FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1999-03-26** | Period of Report: **1998-09-30**
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FILER

INSPIRE INSURANCE SOLUTIONS INC

CIK:**1042051**| IRS No.: **752595937** | State of Incorp.:**TX** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **000-23005** | Film No.: **99574135**
SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

Mailing Address
300 BURNETT ST
FORT WORTH TX 76102

Business Address
300 BURNETT ST
FORT WORTH TX 76102
8173327761

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

FORM 10-Q/A
AMENDMENT NO. 1

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended...............................September 30, 1998

OR

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

<TABLE>
<S> <C>
For the transition period from.................... to........................
</TABLE>

<TABLE>
<S> <C>
Commission file number.................................... 000-23005
</TABLE>

INSPIRE INSURANCE SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

TEXAS	75-2595937
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

</TABLE>

300 BURNETT STREET, FORT WORTH, TX 76102-2799

(Address of principal executive offices)
(Zip Code)

817-348-3900
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 4, 1998: 18,434,626.

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This Amendment No. 1 to Form 10-Q amends and supplements the quarterly report on Form 10-Q for the quarterly period ended September 30, 1998, filed with the Securities and Exchange Commission on November 13, 1998 (the "Form 10-Q") of INSpire Insurance Solutions, Inc. (the "Company"). Capitalized terms used herein have the meanings ascribed to such terms in the Form 10-Q unless otherwise defined herein.

The Form 10-Q is hereby amended and supplemented by amending and restating Part I, Item 1 and Item 2 of the Form 10-Q. The primary changes from the Form 10-Q are (i) the financial statements in Item 1 are being restated to reflect the restatement of the purchase price allocation relating to the acquisition of Paragon Interface, Inc. during the three months ended June 30, 1998, and (ii) Item 2 is amended to reflect this restatement in management's discussion and analysis.

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

INSPIRE INSURANCE SOLUTIONS, INC.
CONDENSED BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	September 30, 1998 (unaudited) (As restated see Note 5) <C>	December 31, 1997 <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 58,647,587	$28,039,323
Investments	15,603,278	--
Accounts receivable, net	13,986,096	10,976,672
Income taxes receivable	121,076	149,041
Deferred income taxes	721,997	1,434,000
Prepaid expenses and other current assets	7,629,213	4,154,417
Total current assets	96,709,247	44,753,453
Accounts receivable, excluding current portion	--	74,258
Property and equipment, net (accumulated depreciation 1998 $13,129,286; 1997 $10,382,308)	9,856,114	6,029,973
Intangibles and other assets	21,566,820	17,039,634
TOTAL	$128,132,181	$67,897,318
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 654,580	$ 834,418
Accrued payroll and compensation	837,774	633,252
Other accrued expenses	2,075,131	1,485,543
Unearned revenue	2,030,323	5,053,165
Deferred compensation	2,201,296	2,699,000
Income taxes payable	2,106,657	3,063,000
Current portion of long-term debt	565,214	609,658
Total current liabilities	10,470,975	14,378,036
Deferred compensation	406,846	1,657,017
Long-term debt	--	373,151
Deferred income taxes	3,087,030	2,723,000
Commitments and contingencies	--	--
SHAREHOLDERS' EQUITY:		

Preferred stock, $1.00 par value; 1,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $.01 par value; 50,000,000 shares authorized, 18,431,701 shares issued and outstanding in 1998; 15,286,875 shares issued and outstanding in 1997	184,317	101,913
Additional paid-in capital	105,976,548	48,725,299
Retained earnings (accumulated deficit)	8,006,465	(61,098)
Total shareholders' equity	114,167,330	48,766,114
TOTAL	$128,132,181	$67,897,318

</TABLE>

See accompanying notes to condensed financial statements.

INSPIRE INSURANCE SOLUTIONS, INC.
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998	1997
			(As restated See Note 5)	
<S>	<C>	<C>	<C>	<C>
REVENUES:				
Outsourcing services	$13,314,284	$ 8,178,318	$34,846,030	$22,572,215
Software and software services	8,346,946	6,709,500	24,863,884	14,271,379
Other	422,941	294,133	1,690,662	1,597,572
Total revenues	22,084,171	15,181,951	61,400,576	38,441,166
EXPENSES:				
Cost of outsourcing services	5,704,613	5,065,693	17,206,778	15,163,900
Cost of software and software services	5,457,918	4,288,087	14,379,706	8,640,574
Cost of other revenues	284,280	341,215	1,150,078	1,037,710
Selling, general and administrative	4,043,921	2,180,223	11,094,537	4,177,443
Research and development	796,921	211,267	1,895,486	890,867
Depreciation and amortization	1,634,938	1,121,376	4,270,524	2,816,792
In-process research and development	--	--	500,000	3,000,000
Deferred compensation	--	--	--	3,949,000
Management fees to shareholder	--	45,000	--	1,245,000
Total expenses	17,922,591	13,252,861	50,497,109	40,921,286
OPERATING INCOME(LOSS)	4,161,580	1,929,090	10,903,467	(2,480,120)
OTHER INCOME (EXPENSE):				
Interest income	829,269	186,566	2,127,437	261,103
Interest expense	(8,966)	(91,640)	(48,750)	(303,684)
Other	--	1,635,959	--	1,614,588
Total other income (expense)	820,303	1,730,885	2,078,687	1,572,007
INCOME (LOSS) BEFORE INCOME TAX	4,981,883	3,659,975	12,982,154	(908,113)
INCOME TAX BENEFIT (EXPENSE)	(1,743,656)	(1,203,496)	(4,853,510)	508,159
NET INCOME (LOSS)	$ 3,238,227	$ 2,456,479	$ 8,128,644	$ (399,954)
NET INCOME (LOSS) PER SHARE (BASIC)	$ .18	$ .20	$ .47	$ (.04)

