

Edgar Filing: CARECENTRIC INC - Form 10-Q

CARECENTRIC INC
Form 10-Q
November 12, 2002

=====

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

(Mark One)

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

FOR THE PERIOD ENDED SEPTEMBER 30, 2002

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22162

CARECENTRIC, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-3209241
(I.R.S. Employer
Identification No.)

2625 CUMBERLAND PARKWAY, SUITE 310
ATLANTA, GEORGIA
(Address of principal
executive offices)

30339
(zip code)

(Registrant's telephone number, including area code) (678) 264-4400

(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 No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at 10/31/02
-----	-----
COMMON STOCK, \$.001 PAR VALUE	4,371,350 SHARES

Edgar Filing: CARECENTRIC INC - Form 10-Q

CARECENTRIC, INC.

QUARTERLY REPORT ON FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets - September 30, 2002 (unaudited) and December 31, 2001 (audited).

Consolidated Statements of Operations - Three Months and Nine Months Ended September 30, 2002 and 2001 (unaudited).

Consolidated Statements of Shareholders' Equity - Nine Months Ended September 30, 2002 (unaudited).

Consolidated Statements of Cash Flows - Three Months and Nine Months Ended September 30, 2002 and 2001 (unaudited).

Notes to Consolidated Financial Statements - September 30, 2002 (unaudited).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Edgar Filing: CARECENTRIC INC - Form 10-Q

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared by CareCentric, Inc. ("CareCentric" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company, all adjustments (consisting only of normal recurring entries) necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included.

3

CARECENTRIC, INC. CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2002
	----- (unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,058,000
Accounts receivable, net of allowance for doubtful accounts of \$1,299,000 and \$1,042,000 respectively	5,747,000
Prepaid expenses and other current assets	590,000
Notes receivable	107,000

Total current assets	7,502,000
Purchased software, furniture and equipment, net	1,154,000
Intangible assets, net	4,590,000
Long term notes receivable	431,000

Total assets	\$ 13,677,000 =====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Line of credit	\$ 5,125,000
Accounts payable	2,214,000
Accrued compensation expense	625,000
Accrued liabilities	6,408,000
Customer deposits	1,511,000
Unearned revenues	4,873,000

Total current liabilities	20,756,000
Accrued liabilities, less current portion	300,000
Note payable long-term	8,380,000

Edgar Filing: CARECENTRIC INC - Form 10-Q

Commitments and contingencies

Shareholders' deficit

Preferred Stock: 10,000,000 shares authorized		
Series B Preferred, \$.001 par value;		
5,600,000 issued and outstanding; liquidation value \$1.32		6,000
Series C Preferred, \$.001 par value;		
850,000 issued and outstanding; liquidation value \$1.00		-
Series D Preferred, \$.001 par value;		
398,000 issued and outstanding; liquidation value \$3.03		-
Series E Preferred, \$.001 par value;		
210,000 issued and outstanding; liquidation value \$1.02		-
Common stock, \$.001 par value; 20,000,000 shares authorized;		
4,371,350 shares issued and outstanding at September 30, 2002 and		
December 31, 2001		4,000
Unearned compensation		(152,000)
Additional paid-in capital		20,430,000
Stock warrants		1,000,000
Accumulated deficit		(37,047,000)

Total shareholders' deficit		(15,759,000)

Total liabilities and shareholders' deficit		\$ 13,677,000
		=====

See notes to consolidated financial statements

4

CARECENTRIC, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS
	2002	2001	2002
	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$ 5,646,000	\$ 5,096,000	\$ 16,74
Costs and expenses:			
Cost of revenues	1,739,000	1,973,000	5,20
Selling, general and administrative	2,064,000	2,550,000	7,35
Research and development	891,000	1,413,000	2,78
Amortization and depreciation	424,000	1,011,000	1,27
Restructuring Charge	-	-	
	-----	-----	-----
Total costs and expenses	5,118,000	6,947,000	16,60
	-----	-----	-----
Income (loss) from operations	528,000	(1,851,000)	14

Edgar Filing: CARECENTRIC INC - Form 10-Q

Other income (expense):			
Interest expense	(174,000)	(39,000)	(49,000)
Interest and other income	12,000	29,000	2,000
	-----	-----	-----
Income (loss) before taxes	366,000	(1,861,000)	(32,000)
	-----	-----	-----
Income tax benefit (expense)	-	-	-
	-----	-----	-----
Income (loss) from continuing operations	366,000	(1,861,000)	(32,000)
	-----	-----	-----
Discontinued operation			
Loss on disposal of discontinued operations	\$ -	\$ (2,632,000)	\$ -
Loss from operations of discontinued segment before taxes	-	(226,000)	-
	-----	-----	-----
Net loss from discontinued operations	-	(2,858,000)	-
Net Income (loss)	366,000	(4,719,000)	(32,000)
	=====	=====	=====
Cumulative Preferred Dividends	(184,000)	(180,000)	(33,000)
	-----	-----	-----
Net Profit (loss) available to common shareholders	\$ 182,000	\$ (4,899,000)	\$ (65,000)
	=====	=====	=====
Net Income (loss) per share - basic and diluted			
From continuing operations	\$ 0.08	\$ (0.43)	\$ -
Net loss per share - basic and diluted			
From discontinued operations	\$ -	\$ (0.65)	\$ -
	-----	-----	-----
Net Income (loss) per share - basic and diluted			
From operations	\$ 0.08	\$ (1.08)	\$ -
	=====	=====	=====
Net Income (loss) per share - basic and diluted available to common shareholders	\$ 0.04	\$ (1.12)	\$ -
	=====	=====	=====
Weighted average common shares - basic and diluted	4,371,000	4,371,000	4,371,000
	=====	=====	=====

See notes to consolidated financial statements

Edgar Filing: CARECENTRIC INC - Form 10-Q

CONSOLIDATED STATEMENTS OF SHAREHOLDERS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(unaudited)

	COMMON		PREFERRED		UNEARNED	ADDITIONAL	WARRANT
	SHARES	STOCK	SHARES	STOCK	COMPENSATION	PAID-IN CAPITAL	
Balance at December 31, 2001	4,371,000	\$ 4,000	7,058,000	\$ 7,000	\$ (210,000)	\$21,280,000	\$1,000,
Amortization of unearned compensaton					58,000		
Cancellation of series C Preferred Stock				(1,000)		(850,000)	
Net loss							
Balance at September 30, 2002	4,371,000	\$ 4,000	7,058,000	\$ 6,000	\$ (152,000)	\$20,430,000	\$1,000,

See notes to Consolidated Financial Statements

6

CARECENTRIC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months ended September 30,	
	2002	2001
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	\$ 182,000	\$ (4,899,000)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Provision for doubtful accounts	56,000	99,000
Amortization and depreciation	424,000	1,099,000
Stock based compensation charge to earnings	18,000	-
Loss on discontinued operations	-	2,632,000
CHANGES IN ASSETS AND LIABILITIES, NET OF ACQUISITIONS:		
Accounts receivable	310,000	649,000
Prepaid expenses and other current assets	(61,000)	(117,000)
Notes receivable	251,000	(660,000)

Edgar Filing: CARECENTRIC INC - Form 10-Q

Accounts payable	(80,000)	(866,000)
Accrued compensation	43,000	114,000
Accrued liabilities	(193,000)	711,000
Customer deposits	375,000	(446,000)
Unearned revenues	(223,000)	533,000
	-----	-----
Net cash provided by/(used in) operating activities	1,102,000	(1,151,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Assets and liabilities disposed of	-	1,715,000
Purchase of software, furniture and equipment	(12,000)	(91,000)
	-----	-----
Net cash provided by/(used in) investing activities	(12,000)	1,624,000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	1,281,000	(487,000)
Increase (decrease) in line of credit	(757,000)	-
Payments on capital lease obligation	(9,000)	-
Proceeds from Consulting note receivable	(167,000)	-
Cancellation of series C Preferred Stock	(850,000)	-
	-----	-----
Net cash provided by/(used in) financing activities	(502,000)	(487,000)
	-----	-----
Net change in cash and cash equivalents	588,000	(14,000)
Cash and cash equivalents, beginning of period	470,000	45,000
	-----	-----
Cash and cash equivalents, end of period	\$ 1,058,000	\$ 31,000
	=====	=====
Cash paid during period for interest	\$ 83,000	\$ 92,000

See notes to consolidated financial statements

7

CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements prepared by the Company include the results of operations of the parent company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated.

Edgar Filing: CARECENTRIC INC - Form 10-Q

In the opinion of management, the financial statements include all material adjustments necessary for the presentation of the Company's financial position, results of operations and cash flow. The results of this period are not necessarily indicative of the results for the entire year.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities that might be necessary should the Company be unable to continue to operate in the normal course of business. See Note 12 to the accompanying Consolidated Financial Statements.

