

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Expiration Date
Paul D. Hamm	37,500	43%	\$3.20-4.00(4)	7/26/15
	1,450,000	21%	\$ 0.25(4)	3/22/16
	2,000,000	28%	\$ 0.42(4)	10/12/16
Peter Marcum	1,000,000	14%	\$ 0.37(4)	10/12/16

(1) Options granted pursuant to the 2004 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan, or "2004 Plan," which vest in three equal yearly installments commencing on 7/26/05. The options were not issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options expire on July 16, 2015.

(2) Options granted pursuant to the 2004 Plan, which vest in three equal yearly installments commencing on 7/26/05. The options were not issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options expire on December March 22, 2016.

(3) Options granted pursuant to the 2004 Plan, which were completely vested on January October 12, 2006. The options were not issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options expire on October 12, 2016.

(4) The exercise price of these options was equal to the fair market value (closing price) of the underlying common stock on the date of grant. These options are nonqualified options.

(5) Options granted pursuant to the 2004 Plan, which vest in three equal yearly installments commencing on 10/12/06.

The options were not issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options expire on December October 12, 2016.

The following table provides information on the value of each of our Named Executive Officer's unexercised options at December 31, 2007. None of our Named Executive Officers exercised any options during 2007.

Fiscal Year End Option Values

Name	Number of Securities Underlying Unexercised Options at Fiscal Year--End (#)	Value of Unexercised In-the Money Options at Fiscal Year-End(\$)
Paul D Hamm	3,487,500	- 0 -
Peter Marcum	1,000,000	- 0 -

Compensation of Directors

Our non-employee directors do not receive any additional compensation for serving as a member of our board of directors or for attending any of our board committees, but non-employee directors may be reimbursed for out-of-pocket expenses incurred in connection with attending our board and board committee meetings, although we incurred no such expenses in 2006.

For information concerning agreements involving Named Executive Officers see Item 12 Certain Relationships and Related Transactions.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2006 with respect to (i) each director of the Company; (ii) each executive officer; (iii) all executive officers and directors of the Company as a group; and (iv) each party known by us to be the beneficial owner of more than 5% of our common stock. Unless otherwise indicated, the mailing address for each party listed below is c/o Integrated Media Holdings, Inc., 10 Glenlake Parkway, Suite 130, Atlanta, GA 30328. This table is based upon information supplied by current and former officers, directors and principal stockholders. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on approximately 58,000,000 of our common stock outstanding or beneficially owned as of December 31, 2006 adjusted as required by rules promulgated by the Securities and Exchange Commission.

The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act and the information is not necessarily indicative of beneficial ownership for any other purpose. Under that rule, beneficial ownership includes any shares as to which the individual or entity has voting power or investment power and any shares that the individual has the right to acquire within 60 days through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes or table, each person or entity has sole voting and investment power, or shares such powers with his or her spouse, with respect to the shares shown as beneficially owned.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Fully-Diluted Shares Outstanding	
Executive Officers and Directors			
Paul D. Hamm (1)	3,522,560	5.4	%
Peter Marcum (2)	250,000	*	%
Harish Shah (3)	2,205,268	3.8	%
Jerry Dunlap (4)	20,000	*	
Five Percent Shareholders			
SovCap Equity Partners Ltd. (5)	16,670,876	28.7	%

Wilhagan Ventures LLC (6)	6,998,169	12.1	%
All Directors and Executive Officers as a Group (4 persons) (1)(2)(3)(4)	5,625,828	9.7	%

* Less than one percent.

(1) Consists of 35,060 shares of common stock owned directly by Mr. Hamm and 3,487,500 shares that Mr. Hamm has the right to acquire upon the exercise of currently exercisable stock options. Mr. Hamm may also be deemed to own 44,883 shares of Series A Preferred Stock owned by AlphaWest Capital Partners, of which Mr. Hamm is the sole member. However, the Series A Preferred Stock has not been converted to common stock, but may occur at a conversion ratio of 9.6 shares of common stock for each share of Series A Preferred Stock. Mr. Hamm, as a managing member of SovCap Investment Management Group, also may be deemed to beneficially own 592,294 shares of common stock and 2,280,013 shares of Series A preferred stock and approximately 2,800,000 shares related to convertible notes outstanding (based on conversion price of \$0.22) beneficially owned by SovCap Investment Equity Partners, Ltd., due to the investment management relationship between SovCap Investment Management Group LLC and SovCap Equity Partners, Ltd. Mr. Hamm is a member of SovCap Investment Management Group. Mr. Hamm disclaims beneficial ownership of the securities held by SovCap Equity Partners, as neither he nor SovCap Investment Management Group has any interest in SovCap Equity Partners Ltd.

