QUEST DIAGNOSTICS INC
Form DEF 14A
March 28, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [_]

Check the appropriate box:

[_] Preliminary Proxy Statement
[_] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Pursuant to Section 240.14a-12

Quest Diagnostics Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[_] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

[_] Fee paid previously with preliminary materials:

[_] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Notice of 2012 Annual Meeting of Shareholders
Quest Diagnostics Incorporated
Three Giralda Farms
Madison, New Jersey
May 11, 2012, 10:30 a.m. local time

April 2, 2012

Dear Fellow Shareholder:

It is my pleasure to invite you to attend Quest Diagnostics 2012 Annual Meeting of Shareholders. At the meeting, shareholders will vote on:

- the election of three directors;
- approval of amendments to the Amended and Restated Employee Long-term Incentive Plan;
- ratification of the appointment of our independent registered public accounting firm for 2012;
- an advisory resolution to approve executive compensation;
- a shareholder proposal regarding the classified board of directors; and
- such other business as may properly

come before
the meeting.

Attendance at the meeting is limited to shareholders of record at the close of business on March 12, 2012, or their duly appointed proxy holder.

We enclose our proxy statement, our Annual Report and a proxy card. *Your vote is very important.* Whether or not you plan to attend the meeting, I urge you to submit your proxy. Most shareholders may submit a proxy via mail, telephone or the Internet. Instructions on how to submit your proxy are included with your proxy card and these proxy materials. Please submit your proxy promptly.

Thank you for your continued support of Quest Diagnostics.

Sincerely,

Surya N. Mohapatra, Ph.D.
Chairman, President and
Chief Executive Officer

Table of Contents

2012 PROXY SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

Annual Meeting of Shareholders

Time and Date	10:30 a.m., May 11, 2012
Place	Quest Diagnostics Incorporated Three Giralda Farms Madison, NJ 07940
Record date	March 12, 2012
Voting	Shareholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on.

Meeting Agenda

Vote on election of three directors

Vote on approval of amendments to the Amended and Restated Employee Long-term Incentive Plan

Vote on ratification of the appointment of our independent registered public accounting firm for 2012

Vote on an advisory resolution to approve executive compensation

Vote on a shareholder proposal regarding the classified board of directors

Such other business as may properly come before the meeting

Voting Matters

		Our Board s Recommendation	For More Detail, See Page
1.	Election of three directors	FOR EACH DIRECTOR NOMINEE	3
2.	Approval of amendments to Amended and Restated Employee Long-term Incentive Plan	FOR	50
3.	Ratification of the appointment of our independent registered public accounting firm for 2012	FOR	56
4.	Advisory resolution to approve executive compensation	FOR	58
5.	Shareholder proposal regarding the classified board of directors	VOTE	59

Board Nominees

The following table provides summary information about our directors. The first three are the Board s nominees for election at the annual meeting; the rest remain in office. In 2011, each of our incumbent directors attended at least 75% of the Board meetings and committee meetings on which he or she sits.

AFC	Audit and Finance Committee
C	Chair
CC	Compensation Committee
EX	Executive Committee
FE	Financial Expert
GC	Governance Committee
M	Member
QSC	Quality, Safety & Compliance Committee

Name	Age	Director Since	Occupation	Experience/ Qualification	Independent	Committee Memberships					C Co
						AFC	CC	GC	QSC	EX	
Jenne K. Britell, Ph.D.	69	2005	Senior Managing Director, Brock Capital Group LLC	Finance Executive Advisory Capital Markets International Strategic Planning	Y	FE	M				C I U I
Gail R. Wilensky, Ph.D.	68	1997	Senior Fellow, Project Hope	Private Enterprise Healthcare Government Strategic Planning	Y			M	C		U C
John B. Ziegler	66	2000	Former President, Worldwide Consumer Healthcare, GlaxoSmithKline plc	Sales Marketing International Strategic Planning	Y		M		M		N
John C. Baldwin, M.D.	63	2004	Senior Advisor on Health Sciences to the Texas Tech University Chancellor; Practicing	Executive Healthcare Strategic Planning	Y	M			M		N

			Physician								
William F. Buehler	72	1998	Retired Vice Chairman, Xerox Corporation	Executive Sales Marketing Strategic Planning	Y		C	M			N
Surya N. Mohapatra, Ph.D.	62	2002	Chairman, President and Chief Executive Officer, Quest Diagnostics Incorporated	Executive International Medical Diagnostics	N					C	X
Gary M. Pfeiffer	62	2004	Retired Senior Vice President and Chief Financial Officer, E.I. du Pont de Nemours and Company	Accounting Executive Finance International Strategic Planning	Y	C, FE	M	M		M	I N C T
Timothy M. Ring	54	2011	Chairman and Chief Executive Officer, C. R. Bard, Inc.	Executive International Strategic Planning Healthcare	Y		M		M		C
Daniel C. Stanzione, Ph.D.	66	1997	President Emeritus,	Executive	Y	M	M	C		M	I

	Bell Laboratories	General	N
		Management	C
		Strategic Planning	

Proposal to Amend the Amended and Restated Employee Long-Term Incentive Plan

We are asking our shareholders to approve amendments to our Amended and Restated Employee Long-term Incentive Plan (the Employee Plan). The Employee Plan is intended to benefit our shareholders by providing a means to attract, retain and reward individuals who contribute to the long-term financial success of the Company, by granting them stock-based awards, including stock options and stock awards (such as performance shares and restricted stock units). The amendments will increase the number of shares available for issuance under the Employee Plan, provide for shares subject to stock awards to be counted against the shares remaining available for future awards at the rate of 2.65 shares for each share awarded, update certain plan provisions, extend the plan term and expand the performance goals that may be used to design awards that are intended to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended.

Auditors

We are asking our shareholders to ratify the selection of PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm for 2012. The following table summarizes PwC s fees for services provided in 2011 and 2010.