Certain prior period amounts have been reclassified to conform to the 2002 financial statement presentation.

DESCRIPTION OF BUSINESS

The Company is a provider of information technology systems and related services and consulting services designed to enable home health care providers to more effectively operate their businesses and compete in the prospective payment system (PPS) and managed care environments. The Company's focus is to help home health care providers streamline their operations and better serve their patients. CareCentric offers several comprehensive software solutions. Each of these software solutions is designed to enable customers to generate and utilize comprehensive financial, operational and clinical information.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue under SOP 97-2 as amended by SOP 98-9. The Company recognizes software license revenue when the following criteria are met: (1) a signed and executed contract is obtained; (2) delivery has occurred; (3) the license fee is fixed and determinable; (4) collection is probable; and (5) remaining obligations under the license agreement are immaterial. The Company sells and invoices software licenses and maintenance fees as separate contract elements, except with respect to first year maintenance which is sold in the form of a bundled turnkey system. The Company has established vendor specific objective evidence related to the value of maintenance fees. Where applicable, the Company uses the residual value method to allocate software revenue between licenses and first year maintenance.

Revenues are derived from the licensing and sub-licensing of software, the sale of computer hardware, accessories and supplies, implementation and training products and services, forms and case plans, and software maintenance and support services. For the nine months ended September 30, 2002, the Company recorded total revenues of \$16.7 million. The Company's core product lines of

STAT2 and MestaMed(R) accounted for 34.8% and 54.5%, respectively, of the \$16.7 million in revenues.

Edgar Filing: CARECENTRIC INC - Form 10-Q

To the extent that software and services revenues result from software support, implementation, training and technical consulting services, such revenues are recognized monthly as the related services are rendered or, for software support revenues, over the term of the related agreement. To the extent that software and services revenues result from software licenses, computer hardware and third-party software revenues, such revenues are recognized when the related products are delivered and collectability of fees is determined to be probable, provided that no significant obligation remains under the contract. Limited amounts of revenues derived from the sale of software licenses requiring significant modification or customization are recorded based upon the percentage of completion method using labor hours or contract milestones. Software support or maintenance allows customers to receive unspecified enhancements and regulatory data updates in addition to telephone support.

Third-party software and computer hardware revenues are recognized when the related products are delivered. Software support agreements are generally renewable for one-year periods, and revenue derived from such agreements is recognized ratably over the period of the agreements. The Company has historically maintained high renewal rates with respect to its software support agreements. The Company generally charges for software implementation, training and technical consulting services as well as management consulting services on an hourly or daily basis. The Company offers "tiered pricing" for implementation of new systems whereby the customer pays a fixed fee for a certain level of packaged services and daily fees for services beyond the package.

Revenues for post-contract customer support are recognized ratably over the term of the support period, which is typically one year. Post-contract customer support fees typically cover incremental product enhancements, regulatory updates and correction of software errors. Separate fees are charged for significant product enhancements, new software modules, additional users, and migrations to different operating system platforms.

Subsequent to delivery, the Company frequently delivers a variety of add-on software and hardware components. Revenues from these sales are recognized upon delivery.

In addition to software licenses, software maintenance and support, and related hardware, the Company also provides a number of ancillary services including on site implementation and training, classroom training, consulting and "premium" and after-hours support. Revenues from such products and services are recognized monthly as such products are delivered and such services are performed.

PURCHASED SOFTWARE, FURNITURE AND EQUIPMENT

Purchased software, furniture and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

SOFTWARE DEVELOPMENT EXPENSES

Costs incurred to establish the technological feasibility of computer software products are expensed as incurred. The Company's policy is to capitalize costs incurred between the point of establishing technological feasibility and general release only when such costs are material. For the nine months ended September 30, 2002 and the year ended December 31, 2001, the Company had no capitalized computer software and development costs. Software and development expenses are accounted for as research and development costs.

CASH EQUIVALENTS

Edgar Filing: CARECENTRIC INC - Form 10-Q

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

9

INTANGIBLE ASSETS AND LONG-LIVED ASSETS

Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. The application of SFAS No. 121 resulted in an impairment loss of \$11.8 million recorded in the fourth quarter of 2001. See Note 5. Prior to the impairment adjustment, the intangible assets arising from the CareCentric/MCS merger on March 7, 2000 were amortized using the straight-line method over the estimated useful lives of the related assets as more fully disclosed in Notes 4 and 5. The measurement of the recorded impairment was based upon comparing the projected undiscounted future cash flow from the use of the assets against the unamortized carrying value of the assets in the financial statements.

Effective July 1, 2001, the Company adopted SFAS No. 141, "Business Combinations" and effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". These new standards superseded the Company's previous accounting for intangible assets under SFAS No. 121 as discussed below in the section Impact of New Accounting Standards.

In adopting SFAS No. 142, the Company ceased amortizing goodwill and reassessed the remaining life for developed technologies from 6 years to 4 years. An impairment test is required to be performed upon the adoption of SFAS No. 142 and at least annually thereafter. On an ongoing basis (absent any impairment indicators requiring interim review), the Company expects to perform impairment testing at the end of each fiscal year. Impairment adjustments recognized from future impairment tests, if any, generally are required to be recognized as operating expenses. In connection with adopting SFAS No. 142, the Company also reassesses the useful lives and the classification of its identifiable intangible assets to determine that they continue to be appropriate.

SFAS No. 144, which became effective for fiscal years beginning after December 15, 2001, provides a single accounting model for the disposal of long-lived assets. New criteria must be met to classify the asset as an asset held for sale. SFAS No. 144 also focuses on reporting the effect of a disposal. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

Actual results of operations for the three months and nine months ended September 30, 2002 and the pro forma results of operations for the three months and nine months ended September 30, 2001, had the Company applied the provisions of SFAS No. 142 in that period, are as follows (the impact on amortization expense is the result of a cessation of amortization of goodwill, the changed remaining life of developed technologies and the effect of the impairment charge recorded in the fourth quarter of the year ended December 31, 2001):

Edgar Filing: CARECENTRIC INC - Form 10-Q

10

	THREE MONTHS ENDED SEPTEMBER 30,		NINE M
	2002	2001	
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 182,000	\$ (4,899,000)	\$
Add back: Goodwill amortization	-	427,000	
Add back: Technology amortization	249,000	333,000	
Adjusted net income	\$ 431,000	\$ (4,139,000)	\$
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED			
Reported net income	\$ 0.04	\$ (1.12)	\$
Goodwill amortization	-	0.10	
Technology amortization	0.06	0.08	
Adjusted net income	\$ 0.10	\$ (0.95)	\$
Weighted average common shares-basic and diluted	4,371,000	4,371,000	

INCOME TAXES

The Company accounts for income taxes using the asset/liability method which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amount and the tax bases of assets and liabilities. A valuation allowance reducing the total net deferred tax asset to zero has been recorded based on management's assessment that it is "more likely than not" that this net asset is not realizable.

NET INCOME (LOSS) EARNINGS PER SHARE

The Company calculates earnings per share under SFAS No. 128, "Earnings Per Share." Basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings per share for the three months and nine months ended September 30, 2002 and September 30, 2001 exclude the effects of options, warrants and conversion rights as they would be anti-dilutive, and as a result, basic and diluted earnings are the same for the periods.

STOCK BASED COMPENSATION

Employee stock options are accounted for under SFAS No. 123 (and its related interpretations) which allows the use of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". See Note 8 to the Consolidated Financial Statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Edgar Filing: CARECENTRIC INC - Form 10-Q

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair value.

Notes receivable and payable: The carrying amounts of the Company's notes receivable and payable approximates their fair value.

11

SEGMENTS

The Company has one operating segment in continuing operations, which is the Software Systems segment. As further described in Note 2, the Company discontinued the Consulting segment during the year ended December 31, 2001.

NOTE 2 -- DISCONTINUED OPERATIONS

The discontinued operations reported in the Company's results of operations for the three months and nine months ending September 30, 2001 relate to the Company's Simone Consulting segment, which was sold on September 28, 2001. The Consulting business, prior to its sale, was the Company's only separately reported segment of business. Accordingly, the Company no longer reports segment information. The Consulting business segment was discontinued through a transaction pursuant to which certain of the assets of the Company's wholly-owned subsidiary, Simone Consulting, Inc., were sold to Simone Consultants, L.L.C. ("Simione"), which is owned and controlled by William Simone, Jr., a director of the Company. The total sales price was approximately \$2.0 million plus the assumption of certain liabilities by Simone. The Company's net pre-tax loss on the disposal was approximately \$2.6 million and resulted from a write-off of the intangible assets associated with the Consulting segment as identified at the merger date of March 7, 2000 with MCS. Selected financial information for the discontinued Consulting segment is presented in the chart below (dollar amounts in thousands).

