FORM 10-Q/A

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

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FILER

INSPIRE INSURANCE SOLUTIONS INC

CIK:**1042051**| IRS No.: **752595937** | State of Incorp.:**TX** | Fiscal Year End: **1231**
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SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

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

FORM 10-Q/A
(AMENDMENT NO. 2)

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

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 000-23005

INSPIRE INSURANCE SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

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

300 BURNETT STREET, FORT WORTH, TX 76102-2799
(Address of principal executive offices, including 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 August 10, 1998: 12,214,306. On July 21, 1998, the registrant 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. After giving effect to such stock dividend, the number of shares outstanding of the issuer's classes of common stock would be 18,321,459.

This Amendment No. 2 to Form 10-Q amends and supplements the quarterly report on Form 10-Q for the quarterly period ended June 30, 1998, filed with the Securities and Exchange Commission on August 14, 1998, and Amendment No. 1 to Form 10-Q for the quarterly period ended June 30, 1998, filed with the Securities and Exchange Commission on September 11, 1998 (collectively 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 to in-process research and development relating to the acquisition of Paragon Interface, Inc., and (ii) Item 2 is amended to reflect these restatements in management's discussion and analysis.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INSPIRE INSURANCE SOLUTIONS, INC.
CONDENSED BALANCE SHEETS

	June 30, 1998 (unaudited) (As restated see Note 4)	December 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 66,119,787	$28,039,323
Investments	11,335,455	--
Accounts receivable, net	12,917,429	10,976,672
Income taxes receivable	149,041	149,041
Deferred income taxes	883,212	1,434,000
Prepaid expenses and other current assets	5,639,716	4,154,417
Total current assets	97,044,640	44,753,453
Accounts receivable, excluding current portion	--	74,258
Property and equipment, net (accumulated depreciation 1998 $9,642,245; 1997 $7,687,109)	7,322,634	6,029,973
Intangibles and other assets	21,427,154	17,039,634
TOTAL	$125,794,428	$67,897,318
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 633,007	$ 834,418
Accrued payroll and compensation	754,653	633,252
Other accrued expenses	1,774,633	1,485,543
Unearned revenue	4,033,194	5,053,165
Deferred compensation	2,717,707	2,699,000
Income taxes payable	2,151,058	3,063,000
Current portion of long-term debt	631,502	609,658

Total current liabilities	12,695,754	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	121,986	101,913
Additional paid-in capital	104,653,512	48,725,299
Retained earnings (accumulated deficit)	4,829,300	
(61,098)		
Total shareholders' equity	109,604,798	48,766,114
TOTAL	$125,794,428	$67,897,318

See accompanying notes to condensed financial statements.

INSPIRE INSURANCE SOLUTIONS, INC.
CONDENSED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997
	(unaudited) (As restated see Note 4)		(unaudited) (As restated see Note 4)	
<S>	<C>	<C>	<C>	<C>
REVENUES:				
Outsourcing services	$ 11,399,713	$ 7,657,596	$ 21,531,676	$14,393,897
Software and software services	8,891,894	6,481,969	16,516,942	7,561,879
Other	669,020	928,573	1,267,790	1,303,437
Total revenues	20,960,627	15,068,138	39,316,408	23,259,215
EXPENSES:				
Cost of outsourcing services	5,867,302	5,206,861	11,502,165	10,098,207
Cost of software and software services	4,845,153	3,613,816	8,921,788	4,352,487
Cost of other revenues	441,055	513,958	865,798	696,495
Selling, general and administrative	3,807,120	1,737,701	7,050,641	1,997,220
Research and development	676,295	553,600	1,098,565	679,600
Depreciation and amortization	1,422,744	1,160,813	2,635,584	1,695,416
In-process research and development	500,000	--	500,000	3,000,000
Deferred compensation	--	884,000	--	3,949,000
Management fees to shareholder	--	573,714	--	1,200,000
Total expenses	17,559,669	14,244,463	32,574,541	27,668,425
OPERATING INCOME (LOSS)	3,400,958	823,675	6,741,867	(4,409,210)