	2011	2010
Audit Fees	$ 3,639,542	$ 2,905,708
Audit-Related Fees	33,890	45,331
Tax Fees	140,712	92,597
All Other Fees	5,778	4,500
Total	$ 3,819,922	$ 3,048,136

Executive Compensation Advisory Resolution

We are asking our shareholders to approve, on an advisory basis, our named executive officer compensation. The Board recommends a FOR vote because, among other reasons, our executive compensation program aligns the interests of our executive officers with the interest of our shareholders and is designed to pay for performance.

Executive Compensation Highlights

Type	Form	2011 Terms
Equity	Stock options	1/3 of total equity award
		Vest ratably over three years from the grant date
	Performance shares	1/3 of total equity award
		Performance metric: CAGR of income from continuing operations
		3-year performance period
	Restricted stock units	1/3 of total equity award
		Vest 25% on each of the first and second anniversaries of the grant date and 50% on the third anniversary of the grant date
Cash	Salary	Reviewed and approved annually
	Annual incentive compensation	Based on quantitative and qualitative goals with formula amount subject to negative discretion
Retirement	401(k) Plan	Company matching contributions
	Supplemental Deferred Compensation Plan	Company matching contributions (except for CEO)
	Celera Corporation Non-Qualified	

Savings and Deferral Plan

Supplemental Executive
Retirement Plan (CEO only)

The objective of our executive compensation program is to attract and retain talented executives who have the skills and experience required to help us achieve our strategic objectives and advance the long-term interests of our shareholders. The compensation opportunity for our named executive officers is directly tied to corporate performance, both financial and non-financial results, and individual performance.

2011 Business Performance Highlights

- Our financial performance remained strong in 2011.
- We completed the acquisitions of Athena Diagnostics and Celera Corporation, establishing a solid foundation in the four critical areas of cancer, cardiovascular disease, infectious disease and neurological disorders.
- We began a $500 million multi-year cost reduction program.
- We returned $1 billion to shareholders through a combination of share repurchases and dividends, and announced a 70% increase in our dividend beginning in 2012.

2011 Compensation Summary

Set forth below is 2011 compensation for each named executive officer, excerpted from the 2011 Summary Compensation Table, which appears on page 32.

Name	Salary ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	To ($
Surya N. Mohapatra	1,231,122	5,192,553	2,573,074	1,614,001	2,051,740	118,231	12,7
Robert A. Hagemann	557,230	2,147,569	1,063,346	438,317		66,818	4,2
Kathy Ordoñez	314,615	1,603,318		238,192		2,310,857	4,4
Jon R. Cohen	563,750	1,393,113	689,730	407,001		39,483	3,0
Joan E. Miller	501,120	1,393,113	689,730	322,782	—	43,937	2,9

Executive Compensation Changes for 2012

In 2012, the Company has taken additional steps to strengthen its executive officer compensation program and to enhance the alignment of pay and performance. For 2012, the total equity award consisted of 40% stock options, 40% performance shares and 20% restricted stock units. In addition, the performance metrics for the 2012 performance share awards, which are earned over a three-year performance period ending December 31, 2014, are based 50% on average return on invested capital and 50% on revenue growth. In addition, in 2012 the Committee reduced the value of the equity awards of our named executive officers below 2011 levels.

2013 Annual Meeting

Shareholder proposals submitted pursuant to SEC Rule 14a-8 must be received by the Company by December 3, 2012.

Notice of shareholder proposals outside of SEC Rule 14a-8, including nominations for the Board of Directors, must be received by the Company no earlier than January

11, 2013 and no
later than
February 10, 2013.

PROXY STATEMENT

QUEST DIAGNOSTICS INCORPORATED
Three Giralda Farms
Madison, New Jersey 07940
(973) 520-2700

INFORMATION ABOUT OUR 2012 ANNUAL MEETING

This proxy statement and form of proxy and voting instructions are being mailed starting on or about April 2, 2012.

Who is soliciting my vote?

The Board of Directors (the Board of Directors or the Board) of Quest Diagnostics Incorporated, a Delaware corporation (Quest Diagnostics, the Company, we or our), is soliciting your vote for our 2012 annual meeting.

What will I vote on?

You are being asked to vote on:

- election of three directors;
- approval of amendments to the Amended and Restated Employee Long-term Incentive Plan (the Employee Plan);
- ratification of the appointment of PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm for 2012;
- an advisory resolution to approve executive compensation; and
- a shareholder proposal regarding the classified board of directors.

Who can vote at the annual meeting?

Holders of our common stock as of the close of business on the record date will be entitled to vote at the annual meeting and at any adjournment or postponement of the annual meeting. March 12, 2012 is the record date.

How many votes can be cast by all shareholders?

On the record date, there were 158,974,441 shares of our common stock outstanding, each of which is entitled to one vote for each matter to be voted on at the annual meeting.

How many votes must be present to hold the annual meeting?

We need a majority of the votes that may be cast at the annual meeting, present in person or represented by proxy, to hold the annual meeting. We urge you to submit a proxy even if you plan to attend the annual meeting. That will help us to know as soon as possible that sufficient votes will be present to hold the annual meeting.

How do I vote?

If you are a holder of record (that is, you hold your shares in your name with the Company s transfer agent), you may vote by submitting your proxy via the Internet, mail or telephone or by attending the annual meeting and voting in person. The directions for telephone and Internet proxy submission are on your proxy card. If you choose to submit your proxy on the Internet, go to www.cesvote.com. If you choose to submit your proxy by mail, simply mark, sign and date your proxy card and return it in the enclosed postage pre-paid envelope. You can also submit your proxy by calling 1-888-693-8683. If you return a signed proxy card without indicating your vote, your shares will be voted according to the Board s recommendation.

If you hold your shares in street name (that is, through a broker, bank or other holder of record), please follow the voting instructions forwarded to you by your bank, broker or other holder of record. If you want to vote in person at the annual meeting, you must obtain a legal proxy from your broker, bank or other holder of record authorizing you to vote and bring the proxy to the annual meeting.

To reduce our administrative and postage costs, we ask that you submit a proxy through the Internet or by telephone, both of which are available 24 hours a day.