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Operating Revenue	\$ -	\$ -	\$ -	\$ 2,2
Income before Provision for Income Taxes	-	(2,858)	-	(3,1
Income from Discontinued Operations Net of Income Tax	\$ -	\$ (2,858)	\$ -	\$ (3,1

NOTE 3 - NOTES RECEIVABLE

The Company has certain Notes Receivable of varying maturities which have resulted from the sale of the assets of the Consulting segment, and financing to

Edgar Filing: CARECENTRIC INC - Form 10-Q

a customer for purchase of a new software system. The Consulting segment Note Receivable is due from William Simone Jr., currently a director of the Company, the President and Chief Executive Officer of the acquirer of the Consulting business, Simone Consulting, LLC, and past Chief Executive Officer of the Consulting segment when it was part of the Company. The Customer note occurred in the normal course of business.

The amounts and term of each note are summarized in the table below:

	NOTES RECEIVABLE		
	CONSULTING	CUSTOMER NOTE	TOTAL
Balance as of 12-31-01	\$ 707,000	\$ 137,000	\$ 844,000
Balance as of 9-30-2002	\$ 467,000	\$ 71,000	\$ 538,000
Interest Rate	8.50%	5.65%	

12

NOTE 4 - PURCHASED SOFTWARE, FURNITURE AND EQUIPMENT

Purchased software, furniture and equipment consisted of the following:

	SEPTEMBER 30, 2002	DECEMBER 31, 2001	DEPRECIATION ESTIMATED USEFUL LIVES
Furniture and Fixtures	\$ 1,447,000	\$ 1,428,000	10 years
Computer equipment and purchased software	6,264,000	6,237,000	5 years
	7,711,000	7,665,000	
Accumulated depreciation	(6,557,000)	(6,132,000)	
	\$ 1,154,000	\$ 1,533,000	

NOTE 5 - INTANGIBLE ASSETS

As a result of the merger with MCS on March 7, 2000, the Company capitalized \$26.5 million of intangible assets. Those assets were amortized according to various lives ranging from five to nine years. In accordance with

Edgar Filing: CARECENTRIC INC - Form 10-Q

SFAS No. 121, the Company was required to periodically review the value of its intangible assets. During the fourth quarter of 2001, the Company's analysis and review, utilizing the methodology of SFAS No. 121, resulted in an \$11.8 million impairment loss of the intangible assets of the Company. The major reasons for the impairment were new technologies being integrated in the Company's current and future products causing its existing product platforms to have reduced future revenue generation capability, and an expectation that immediate opportunities for new software sales are lower than were forecasted at the time of the merger with MCS.

The following table summarizes the Company's changes in account balances for its intangible assets since the MCS merger on March 7, 2000.

	ORIGINAL COST	ASSETS DISPOSED	IMPARMENT WRITE-DOWN	ACCUMULATED AMORTIZATION
	-----	-----	-----	-----
Developed technology	\$ 10,650,000	\$ -	\$ (4,220,000)	\$ (3,189,000)
Customer base	1,700,000	(510,000)	-	(341,000)
Goodwill	14,151,000	(2,906,000)	(7,580,000)	(3,165,000)
	-----	-----	-----	-----
	\$ 26,501,000	\$ (3,416,000)	\$ (11,800,000)	\$ (6,695,000)
	=====	=====	=====	=====

Included in Note 1 to the Financial Statements is a table presenting actual results of operations for the three and nine months ended September 30, 2002 and pro forma results of operations for the three months and nine months ended September 30, 2001. The pro forma results for September 30, 2001 present the effect on earnings had the nonamortization provisions of SFAS No. 142 been applied and the effect of the write-off of the intangibles recorded in the fourth quarter of 2001.

NOTE 6 - NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

On July 1, 2002, the Company completed a recapitalization plan initiated on April 8, 2002. The recapitalization plan was approved by the common shareholders of the Company at the June 6, 2002 annual stockholders' meeting. The effect of the recapitalization plan is summarized below for each note payable and

13

presented comparatively in the following chart at September 30, 2002 and December 30, 2001.

NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

	SEPTEMBER 30, 2002	DECEMBER 31,
	-----	-----
SHORT TERM:		

Edgar Filing: CARECENTRIC INC - Form 10-Q

Line of Credit	\$ 5,125,000	\$ 5,572,
	-----	-----
	\$ 5,125,000	\$ 5,572,
	=====	=====
LONG TERM:		
Convertible Note Payable - J.E. Reed (1)	\$ -	\$ 3,500,
Note Payable - Mestek	-	1,019,
Convertible Note Payable - B.C. O'Donnell	600,000	600,
Note Payable - J.E. Reed Capitalized Interest	-	184,
Note Payable - Mestek Capitalized Interest	-	40,
Convertible Note - Mestek	4,063,000	
Convertible Note - J.E. Reed	3,612,000	
Note Payable - J.E. Reed Accrued Interest	105,000	
	-----	-----
	\$ 8,380,000	\$ 5,343,
	=====	=====

(1) Includes Mestek's participation in the J.E. Reed Facility

LINE OF CREDIT:

On July 12, 2000, the Company entered into a \$6.0 million Loan and Security Agreement facility with Wainwright Bank and Trust Company (the Wainwright Facility), a commercial bank, under which the Company granted a first priority position on substantially all of its assets as security. The Wainwright Facility was used to pay off the line of credit with Silicon Valley Bank, certain short-term loans from Mestek, Inc. (a related party, See Note 9), and a loan from David O. Ellis. Borrowings under the Wainwright Facility accrue interest at the bank's prime rate per annum and require monthly payments of interest. The Wainwright facility currently matures on October 1, 2003. The Company's obligations under the Wainwright Facility are guaranteed by Mestek in consideration of which the Company issued a warrant to Mestek to purchase 104,712 shares of the Company's common stock. As a result of the July 1, 2002 recapitalization, the warrant was cancelled.

CONVERTIBLE NOTE PAYABLE - BARRETT C. O'DONNELL:

On November 11, 1999, Simone borrowed \$500,000 from Barrett C. O'Donnell and \$250,000 from David O. Ellis, both on an unsecured basis, and executed promissory notes in connection therewith. Dr. Ellis and Mr. O'Donnell are directors of the Company. When the CareCentric/MCS merger was completed on March 7, 2000, the Company succeeded to both of these obligations. The note payable to Dr. Ellis, which accrued interest at 9% per annum, was paid in full on July 12, 2000 in advance of its August 15, 2000 maturity. The note payable to Mr. O'Donnell included interest at 9% per annum, was scheduled to mature on May 11, 2002, and required quarterly payments of accrued interest. On August 8, 2000, the \$500,000 note payable to Mr. O'Donnell, together with \$100,000 of deferred salary, was cancelled in exchange for a \$600,000 subordinated note, convertible into CareCentric common stock at a strike price of \$2.51 per share, with interest at 9% per annum and a five-year maturity. In January 2002, this loan was amended to change the interest rate to prime plus two percent and to change the terms of payment of interest for 2002 to require that one-half of the accrued interest be timely paid each quarter and the balance to be paid on December 31, 2003 or to be converted into an additional convertible note.

Edgar Filing: CARECENTRIC INC - Form 10-Q

CONVERTIBLE NOTE PAYABLE - MESTEK:

Prior to the July 1, 2002 recapitalization plan, the Company was obligated under a) an eighteen month unsecured promissory note in the principal amount of \$1,019,000 payable to Mestek Inc., that earned interest at prime plus one and one half percent (1.5%), with interest payable semiannually and matured on September 30, 2003 and b) additional notes payable to Mestek in the amounts of \$40,000, \$535,000 and \$350,000. These additional notes payable earned interest at prime plus two percent (2.0%) for the \$40,000 note and prime plus one percent (1.0%) for the \$535,000 and \$350,000 notes until all principal and accrued interest amounts were paid in full. These funds were advanced by Mestek to CareCentric to cover payroll and accounts payable obligations incurred by the Company, working capital needs of the Company during the period of its transition of senior lenders from Silicon Valley Bank to Wainwright Bank and Trust Company, accrued and unpaid interest thereon and the unreimbursed portion of Mr. Bruce Dewey's salary for the periods from November 9, 1999 to October 31, 2001 when he was Chief Executive Officer of the Company.