OTHER INCOME (EXPENSE):				
Interest income	879,398	60,792	1,298,168	74,537
Interest expense	(20,746)	(146,956)	(39,784)	(212,044)
Other	--	(21,371)	--	(21,371)
Total other income (expense)	858,652	(107,535)	1,258,384	(158,878)
INCOME (LOSS) BEFORE INCOME TAX	4,259,610	716,140	8,000,251	(4,568,088)
INCOME TAX BENEFIT (EXPENSE)	(1,688,409)	(77,345)	(3,109,853)	1,711,655
NET INCOME (LOSS)	$ 2,571,201	$ 638,795	$ 4,890,398	$(2,856,433)
NET INCOME (LOSS) PER SHARE (BASIC)	$ .14	$ .09	$ .43	$ (.41)
NET INCOME (LOSS) PER SHARE (DILUTED)	$ .13	$ .08	$ .39	$ (.41)

See accompanying notes to condensed financial statements.

</TABLE>

INSPIRE INSURANCE SOLUTIONS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	1998	1997
	(unaudited) (As restated see Note 4)	
OPERATING ACTIVITIES:		
Net income (loss)	$ 4,890,398	$(2,856,433)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,635,584	1,695,416
Deferred income taxes	--	(2,785,000)
In-process research and development	500,000	3,000,000
Change in operating assets and liabilities:		
Accounts receivable	(1,642,129)	(281,026)
Prepaid expenses and other current assets	(1,446,134)	(442,267)
Other assets	143,741	100,462
Accounts payable	(213,938)	(1,291,495)
Accrued payroll and compensation	140,420	(417,543)
Other accrued expenses	81,379	945,457
Unearned revenue	(1,116,846)	(867,220)
Income taxes payable	1,173,354	615,638
Deferred compensation	(256,891)	3,980,753
Net cash provided by operating activities	4,888,938	1,396,742
INVESTING ACTIVITIES:		
Purchase of investments	(11,335,455)	--
Proceeds from sale of subsidiary, net of cash relinquished	--	--
Purchases of property and equipment	(2,611,743)	(882,627)
Capitalized research and development costs	(963,553)	--
Acquisition of subsidiary, net of cash		

acquired.	(4,237,161)	(17,118,849)
Net cash used in investing activities	(19,147,912)	(18,001,476)
FINANCING ACTIVITIES:		
Proceeds from borrowings.	--	7,500,000
Repayment of borrowings	(880,334)	(3,410,396)
Repayment of borrowings from shareholder. . .	--	1,837,347
Contribution from shareholder	--	10,500,000
Issuance of common stock, net of issuance . . costs paid.	52,980,824	--
Proceeds from exercises under stock plans, net	238,948	--
Bank overdrafts	--	265,407
Net cash provided by financing activities . . .	52,339,438	16,692,358
NET INCREASE IN CASH AND CASH EQUIVALENTS . . .	38,080,464	87,624
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.	28,039,323	363,398
CASH AND CASH EQUIVALENTS AT END OF PERIOD. . .	$ 66,119,787	$ 451,022
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 31,398	$ 112,947
Income taxes paid	$ 1,942,173	$ --
Noncash investing activities - contribution of fixed assets from shareholder	$ --	$ 1,308,191

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").

Paragon Interface, Inc. Acquisition -- On April 20, 1998, the Company acquired all of the outstanding shares of common stock of Paragon Interface, Inc. ("Paragon") for an aggregate cash purchase price of $4,250,000 and costs and expenses of approximately $100,000. This acquisition was funded with cash generated from operating activities.

This acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their relative fair market values. As of the acquisition date, assets acquired and liabilities assumed were as follows:

Purchase price.	$ 4,350,000
Fair values of net assets acquired:	
Software.	900,000
In-process research and development . .	500,000
Other intangible assets	410,000
Tangible assets	603,861
Liabilities assumed	(1,487,122)
	926,739
Goodwill.	$ 3,423,261

The amount assigned to in-process research and development was charged against operating results at the time of acquisition. Paragon was merged with and into the Company on May 1, 1998.

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 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.

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

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 12,172,663 and 7,000,000 for the three months ended June 30, 1998 and 1997, respectively, and 11,248,595 and 7,000,000 for the six months ended June 30, 1998 and 1997, respectively. The weighted average number of shares (diluted) was 13,468,877 and 7,749,221 for the three months ended June 30, 1998 and 1997, respectively, and 12,601,197 and 7,000,000 for the six months ended June 30, 1998 and 1997, respectively.

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 six months ended June 30, 1998 and 1997, under such agreements, the Company earned total fees of approximately $11,584,000 and $6,320,000, respectively.