NET INCOME (LOSS) PER SHARE (DILUTED)	$ .16	$ .18	$ .42	$ (.04)

</TABLE>

See accompanying notes to condensed financial statements.

INSPIRE INSURANCE SOLUTIONS, INC.
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>
<CAPTION>

	Nine months ended September 30, 1998 (As restated See Note 5)	Nine months ended September 30, 1997
OPERATING ACTIVITIES:		
Net income (loss)	$ 8,128,644	$ (399,954)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,270,524	2,816,792
Deferred income taxes	--	(2,785,000)
In-process research and development	500,000	3,000,000
Gain on sale of subsidiary	--	(1,634,291)
Change in operating assets and liabilities:		
Accounts receivable	(2,710,796)	(3,885,723)
Prepaid expenses and other current assets	(3,407,666)	(1,039,637)
Other assets	(139,317)	438,165
Accounts payable	(192,365)	(1,580,809)
Accrued payroll and compensation	223,541	(494,383)
Other accrued expenses	381,848	980,289
Unearned revenue	(3,119,717)	270,546
Income taxes payable	2,040,313	1,819,135
Deferred compensation	(216,891)	4,004,567
Net cash provided by operating activities	5,758,118	1,509,697
INVESTING ACTIVITIES:		
Purchase of investments	(15,603,278)	(13,198,953)
Proceeds from sale of subsidiary, net of cash relinquished	--	2,499,262
Purchases of property and equipment	(6,117,361)	(1,275,273)
Capitalized research and development costs	(1,510,926)	(326,546)
Acquisition of subsidiary, net of cash acquired	(4,237,161)	(17,118,849)
Net cash used in investing activities	(27,468,726)	(29,420,359)
FINANCING ACTIVITIES:		
Proceeds from borrowings	--	8,677,503
Repayment of borrowings	(946,622)	(10,646,191)
Repayment of borrowings from shareholder	--	(995,706)
Contribution from shareholder	--	10,500,000
Issuance of common stock, net of issuance costs paid	52,877,321	34,244,192
Proceeds from exercises under stock plans, net	388,173	--
Bank overdrafts	--	265,407
Net cash provided by financing activities	52,318,872	42,045,205
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,608,264	14,134,543

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD...........	28,039,323	363,398
CASH AND CASH EQUIVALENTS AT END OF PERIOD.................	$ 58,647,587	$ 14,497,941
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid..	$ 48,750	$ 349,368
Income taxes paid..	$ 2,642,173	$ --
Noncash investing activities - contribution of fixed assets from shareholder................................	$ --	$ 1,308,191

</TABLE>

See accompanying notes to condensed financial statements.

INSPIRE INSURANCE SOLUTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General -- INSpire Insurance Solutions, Inc. ("INSpire" or the "Company") is a provider of policy and claims administration and information technology outsourcing services to the property and casualty ("P&C") insurance industry. The Company also develops, markets, licenses and supports computer software and related services to the P&C insurance industry. The Company sells its products directly to the customer. The majority of sales are in North America. Prior to the initial public offering of common stock on August 22, 1997, the Company was a wholly-owned subsidiary of The Millers Mutual Fire Insurance Company ("Millers Mutual").

Unaudited Interim Condensed Financial Statements -- The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented herein have been included. Results of operations for the periods presented herein are not necessarily indicative of results of operations for any subsequent quarter or the year ending December 31, 1998. The independent accountants' review report of Deloitte & Touche LLP is included in Part I, Item 1 of this report.

The information included in this Form 10-Q should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 1997 included in the Company's Form 10-K (File No. 000-23005).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations.

In October 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 97-2, Software Revenue Recognition ("SOP 97-2"). SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997. The adoption of SOP 97-2 did not have a material effect on the Company's financial position or results of operations.

In February 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). SOP 98-1 is effective for transactions entered into in fiscal years beginning after December 31, 1998. The Company believes the adoption of SOP 98-1 will not have a material effect on the Company's financial position or results of operations.

Reclassifications -- Certain prior year amounts have been reclassified to conform to current year presentation.