How many votes will be required to elect directors?

Each director will be elected by a majority of votes cast with respect to such director. A majority of votes cast means that the number of votes cast for a director nominee exceeds the number of votes cast against that director nominee. Under Delaware law, if the director is not elected at the annual meeting, the director will continue to serve on the Board as a holdover director. As required by the Company s by-laws, each director nominee has submitted an irrevocable letter of resignation as director that becomes effective if he or she is not elected by the shareholders and the Board accepts the resignation. If a director is not elected, the Governance Committee will consider the director s resignation and recommend to the Board whether to accept or reject the resignation or take other action. The Board will decide whether to accept or reject the resignation or take other action and publicly disclose its decision and, if it rejects the resignation, the rationale behind the decision, within 120 days after the election results are certified.

How many votes will be required to adopt the other proposals?

The ratification of PwC s appointment, the approval of the amendments to the Employee Plan and the approval of the shareholder proposal require the affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon. The approval of the advisory resolution to approve executive compensation requires the affirmative vote of a majority of votes cast with respect to such proposal. A majority of votes cast means that the number of votes cast for a proposal exceeds the number of votes cast against that proposal.

Can I change or revoke my proxy?

Yes. You may revoke your proxy before your shares are voted by:

- submitting a later dated proxy, including by telephone or the Internet that is received no later than the conclusion of voting at the annual meeting;

- delivering a written revocation notice to William J. O Shaughnessy, Jr., Corporate Secretary, Quest Diagnostics Incorporated, Three Giralda Farms, Madison, New Jersey 07940 that is received no later than the conclusion of voting at the annual meeting; or

voting in person at the annual meeting.

What if I vote to abstain?

Shares voting abstain on the ratification of PwC s appointment, the approval of the amendments to the Employee Plan and the approval of the shareholder proposal will be counted as present for purposes of that proposal and will have the effect of a vote against the proposal. Shares voting abstain for any nominee for director and the advisory vote to approve executive compensation will be excluded entirely from the vote and will have no effect on the election of that nominee or matter, as the case may be.

What happens if I do not vote?

If you are a record holder and do not vote your shares, your shares will not be voted.

If you hold your shares in street name, you must cast your vote if you want your shares to count for the election of directors, the advisory resolution to approve executive compensation, the approval of the amendments to the Employee Plan or the approval of the shareholder proposal. If you do not instruct your broker how to vote on these matters, no vote will be cast on your behalf. Brokers continue, however, to have discretion to vote uninstructed shares on the ratification of the appointment of our independent registered public accounting firm.

If you are a participant in the Quest Diagnostics Profit Sharing Plan or the 401(k) Savings Plan of Quest Diagnostics and you do not submit voting instructions in respect of shares held on your behalf in such plan, then, except as otherwise required by law, the plan trustee will vote your shares in the same proportion as the voting instructions that it receives from other participants. If you hold shares in the Company s Employee Stock Purchase Plan and you do not submit voting instructions in respect of shares held in that plan, those shares will not be voted.

What if there is voting on other matters?

We do not know of any other matters that may be presented for action at the meeting other than those described in this proxy statement. If any other matter properly is brought before the meeting, the proxy holders will have the discretion to vote on those matters for you.

How can I attend the annual meeting?

Only shareholders as of the record date (or their proxy holders) may attend the annual meeting. All shareholders seeking admission to the meeting must present photo identification. If you hold your shares in street name, to gain admission to the meeting you also must provide proof of ownership of your shares as of the record date. Proof of ownership may be a letter or account statement from your broker, bank or other holder of record.

What happens if the annual meeting is postponed or adjourned?

Your proxy will still be valid and may be voted at the postponed or adjourned annual meeting. You will still be able to change or revoke your proxy until it is voted.

Who will pay the expenses incurred in connection with the solicitation of my vote?

The Company pays the cost of preparing proxy materials and soliciting your vote. Our directors, officers and employees, who will receive no additional compensation for soliciting, may solicit proxies on our behalf by telephone, mail, electronic or facsimile transmission, in person or by other means of communication. We also have hired D. F. King & Co., Inc. to solicit proxies and for these services we will pay an estimated fee of $10,000, plus expenses.

Can I receive annual meeting material via electronic delivery?

This proxy statement and the Annual Report are available on our website at www.QuestDiagnostics.com/investor. You can save the Company postage and printing expense by consenting to access these documents over the Internet. If you consent, you will receive notice next year when these documents are available with instructions on how to view them and submit voting instructions. Your consent to electronic delivery of materials will remain in effect until you revoke it. If you choose electronic delivery, you may incur costs, such as cable, telephone and Internet access charges, for which you will be responsible.

Whom should I call with other questions?

If you have additional questions about this proxy statement or the annual meeting or would like additional copies of this document or our 2011 Annual Report on Form 10-K, please contact Investor Relations, Quest Diagnostics Incorporated, 3 Giralda Farms, Madison, N.J. 07940; email address: Investor@QuestDiagnostics.com.

MATTER TO BE CONSIDERED AT THE ANNUAL MEETING

Proposal No. 1 Election of Directors

The Board currently has nine directors divided into three classes. Members of each class serve for a three-year term. Shareholders elect one class of directors at each annual meeting. Each director holds office until his or her successor has been elected and qualified or the director s earlier resignation, death or removal. The biographies of each of the nominees and continuing directors below contain information regarding the person s service as a director of the Company, business experience, other director positions and the experience, qualifications, attributes and skills that led the Board to conclude as of the date of this proxy statement that the person should serve as a director of the Company.

Timothy M. Ring became a director since the last annual meeting. The Governance Committee s third party search firm recommended Mr. Ring as a potential director candidate to the Governance Committee. The Governance Committee unanimously recommended to the Board that Mr. Ring be elected as a director, and the Board unanimously elected Mr. Ring, effective December 6, 2011.