Prior to January 1, 1998, pursuant to various agreements, Millers Mutual provided management and administration services to the Company. For the six months ended June 30, 1997, total fees paid by the Company to Millers Mutual were approximately $1,200,000. 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 June 30, 1998, total fees earned under this agreement were $90,000.

During each of the six month periods ended June 30, 1998 and 1997, the Company incurred rental expense of approximately $158,000 under a month-to-month lease agreement with Millers Mutual.

There was a net receivable due from Millers Mutual of approximately $2,424,000 at June 30, 1998 and $1,301,000 at December 31, 1997.

3. 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 1998, 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 three months ended June 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.

4. RESTATEMENT

Subsequent to the issuance of INSpire's Quarterly Report on Form 10-Q for the quarterly period ended June 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 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 three and six month periods ended June 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 June 30, 1998	
	As previously reported	As restated
Balance Sheet Data:		
Intangibles and other assets.	$19,927,154	$21,427,154
Retained earnings.	3,329,300	4,829,300

	Three months ended June 30, 1998		Six months ended June 30, 1998	
	As previously reported	As restated	As previously reported	As restated
Statements of Operations Data:				
In-process research and development. . . .	$ 2,000,000	$ 500,000	$ 2,000,000	$ 500,000
Total expenses	$19,059,669	$17,559,669	$34,074,541	$32,574,541
Net income	$ 1,071,201	$2,571,201	$ 3,390,398	$ 4,890,398
Net income per common share-Basic.	$0.09	$0.14	$0.30	$0.43
Net income per common share-Diluted.	$0.08	$0.13	$0.27	$0.39

5. SUBSEQUENT EVENT

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 will be reflected in the July 31, 1998 balance sheet. Pro forma net income (loss) per share (basic), giving retroactive effect to this stock dividend, would have been $.14 and $.06 for the three months ended June 30, 1998 and 1997, respectively, and $.29 and ($.27) for the six months ended June 30, 1998 and 1997, respectively. Proforma net income (loss) per share (diluted), giving retroactive effect to this stock dividend, would have been $.13 and $.05 for the three months ended June 30, 1998 and 1997, respectively, and $.26 and ($.27) for the six months ended June 30, 1998 and 1997, respectively.

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 June 30, 1998, and the related condensed statements of operations for the three months ended June 30, 1998 and 1997 and the six months ended June 30, 1998 and condensed statement of cash flows for the six months ended June 30, 1998. 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 4, the accompanying condensed financial statements as of June 30, 1998 and for the three and six 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 June 30, 1997 (not presented herein), and the related statements of operations, shareholders' equity and cash flows for the year ended December 31, 1997 (not presented herein) and the six months ended June 30, 1997; and in our reports dated January 19, 1998 and July 18, 1997, respectively, 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 and the accompanying condensed statements of operations and cash flows for the six months ended June 30, 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
July 20, 1998
(February 25, 1999 as to Note 4)

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT DEVELOPMENTS

PARAGON INTERFACE, INC. ACQUISITION - On April 20, 1998, the Company acquired (the "Paragon Acquisition") all of the outstanding shares of common stock of Paragon Interface, Inc. ("Paragon") for $4.25 million and costs and expenses of approximately $100,000. This acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their relative fair market value.

Subsequent to the issuance of INSpire's Quarterly Report on Form 10-Q for the quarterly period ended June 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 significant effects of the restatement have been reflected herein.

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. As of August 10, 1998, there were 12,214,306 outstanding shares of common stock, par value $.01 per share, of the Company (the "Common Stock"). After giving effect to this stock dividend, there would be 18,321,459 outstanding shares of Common Stock. Due to this stock dividend, a transfer of approximately $61,000 from retained earnings to common stock will be reflected in the July 31, 1998 balance sheet. Pro forma net income (loss) per share (basic), giving retroactive effect to this stock dividend, would have been $.14 and $.06 for the three months ended June 30, 1998 and 1997, respectively, and $.29 and ($.27) for the six months ended June 30, 1998 and 1997, respectively. Pro forma net income (loss) per share (diluted), giving retroactive effect to this stock dividend, would have been $.13 and $.05 for the three months ended June 30, 1998 and 1997, respectively, and $.26 and ($.27) for the six months ended June 30, 1998 and 1997, respectively.