Investments -- Investments consist of debt securities classified as assets held for sale. At September 30, 1998 the cost of the assets approximates fair market value.

Net Income (Loss) Per Share -- Net income (loss) per share (basic) of the Company is computed by dividing net income or loss by the weighted average number of shares outstanding. The weighted average number of shares (basic) was 18,358,416 and 12,533,744 for the three months ended September 30, 1998 and 1997, respectively, and 17,370,488 and 11,185,364 for the nine months ended September 30, 1998 and 1997, respectively. The weighted average number of shares (diluted) was 20,353,515 and 13,793,312 for the three months ended September 30, 1998 and 1997, respectively, and 19,372,827 and 11,185,364 for the nine months ended September 30, 1998 and 1997, respectively. The weighted average number of shares amounts have been adjusted to reflect all stock splits and stock dividends, including the three-for-two stock split that was made in the form of a stock dividend and was effective on August 17, 1998.

2. RELATED PARTY TRANSACTIONS

The Company provides outsourcing services and software and software services to Millers Mutual, a shareholder of the Company, and The Millers Casualty Insurance Company ("Millers Casualty"), an indirect 99.4% subsidiary of Millers Mutual, under the terms of various agreements. For the nine months ended September 30, 1998 and 1997, under such agreements, the Company earned total fees of approximately $18,370,000 and $12,696,562, respectively.

Prior to January 1, 1998, pursuant to various agreements, Millers Mutual provided management and administration services to the Company. For the nine months ended September 30, 1997, total fees paid by the Company to Millers Mutual were approximately $1,245,000. Effective January 1, 1998, the Company and Millers Mutual entered into a new agreement whereby the Company provides benefits administration services to Millers Mutual and Millers Casualty for a monthly fee of $15,000. As of September 1998, total fees earned under this agreement were $135,000.

During each of the nine month periods ended September 30, 1998 and 1997, the Company incurred rental expense of approximately $236,600, under a month-to-month lease agreement with Millers Mutual.

There was a net receivable due from Millers Mutual of approximately $3,360,000 as of September 30, 1998 and $1,301,000 as of December 31, 1997.

3. STOCK SPLIT

On July 21, 1998, the Board of Directors approved a three-for-two stock split, to be effected in the form of a stock dividend, payable on August 17, 1998 to shareholders of record as of the close of business on July 31, 1998. Due to this stock dividend, a transfer of approximately $61,000 from retained earnings to common stock is reflected in the September 30, 1998 balance sheet. Share amounts reflected on the Condensed Balance Sheets, weighted average common shares outstanding and per share amounts for all periods presented have been restated to reflect the stock split.

4. COMMITMENTS AND CONTINGENCIES

In February 1997, the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire ("PCIHLF") filed a lawsuit (Civil Action No. 97-CV-1262) against Strategic Data Systems, Inc. ("SDS"), which was acquired by the Company in March 1997 and merged into the Company in July 1997, in the United States District Court for the Eastern District of Pennsylvania. This suit alleged that certain systems that SDS sold to PCIHLF in 1995 did not meet PCIHLF's specifications. PCIHLF claimed damages in excess of $1,300,000. During the nine months ended September 30, 1998, the Company and PCIHLF settled this suit under terms having no material adverse effect on the Company.

The Company is not a party to any other legal proceedings that the Company believes could have a material adverse effect on the Company's business, financial condition or operating results.

5. RESTATEMENT

Subsequent to the issuance of INSpire's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, the Company's management revised the amount of the purchase price which was allocated to in-process research and development in accounting for the acquisition of Paragon Interface, Inc. ("Paragon") in April 1998. The revised allocation is based upon methods prescribed in a letter from the Securities and Exchange Commission ("SEC") sent to the American Institute of Certified Public Accountants in September 1998. The letter sets forth the SEC's views regarding the valuation methodology to be used in allocating a portion of the purchase price to acquired in-process research and development at the date of acquisition.

The revised valuation is based on management's estimates of the net cash flows associated with expected operations of Paragon and gives explicit consideration to the SEC's views on acquired in-process research and development as set forth in its September 1998 letter to the American Institute of Certified Public Accountants.

As a result of the revised allocation, the Company's condensed financial statements as of and for the nine months ended September 30, 1998, have been restated from amounts previously reported to reduce the amounts of the acquired in-process research and development expensed by $1.5 million and to increase intangible assets by $1.5 million. The change had no impact on the net cash flows provided by operations.