(2) Consists of 250,000 shares that Mr. Marcum has the right to acquire upon the exercise of currently exercisable stock options. Mr. Marcum may also be deemed to own the 728,976 shares of Series A Preferred Stock owned by Wilhagan Ventures, of which Mr. Marcum is an owner. However, the Series A Preferred Stock has not been converted into common, but may occur at a conversion ratio of 9.6 shares of common stock for each share of Series A Preferred Stock. Mr. Marcum disclaims beneficial ownership of the securities held by Wilhagan Venture except to the extent of his proportionate interest therein.

(3) Consists of 1,398,170 common shares, 73,656 preferred shares and 200,000 warrants owned by Mr. Shah, his wife or J&H Orlando Inc., which is owned by Mr. Shah. However, the Series A Preferred Stock has not been converted into common, but may occur at a conversion ratio of 9.6 shares of common stock for each share of Series A Preferred Stock.

(4) Consists of 20,000 common shares owned by Mr. Dunlap. ISDN.Net, of which Mr. Dunlap is President and an owner, owns 74,000 shares of Series A Preferred Stock and 57,600 shares of common stock. However, the Series A Preferred Stock has not been converted into common stock, but may occur at a conversion ratio of 9.6 shares of common stock for each share of Series A Preferred Stock. Mr. Dunlap disclaims beneficial ownership of the securities owned by ISDN.Net except to the extent of his proportionate interest therein.

(5)

Consists of 592,294 shares of common stock and 1,466,519 shares of Series A preferred stock, which are convertible at a ratio of 9.6 common for each share of preferred, and approximately 2,000,000 shares related to convertible notes outstanding (based on conversion price of \$0.25) beneficially owned by SovCap Investment Equity Partners, Ltd.

- (6) Consists of 728,976 shares of Series A Preferred Stock owned by Wilhagan Ventures, which are convertible at a ratio of 9.6 common for each share of preferred.

Equity Compensation Plan Information

We maintain the 2004 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan pursuant to which we may grant equity awards to eligible persons. The following table provides information as of December 31, 2006 about equity awards under this plan in 2007.

2004 Directors, Officers and Consultants Option Plan Vesting Schedule

Name	Effective Date	Term (yrs)	Shares	Options	Adjusted Amount	Strike Price	Adjusted Strike Price	Vested as of 12/31/06
Jay Kozhikotte	3/22/06	10		120,000	120,000	0.25	0.25	60,000
Jon Ellis	3/22/06	10		92,500	92,500	0.25	0.25	46,250
Jorge Tomassello	3/22/06	10		440,000	440,000	0.25	0.25	220,000
Mario Pino	3/22/06	10		440,000	440,000	0.25	0.25	220,000
Orlando Mastrapa	3/22/06	10		90,000	90,000	0.25	0.25	45,000
Paul D Hamm	3/22/06	10		1,450,000	1,450,000	0.25	0.25	725,000
John Sarko	3/22/06	10		25,000	25,000	0.25	0.25	12,500
Mashrua Inc.	3/30/06	na	1,800,000					1,800,000
Rossington Partners	3/30/06	na	1,800,000					1,800,000
Ronald Cole	3/30/06	na	1,800,000					1,800,000
Canouse	5/18/06	10		100,000	100,000	1.00	1.00	100,000
Paul D Hamm	10/2/06	15		2,000,000	2,000,000	0.42	0.42	2000000
Peter Marcum	10/12/06	15		1,000,000	1,000,000	0.37	0.37	250000
Karen Bairaktaris	10/12/06	15		300,000	300,000	0.37	0.37	75000
Bradley Bopp	10/12/06	15		150,000	150,000	0.37	0.37	37500
Mark Wilson	10/12/06	15		550,000	550,000	0.37	0.37	137500
Richard Eller	10/12/06	15		150,000	150,000	0.37	0.37	37500

1) We previously maintained the New Planet Resources, Inc. Stock Incentive Plan and the 2002 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan. There are no outstanding options under these plans and we intend to retire these plans.