On July 1, 2002, under the terms of the recapitalization plan, all notes payable to Mestek by the Company were consolidated together with a) \$1,000,000 of Mestek's previous participation in the J. E. Reed facility, b) accrued unpaid interest on all notes payable to Mestek aggregating \$42,560, c) accrued unpaid interest on Mestek's participation in the J. E. Reed facility of \$33,750, d) \$850,000 of cancelled Mestek Series C Preferred stock, and d) \$129,748 of cash paid on July 1, 2002 by Mestek to the Company to create a single consolidated \$4,000,000 convertible note payable. The terms of the single consolidated Mestek note are that interest accrues and accumulates at a per annum rate equal to six and one-quarter percent (6.25%) through September 30, 2004, at which time the accumulated interest will be capitalized into the related note. After September 30, 2004, the principal and capitalized interest will accumulate interest at the per annum rate equal to six and one-quarter percent (6.25%) with interest compounded and payable quarterly. Together with any unpaid principal and accrued interest, the Mestek note will mature and become payable on June 30, 2007. Additionally, the new \$4.0 million Mestek note and the \$3.6 million J. E. Reed note, together with the value of accrued interest may be converted at the rate of \$1.00 per share into CareCentric common stock exercisable at any time after July 1, 2002. The new notes are subordinate to the Wainwright Bank \$6.0 million line of credit.

CONVERTIBLE NOTE PAYABLE - J. E. REED:

Prior to the July 1, 2002 recapitalization plan, the Company was obligated under a financing facility (the J. E. Reed Facility) provided by John E. Reed, Chairman of CareCentric and the Chairman and Chief Executive Officer of Mestek, Inc. The J. E. Reed Facility consisted of a \$6.0 million subordinated line of credit, convertible into common stock of the Company at a strike price of \$2.51 per share, with interest at 9% per annum and a five-year maturity. The J. E. Reed Facility was secured by a second position on substantially all of the Company's assets. At September 30, 2002 and December 31, 2001, borrowings were equal to \$4,331,000 and \$3,500,000 respectively, \$1,000,000 of which was participated to Mestek at September 30, 2002 and at December 31, 2001. On December 31, 2001, the facility was amended to change the interest rate to prime plus two percent (2.0%) and to change the payment term for unpaid 2001 interest to require payment on December 31, 2003, or convert the outstanding unpaid interest to additional convertible notes, in the amount of \$184,438 at the option of Mr. Reed, and in the amount of \$40,463 at the option of Mestek, and to change the terms of payment of interest for 2002 to require that one-half be timely paid each quarter and the balance be paid on December 31, 2003 or be converted to additional convertible notes. On March 27, 2002 the Company received an additional \$871,117 advance on the J.E. Reed Facility.

On July 1, 2002, under the terms of the recapitalization plan, all

Edgar Filing: CARECENTRIC INC - Form 10-Q

principal amounts advanced under the J.E. Reed Facility, less the \$1,000,000 participation by Mestek, together with interest accrued through December 31, 2001 were consolidated into a single consolidated \$3,555,555 convertible note payable. The terms of the single consolidated J.E. Reed note are that interest accrues and accumulates at a per annum rate equal to six and one-quarter percent (6.25%) through September 30, 2004, at which time the accumulated interest will be capitalized into the related note. After September 30, 2004, the principal and capitalized interest will accumulate interest at the per annum rate equal to six and one-quarter percent (6.25%) with interest compounded and payable quarterly. Together with any unpaid principal and accrued interest, the J. E. Reed note will mature and become payable on June 30, 2007. Additionally, the new \$3.6 million J. E. Reed note, together with the value of accrued interest may be converted at the rate of \$1.00 per share into CareCentric common stock exercisable at any time after July 1, 2002. The new notes are subordinate to the Wainwright Bank \$6.0 million line of credit.

15

NOTE PAYABLE - J. E. REED ACCRUED INTEREST:

Under the terms of the July 1, 2002 recapitalization, \$103,818 of accrued interest earned on all advances under the J.E. Reed Facility during the period January 1, 2002 and June 30, 2002 was capitalized into a separate note payable that accrues and accumulates interest at a per annum rate equal to six and one-quarter percent (6.25%) through September 30, 2004, with interest compounded quarterly. After September 30, 2004, the accumulated interest will be capitalized into the related note and the principal and capitalized interest will accumulate interest at the per annum rate equal to six and one-quarter percent (6.25%) with interest compounded and payable quarterly. Together with any unpaid principal and accrued interest, the separate J. E. Reed accrued interest note will mature and become payable on June 30, 2007. The J. E. Reed accrued interest note is subordinate to the Wainwright Bank \$6.0 million line of credit.

CAPITAL LEASE OBLIGATIONS:

The Company is obligated under a number of capital lease obligations originally entered into by CareCentric related to computer equipment formerly used in CareCentric's business.

The fair value of the Company's long-term debt is estimated based on the current interest rates offered to the Company for debt offered under the liquidity conditions and credit profile of the Company. Management believes the carrying value of debt and the contractual values of the outstanding letters of credit approximate their fair values as of September 30, 2002.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company leases its office facilities and certain equipment under various operating lease agreements. These leases require the Company to pay taxes, insurance, and maintenance expenses and provide for renewal options at the then fair market rental value of the property.

CONTINGENCIES

The Company is engaged in various legal and regulatory proceedings arising in the normal course of business which management believes will not have a

Edgar Filing: CARECENTRIC INC - Form 10-Q

material adverse effect on its financial position or results of operations.

Simione Central Holding, Inc., a subsidiary of CareCentric now known as SC Holding, Inc. ("SC Holding"), was one of several defendants named in a "whistleblower" lawsuit related to alleged Medicare fraud filed under the False Claims Act in the Northern District of Georgia (U.S. ex re. McLendon v. Columbia/HCA Healthcare Corp., et al., No. 97-VC-0890 (N.D. Ga.)). The lawsuit involves alleged claims that SC Holding allegedly participated in a conspiracy with Columbia/HCA and other third parties to bill inflated and fraudulent claims to Medicare. On July 21, 1999, the Justice Department issued notice that it had elected not to join in the claims asserted against SC Holding by Donald McLendon, who is a former employee of an unrelated service provider to Columbia/HCA. Although the Justice Department joined the suit with regard to other defendants, it specifically declined to intervene with regard to SC Holding. In late 2000, CareCentric was advised by Mr. McLendon's attorney that notwithstanding the declination by the Justice Department, Mr. McLendon intends to pursue "whistleblower" claims against SC Holding directly. Through November 8, 2002, no such action has been taken and nothing further has been heard from McLendon's attorney in over one year. Management believes that this claim has been abandoned. In the event a claim is asserted, however, CareCentric and SC Holding intend to vigorously defend against it.

In addition, the Company has subleased several offices that it no longer uses; the Company remains contingently liable for the lease payments on these subleased offices.

16

NOTE 8 - SHAREHOLDERS' EQUITY

On July 1, 2002, the Company completed a recapitalization plan initiated on April 8, 2002. The recapitalization plan was approved by the common shareholders of the Company at the June 6, 2002 annual stockholders' meeting. Under the terms of the recapitalization plan, the Company's Preferred Stock and Common Stock warrants were partially restructured. The effect of the recapitalization plan is summarized below for each class of equity.

The Company's shareholders' equity (all on a split-adjusted basis) is comprised of the following:

COMMON SHARES - 20,000,000 SHARES AUTHORIZED

Common Shares - 20,000,000 shares authorized, \$.001 par value, 4,371,350 shares issued and outstanding as of September 30, 2002 and December 31, 2001. 1,489,853 of such shares were issued on March 7, 2000 to the former MCS common shareholders. 606,904 of such shares were issued on March 7, 2000 to the former preferred shareholders and noteholders of CareCentric Solutions, Inc., which shares were converted from Series A Preferred Stock into CareCentric (formerly known as Simione Central Holdings, Inc.) common shares in connection with the merger.

Pursuant to the terms of the July 12, 1999 merger agreement by which Simione acquired the stock of CareCentric Solutions, Inc., the Company was required to issue up to an additional 606,904 shares of common stock to the former preferred shareholders and noteholders of CareCentric Solutions if the average closing price of the Company's stock for the period October 1, 2000 through December 31, 2000 is not equal to or greater than \$15.00 per share. Since the Company's average closing stock price for the fourth quarter of 2000 was less than \$15.00 per share, on March 19, 2001, the Company issued 593,688

Edgar Filing: CARECENTRIC INC - Form 10-Q

shares of its common stock to the former preferred shareholders and noteholders of CareCentric Solutions. As required by generally accepted accounting principles, no value was assigned to these shares as it was deemed not to impact total consideration paid. The Company asserted that it was not required to issue 13,216 additional shares of its common stock as well as 150,740 shares of common stock that were being held in escrow under the terms of the CareCentric Solutions Merger Agreement based upon various indemnification and expense overages claims the Company had against the former CareCentric Solutions preferred shareholders and noteholders. On May 16, 2001, the Company finalized a settlement of these claims with the representative of the former CareCentric Solutions parties pursuant to which 88,586 shares of common stock were released from escrow and distributed to the former CareCentric Solutions preferred shareholders and noteholders, the remaining 62,154 escrow shares were cancelled, no additional shares of common stock will be issued, and the parties executed a comprehensive settlement agreement.