Nominees for Election

Based on the recommendation of the Governance Committee, the Board nominated three individuals to serve as directors for a term expiring at the 2015 annual meeting. Each nominee currently is a director of the Company whose term expires at the 2012 annual meeting. The Board believes that each nominee possesses the qualities and experience that nominees should possess in accordance with the Company s Corporate Governance Guidelines, which set forth the Board s philosophy regarding Board composition and identify key qualifications and other considerations (the relevant portion of the Company s Corporate Governance Guidelines is set forth below in the section entitled Information About Our Corporate Governance Board Nomination Process). Each nominee has consented to serve if elected.

Directors with Terms Expiring at the 2012 Annual Meeting

Jenne K. Britell, Ph.D., 69, joined Brock Capital Group LLC in March 2010 as a Senior Managing Director, advising companies and investors regarding strategy, acquisitions and asset deployment, including in connection with financial services. From 2001 to 2009, she was the Chairman and Chief Executive Officer of Structured Ventures, Inc., which advised domestic and foreign companies on financial services products and strategy. From 1996 to 2000, she was a senior officer of GE Capital, serving as President of GE Capital Global Commercial & Mortgage Banking and Executive Vice President of GE Capital Global Consumer Finance from 1999 to 2000 and serving as President and Chief Executive Officer of GE Capital Central and Eastern Europe from 1998 to mid-1999. Dr. Britell is the non-executive chair of United Rentals, Inc. and a director of Crown Holdings, Inc. She is a member of the Council on Foreign Relations, a trustee of the Fox Chase Cancer Center and a director of the U.S. Russia Foundation for Entrepreneurship and the Rule of Law and the U.S. Russia Investment Fund. Dr. Britell served as a director of Lincoln National Corporation from 2001 to 2006, of West Pharmaceuticals Corporation from 2005 until 2008 and of Aames Investment Corporation from 2001 until 2006. She has been a director of Quest Diagnostics since August 2005. She has extensive executive and advisory experience, including in corporate finance, capital markets, international business and strategic planning, with multinational corporations operating in complex, regulated industries.

Gail R. Wilensky, Ph.D., 68, is a Senior Fellow at Project HOPE, an international non-profit health foundation, which she joined in 1993. From 2008 through 2009, Dr. Wilensky served as President of the Defense Health Board, an advisory board in the Department of Defense. From 1997 to 2001, she was the chair of the Medicare Payment Advisory Commission. From 1995 to 1997, she chaired the Physician Payment Review Commission. In 1992 and 1993, Dr. Wilensky served as a deputy assistant to the President of the United States for policy development relating to health and welfare issues. From 1990 to 1992, she was the administrator of the Health Care Financing Administration where she directed the Medicare and Medicaid programs. Dr. Wilensky is a director of UnitedHealthcare Corporation. She served as a director of Manor Care Inc. from 1998 until 2007, Gentiva Health Services, Inc. from 2000 until 2009, Cephalon Inc. from 2002 to 2011 and SRA International, Inc. from 2006 to 2011. Dr. Wilensky also served as a Commissioner of the World Health Organization s Commission on the Social Determinants of Health and as the Non-Department Co-Chair of the Defense Department s Task Force on the Future of Military Health Care. She has been a director of Quest Diagnostics since January 1997. Dr. Wilensky has extensive experience, including in strategic planning, as a senior advisor to the U.S. government and private enterprises regarding healthcare issues and the operation of the U.S. healthcare system.

John B. Ziegler, 66, retired in January 2006 as the President, Worldwide Consumer Healthcare, of GlaxoSmithKline plc. He joined a predecessor company of GlaxoSmithKline in 1991, and held positions of increasing responsibility during his tenure. He has been a director of Quest Diagnostics since May 2000. He has extensive executive experience, including in sales, marketing, strategic planning and international operations, with multinational corporations operating in the healthcare industry.

Directors Continuing in Office

Directors with Terms Expiring at the 2013 Annual Meeting

John C. Baldwin, M.D., 63, is Senior Advisor for Health Affairs to the Texas Tech University System and a tenured professor. He oversees health research, education, and accreditation issues for the university. From 2007 to 2009, he served as President of Texas Tech University Health Sciences Center. From 2005 to 2007, he was President and Chief Executive Officer of CBR Institute for Biomedical Research. From 1998 to 2005, Dr. Baldwin was the Associate Provost for Health Affairs at Dartmouth College and Professor of Surgery at Dartmouth Medical School. From 1994 to 1998, Dr. Baldwin was the head of the surgical programs at Baylor College of Medicine and its affiliated hospitals. Dr. Baldwin was also the Governor of the American College of Surgeons from 1991 through 1997 and the President of the International Society of Cardiothoracic Surgeons in 1999. Dr. Baldwin has served as the Vice-Chair of the Board of Overseers of Harvard University. Dr. Baldwin served as a director of Massey Energy Company from 2004 until 2006. He has been a director of Quest Diagnostics since May 2004. Dr. Baldwin has extensive executive experience, including in strategic planning, with major organizations, and extensive experience with healthcare issues and the operation of the U.S. healthcare system, including as a practicing physician.

Surya N. Mohapatra, Ph.D., 62, is Chairman of the Board, President and Chief Executive Officer of Quest Diagnostics. Prior to joining the Company in February 1999 as Senior Vice President and Chief Operating Officer, he was Senior Vice President of Picker International, a worldwide leader in advanced medical imaging technologies, where he served in various executive positions during his 18-year tenure. Dr. Mohapatra was appointed President and Chief Operating Officer of the Company in June 1999, Chief Executive Officer in May 2004, and Chairman of the Board in December 2004. Dr. Mohapatra also is a director of Xylem Inc., a Trustee of The Rockefeller University and a member of the Corporate Advisory Board of Johns Hopkins Carey Business School. Dr. Mohapatra served as a director of ITT Corporation from 2008 to October 2011 and Vasogen, Inc. from 2002 to 2006. He has been a director of Quest Diagnostics since October 2002. Dr. Mohapatra has experience at Quest Diagnostics, including as President and Chief Executive Officer, that provides him unique insights into the Company s operations, challenges and opportunities, and he has extensive executive experience in international operations and medical diagnostics.