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:

	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997
	(unaudited)		(unaudited)	
REVENUES:				

Outsourcing services	54.4%	50.8%	54.8%	61.9%
Software and software services	42.4	43.0	42.0	32.5
Other	3.2	6.2	3.2	5.6
Total revenues	100.0	100.0	100.0	100.0
EXPENSES:				
Cost of outsourcing services	28.0	34.5	29.3	43.4
Cost of software and software services	23.1	24.0	22.7	18.7
Cost of other revenues	2.1	3.4	2.2	3.0
Selling, general and administrative	18.2	11.5	17.9	8.6
Research and development	3.2	3.7	2.8	2.9
Depreciation and amortization	6.8	7.7	6.7	7.3
In-process research and development	2.4	--	1.3	12.9
Deferred compensation	--	5.9	--	17.0
Management fees to shareholder	--	3.8	--	5.2
Total expenses	83.8	94.5	82.9	119.0
OPERATING INCOME (LOSS)	16.2	5.5	17.1	(19.0)
OTHER INCOME (EXPENSE)	4.1	(0.7)	3.2	(0.7)
INCOME (LOSS) BEFORE INCOME TAX	20.3	4.8	20.3	(19.7)
INCOME TAX BENEFIT (EXPENSE)	(8.1)	(0.5)	(7.9)	7.4
NET INCOME (LOSS)	12.2%	4.3%	12.4%	(12.3)%

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

REVENUES. Total revenues were $21.0 million for the three months ended June 30, 1998 compared to $15.1 million for the three months ended June 30, 1997, an increase of $5.9 million or 39%. Outsourcing services revenues were $11.4 million for the three months ended June 30, 1998 compared to $7.7 million for the three months ended June 30, 1997, an increase of $3.7 million or 48%. 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 June 30, 1997 and (ii) an increase in outsourcing services after June 30, 1997 provided under two significant claims administration agreements. Software and software services revenues were $8.9 million for the three months ended June 30, 1998 compared to $6.5 million for the three months ended June 30, 1997, an increase of $2.4 million or 37%. The growth in software and software services revenues during the three months ended June 30, 1998 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 by the sale of a subsidiary, which had software and software services revenues of approximately $1.2 million during the three months ended June 30, 1997, in September 1997.

COST OF REVENUES. Cost of revenues, which is comprised mainly of personnel costs, was $11.2 million for the three months ended June 30, 1998 compared to $9.3 million for the three months ended June 30, 1997, an increase of $1.9 million or 20%. Cost of outsourcing services was $5.9 million for the three months ended June 30, 1998 compared to $5.2 million for the three months ended June 30, 1997, an increase of $700,000 or 13%. This increase is primarily attributable to 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 51% for the three months ended June 30, 1998 from 68% for the three months ended June 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 $4.8 million for the three months ended June 30, 1998 compared to $3.6 million for the three months ended June 30, 1997, an increase of $1.2 million or 33%. 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 decreased to 54% for the three months ended June 30, 1998 from 56% for the three months ended June 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 $3.8 million for the three months ended June 30, 1998 compared to $2.3 million for the three months ended June 30, 1997, an increase of $1.5 million or 65%. Selling, general and administrative expenses as a percentage of total revenues increased to 18% for the three months ended June 30, 1998 from 15% for the three months ended June 30, 1997. This increase is primarily due to: (i) increased marketing costs and (ii) 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 $676,000 for the three months ended June 30, 1998 compared to $554,000 for the three months ended June 30, 1997, an increase of $122,000 or 22%. 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 June 30, 1998 is net of capitalized software development costs of $486,000. There were no capitalized software development costs during the three months ended June 30, 1997.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense was $1.4 million for the three months ended June 30, 1998 compared to $1.2 million for the three months ended June 30, 1997, an increase of approximately $200,000 or 17%. This increase is primarily attributable to: (i) amortization of goodwill and capitalized software recorded in connection with the Paragon Acquisition and (ii) acquisitions of property and equipment of $3.9 million in the aggregate since June 30, 1997 as a result of the expansion in infrastructure to support the Company's growth.

NONRECURRING OPERATING EXPENSES. In the purchase price allocation of the Paragon Acquisition, $500,000 was assigned to in-process research and development. This amount, which is not deductible for tax purposes, was charged to operations in April 1998. In addition, $884,000 was charged to operations as deferred compensation associated with stock options granted to executive officers in May 1997.