A summary of the significant effects of the restatement is as follows:

	AS OF SEPTEMBER 30, 1998	
	AS PREVIOUSLY REPORTED	AS RESTATED
Balance Sheet Data:		
Intangibles and other assets	$20,066,820	$21,566,820
Retained earnings	$ 6,506,465	$ 8,006,465

	NINE MONTHS ENDED SEPTEMBER 30, 1998	
	AS PREVIOUSLY REPORTED	AS RESTATED
Statements of Operations Data:		
In-process research and development	$ 2,000,000	$ 500,000
Total Expenses	$51,997,109	$50,497,109
Net income	$ 6,628,644	$ 8,128,644
Net income per common share -- Basic	$ 0.38	$ 0.47

Net income per common share -- Diluted.....................	$ 0.34	$ 0.42

</TABLE>

6. SUBSEQUENT EVENTS

Acquisition of the Capital Stock of Arrow Claims Management, Inc. and Certain Assets of Arrowhead General Insurance Agency, Inc. -- The Company entered into a stock purchase agreement (the "Stock Purchase Agreement"), dated as of October 29, 1998, with Arrow Claims Management, Inc. ("Arrow") and all of Arrow's shareholders, pursuant to which the Company agreed to acquire from such shareholders all of the outstanding capital stock of Arrow for $13.5 million in cash (subject to adjustment). The Company also entered into an asset purchase agreement (the "Asset Purchase Agreement"), dated as of October 29, 1998, with Arrowhead General Insurance Agency, Inc. ("Arrowhead Agency"), pursuant to which the Company agreed to acquire substantially all of those assets of Arrowhead Agency related to its policy administration business for $6.5 million in cash (subject to adjustment) and an option to purchase up to 299,466 shares of common stock, par value $.01 per share, of the Company subject to achieving certain performance objectives.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Shareholders
INSpire Insurance Solutions, Inc.
Fort Worth, Texas

We have reviewed the accompanying condensed balance sheet of INSpire Insurance Solutions, Inc. (the "Company") as of September 30, 1998, and the related condensed statements of operations for the three months and nine months ended September 30, 1998 and 1997. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed financial statements for them to be in conformity with generally accepted accounting principles.

As discussed in Note 5, the accompanying condensed financial statements as of September 30, 1998 and for the nine months then ended have been restated.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of INSpire Insurance Solutions, Inc. as of December 31, 1997, and the related statements of operations, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 19, 1998, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1997 is fairly stated, in all material respects, in relation to the financial statements from which they have been derived.

DELOITTE & TOUCHE LLP

Fort Worth, Texas
November 2, 1998
(February 25, 1999 as to Note 5)

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT DEVELOPMENTS

Acquisition of the Capital Stock of Arrow Claims Management, Inc. and Certain Assets of Arrowhead General Insurance Agency, Inc. The Company entered into a stock purchase agreement (the "Stock Purchase Agreement"), dated as of October 29, 1998, with Arrow Claims Management, Inc. ("Arrow") and all of Arrow's shareholders, pursuant to which the Company agreed to acquire from such shareholders all of the outstanding capital stock of Arrow for $13.5 million in cash (subject to adjustment). The Company also entered into an asset purchase agreement (the "Asset Purchase Agreement"), dated as of October 29, 1998, with Arrowhead General Insurance Agency, Inc. ("Arrowhead Agency"), pursuant to which the Company agreed to acquire substantially all of those assets of Arrowhead Agency related to its policy administration business for $6.5 million in cash (subject to adjustment) and an option to purchase up to 299,466 shares of common stock, par value $.01 per share (the "Common Stock"), of the Company subject to achieving certain performance objectives. Upon the consummation of the transaction contemplated by the Stock Purchase Agreement and the Asset Purchase Agreement, the Company will enter into (i) a registration rights agreement with Arrowhead Agency pursuant to which Arrowhead Agency may demand that the Company register, at the Company's expense, the shares of Common Stock underlying such option under the Securities Act of 1933, as amended, (ii) ten year outsourcing agreements to provide policy and claims administration services to Arrowhead Agency, and (iii) a guaranty under which Arrowhead Agency will guarantee the obligations of Arrow and its shareholders under the Stock Purchase Agreement.

Restatement of In-Process Research and Development. Subsequent to the issuance of INSpire's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, the Company's management revised the amount of the purchase price which was allocated to in-process research and development in accounting for the acquisition of Paragon Interface, Inc. ("Paragon") in April 1998. The revised allocation is based upon methods prescribed in a letter from the Securities and Exchange Commission ("SEC") sent to the American Institute of Certified Public Accountants in September 1998. The letter sets forth the SEC's views regarding the valuation methodology to be used in allocating a portion of the purchase price to acquired in-process research and development at the date of acquisitions. The significant effects of the restatement have been reflected herein.