(2) This number does not include 8,512,533 common shares issued pursuant to the 2004 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan and for warrants previously exercised that were granted pursuant to the 2004 Plan.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Agreements with Executive Officers

On October 1, 2005, our subsidiary Endavo entered into an executive management agreements with our President and CEO, Paul D Hamm,. Under this employment agreement, Mr. Hamm agreed to act as Endavo's President and Chief Executive Officer. The agreement is for a term of three years. As compensation for services under the management agreement, Mr. Hamm is entitled to receive a base salary of \$75,000 per year. If the company generates revenues of \$104,166.67 (\$1,250,000 annualized) in any given month, Mr. Hamm's salary will be increased to \$120,000 per year. In connection with their engagement by the Company, Mr. Hamm is entitled to be issued incentive stock options to purchase 1,000,000 shares of our common stock. The options will vest in increments of approximately one-third on each of the 3 anniversaries of the agreement.

On August 8, 2006, WV Fiber entered into an executive management agreement with Peter Marcum. Under this agreement Mr Marcum agreed to act as WV Fiber's Chief Executive Officer for a period of 3 years. As compensation for services under the management agreement, Mr Marcum is entitled to receive a base salary of \$75,000 per year and received 1,000,000 15-year options priced at \$0.37, the fair market value of our common stock at the time of issuance, which vest over a period of two years.

On August 8, 2006, WV Fiber entered into an executive management agreement with Mark Wilson. Under this agreement Mr Wilson agreed to act as WV Fiber's Chief Operating Officer for a period of 3 years. As compensation for services under the management agreement, Mr Wilson is entitled to receive a base salary of \$85,000 per year, plus sales commissions, and received 400,000 15-year options priced at \$0.37, the fair market value of our common stock at the time of issuance, which vest over a period of two years.

On October 23, 2006, Integrated Media Holdings also entered into an executive management agreement with Mr. Hamm. Under this agreement, Mr. Hamm agreed to act as our President and Chief Executive Officer for a period of three years in exchange for 2,000,000 options priced at \$0.42, which was fair market value of the company's common stock at the time of issuance. Mr. Hamm has agreed to waive cash compensation under this agreement, but has the right to request cash compensation be established by the board, which will not be unreasonably withheld.

Other Relationships and Related Transactions

Between January 1, 2006 and December 31, 2006, we borrowed a total of \$103,500 from our largest security holder, SovCap Equity Partners, Ltd. in the form of non-convertible notes. As of December 31, 2006, SovCap held \$161,000 (principal) in non-convertible promissory notes and \$405,300 (principal) in convertible promissory notes. Each of the remaining convertible notes is due within 10 days of demand by SovCap. The notes are not subject to interest; however there is a repayment fee equal to the product of (i) 1.5% of the outstanding principal amount under the note and (ii) the number of 30-day periods (rounded up) that the note has been outstanding. The repayment fee is owed regardless of whether the note is prepaid in advance or becomes due upon demand or default. If we are unable to make the payments upon demand or when otherwise due, interest will also accrue on the amount owed at an annual interest rate of 12%. Each note is convertible into shares of our common stock at 75% of the average closing bid price of our common stock over the five trading days preceding the conversion. We also granted SovCap piggyback registration rights with respect to the shares of common stock issuable upon conversion of the notes, which SovCap waived in connection with our recent private placement of convertible promissory notes and warrants. As of March 31, 2006, the aggregate amount of principal and repayment premiums due upon demand under the convertible notes was \$624,314, or approximately 8,324,187 shares of our common stock had SovCap elected to convert. The non-convertible notes

also remain outstanding as of March 31, 2006.

ITEM 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K

(a) The following exhibits are either attached hereto or incorporated herein by reference as indicated.

Exhibit Number	Description	Previously Filed as Exhibit	File Number	Previously Date Filed
2.1	Agreement and Plan of Merger	Attached to the Registrant's Current Report on Form 8-K	001-16381	9/17/02
3.1	Certificate of Incorporation	Exhibits 1 and 1.1 to the Registrant's Registration Statement on Form 8-A	001-16381	3/01/01
3.2	Amended and Restated Bylaws	Exhibit 2 to the Registrant's Registration Statement on Form 8-A	001-16381	3/01/01
4.1	Form of 8.0% Senior Secured Convertible Note	Exhibit 4.1 to Registrant's Current Report on Form 8-K	001-16381	2/28/05
4.2	Form of Warrant	Exhibit 4.2 to Registrant's Current Report on Form 8-K	001-16381	2/28/05
4.3	Form of Additional Investment Right "A"	Exhibit 10.2 to Registrant's Current Report on Form 8-K	001-16381	2/28/05
4.4	Form of Additional Investment Right "B"	Exhibit 10.3 to Registrant's Current Report on Form 8-K	001-16381	2/28/05
10.1	2004 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan	Exhibit 4.1 to the Registrant's Registration Statement on Form S-8	333-119586	10/07/04
10.2	2002 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan	Exhibit 4.1 to the Registrant's Registration Statement on Form S-8	333-99371	9/10/02
10.3	Executive Management Agreement, dated October 23, 2006 by and between the Registrant and Paul D Hamm	Attached hereto		