Pursuant to a comprehensive settlement agreement on June 28, 2001, between Sterling Star, Inc., Mr. Ted Wade (President of Sterling Star, Inc.) and the Company, certain disputes related to the acquisition of a product named Tropical Software were settled. Under the terms of the settlement, 10,000 shares of common stock originally issued to Sterling Star were returned to the Company and were cancelled.

PREFERRED STOCK-10,000,000 SHARES AUTHORIZED

Series B Preferred Stock - \$.001 par value, 5,600,000 shares issued. The shares of Series B Preferred Stock are held by Mestek, Inc. (Mestek) and were issued in consideration of \$6,000,000 paid to CareCentric on March 7, 2000, in the form of cash and debt forgiveness. The Series B Preferred shares, as originally issued, carried 2,240,000 common share votes (on a split-adjusted basis) and were entitled to a 9% annual cumulative dividend, among other rights. In connection with the Company's application for listing on the Nasdaq SmallCap Market, the Company reached an agreement with Mestek on June 12, 2000, under which Mestek agreed to allow the aforementioned number of common share votes to be reduced to 1,120,000 in consideration for the issuance by the Company to Mestek of a warrant to acquire up to 490,396 shares of CareCentric common stock, as more fully described below. On March 29, 2002, in connection with the refinancing commitments made to the Company by Mestek and John E. Reed (as further described in Note 13), Mestek transferred the voting rights associated with the Series B Preferred Stock to Mr. Reed. As a result of the July 1, 2002 recapitalization plan, the terms of the Series B Preferred Stock were amended to provide that each share is convertible into 1.072 shares of common stock.

17

Series C Preferred Stock - \$.001 par value, 850,000 shares issued. As a result of the July 1, 2002 recapitalization plan, the Series C Preferred Stock was cancelled, and the \$850,000 of cash value originally contributed by Mestek was consolidated into a Mestek convertible Note as more fully described in Note 6 above. \$208,000 of accumulated and unpaid dividends through June 30, 2002 on the Series C Preferred Stock were cancelled and recorded as a reduction in preferred dividend expense and an increase in net income at June 30, 2002.

Prior to the July 1, 2002 capital restructuring, the shares of Series C Preferred Stock were held by Mestek and resulted from the conversion at the March 7, 2000 merger of a pre-existing \$850,000 convertible note payable to Mestek. The Series C Preferred shares carried 170,000 common share votes (on a split adjusted basis) and were entitled to an 11% annual cumulative dividend, among other rights.

Edgar Filing: CARECENTRIC INC - Form 10-Q

Series D Preferred Stock - \$.001 par value, 398,406 shares issued. The shares of Series D Preferred Stock are held by John E. Reed and were issued on June 12, 2000 in consideration of \$1.0 million paid to the Company in cash. The Series D Preferred shares have a 9% annual cumulative dividend, are convertible into common stock at an initial conversion price of \$2.51 per share, limit the ability to issue dilutive stock options and have voting rights equal to those of the common stock, among other rights.

Series E Preferred Stock - \$.001 par value, 210,000 shares issued under a restricted stock award. The shares of Series E Preferred Stock are held by John R. Festa and the rights to those shares were granted on November 10, 2001. The Series E Preferred shares are entitled to certain voting, dividend, liquidation and conversion rights.

As of September 30, 2002, the Company had a cumulative preferred dividends liability of \$1,594,700 comprised of \$1,384,890 for Series B Preferred shares, \$204,315 for Series D Preferred shares and \$ 5,495 for Series E Preferred shares. Cumulative preferred dividends payable are included in the accrued liabilities account presented on the Consolidated Balance Sheets in the accompanying financial statements.

WARRANTS AND OPTIONS

Common Stock Warrants - In connection with the issuance of the Series B Preferred Stock described above, Mestek received a warrant to acquire up to 400,000 shares of the Company's common stock at a per share exercise price equal to \$10.875. In connection with the waiver by Mestek of certain voting rights previously granted to it, Mestek received on June 12, 2000 a warrant to acquire up to 490,396 shares of the Company's common stock for a term of 3 years at a per share exercise price equal to \$3.21. In connection with Mestek's guarantee of the Company's obligations under the line of credit from Wainwright Bank and Trust Company, as more fully explained in Note 6 to these Financial Statements, Mestek received on July 12, 2000 a warrant to acquire up to 104,712 shares of the Company's common stock for a term of 3 years at a per share exercise price equal to \$2.51. The aforementioned number of shares and per share prices is all on a split-adjusted basis. Other warrants existing prior to the merger transaction to acquire up to 25,000 shares of common stock remain outstanding.

As a result of the July 1, 2002 capital restructuring, the warrants issued to Mestek to purchase 490,396 and 400,000 shares of Company common stock were cancelled and reissued with an exercise price of \$1.00 per share and an expiration date of June 15, 2004. Additionally, the warrants issued to Mestek to purchase 104,712 shares of the Company's common stock were cancelled.

The Company's outstanding Warrants as of September 30, 2002 are summarized in tabular form as follows:

COMMON SHARES	EXERCISE PRICE	EXPIRATION DATE
490,396	\$ 1.00	June 15, 2004
400,000	\$ 1.00	June 15, 2004
25,000	\$ 5.00	February 24, 2005
----- 915,396 =====		

Edgar Filing: CARECENTRIC INC - Form 10-Q

Stock Options - Options totaling 1,000 shares were outstanding and vested under the now discontinued 1997 SCHI NQ (Directors) Plan at an exercise price of \$60.00. Non-plan options totaling 107,453 shares, of which 90,787 are exercisable, are outstanding at exercise prices ranging from \$2.51 to \$45.00. The Simone Central Holding Inc. 1997 Omnibus Equity-Based Plan (the "Plan") is the only continuing stock option plan of the Company. The Plan offers both incentive stock options and non-qualified stock options. The Company is authorized to grant options of up to 900,000 shares of common stock. As of September 30, 2002, options totaling 486,894 shares were outstanding, of which 173,566 shares are exercisable, at exercise prices ranging from \$1.00 to \$73.55.

In connection with the Simone/MCS merger on March 7, 2000, Mestek was granted a series of options to purchase a total of approximately 378,295 shares of the Company's common stock (on a split-adjusted basis). These options were cancelled as a result of the July 1, 2002 capital restructuring.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Company has subleased certain space to Healthfield, Inc. which is a MestaMed(R) customer and has a significant shareholder who was a former member of the board of directors of the Company. The original lease and related sublease expire on December 31, 2002 and require annual sublease payments equal to the original lease payments of approximately \$730,000.

During the year ended December 31, 2001, R. Bruce Dewey was Vice Chairman of the Board of Directors, and president of the Company and Chief Operating Officer of Mestek Inc. Mr. Dewey was replaced by Mr. John R. Festa as President and Chief Executive Officer of the Company in October 2001 and did not stand for re-election to the Board of Directors in 2002.

Winston R. Hindle, Jr., a director of the Company, is a director of Mestek. Mestek has certain investments in the Company in the form of notes, convertible notes, warrants, stock options and preferred stock as described in Notes 6, 8 and 13 to these Financial Statements.

The Company has a note receivable from Simone Consultants, LLC of \$467,000 at September 30, 2002. On September 28, 2001, the Company discontinued its Consulting business segment by closing the sale of certain of the assets of its wholly-owned subsidiary, Simone Consulting, Inc. ("Consulting") to Simone Consultants, LLC, which is owned and controlled by William J. Simone, Jr., a director and former officer of CareCentric. The total sales price was approximately \$2.0 million plus the assumption of certain liabilities. The sale was made pursuant to an asset purchase agreement. William Simone, Jr. has resigned as an officer of, but remains a director of, CareCentric. The assets sold under the agreement included the Consulting accounts receivable, computer equipment, and miscellaneous prepaid expenses. Consideration received consisted of approximately \$1.0 million in cash and \$1.0 million in notes, \$770,000 with a 36-month term and \$230,000 with a 5-month term. The cash proceeds were used to pay down CareCentric's line of credit.

As of September 30, 2002, the Company had a promissory note outstanding to Barrett C. O'Donnell, a director of the Company, as described in Note 6 to these Financial Statements.

John E. Reed is a director and a significant, but not controlling, shareholder of the Wainwright Bank and Trust Company which has provided the Company with a \$6.0 million line of credit, as more fully explained in Note 6 to the Financial Statements.