RESULTS OF OPERATIONS

The following table sets forth, with respect to the Company and for the periods indicated, the percentage of total revenues represented by certain revenue, expense and income items:

<TABLE>
<CAPTION>

	Three months ended September 30, 1998	Three months ended September 30, 1997	Nine months ended September 30, 1998	Nine months ended September 30, 1997
	(unaudited)			
<S>	<C>	<C>	<C>	<C>
REVENUES:				
Outsourcing services....................................	60.3%	53.9%	56.8%	58.7%
Software and software services..........................	37.8	44.2	40.5	37.1
Other...	1.9	1.9	2.7	4.2
	-----	-----	-----	-----

Total revenues	100.0	100.0	100.0	100.0
EXPENSES:				
Cost of outsourcing services	25.8	33.4	28.0	39.4
Cost of software and software services	24.7	28.2	23.4	22.5
Cost of other revenues	1.3	2.2	1.9	2.7
Selling, general and administrative	18.3	14.4	18.1	10.9
Research and development	3.6	1.4	3.0	2.3
Depreciation and amortization	7.4	7.4	7.0	7.3
In-process research and development	--	--	.8	7.8
Deferred compensation	--	--	--	10.3
Management fees to shareholder	--	0.3	--	3.3
Total expenses	81.1	87.3	82.2	106.5
OPERATING INCOME (LOSS)	18.9	12.7	17.8	(6.5)
OTHER INCOME	3.7	11.4	3.4	4.1
INCOME (LOSS) BEFORE INCOME TAX	22.6	24.1	21.1	(2.4)
INCOME TAX BENEFIT (EXPENSE)	(7.9)	(7.9)	(7.9)	1.3
NET INCOME (LOSS)	14.7%	16.2%	13.2%	(1.1)%

</TABLE>

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

Revenues. Total revenues were $22.1 million for the three months ended September 30, 1998 compared to $15.2 million for the three months ended September 30, 1997, an increase of $6.9 million or 45%. Outsourcing services revenues were $13.3 million for the three months ended September 30, 1998 compared to $8.2 million for the three months ended September 30, 1997, an increase of $5.1 million or 62%. The growth in outsourcing services revenues is due primarily to: (i) the Company performing outsourcing services under eight significant outsourcing contracts that it entered into after September 30, 1997 and (ii) an increase in outsourcing services after September 30, 1997 provided under a significant claims administration agreement. Software and software services revenues were $8.3 million for the three months ended September 30, 1998 compared to $6.7 million for the three months ended September 30, 1997, an increase of $1.6 million or 24%. The growth in software and software services revenues is primarily attributable to increased license fees and consulting services revenues resulting from an increase of in-process installations of the Windows into Property and Casualty System ("WPC") and increases in license fees and consulting rates. This growth was slightly offset due to the sale of a subsidiary on September 15, 1997, which had software and software services revenues of approximately $1.1 million during the three months ended September 30, 1997.

Cost of Revenues. Cost of revenues, which is comprised mainly of personnel costs, was $11.4 million for the three months ended September 30, 1998 compared to $9.7 million for the three months ended September 30, 1997, an increase of $1.7 million or 18%. Cost of outsourcing services was $5.7 million for the three months ended September 30, 1998 compared to $5.1 million for the three months ended September 30, 1997, an increase of $600,000 or 12%. This increase is primarily attributable to costs associated with the

performance of the nine significant outsourcing contracts described above. Cost of outsourcing services as a percentage of outsourcing services revenues decreased to 43% for the three months ended September 30, 1998 from 62% for the three months ended September 30, 1997. This decrease is a result of economies of scale associated with spreading certain fixed costs over a larger revenue base and lower personnel costs as a percentage of revenues. Cost of software and software services was $5.5 million for the three months ended September 30, 1998 compared to $4.3 million for the three months ended September 30, 1997, an increase of $1.2 million or 28%. This increase is primarily attributable to the costs associated with the increased consulting services related to the WPC installations described above. Cost of software and software services as a percentage of software and software services revenues remained fairly constant, increasing to 65% for the three months ended September 30, 1998 from 64% for the three months ended September 30, 1997.

Selling, General and Administrative. Selling, general and administrative expenses were $4.0 million for the three months ended September 30, 1998 compared to $2.2 million for the three months ended September 30, 1997, an increase of $1.8 million or 82%. Selling, general and administrative expenses as a percentage of total revenues increased to 18% for the three months ended September 30, 1998 from 14% for the three months ended September 30, 1997. This increase is primarily due to additional executive management, staffing, office space and computer equipment and software required to expand the infrastructure to support the Company's growth.

Research and Development. Research and development expense was $797,000 for the three months ended September 30, 1998 compared to $211,000 for the three months ended September 30, 1997, an increase of $586,000 or 278%. This increase is due to the Company's increased focus on the development of new software products and the expansion of the functionality of current software products. This expense is comprised primarily of personnel, equipment and occupancy costs related to software development. Research and development expense for the three months ended September 30, 1998 and 1997 is net of capitalized software development costs of $536,000 and $327,000, respectively.

Depreciation and Amortization. Depreciation and amortization expense was $1.6 million for the three months ended September 30, 1998 compared to $1.1 million for the three months ended September 30, 1997, an increase of approximately $500,000 or 45%. This increase is primarily attributable to: (i) amortization of goodwill and capitalized software recorded in connection with the acquisition of the outstanding capital stock of Paragon on April 20, 1998 (the "Paragon Acquisition") and (ii) acquisitions of property and equipment of $6.9 million in the aggregate since September 30, 1997 as a result of the expansion in infrastructure to support the Company's growth.