Gary M. Pfeiffer, 62, retired in 2006 as the Senior Vice President and Chief Financial Officer of E.I. du Pont de Nemours and Company. He joined DuPont in 1974, where he held positions of increasing responsibility in finance and international operations, as well as in various DuPont divisions. Mr. Pfeiffer served as Secretary of Finance for the state of Delaware from January through June 2009. Mr. Pfeiffer is a director of InterNAP Network Services Corporation and the non-executive chair of the board of Talbots, Inc. He is the non-executive Chair of the Board of Directors of Christiana Care Health System, a regional hospital system located in Delaware, and serves on the advisory board of Greentech Capital Advisors, LLC. Mr. Pfeiffer has been a director of Quest Diagnostics since December 2004. He has extensive executive experience, including in corporate finance, accounting, international operations, and strategic planning, with a multinational corporation operating in complex industries.

Directors with Terms Expiring at the 2014 Annual Meeting

William F. Buehler, 72, retired in 2001 as Vice Chairman of Xerox Corporation, which he joined in 1991. At Xerox, Mr. Buehler was responsible for five business groups: Production Systems, Office Document Products, Document Services, Channels and Supplies. He also oversaw Corporate Strategic Services, Business Development and Systems Software and Architecture. Prior to joining Xerox, Mr. Buehler spent 27 years with AT&T, primarily in sales, marketing and general management positions. Mr. Buehler served as a director of A.O. Smith Corporation from 1998 until 2011. Mr. Buehler has been a director of Quest Diagnostics since July 1998. He has extensive executive experience, including in sales, marketing and strategic planning, with multinational corporations operating in complex industries.

Daniel C. Stanzione, Ph.D., 66, retired from Lucent Technologies Incorporated in 2000 and is President Emeritus of Bell Laboratories and an independent consultant. Dr. Stanzione began his career in 1972 with Bell Laboratories, where he led the teams working on the first microprocessors and digital signal processors. He was appointed President of Network Systems, Lucent s largest business unit, in 1996 and was appointed Chief Operating Officer of Lucent in 1997. Dr. Stanzione is a director of InterNAP Network Services Corporation, where he serves as non-executive chairman. Dr. Stanzione served as a director of Avaya Inc. from 2000 until 2007. He has been a director of Quest Diagnostics since January 1997. Dr. Stanzione has extensive executive experience, including in general management and strategic planning, with multinational corporations operating in complex industries.

Timothy M. Ring, 54, has been the Chairman and Chief Executive Officer of C. R. Bard, Inc. since 2003. He is a director of C. R. Bard, Inc. and was director of CIT Group Inc. from 2005 to 2009. Mr. Ring is a Trustee of the Foundation of The University of Medicine & Dentistry of New Jersey. He has been a director of Quest Diagnostics since December 2011. Mr. Ring has extensive executive experience, including in strategic planning and international operations, with a multinational corporation operating in the healthcare industry.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE FOR DIRECTOR. PROXIES SOLICITED BY THE BOARD WILL BE VOTED FOR THESE NOMINEES UNLESS OTHERWISE INSTRUCTED.

INFORMATION ABOUT OUR CORPORATE GOVERNANCE

Governance Practices

The Board of Directors believes that good corporate governance is important. The Board has adopted a set of Corporate Governance Guidelines to enhance its own effectiveness and to demonstrate its commitment to strong corporate governance for the Company. The Board reviews these Guidelines from time to time for possible revision, including in response to changing regulatory requirements, evolving practices and the concerns of our shareholders. The Company also has adopted a Code of Business Ethics applicable to all directors, officers and employees. The Corporate Governance Guidelines and Code of Business Ethics are published on our corporate governance website at www.QuestDiagnostics.com/governance.

In addition to the highlights of our corporate governance practices described below, our Board has adopted the following practices.

Independent directors meet privately in executive sessions with the Lead Independent Director presiding at all regularly scheduled meetings.

The Board assesses annually its structure and performance, including reviewing the Board s activities against those set out in its Corporate Governance Guidelines and committee charters and making recommendations for changes or improvements in practices or structure.

The Board reviews annually senior

management succession planning and reviews Company policies for the development of management personnel.

Independent directors have unlimited access to officers and employees of the Company.

Directors are regularly updated by senior management, our independent registered public accounting firm and compensation consultants on changes in the Company s businesses, its markets and best practices in general. Directors also are offered the opportunity to attend director education programs offered by third parties.

Independent directors receive a significant portion of their annual compensation in equity to further align their interests with the interests of our shareholders.

The Board and each committee

have access to independent legal, financial or other advisors as they deem necessary, without obtaining management approval, but no committee may engage the Company s independent registered public accounting firm to perform any services without the approval of the Audit and Finance Committee.

In considering committee assignments for directors, the Governance Committee considers the rotation of committee chairs and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various directors.

Committees report on their activities to the Board at each Board meeting.

Materials related to agenda items are provided to directors sufficiently in advance of meetings to allow the directors to prepare for discussion of the items.

Director Independence

The Board of Directors assesses annually the independence of each director in accordance with the Company s Corporate Governance Guidelines and New York Stock Exchange listing standards. The independence guidelines in the Company s Corporate Governance Guidelines are consistent with the independence requirements in the New York Stock Exchange listing standards and include guidelines as to categories of relationships that are considered not material for purposes of director independence. Our Corporate Governance Guidelines are available on our corporate governance website at www.QuestDiagnostics.com/governance.

The Board has determined that a substantial majority (eight of nine) of our directors is independent. Each member, including the chair, of each of the Audit and Finance Committee, the Compensation Committee, the Governance Committee and the Quality, Safety & Compliance Committee qualifies as independent. The Board has determined the following directors to be independent: Dr. Baldwin, Dr. Britell, Mr. Buehler, Mr. Pfeiffer, Mr. Ring, Dr. Stanzione, Dr. Wilensky and Mr. Ziegler. Dr. Mohapatra is not independent because he is a Company officer. In making its determinations as to the independence of the directors, the Board reviewed relationships between the Company and the directors, including ordinary course commercial relationships in the last three years between the Company and the entity of which Mr. Ring is an executive officer that did not exceed a certain amount of that entity s gross revenues in any year.