OTHER INCOME. Other income (expense) increase to $859,000 for the three months ended June 30, 1998 from $(108,000) for the three months ended June 30, 1997. This increase is primarily attributable to an increase of $819,000 in interest income due to an increase in short-term investments purchased with net proceeds from the Company's initial public offering in August 1997 and follow-on public offering in March 1998. During the three months ended June 30, 1997, the Company did not have significant investments that earned interest income.

NET INCOME. Net income was $2.6 million, or $.19 per diluted share ($.21 per basic share), for the three months ended June 30, 1998, compared to net income of $639,000, or $.08 per diluted share ($.09 per basic share), for the three months ended June 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, restated net income would have been $3.1 million, or $.23 per diluted share ($.25 per basic share), for the three months ended June 30, 1998. Excluding the impact on net income resulting from the charge to operation of $884,000 (or $566,000, net of tax) of deferred compensation associated with stock options granted to executive officers, net income would have been $1.2 million, or $.16 per diluted share ($.17 per basic share), for the three months ended June 30, 1997.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 1998 AND 1997

REVENUES. Total revenues were $39.3 million for the six months ended June 30, 1998 compared to $23.3 million for the six months ended June 30, 1997, an increase of $16.0 million or 69%. Outsourcing services revenues were $21.5 million for the six months ended June 30, 1998 compared to $14.4 million for the six months ended June 30, 1997, an increase of $7.1 million or 49%. The growth in outsourcing services revenues is due primarily to: (i) the Company performing outsourcing services under eight significant outsourcing contracts entered into after June 30, 1997 and (ii) an increase in outsourcing services after June 30, 1997 provided under two other significant claims administration agreements. Software and software services revenues were $16.5 million for the six months ended June 30, 1998 compared to $7.6 million for the six months ended June 30, 1997, an increase of $8.9 million or 117%. The growth in software and software services revenues during the six months ended June 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) is primarily attributable to 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 by the sale of a subsidiary, which had software and software services revenues of approximately $1.4 million during the six months ended June 30, 1997, in September 1997.

COST OF REVENUES. Cost of revenues, which is comprised mainly of personnel costs, was $21.2 million for the six months ended June 30, 1998 compared to $15.1 million for the six months ended June 30, 1997, an increase of $6.1 million or 40%. Cost of outsourcing services was $11.5 million for the six months ended June 30, 1998 compared to $10.1 million for the six months ended June 30, 1997, an increase of $1.4 million or 14%. 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 53% for the six months ended June 30, 1998 from 70% for the six months ended June 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 $8.9 million for the six months ended June 30, 1998 compared to $4.4 million for the six months ended June 30, 1997, an increase of $4.5 million or 102%. 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 54% for the six months ended June 30, 1998 from 58% for the six months ended June 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 $7.1 million for the six months ended June 30, 1998 compared to $3.2 million for the six months ended June 30, 1997, an increase of $3.9 million or 122%. Selling, general and administrative expenses as a percentage of total revenues increased to 18% for the six months ended June 30, 1998 from 14% for the six months ended June 30, 1997. This increase is primarily due to: (i) increased marketing costs (ii) the SDS Acquisition and (iii) 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 $1.1 million for the six months ended June 30, 1998 compared to $680,000 for the six months ended June 30, 1997, an increase of $420,000 or 62%. 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 six months ended June 30, 1998 is net of capitalized software development costs of $964,000. There were no capitalized software development costs during the six months ended June 30, 1997.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense was $2.6 million for the six months ended June 30, 1998 compared to $1.7 million for the six months ended June 30, 1997, an increase of approximately $900,000 or 53%. 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 June 30, 1997 as a result of the expansion in 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 six months ended June 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 $1.3 million for the six months ended June 30, 1998 from $(159,000) for the six months ended June 30, 1997. This increase is primarily attributable to an increase of $1.2 million in interest income due to an increase in short-term investments purchased with net proceeds from the Company's initial public offering in August 1997 and follow-on public offering in March 1998. During the six months ended June 30, 1997, the Company did not have significant investments that earned interest income.