Other Income. Other income (expense) decreased to $820,000 for the three months ended September 30, 1998 from $1.7 million for the three months ended September 30, 1997. The decrease of $880,000 or 52% is primarily attributable to the Company recognizing a gain on the sale of a subsidiary of $1.6 million during the three months ended September 30, 1997 and not recognizing a similar gain during the three months ended September 30, 1998, which was offset by an increase in cash equivalents and investments purchased with net proceeds from the Company's initial public offering in August 1997, and follow-up public offering in March 1998. During the three months ended September 30, 1997, the Company did not have significant investments that earned interest income throughout the entire period.

Net Income. Net income was $3.2 million, or $.16 per diluted share ($.18 per basic share), for the three months ended September 30, 1998 compared to net income of $2.5 million, or $.18 per diluted share ($.20 per basic share), for the three months ended September 30, 1997. Excluding the gain on sale of subsidiary of $1.6 million ($1.0 million, net of tax), net income would have been $1.4 million, or $.10 per diluted share ($.11 per basic share) for the three months ended September 30, 1997.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

Revenues. Total revenues were $61.4 million for the nine months ended September 30, 1998 compared to $38.4 million for the nine months ended September 30, 1997, an increase of $23.0 million or 60%. Outsourcing services revenues were $34.8 million for the nine months ended September 30, 1998 compared to

$22.6 million for the nine months ended September 30, 1997, an increase of $12.2 million or 54%. The growth in outsourcing services revenues is due primarily to: (i) the Company performing outsourcing services under eight significant outsourcing contracts entered into after September 30, 1997 and (ii) an increase in outsourcing services during 1998 provided under two other significant claims administration agreements. Software and software services revenues were $24.9 million for the nine months ended September 30, 1998 compared to $14.3 million for the nine months ended September 30, 1997, an increase of $10.6 million or 74%. The growth in software and software services revenues during the nine months ended September 30, 1998 is primarily attributable to: (i) the acquisition of Strategic Data Systems, Inc. ("SDS") on March 12, 1997 by the Company (the "SDS Acquisition") and (ii) increased license fees and consulting services revenues resulting from an increase of in-process installations of WPC and increases in license fees and consulting rates. This growth was slightly offset due to the sale of a subsidiary on September 15, 1997, which had software and software services revenues of approximately $2.5 million during the nine months ended September 30, 1997.

Cost of Revenues. Cost of revenues, which is comprised mainly of personnel costs, was $32.7 million for the nine months ended September 30, 1998 compared to $24.8 million for the nine months ended September 30, 1997, an increase of $7.9 million or 32%. Cost of outsourcing services was $17.2 million for the nine months ended September 30, 1998 compared to $15.2 million for the nine months ended September 30, 1997, an increase of $2.0 million or 13%. This increase is primarily attributable to the increased costs associated with the performance of the ten significant outsourcing contracts described above. Cost of outsourcing services as a percentage of outsourcing services revenues decreased to 49% for the nine months ended September 30, 1998 from 67% for the nine months ended September 30, 1997. This decrease is a result of economies of scale associated with spreading certain fixed costs over a larger revenue base and lower personnel costs as a percentage of revenues. Cost of software and software services was $14.4 million for the nine months ended September 30, 1998 compared to $8.6 million for the nine months ended September 30, 1997, an increase of $5.8 million or 67%. This increase is primarily attributable to the additional cost of revenues associated with the SDS Acquisition and the costs associated with the increased consulting services related to the WPC installations described above. Cost of software and software services as a percentage of software and software services revenues decreased to 58% for the nine months ended September 30, 1998 from 61% for the nine months ended September 30, 1997. This decrease is a result of economies of scale associated with spreading certain fixed costs over a larger revenue base.

Selling, General and Administrative. Selling, general and administrative expenses, including management fees paid to shareholder, were $11.1 million for the nine months ended September 30, 1998 compared to $5.4 million for the nine months ended September 30, 1997, an increase of $5.7 million or 106%. Selling, general and administrative expenses as a percentage of total revenues increased to 18% for the nine months ended September 30, 1998 from 14% for the nine months ended September 30, 1997. This increase is primarily due to additional executive management, staffing, office space and computer equipment and software required to expand the infrastructure to support the Company's growth.

Research and Development. Research and development expense was $1.9 million for the nine months ended September 30, 1998 compared to $891,000 for the nine months ended September 30, 1997, an increase of $1.0 million or 113%. This increase is due to the Company not incurring any significant research and development expenses prior to the SDS Acquisition and the Company's increased focus on the development of new software products and the expansion of the functionality of current software products. This expense is comprised primarily of personnel, equipment and occupancy costs related to software development. Research and development expense for the nine months ended September 30, 1998 and 1997 is net of capitalized software development costs of $1.5 million and $327,000, respectively.