Shareholder Access

Shareholders and any other person may communicate with the Board by sending an email to our Lead Independent Director at LeadIndependentDirector@QuestDiagnostics.com or by writing to the full Board or any individual director or any group or committee of directors, c/o Corporate Secretary, Three Giralda Farms, Madison, New Jersey 07940. Communications received at the email address are automatically routed to our Lead Independent Director with a copy to our General Counsel and Corporate Secretary. The Lead Independent Director determines whether any such communication should be distributed to other members of the Board. Communications received by the Corporate Secretary addressed as set forth above, other than communications unrelated to the duties and responsibilities of the Board, are forwarded to the intended directors.

The Audit and Finance Committee established a procedure whereby complaints and concerns with respect to accounting, internal controls and auditing matters may be submitted to the Audit and Finance Committee. All communications received by a director relating to the Company s accounting, internal controls or auditing matters are immediately forwarded to the Chairman of the Audit and Finance Committee and are investigated and responded to in accordance with the procedures established by the Audit and Finance Committee. In addition, the Company has established a hotline (known as CHEQline) pursuant to which employees can anonymously report accounting, internal controls and financial irregularities (as well as compliance concerns on other laws).

Our policy is, where practical, to schedule the annual shareholders meeting on a day on which we also schedule a regular Board meeting. This year, we have scheduled a regular Board meeting on the date of the annual meeting. We encourage our directors to attend each annual shareholders meeting and expect that all of our directors will attend the annual meeting this year. All of our directors then in office attended the 2011 annual shareholders meeting, except Ms. Haggerty, whose term was concluded at the meeting.

Board Nomination Process

The Governance Committee is responsible for reviewing with the Board, on an annual basis, the composition of the Board as a whole and whether the Company is being well served by the directors, taking into account each director s independence, skills, experience, availability for service to the Company and other factors the Governance Committee deems appropriate. The Governance Committee is responsible for recommending director nominees to the Board, including re-nomination of persons who are already directors. The Governance Committee does not set specific, minimum qualifications that nominees must meet in order for the Governance Committee to recommend them to the Board, but rather believes that each nominee should be evaluated based on his or her own merits, taking into account the Company s needs and the composition of the Board. Recommendations are made by the Governance Committee in accordance with the Company s Corporate Governance Guidelines, which set forth the Board s philosophy regarding Board composition and identify key qualifications and other considerations. The Governance Committee believes that the Board should be comprised of individuals whose backgrounds and experience complement those of other Board members, and also considers whether a prospective nominee promotes a diversity of talent, skill, expertise, background, perspective and experience, including with respect to age, gender, ethnicity, place of residence and specialized experience. The Governance Committee does not assign specific weights to particular criteria and nominees are not required to possess any particular attribute. The key qualifications and other considerations set forth in the Company s Corporate Governance Guidelines are set forth below.

- o Qualifications:

In June 2006, the FASB issued FIN 48 “Accounting for Uncertainty in Income Taxes “ FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective in fiscal years beginning after December 15, 2006. Management believes that this statement will not have a significant impact on the financial statements.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measures.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), expands disclosures about fair value measurements, and applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements, however the FASB anticipates that for some entities, the application of SFAS No. 157 will change current practice. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which for the Company would be its fiscal year beginning January 1, 2008. The implementation of SFAS No. 157 is not expected to have a material impact on the Company’s results of operations and financial condition.

In September 2006, the Financial Accounting Standards Board (“FASB”), issued SFAS No. 158, “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R).” This statement requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. This pronouncement does not currently apply to the Company.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 (Topic IN), “Quantifying Misstatements in Current Year Financial Statements” (“SAB No. 108”). SAB No. 108 addresses how the effect of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires SEC registrants (i) to quantify misstatements using a combined approach which considers both the balance sheet and income statement approaches; (ii) to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors; and (iii) to adjust their financial statements if the new combined approach results in a conclusion that an error is material. SAB No. 108 addresses the mechanics of correcting misstatements that include effects from prior years. It indicates that the current year correction of a material error that included prior period effects may result in the need to correct prior year financial statements even if the misstatement in the prior year or years is considered immaterial. Any prior year financial statements found to be materially misstated in years subsequent to the issuance of SAB No. 108 would be restated in accordance with SFAS No. 154, “Accounting Changes and Error Corrections.” Because the combined approach represents a change in practice, the SEC staff will not require registrants that followed an acceptable approach in the past to restate prior years’ historical financial statements. Rather, these registrants can report the cumulative effect of adopting the new approach as an adjustment to the current year’s beginning balance of retained earnings. If the new approach is adopted in a quarter other than the first quarter, financial statements for prior interim periods within the year of adoption may need to be restated. SAB No. 108 is effective for fiscal years ending after November 15, 2006, which for the Company would be its fiscal year January 1, 2007. The implementation of SAB No. 108 is not expected to have a material impact on the Company’s financial position or results of operations.

Note 4 - Acquisitions

On December 2, 2005, the Company acquired Diverse Networks, Inc. ("DNI") pursuant to the "Merger Agreement", which provided that each share of DNI common stock would be converted into the right to receive either (i) $0.21 in the form of a one-year 8% promissory note, or (ii) one share of the Company's Series B Preferred Stock, at the election of each DNI stockholder. The transaction was accounted for as a recapitalization effected through a reverse merger, in which DNI was treated as the "acquiring" company for financial reporting purposes.

Each share of Series B Preferred Stock will be convertible commencing December 1, 2007, into that number of the Company's common stock obtained by multiplying the number of shares to be converted by a fraction, the numerator of which is .5942795, and the denominator is equal to the "market price" of the Company's common stock at the time of conversion. The conversion rate is subject to adjustment.