NET INCOME. Net income was $4.9 million, or $.39 per diluted share ($.43 per basic share), for the six months ended June 30, 1998, compared to a net loss of $2.9 million, or $.41 per diluted share ($.41 per basic share), for the six months ended June 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, restated net income would have been $5.4 million, or $.43 per diluted share ($.48 per basic share), for the six months ended June 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 and the write-off of in-process research and development of $3.0 million (or $4.5 million, net of tax), net income would have been $1.6 million, or $.21 per diluted share ($.23 per basic share), for the six months ended June 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $66.1 million as of June 30, 1998 compared to $28.0 million as of December 31, 1997, an increase of $38.1 million. Net cash provided by operating activities was $4.9 million for the six months ended June 30, 1998 compared to net cash provided by operating activities of $1.4 million for the six months ended June 30, 1997. Net cash used in investing activities was $19.1 million for the six months ended June 30, 1998, which is primarily attributable to: (i) the purchase of $11.3 million in short-term investments, (ii) the purchase of $2.6 million in property and equipment and (iii) the Paragon Acquisition. Net cash used in investing activities was $18.0 million for the six months ended June 30, 1997, which is primarily attributable to the SDS Acquisition. Net cash provided by financing activities was $52.3 million for the six months ended June 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 $16.7 million for the six months ended June 30, 1997, which is primarily due to capital contributions from a shareholder and borrowings of $18.1 million to fund the SDS Acquisition.

The Company entered into a bank credit facility (the "NationsBank Facility") with Nationsbank of Texas, N.A. ("NationsBank") on March 12, 1997, pursuant to which the Company borrowed $5.0 million under a term credit facility and $2.5 million under a $4.0 million revolving credit facility, subject to a borrowing base formula, to finance in part the SDS Acquisition. The Company must pay a commitment fee of 0.25% per annum on the average daily unused portion of the revolving credit facility. In addition, the NationsBank Facility contains certain restrictive covenants that require the Company to meet certain requirements, such as maintaining a minimum net worth, and that, without the prior written consent of NationsBank, prohibit the Company from incurring indebtedness other than pursuant to the NationsBank Facility or declaring or paying dividends or other distributions. The revolving credit facility matures March 12, 1999. Borrowings under the NationsBank Facility are secured by all accounts receivable, inventory, equipment, servicing contract rights, and other personal property of the Company. As of June 30, 1998, there are no outstanding borrowings under the NationsBank Facility and the Company is in compliance with its covenants under the NationsBank Facility.

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 in the process of communicating with and distributing questionnaires to 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. The Company presently believes that the Year 2000 issues will not require the Company to incur any material costs or pose significant operational problems for the Company directly or as a result of any Year 2000 issues of suppliers or customers. The Company believes that Year 2000 issues of its customers or potential customers provide opportunities to the Company to market its products and services as a solution to such Year 2000 issues.

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.

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

EXHIBIT INDEX

EXHIBIT NUMBER		DESCRIPTION
2.1	--	Form of Stock Purchase Agreement, dated April 20, 1998, by and among the Company, Paragon Interface, Inc. and the shareholders of Paragon Interface, Inc. (Incorporated by reference to Exhibit 2.1 of the Company's Form 10-Q for the three months ended March 31, 1998 filed on May 14, 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).
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).

EXHIBIT 11.1

COMPUTATION OF PER SHARE EARNINGS

	Three months ended June 30, 1998(1)	Three months ended June 30, 1997	Six months ended June 30, 1998(1)	Six months ended June 30, 1997
Basic				
Average shares outstanding . .	12,173	7,000	11,249	7,000
Net income (loss).	$ 2,571	$ 639	$ 4,890	$(2,856)
Per share amount	$ .14	$ .09	$ .43	$ (.41)
Diluted				
Average shares outstanding . .	12,173	7,000	11,249	7,000
Net effect of dilutive stock options based on the treasury stock method using the average market price	1,296	749	1,352	--
Total	13,469	7,749	12,601	7,000
Net income (loss)	$ 2,571	$ 639	$ 4,890	$(2,856)
Per share amount	$ .13	$ .08	$ .39	$ (.41)

(1) As restated, see Note 4 in the Notes to Condensed Financial Statements

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 June 30, 1997 and 1998, as indicated in our report dated July 20, 1998 (February 25, 1999 as to Note 4); 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 June 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, 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

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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THIS SCHEDULE CONTAINS AMENDED SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THESTATEMENTS OF OPERATIONS AND BALANCE SHEET OF INSPIRE INSURANCE SOLUTIONS, INC.AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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