10.5	Form of Securities Purchase Agreement for 8.0% Senior Secured Convertible Notes	Exhibit 10.1 to Registrant's 001-16381 Current Report on Form 8-K	2/28/05
10.6	Form of Security Agreement	Exhibit 10.4 to Registrant's 001-16381 Current Report on Form 8-K	2/28/05
21	Company Subsidiaries	Attached hereto	
31	Certification pursuant to SEC Release No. 33-8238, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached hereto	
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto	
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto	

(1) The Company made and delivered to SovCap Equity Partners, Ltd. 13 separate demand promissory notes from August 21, 2003 through September 8, 2004. Each of these demand notes used the form attached. Only the principal amounts varied. These demand notes are discussed in greater detail under Item 12. Certain Relationships and Related Transactions - Other Relationships and Related Transactions .

(b) We did not file any Current Reports on Form 8-K during the period covered by this Annual Report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our board of directors, had previously selected Maddox Unger Silberstein PLLC and its predecessor, Ronald N. Silberstein CPA PLLC, certified public accountants, as independent auditors to examine our annual consolidated financial statements for our fiscal year ending December 31, 2006 and 2007. The Company's primary accountant, Maddox, Ungar, Silberstein, PLLC, was dismissed by the Company on March 19, 2008. The Company retained the services of the accounting firm of Malone & Bailey, PC on March 19, 2008 as their principal accountant to complete the examination of our consolidated financial statements for the fiscal year ending December 31, 2007.

We have paid or expect to pay the following fees toMaddox, Ungar Silberstein PPLC (including the predecessor firm of Ronald N. Silberstein CPA PLLC) and Malone & Bailey, PC for work performed in 2007and 2006 or attributable to the audits of our 2007 and 2006 consolidated financial statements:

	2006	2007
Audit Fees – Maddox Ungar Silberstein	\$ 35,000	\$13,456

Audit Fees Malone & Bailey		65,000
Audit-Related Fees	-	-
Tax Fees Maddox Ungar Silberstein	-	4,050
All Other Fees – Maddox Ungar Silberstein	1,855	13,600

In January 2003, the SEC released final rules to implement Title II of the Sarbanes-Oxley Act of 2003. The rules address auditor independence and have modified the proxy fee disclosure requirements. Audit fees include fees for services that normally would be provided by the accountant in connection with statutory and regulatory filings or engagements and that generally only the independent accountant can provide. In addition to fees for an audit or review in accordance with generally accepted auditing standards, this category contains fees for comfort letters, statutory audits, consents, and assistance with and review of documents filed with the SEC. Audit-related fees are assurance-related services that traditionally are performed by the independent accountant, such as employee benefit plan audits, due diligence related to mergers and acquisitions, internal control reviews, attest services that are not required by statute or regulation, and consultation concerning financial accounting and reporting standards.

The board of directors has reviewed the fees paid to Maddox, Ungar Silberstein PPLC (including the predecessor firm of Ronald N. Silberstein CPA PLLC) and Malone & Bailey, PC, and has considered whether the fees paid for non-audit services are compatible with maintaining their independence. The board of directors may additionally ratify certain de minimis services provided by the independent auditor without prior approval, as permitted by the Sarbanes-Oxley Act and rules of the SEC promulgated thereunder. We will disclose all such approvals, as applicable, in upcoming years.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEGRATED MEDIA HOLDINGS,
INC.

Dated: April 15, 2008

By: /s/ RENE' A. SCHENA
Rene' A. Schena, Chairman , Director,
CEO & CFO

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

INTEGRATED MEDIA HOLDINGS,
INC.

Dated: April 15, 2008

By: /s/RENE' A. SCHENA
Rene' A. Schena, Chairman , Director,
CEO & CFO
(Principal Executive Officer and
acting Principal Financial and
Accounting Officer)

Dated: April 15, 2008

By: /s/ TODD J. MARTINSKY
Todd J. Martinsky, Director, Vice
President & COO