John E. Reed, Chairman of the Company and Chairman and Chief Executive

Edgar Filing: CARECENTRIC INC - Form 10-Q

Officer of Mestek, has provided the Company with a \$3.6 million convertible note and a \$0.1 million accrued interest note as more fully described in Note 6 to the Financial Statements. Mr. Reed also purchased \$1.0 million of the Company's Series D Preferred Stock on June 12, 2000, as more fully described in Note 8 to these Financial Statements. Mestek has provided the Company with a \$4.0 million convertible note. The John E. Reed and Mestek notes were originally part of a \$6.0 million line of credit (unrelated to the Wainwright Bank and Trust \$6.0 million line of credit described above) which was cancelled as a result of the July 1, 2002 recapitalization. An independent committee of the Company's Board

19

of Directors, consisting of Barrett C. O'Donnell and David O. Ellis, negotiated the terms of Mr. Reed's debt and equity investments in the Company. The issuance of 398,406 shares of Series D Preferred Stock to Mr. Reed for his \$1.0 million equity investment was based on a per share price of \$2.51, which was the 5-day average closing price of CareCentric common stock as of the date of the final negotiation of the terms of Mr. Reed's purchase.

Warrants were granted in June 2000 and July 2000 by the Company to Mestek in connection with its waiver of certain voting rights previously granted to it and in connection with its guarantee of the loan from Wainwright Bank and Trust Company to the Company. The terms of the warrants (as described in more detail in Note 8 to these Financial Statements) were based on negotiations by independent committees of the Boards of Directors of the Company and Mestek.

On August 22, 2002, the Company's common stock was delisted from the Nasdaq Small Cap Market and has been listed on the Over the Counter Bulletin Board since that date.

NOTE 10 - LICENSE AGREEMENTS

The Company licenses certain software products from third parties for incorporation in, or other use with, its products and is obligated to pay license fees in connection with such products. The Company sublicenses such products to its customers and collects fees in connection with such sublicensees.

NOTE 11 - EXECUTIVE COMPENSATION

The Company has entered into an employment agreement with its President and Chief Executive Officer, Mr. John Festa. Among other specific contents, Mr. Festa (i) has been granted 210,000 shares of Series E preferred stock, one half of which vest evenly over the course of three years from his hire date dependent upon his continued employment as President and CEO and one half of which are forfeitable pro rata over a three year period if certain financial milestones are not met, (ii) payment of an annual bonus of up to 50% of his annual salary based on completion of annual performance objectives, (iii) the possibility of receiving a special bonus which varies in dollar amount in the event there is a sale of the Company while Mr. Festa is President and CEO and for nine months thereafter. The Series E preferred stock was originally valued at approximately \$210,000 and is being amortized as compensation expense over the three-year vesting period. The amount representing unearned compensation is recorded as an increase in the stockholders deficit account. For the three and nine months ended September 30, 2002, approximately \$18,000 and \$58,000, respectively, was recorded as current expense associated with earnings under this grant.

NOTE 12 - LIQUIDITY

As disclosed in the financial statements, the Company's operations used

Edgar Filing: CARECENTRIC INC - Form 10-Q

significant amounts of cash in 2001. The Company has a working capital deficit of \$13.3 million at September 30, 2002. During the first six months of 2002, the Company occasionally used its Wainwright Bank Credit Line and the Reed Credit Line in order to meet its working capital needs. As a result of the July 1, 2002 recapitalization, the Reed Credit facility was cancelled and as more fully explained in Note 6 to these financial statements, replaced by long-term interest deferred notes that mature on September 30, 2007. During the three months ended September 30, 2002 the company paid back \$0.8 million of liability on the Wainwright Bank Credit Line.

As of October 30, 2002, the Company had unused credit capacity of approximately \$1.3 million from the \$6.0 million Wainwright Bank facility. The Company believes the combination of the funds available from cash to be generated from future operations and the Wainwright Bank facility will be sufficient to meet the Company's operating requirements through at least September 30, 2003, assuming no material adverse change in the operation of the Company's business. Nevertheless, as revenues increase sufficiently to cover fluctuations in forward-looking costs and operating expenses, the Company does not expect to, but may need, the continued support of its majority shareholder to manage short-term working capital fluctuations. The Company's majority shareholder has stated he will consider and has the ability to continue to advance short term working capital loans to the Company on terms similar to his existing loans with the Company.

20

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute "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, and the Private Securities Litigation Reform Act of 1995, and are subject to the safe harbor created by such sections. When used in this report, the words "believe", "anticipate", "estimate", "expect", "plans", "intend", "likely", "will" and similar expressions are intended to identify forward-looking statements. The Company's future financial performance could differ significantly from that set forth herein, and from the expectations of management. Important factors that could cause the Company's financial performance to differ materially from past results and from those expressed in any forward looking statements include, without limitation, the inability to obtain additional capital resources, variability in quarterly operating results, customer concentration, product acceptance, long sales cycles, long and varying delivery cycles, the Company's dependence on business partners, emerging technological standards, changing regulatory standards, inability to retain or hire experienced and knowledgeable employees, risks associated with acquisitions, increased regulation of the health care industry, future consolidation of the health care industry, potential liability in connection with a Department of Labor investigation or IRS audit, the need to develop new and enhanced products, product delays and errors, competition, difficulty protecting intellectual property rights, and the risk factors detailed in the Company's Registration Statement on Form S-4 (File No. 333-96529) and in the Company's periodic reports filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking

Edgar Filing: CARECENTRIC INC - Form 10-Q

statements, which speak only as of their dates. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's consolidated financial statements and the notes thereto. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of the Company's Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods that we follow.

General

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the intangible assets, realization of deferred income taxes and the adequacy of allowances for returns and doubtful accounts. Actual amounts could differ significantly from these estimates.

Our critical accounting policies are as follows:

- o revenue recognition;
- o estimate of allowance for uncollectible accounts; and
- o valuation of long-lived and intangible assets and goodwill.

Revenue Recognition

The Company sells its software pursuant to non-exclusive license agreements which provide for the payment of a one-time license fee. In accordance with the American Institute of Certified Public Accountants Statement of Position 97-2, "Revenue Recognition", these revenues are recognized when products are delivered

and the collectability of fees is probable, provided that no significant obligations remain under the contract. Revenues derived from the sale of software products not requiring significant modification or customization are recognized when products are delivered and collectability of fees is probable, provided that no significant obligations remain under the contract. The price of the Company's software varies depending on the number of software modules licensed and the number of users accessing the system and can range from under ten thousand dollars to a few million dollars. The Company generally requires payment of a deposit upon the signing of a customer order as well as certain additional payments prior to delivery. As a result, the Company's balance sheet reflects significant customer deposits.

Edgar Filing: CARECENTRIC INC - Form 10-Q

Third-party software and computer hardware revenues are recognized when the related products are delivered. Software support agreements are generally renewable for one-year periods, and revenue derived from such agreements is recognized ratably over the period of the agreements. The Company has historically maintained high renewal rates with respect to its software support agreements. The Company generally charges for software implementation, training and technical consulting services as well as management consulting services on an hourly or daily basis. The Company offers "tiered pricing" for implementation of new systems whereby the customer pays a fixed fee for a certain level of packaged services and daily fees for services beyond the package.

Revenues for post-contract customer support are recognized ratably over the term of the support period, which is typically one year. Post contract customer support fees typically cover incremental product enhancements, regulatory updates and correction of software errors. Separate fees are charged for significant product enhancements, new software modules, additional users, and migrations to different operating system platforms.

Estimate of Allowance for Uncollectible Accounts

The Company continuously reviews the status of all its accounts receivable with its customers for current collectability. The Company recognizes that there are circumstances under which customers will delay payment beyond the terms offered by the Company either because of their own payment practices or temporary situations which need to be resolved before the customer will continue payment. Reserves for uncollectability are based on various ages of those accounts receivable past their original due date for collection. The Company does not write the account off against the reserve for uncollectible account until all efforts to collect the accounts receivable have been exhausted.

Valuation of Long-Lived and Intangible Assets and Goodwill

The Company assesses the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers important which could trigger an impairment review include the following:

- o significant underperformance relative to expected historical or projected future operating results;
- o significant changes in the manner of the Company's use of the acquired assets or the strategy for its overall business; and
- o significant negative industry or economic trends.

When the Company determines that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. After recording a \$11.8 million impairment adjustment, net intangible assets amounted to \$5.4 million as of December 31, 2001. See Note 5 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Effect of Discontinued Operations and SFAS No. 142 on Management Discussion and Analysis

To present a more meaningful analysis of operating performance, the comparison of the three months and nine months ended September 30, 2002 to

September 30, 2001 compares the 2002 reported Financial Statements in the accompanying Financial Statements to a pro forma 2001 statement of operating results. The pro forma adjustments for the 2001 financial statements were to exclude the results of the discontinued operations of the Consulting segment of CareCentric, Inc. in September of 2001 (see Note 2 to the accompanying Financial Statements) and to reduce amortization expense for the effect of adopting SFAS No. 142 (see Note 1 to the accompanying Financial Statements).