Depreciation and Amortization. Depreciation and amortization expense was $4.3 million for the nine months ended September 30, 1998 compared to $2.8 million for the nine months ended September 30, 1997, an increase of approximately $1.5 million or 54%. This increase is primarily attributable to: (i) amortization of goodwill and capitalized software recorded in connection with the SDS Acquisition and the Paragon Acquisition and (ii) acquisitions of property and equipment of $4.3 million in the aggregate since September 30, 1997 as a result of the expansion of infrastructure to support the Company's growth.

Nonrecurring Operating Expenses. In the purchase price allocation of the SDS Acquisition, $3.0 million was assigned to in-process research and development. This amount, which is not deductible for tax purposes, was charged to operations in March 1997. In addition, $3.9 million was charged to operations as deferred compensation associated with stock options granted to executive officers during the nine months ended September 30, 1997. In the purchase price allocation of the Paragon Acquisition, $500,000 was assigned to in-process research and development. This amount was charged to operations in April 1998.

Other Income. Other income (expense) increased to $2.1 million for the nine months ended September 30, 1998 from $1.6 million for the nine months ended September 30, 1997. Other income for the nine months ended September 30, 1998 is primarily attributable to interest income from cash equivalents and investments. Other income for the nine months ended September 30, 1997 is primarily attributable to a gain on sale of subsidiary.

Net Income. Net income was $8.1 million, or $.42 per diluted share ($.47 per basic share), for the nine months ended September 30, 1998 compared to a net loss of $400,000, or $.04 per diluted share ($.04 per basic share), for the nine months ended September 30, 1997. Excluding the impact on net income resulting from the $500,000 write-off of in-process research and development associated with the Paragon Acquisition, net income would have been $8.6 million, or $.45 per diluted share ($.50 per basic share), for the nine months ended September 30, 1998. Excluding the impact on the net loss resulting from the charge to operations of $3.9 million of deferred compensation associated with stock options granted to executive officers, the write-off of in-process research and development of $3.0 million recorded in connection with the SDS acquisition, and the gain on sale of subsidiary of $1.6 million, net income would have been $3.0 million, or $.24 per diluted share ($.27 per basic share), for the nine months ended September 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $58.6 million as of September 30, 1998 compared to $28.0 million as of December 31, 1997, an increase of $30.6 million. Net cash provided by operating activities was $5.8 million for the nine months ended September 30, 1998 compared to net cash provided by operating activities of $1.5 million for the nine months ended September 30, 1997. Net cash used in investing activities was $27.5 million for the nine months ended September 30, 1998, which is primarily attributable to: (i) the purchase of $15.6 million in investments, (ii) the purchase of $6.1 million in property and equipment and (iii) the Paragon Acquisition. Net cash used in investing activities was $29.4 million for the nine months ended September 30, 1997, which is primarily attributable to (i) the SDS Acquisition, and (ii) the purchase of $13.2 million in investments. Net cash provided by financing activities was $52.3 million for the nine months ended September 30, 1998, which is primarily attributable to the follow-on public offering on March 27, 1998, compared to net cash provided by financing activities of $42.0 million for the nine months ended September 30, 1997, which is primarily due to the Company's initial public offering on August 22, 1997 and capital contributions from a shareholder.

The Company believes that cash generated from operations and its net proceeds from the initial public offering and follow-on public offering will satisfy the Company's anticipated working capital requirements for at least one year. The Company, however, may require substantial additional funds for potential acquisitions and expansion. In the normal course of business, the Company evaluates acquisitions of businesses, products and technologies that complement the Company's business.

YEAR 2000 ISSUES

The Company is continuing its assessment of Year 2000 issues and taking steps to prevent these issues from adversely affecting its future operating results. This readiness process includes, but is not limited to, preparing an inventory of potential Year 2000 issues, determining functions affected, performing remediation as necessary, developing testing and recording results.

In its assessment of Year 2000 issues, the Company is specifically focusing on its software applications and associated software products, hardware, facilities, communications equipment and security systems. During

1997 and 1998, the Company implemented financial and human resources systems that are designed to be Year 2000 compliant.

In addition to evaluating its own systems for Year 2000 compliance, the Company is also communicating with its significant suppliers and customers to determine the extent to which interfaces with such entities are vulnerable to Year 2000 issues and the extent to which any products purchased by or from, or internal systems of, such entities are vulnerable to Year 2000 issues.

Total costs associated with the Company's Year 2000 readiness process, consisting of both internal and external resources, are expected to range between $2.0 and $2.5 million. The Company anticipates financing these costs with cash generated from operations. The Company has not yet fully completed it Year 2000 assessment and remediation efforts. The estimated time to complete assessment, testing and full compliance is June 30, 1999. Based on its experience to date, the Company presently believes that the Year 2000 issues will not pose significant operational problems for the Company directly or as a result of any Year 2000 issues of suppliers or customers.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 97-2, Software Revenue Recognition ("SOP 97-2"). SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997. The adoption of SOP 97-2 did not have a material effect on the Company's financial position or results of operations.