The Company issued approximately $862,000 in promissory notes and one million shares of Series B Preferred Stock to DNI stockholders. In addition, the Company assumed $228,000 of outstanding DNI debt in connection with the transaction.

The Company expensed $401,727 of net liabilities assumed upon the recapitalization and recorded the amount to recapitalization expense on the statement of operations.

On May 5, 2006, the Company acquired UTSI International Corporation ("UTSI") pursuant to the "Agreement and Plan of Merger," dated May 5, 2006. Pursuant to the Merger Agreement, UTSI merged with and into the Company, with the Company as the surviving corporation. Each share of UTSI common stock outstanding at the effective time of the merger was converted into the right to receive 1.4380297 shares of Series C Preferred Stock. The 1,529,871 shares of UTSI common stock outstanding were converted into an aggregate of 2,200,000 shares of Series C Preferred Stock.

Each share of Series C Preferred Stock will be convertible commencing after May 5, 2008, into that number of shares of the Company's common stock obtained by multiplying the number of shares to be converted by a fraction, the number of which is $1.00, and the denominator is equal to the "market price" of the Company's common stock at the time of conversion, subject to adjustment.

The purchase price was allocated to tangible and intangible assets and liabilities at the date of acquisition as follows:

Current assets	$	389,884
Property and equipment		23,630
Customer list		735,433
Goodwill		1,868,986
Total assets	$	3,017,933
Less - Total liabilities		817,933
	$	2,200,000

The following unaudited pro forma financial information presents the combined results of operations of Interact Group Holdings, Inc. and UTSI International Corporation as if the acquisition had occurred as of the beginning of the period presented. The unaudited pro forma financial information is not necessarily indicative of what the Company's consolidated results of operations actually would have been had the Company completed the acquisition at the beginning of each period. In addition, the unaudited pro forma financial information does not attempt to project the future results of operations of the combined company.

	Years Ended December 31,			
		2006		**2005**
Revenues	$	3,587,107	$	4,288,505
Cost of goods sold		1,897,884		2,401,321
Gross profit	$	1,689,223	$	1,887,184
Research and development	$	185,665		-
Selling, general and administrative		3,810,324	$	2,169,869
Recapitalization expense		-		1,513,727
Depreciation and amortization		170,215		185,986
Total operating expenses	$	4,166,204	$	3,869,582
Loss from operations	$	(2,476,981)	$	(1,982,398)
Other expense, net		682,236		48,815
Loss before income taxes	$	(3,159,217)	$	(2,031,213)
Income taxes (benefit)		81,139		(200,229)
Net loss from continuing operations	$	(3,240,356)	$	(1,830,984)

Note 5 - Property and equipment

Property and equipment consists of the following:

		As of March 31,	
	Life	2007	2006
Office furniture and equipment	3-7	$ 1,123,896	—
Leasehold improvements	10	279,410	—
		$ 1,403,306	—
Less - Accumulated depreciation		1,210,846	—
		$ 192,460	—

Note 6 - Derivative liability

On March 31, 2006, the Company entered into a Securities Purchase Agreement with certain accredited investors pursuant to which they agreed to issue up to $2,000,000 of principal amount of convertible promissory notes in three separate tranches and warrants to purchase shares of the Company's common stock (the "Securities Purchase Agreement"). The tranches of notes are to be issued and sold as follows: (i) $700,000 upon execution and delivery of the Securities Purchase Agreement; (ii) $600,000 within five days of filing of a registration statement with the Securities and Exchange Commission (the "SEC") registering the shares of common stock issuable upon conversion of the notes and exercise of the warrants issued pursuant to the Securities Purchase Agreement (the "Registration Statement") and (iii) $700,000 within five days of the Registration Statement being declared by the SEC. The convertible notes have a three year term and bear interest at 6%. The notes are convertible into the Company's common stock pursuant to a "variable conversion price" equal to the "Applicable Percentage" multiplied by the "Market Price." "Applicable Percentage" is initially 50%, provided that such percentage will be increased to 55% if the Registration Statement is filed on or before April 30, 2006 and further increased to 60% if the Registration Statement is declared effective by the SEC on or before July 29, 2006. "Market Price" means the average of the lowest three trading prices (as defined) for the Company's common stock during the twenty trading day period prior to conversion. Upon an event of default, the notes are immediately due and payable at an amount equal to the greater of (i) 140% of the then outstanding principal amount of notes plus interest and (ii) the "parity value" defined as (a) the highest number of shares of common stock issuable upon conversion of the notes multiplied by (b) the highest closing price for the Company's common stock during the period beginning on the date of the occurrence of the event of default and ending one day prior to the demand for prepayment due to the event of default. The notes are secured by a first lien on all of the Company's assets, including all intellectual property.

Subject to certain terms and conditions, the notes are redeemable by the Company at a rate of ranging from 120% to 140% of the outstanding principal amount of the notes, plus interest. In addition, so long as the average daily price of the Company's common stock is below the "initial market price," the Company may prepay such monthly portion due on the outstanding notes and the investors agree that no conversions will take place during such month where this option is exercised by the Company.

The notes were issued with warrants to purchase up to 50,000,000 shares of the Company's common stock at an exercise price of $0.07 per share, subject to adjustment.

In connection with the offer and sale of the notes and warrants, the Company engaged Envision Capital LLC, as a finder for the transaction. Envision will receive a ten percent cash commission on the sale of the notes and warrants to purchase up to 5,000,000 shares of the Company's common stock on the same terms and conditions as the warrants issued to purchasers under the Securities Purchase Agreement.

The Company is accounting for the conversion option in the Convertible Note and the conversion price in the Securities Purchase Agreement and the associated warrants as derivative liabilities in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock" due to the fact that the conversion feature and the warrants both have a variable conversion price.

The fair value of the Convertible Note was determined utilizing the Black-Scholes stock option valuation model. The significant assumptions used in the valuation are: the exercise price as noted above; the stock price as of March 31, 2007; expected volatility of 66%; risk free interest rate of approximately 4.50%; and a term of one year.