RESULTS OF OPERATIONS FOR THREE MONTHS ENDED SEPTEMBER 30, 2002

Net Revenues. Revenues (exclusive of the Consulting segment, which was discontinued in September 2001) were \$5.7 million for the three months ended September 30, 2002 and \$5.1 million for the three months ended September 30, 2001, or an increase of 10.8%. The \$0.6 million increase was attributable to an increase in software system sales and related income of \$0.2 million to \$2.7 million in 2002 from \$2.5 million in 2001 and increase in maintenance revenues of \$0.4 million to \$3.0 in 2002 from \$2.6 million in 2001.

Cost of Revenues. Cost of revenues decreased \$0.2 million, or 11.8%, to \$1.7 million in 2002 from \$1.9 million for the three months ended September 30, 2001. As a percentage of total net revenues, cost of revenues decreased to 30.8% in 2002 from 38.7% in 2001. The \$0.2 million decrease resulted primarily from cost cutting and changes in product mix. The decrease as a percentage of total net revenues is due to the combined impact of many factors including improved efficiencies in installation procedures and reduced support costs resulting from lower sales discounts and changes in product mix.

Selling, General and Administrative. Selling, general and administrative expenses decreased \$0.5 million, or 19.1%, to \$2.1 million for the three months ended September 30, 2002 from \$2.6 million for the three months ended September 30, 2001. As a percentage of total net revenues, selling, general and administrative expenses were 36.5% for the three months ended September 30, 2002 and 50.0% for the three months ended September 30, 2001. This decrease was attributable to synergies derived from cost savings initiatives implemented in 2001 and early 2002. Cost savings were primarily realized through the centralization of administrative functions and elimination of non-essential facilities and excess capacity.

Research and Development. Research and development expenses decreased approximately \$0.5 million, or 37.0%, to \$0.9 million for the three months ended September 30, 2002 from \$1.4 million for the three months ended September 30, 2001. As a percentage of total net revenues, research and development expenses decreased to 15.8% for the three months ended September 30, 2002 from 27.7% for the three months ended September 30, 2001. The decrease in research and development expenditures was primarily due to the Company's realignment of research efforts between existing and future platform products. The expenditure on research and development in the third quarter was unchanged at \$0.9 million for the second quarter. The Company believes the level of expenditure maintained in the second and third quarters of 2002 is the proper amount to both enhance and maintain existing products and begin development of new product platforms. As development of new product platforms advance, the Company expects research and development expenses to rise above the current 15.8% but remain below the historic 27.7% of revenue level experienced in 2001.

Amortization and Depreciation. Amortization and depreciation decreased by \$0.6 million to \$0.4 million for the three months ended September 30, 2002 from \$1.0 million for the three months ended September 30, 2001. This decrease is attributable to the net effect of the adoption of SFAS No. 142 and the reduction

Edgar Filing: CARECENTRIC INC - Form 10-Q

in amortization from the write off of the intangibles in the fourth quarter of 2001.

Operating income (Loss). The Company's net income from operations, reflecting the same assumptions as above for purposes of comparability, increased from a loss of \$1.9 million for the three months ended September 30, 2001 to a net profit of \$0.4 million for the three months ended September 30, 2002. This change to profitability from a loss from continuing operations is due to the combined effect of the increase in revenue, reductions in all components of expenses including selling, general and administrative, research and development and amortization expenses.

Other Income (Expense). Interest expense related to borrowings under the Company's line of credit agreements, loans and capital lease obligations increased \$135,000 to \$174,000 for three months ended September 30, 2002

23

compared to \$39,000 for the three months ended September 30, 2001. Interest and other income consist principally of interest income related to customer finance charges and the Company's short term cash investments. The increase in net interest expense in 2002 was caused by an increase in interest bearing debt in 2002.

Income Taxes. The Company has not incurred or paid any substantial income taxes since March 2000. At December 31, 2001, CareCentric had net operating loss ("NOL") carryforwards for federal and state income tax purposes of \$36.7 million. Such losses expire beginning in 2008, if not utilized. The Tax Reform Act of 1986, as amended, contains provisions that limit the NOL and tax credit carryforwards available to be used in any given year when certain events occur, including additional sales of equity securities and other changes in ownership. As a result, certain of the NOL carryforwards may be limited as to their utilization in any year. The Company has concluded that it is more likely than not that these NOL carryforwards will not be realized based on a weighing of available evidence at September 30, 2002, and accordingly, a 100% deferred tax valuation allowance has been recorded against these assets.

Loss from Operations of Discontinued Segment. The loss of \$2.8 million for the three months ended September 30, 2001 was attributable to the loss on disposal of \$2.6 million and a \$0.2 million loss from operations from the discontinued operations of the Consulting segment. The \$2.6 million loss on disposal was the result of the write off of intangible assets attributed to the Consulting business at the March 7, 2000 merger date with MCS, Inc.

Cumulative Preferred Dividends. Cumulative preferred dividends for the three months ended September 30, 2002 was \$184,000 compared to \$180,000 for the three months ended September 30, 2002 and 2001 respectively.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

Net Revenues. Total net revenues for the nine months ended September 30, 2002 increased by \$0.3 million, or 1.6%, to \$16.7 million in 2002 from \$16.4 million in 2001. Revenues from software systems and related income increased \$0.1 million to \$8.3 million in 2002 from \$8.2 million in 2001. Revenues from software maintenance increase \$0.2 million, or 2.0%, to \$8.4 million in 2002 from \$8.2 million in 2001.

Cost of Revenues. Total cost of revenues decreased approximately \$1.3 million, or 19.9%, to \$5.2 million for the nine months ended September 30, 2002 from \$6.5 million for the nine months ended September 30, 2001. As a percentage

Edgar Filing: CARECENTRIC INC - Form 10-Q

of total revenues, cost of revenues decreased to 31.0% in 2002 from 39.4% in 2001. The \$1.3 million decrease resulted primarily from cost cutting and changes in product mix. The decrease as a percentage of total net revenues is mainly the result of efficiencies in installation and support costs, reduced sales discounts and changes in product mix.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses decreased \$0.7 million to \$7.4 million for the nine months ended September 30, 2002 from \$8.1 million for the nine months ended September 30, 2001. This decrease is principally attributable to the net effect of synergies derived from centralization of administrative functions and elimination of non-essential facilities and excess capacity. As a percentage of total net revenues, selling, general and administrative expenses were 43.9% for the nine months ended September 30, 2002 compared with 49.1% for the nine months ended September 30, 2001.

Research and Development Expenses. Research and development expenses decreased \$2.0 million, or 42.0%, to \$2.8 million for the nine months ended September 30, 2002 from \$4.8 million for the nine months ended September 30, 2001. As a percentage of total net revenues, these expenses decreased to 16.6% for the nine months ended September 30, 2002 from 29.1% for the nine months ended September 30, 2001. As the Company advances development of its next generation product platforms, research and development expenditures are expected to increase to a higher level than experienced in the first nine months of 2002.

Amortization and Depreciation. Amortization and depreciation decreased by \$1.6 million to \$1.3 million for the nine months ended September 30, 2002 from \$2.9 million for the nine months ended September 30, 2001. This decrease is attributable to the net effect of the adoption of SFAS No. 142 and the reduction in amortization from the write off of the intangible assets in the fourth quarter of 2001.

24

Other Income (Expense). Interest expense related to borrowings under the Company's line of credit agreements and capital lease obligations increased \$0.2 million for the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001. Interest and other income, which consist principally of interest income related to customer finance charges and the Company's short-term cash investments, have decreased by approximately \$0.2 million. The Company expects a net increase in interest expense in 2002 caused by an increase in interest bearing debt in 2002.

BACKLOG

The Company's backlog associated with its software operations was approximately \$2.2 million at September 30, 2002 compared to \$3.2 million at December 31, 2001. Backlog consists of the unrecognized portion of contractually committed software license fees, hardware, estimated installation fees and professional services. The length of time required to complete an implementation depends on many factors outside the control of the Company, including the state of the customer's existing information systems and the customer's ability to commit the personnel and other resources necessary to complete the implementation process. As a result, the Company may be unable to predict accurately the amount of revenue it will recognize in any period and therefore can make no assurances that the amounts in backlog will be recognized in the next three months.