In February 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). SOP 98-1 is effective for transactions entered into in fiscal years beginning after December 31, 1998. The Company believes the adoption of SOP 98-1 will not have a material effect on the Company's financial position or results of operations.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q contains or may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements made in this report, other than statements of historical fact, including but not limited to statements made under "Management's Discussion and Analysis of Financial Condition and Results of Operations" that relate to future results and operations of the Company, and which may be indicated by words such as "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, are "forward-looking statements." Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to difficulties associated with growth, the Company's dependence on major customers and limited operating history, technological change, competitive factors and pricing pressures, product development risks, changes in legal and regulatory requirements, and general economic conditions. Such statements reflect the current views of the Company with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. All subsequent written and oral forward-looking statements attributable to the Company or person acting on its behalf are expressly qualified in their entirety by this paragraph.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 24, 1999

INSpire Insurance Solutions, Inc.

/s/ F. GEORGE DUNHAM, III

F. George Dunham, III
Chief Executive Officer, Chairman and Director

/s/ KENNETH J. MEISTER

Kenneth J. Meister
Executive Vice President and Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Form of Stock Purchase Agreement, dated as of October 29, 1998, by and among the Company, Arrow Claims Management, Inc. and the shareholders of Arrow Claims Management, Inc. (Incorporated by reference to Exhibit 2.1 of the Company's Form 10-Q for the three months ended September 30, 1998 filed with the SEC on November 13, 1998).
2.2	Form of Asset Purchase Agreement, dated as of October 29, 1998, by and among the Company and Arrowhead General Insurance Agency, Inc. (Incorporated by reference to Exhibit 2.2 of the Company's Form 10-Q for the three months ended September 30, 1998 filed with the SEC on November 13, 1998).
3.1	Restated Articles of Incorporation of the Company and Articles of Amendment No. 1 thereto (Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1, Registration No. 333-31173).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, Registration No. 333-31173).
3.3	Form of First Amendment to the Bylaws of the Company (Incorporated by reference to Exhibit 3.3 of the Company's Form 10-Q for the three months ended March 31, 1998 filed on May 14, 1998).
4.1	Specimen Certificate for shares of Common Stock of the Company (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1, Registration No. 333-31173).
4.2	Form of Rights Agreement, by and between the Company and U.S. Trust Company of Texas, N.A. dated as of July 30, 1997 (Incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-1, Registration No. 333-31173).

4.3	Form of First Amendment to Rights Agreement (Incorporated by reference to Exhibit 4.3 of the Company's Form 10-Q for the three months ended March 31, 1998 filed on May 14, 1998).
10.1	Form of Employment Agreement, dated and effective as of September 3, 1998, by and between the Company and John C. Aldredge. (Incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the three months ended September 30, 1998 filed with the SEC on November 13, 1998).
11.1	Statement regarding Computation of Per Share Earnings.
15.1	Letter Re: Unaudited Interim Financial Information.
27.1	Financial Data Schedule (EDGAR version only).

</TABLE>

EXHIBIT 11.1

COMPUTATION OF PER SHARE EARNINGS

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	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998(1)	1997
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Basic				
Average shares outstanding	18,358	12,534	17,370	11,186
Net income (loss)	$ 3,238	$ 2,456	$ 8,128	$ (400)
Per share amount	$ .18	$ .20	$ .47	$ (.04)
Diluted				
Average shares outstanding	18,358	12,534	17,370	11,186
Net effect of dilutive stock options based on the treasury stock method using the average market price	1,996	1,259	2,003	1,146
Total	20,354	13,793	19,373	12,332
Net income (loss)	$ 3,238	$ 2,456	$ 8,128	$ (400)
Per share amount	$ .16	$ .18	$ .42	$ (.04)

</TABLE>

(1) As restated: See Note 5 in the Notes to Condensed Financial Statements

EXHIBIT 15.1

AWARENESS LETTER OF INDEPENDENT ACCOUNTANTS

March 26, 1999

INSpire Insurance Solutions, Inc.
300 Burnett Street
Fort Worth, Texas

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of INSpire Insurance Solutions, Inc. for the periods ended September 30, 1997 and 1998, as indicated in our report dated November 2, 1998 (February 25, 1999 as to Note 5); because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated by reference in Registration Statement No. 333-36271 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, as amended, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

DELOITTE & TOUCHE LLP

Fort Worth, Texas

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENTS OF OPERATIONS AND BALANCE SHEET OF INSPIRE INSURANCE SOLUTIONS, INC. AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<FN>
<F1>ON AUGUST 17, 1998, INSPIRE INSURANCE SOLUTIONS, INC. EFFECTED A THREE-FOR-TWO STOCK SPLIT. PRIOR FINANCIAL DATA SCHEDULES HAVE NOT BEEN RESTATED FOR THE STOCK SPLIT.
</FN>

</TABLE>