The fair value of the Securities Purchase Agreement was determined utilizing the Black-Scholes option valuation model. The significant assumptions used in the valuation are: the exercise price as noted above; the stock price as of March 31, 2007; expected volatility of 66%; risk free interest rate of approximately 4.50%; and a term of three years.

The notes are due as follows:

March 31, 2009	$	690,630
May 4, 2009		600,000
October 11, 2009		700,000
	$	1,990,630

Note 7 - Notes Payable

The Company is obligated to individuals and corporations for notes with interest rates ranging from 8% and 10%, the majority of which are payable in monthly and quarterly installments.

Note 8- Leases

The Company leases office space for its various subsidiaries.

The Company leases certain equipment under capital leases. The capital leases will expire during the year ending December 31, 2007. The future minimum lease payments due in 2007 total $2,781. These leases are secured by the leased equipment.

Future minimum payments under capital and operating leases as of March 31, 2007 are as follows:

2007	$	384,908
2008		381,461
2009		381,461
2010		215,433
2011		106,095
	$	1,469,358

Note 9 - Major Customers

During the three months ending March 31, 2007, the Company had four major customers, sales to which represent approximately 55% of the Company's total revenues. During the same period in 2006, the Company had nine major customers, which represented approximately 75% of the Company's total revenues.

Item 2. Management's Discussion and Analysis or Plan of Operations

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes included in this report. This report contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements contained in this report that are not historic in nature, particularly those that utilize terminology such as "may" or "will," or comparable terminology, are forward looking statements based upon current expectations and assumptions. Various risks and uncertainties could cause actual results to differ materially from those expressed in these forward looking statements. This report should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year end December 31, 2006 filed with the Securities and Exchange Commission (the "SEC") on May 8, 2007.

Interact Holdings Group, Inc. (the "Company", "we" or "us") was incorporated on May 8, 2001 under the laws of the State of Florida as a development-stage company under the name "The Jackson Rivers Company."

Recent Developments

On March 31, 2007, we entered into another Securities Purchase Agreement with the same accredited investors which previously invested in the Company, pursuant to which we agreed to issue an additional tranche of $220,000 of convertible promissory notes. The convertible notes have a three year term and bear interest at a rate of eight percent (8%) per annum, and are convertible into our common stock under the same terms set forth in Note 6 to the consolidated financial statements included with this Quarterly Report. The notes also included warrants to purchase up to 10,000,000 shares of our common stock at an exercise price of $0.07 per share, subject to adjustment.

In connection with the offer and sale of all of these notes and the warrants, we engaged Envision Capital LLC as a finder for the transaction. Under the terms of the engagement, Envision will receive a ten percent (10%) cash commission on the sale of the notes, and warrants to purchase up to 5,000,000 shares of our common stock on the same terms and conditions as the warrants issued to purchasers under such Securities Purchase Agreement.

Our Business

The Company provides high technology tools and services that help other companies, government/institutions, and functional organizational units manage their industrial infrastructure and economic assets more effectively. We presently own two operational companies, Diverse Networks, Inc. ("DNI") and UTSI International Corporation ("UTSI") both located in Houston, Texas. Through these two companies, we currently provide products and services to several selected major industry segments. The industries served include oil and gas, electric utility, and telecommunications, and although no assurances can be given, we are planning to expand into the water/waste water industry through an active acquisition program.

Results of Continuing Operations

Comparison of the Three Months Ended March 31, 2007 and March 31, 2006

Net sales. Net sales for operations increased to $1,053,135 in the three months ended March 31, 2007, from $468,714 during the same period in 2006. This increase was attributable to the addition of UTSI.

Cost of Sales. Cost of sales for continued operations during the first quarter in 2007 increased to $605,412, or approximately 43%, from $213,088 during the first quarter 2006. As a percentage of net sales, cost of sales during the first quarter 2007 increased to 57% of net sales, as compared to approximately 45% of sales for the comparable period in 2006. The increase in cost of sales as a percentage of net sales resulted primarily from the preliminary undertaking of new business products through the mergers. As a result, we generated a gross profit of $705,343 with a gross profit margin of approximately 43% for the period ended March 31, 2007.

Selling, general and administrative expenses, and research and development expenses. During the first quarter in 2007, these expenses totaled $816,431, which is similar to the amount of expenses the Company incurred during the same period in 2006, of $821,349.

Operating loss. We incurred an operating loss of $407,330 for the period ended March 31, 2007, as compared to an operating loss of $601,885 for the period ended March 31, 2006. The decrease in operating losses was due primarily to consolidation of operations after the merger and acquisitions, and increased sales.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

Liquidity and Capital Resources

We have financed our operations, acquisitions, debt service and capital requirements through cash flows generated from, debt financing and issuance of securities. Our working capital deficit at March 31, 2007 was $1,416,777.

We used $347,781 of net cash in operating activities for the period ended March 31, 2007, as compared to $179,658 for the same period in 2006. This difference is primarily attributable to an increase in the size of operations and overhead due to the acquisition of UTSI.

Net cash flows used in investing activities during the period ended March 31, 2007 were $37,416, as compared to $3,302 during the period ended March 31, 2006. This decrease of $34,114 is primarily due to an increase in administrative and operational costs related to the audit and legal counsel.

Net cash flows provided by financing activities during the three months ended March 31, 2007 were $473,154, as compared to $823,960 during the same period in 2006, or a decrease of approximately 43%. This decrease is primarily due to an increase in legal, accounting and administrative costs related to financing activities.

Off-Balance Sheet Arrangements

None.

Item 3. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls over financial reporting and there have been no changes in our internal controls or in other factors in the last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

There were no matters required to be disclosed in a Current Report on Form 8-K during the fiscal quarter covered by this report that were not so disclosed.

There were no changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the Company last disclosed such procedures.

Item 6. Exhibits

No.	Description
31.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

16

SIGNATURES

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

INTERACT HOLDINGS GROUP, INC.

May 17, 2007

By: /s/ Jeffrey W. Flannery

Jeffrey W. Flannery
Chief Executive Officer, Chief Financial Officer