Edgar Filing: CARECENTRIC INC - Form 10-Q

LIQUIDITY AND CAPITAL RESOURCES

In November 1999, CareCentric, prior to the merger with MCS and when its pre-merger name was Simione Central Holdings, Inc. (Simione), received \$1.6 million of loans from Mestek (\$850,000) and two stockholders of Simione (\$750,000), Barrett C. O'Donnell and David Ellis, to fund operating needs and continue the execution of product strategies in the fourth quarter of 1999. The \$850,000 loan from Mestek was converted into 850,000 shares of newly issued Series C Preferred stock of Simione at the closing of the MCS merger having 170,000 common shares votes and which were entitled to an 11.0% annual cumulative dividend. The loan from Mr. O'Donnell along with \$100,000 in deferred salary were exchanged for a \$600,000 subordinated note, convertible into common stock at \$2.51 per share, with interest at 9% per annum and a maturity date of August 8, 2005. In January 2002, this loan was amended to change the interest rate to prime plus two percent and to change the terms of payment of interest for 2002 to require that one-half of the accrued interest be timely paid each quarter and the balance to be paid on December 31, 2003 or to be converted into an additional convertible note. The loan from Dr. Ellis was paid in full on July 12, 2000 from the credit facility provided by Wainwright Bank and Trust Company. See Note 6 to the accompanying Consolidated Financial Statements.

In February 2000, Simione received an additional \$1.0 million of loan proceeds from Mestek. The loan proceeds were used to fund Simione's operating needs until completion of the merger with MCS, and carried the same terms and security as a \$3.0 million loan received from Mestek in September 1999. On March 7, 2000, the merger with MCS was completed and Mestek's notes evidencing the \$1.0 million and \$3.0 million loans, together with an additional \$2.0 million in cash from Mestek, were converted into Series B Preferred Stock and a warrant to purchase CareCentric common stock as more fully explained in Note 6 to the accompanying Consolidated Financial Statements. The consolidation of the accounts receivable of MCS into the then outstanding balance of Simione's accounts receivable provided an additional \$1.5 million of borrowing capacity on the \$5.0 million bank line of credit established by Simione in September 1999.

Immediately after the Simione/MCS merger on March 7, 2000, the Company had cash and cash equivalents of \$3.5 million and short and long term debt from all sources of \$2.5 million, for a positive net cash/(debt) position of approximately \$1.0 million. In order to supplement its capital resources, the Company, subsequent to the merger, undertook a search for additional capital resources. On June 22, 2000, the Company closed a financing with John E. Reed, a CareCentric director and the chief executive officer of Mestek, of up to \$7 million. The financing consisted of \$1 million in equity, and a \$6 million subordinated revolving line of credit facility, convertible into common stock of CareCentric, with a 9% interest rate and five-year maturity. On July 12, 2000, the Company closed a financing with Wainwright Bank and Trust Company for access to a \$6.0 million revolving line of credit, which was guaranteed by Mestek, Inc. These three transactions are described in greater detail in Note 6 to the accompanying Consolidated Financial Statements and resulted in the creation of the following credit and debt facilities and preferred equity securities:

25

CREDIT AND DEBT AND PREFERRED EQUITY SECURITIES IN JULY 2000

SOURCE	FUNDING	FORM	DATE C
Barrett C. O'Donnell	\$ 600,000	Convertible Note	November

Edgar Filing: CARECENTRIC INC - Form 10-Q

John E. Reed	\$ 1,000,000	Series D Preferred Stock	June 22
John E. Reed	6,000,000	Line of Credit	June 22
Wainwright Bank and Trust Company	6,000,000	Line of Credit	July 12

	\$13,600,000		
	=====		

Throughout 2000 and 2001, advances were made on the John E. Reed line of credit such that on December 31, 2001, the outstanding amount under the Credit Facility was \$3.5 million, \$1.0 million of which was participated to Mestek, and the balance of which was retained by Mr. Reed. On December 31, 2001, the facility was amended to change the interest rate to prime plus two percent, to change the payment terms for unpaid 2001 interest to require payment at December 31, 2003 or to convert the outstanding unpaid interest to additional convertible notes in the amount of \$184,438 at the option of Mr. Reed, and in the amount of \$40,463 at the option of Mestek, and to change the terms of payment of interest for 2002 to require that one-half be timely paid each quarter and the balance to be paid on December 31, 2003 or to be converted to additional convertible notes.

During 2000 and 2001, the Company became obligated under an 18 month unsecured promissory note in the principal amount of \$1,019,000 payable to Mestek which earned interest at prime plus one and one half percent (1.5%), with interest payable semiannually and which matured on September 30, 2003. This note covers funds advanced by Mestek to CareCentric to cover payroll and accounts payable obligations incurred by the Company during the period of its transition of senior lenders from Silicon Valley Bank to Wainwright Bank and Trust Company, accrued and unpaid interest thereon and the unreimbursed portion of Mr. R. Bruce Dewey's salary for the periods from November 9, 1999 to October 31, 2001.

Also during 2000, 2001 and the first quarter of 2002, the Company incurred operating losses resulting from numerous factors, including the uncertain operating condition of its customers due to the negative effects of the current government limits over home medical cost reimbursement, higher than anticipated costs of developing, implementing and supporting The Smart Clipboard(R) product and slower than expected completion of effective integration of the MCS and Simone Central organizations. In addition, sales revenue in 2000 was lower than planned in the core MestaMed(R), DME VI and STAT2 products while new sales of The Smart Clipboard(R) and Tropical products (now discontinued) did not develop as quickly as projected.

On April 8, 2002, the Company secured two commitments for additional financing, from existing shareholders John Reed and Mestek. Mr. Reed and Mestek provided \$871,117 and \$1,092,000 in short-term debt financing, respectively.

Also on April 8, 2002, the Company initialized a recapitalization of its interest bearing debt and preferred equity instruments. The recapitalization plan was approved by the Company's shareholders at the June 6, 2002 annual stockholders meeting and completed on July 1, 2002. See Notes 6 and 8 to the accompanying Financial Statements for the impact of the recapitalization plan on each class of debt and preferred stock. Following the completion of the recapitalization plan on July 1, 2002, the Company's credit and debt facilities and related preferred equity securities consist of the following:

Edgar Filing: CARECENTRIC INC - Form 10-Q

CREDIT AND DEBT AND PREFERRED EQUITY SECURITIES AT SEPTEMBER 2002

SOURCE	FUNDING	FORM	
Barrett C. O'Donnell	\$ 600,000	Convertible Note maturing August, 2005	No
John E. Reed	\$ 1,000,000	398,000 shares of convertible Series D Preferred Stock	Ju
Mestek, Inc.	\$ 4,000,000	Convertible deferred interest Note maturing June 30, 2007	J
John E. Reed	\$ 3,555,555	Convertible deferred interest Note maturing June 30, 2007	J
John E. Reed	\$ 103,818	Capitalized deferred interest Note maturing June 30, 2007	J
Wainwright Bank and Trust Company	6,000,000	Line of Credit	Ju
	----- \$15,259,373 =====		

The John E. Reed and Mestek, Inc. debt and equity amounts have all been fully funded to the Company as of September 30, 2002. During the third quarter, the Company paid off \$0.8 million of the Wainwright Bank and Trust Company line of credit resulting in an outstanding balance of \$5.1 million at September 30, 2002.

During the month of October 2002, the Company has paid off an additional \$0.4 million on the Wainwright Bank line of credit, resulting in \$1.7 million of unused credit capacity as of November 8, 2002. The Company believes the combination of the funds available from cash to be generated from future operations and the Wainwright Bank facility will be sufficient to meet the Company's operating requirements through at least September 30, 2003, assuming no material adverse change in the operation of the Company's business. Nevertheless, until revenues increase sufficiently to cover fluctuations in forward-looking costs and operating expenses, the Company may need the continued support of its majority shareholder to manage short-term working capital fluctuations. The Company's majority shareholder has stated he will consider and has the ability to continue to advance short term working capital loans to the Company on terms similar to his existing credit facility. See also Note 12 to Financial Statements.

The table below summarizes the Company's debt and other contractual obligations at September 30, 2002:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	2-3 YEARS	4 - 5 YEARS
Long-Term Debt	\$ 8,380,000	\$ -	\$ 600,000	\$ 7,780,000
Capital Lease Obligations	7,500	7,500	-	-

Edgar Filing: CARECENTRIC INC - Form 10-Q

Operating Leases	2,164,000	1,121,000	1,034,000	9,
Line of Credit	5,125,000	5,125,000	-	
Other Long-Term Obligations	1,327,000	1,027,000	300,000	
	-----	-----	-----	-----
Total Contractual Cash Obligations	\$ 17,003,500	\$ 7,280,500	\$ 1,934,000	\$ 7,789,
	=====	=====	=====	=====

27

As of September 30, 2002, the Company had negative working capital of \$13.3 million and cash equivalents of \$1.1 million. The Company's current liabilities as of September 30, 2002 include customer deposits of \$1.5 million and unearned revenues of \$4.9 million.

Net cash provided by operating activities for the three months ended September 30, 2002 was \$1.1 million compared to a use of cash by operating activities for the three months ended September 30, 2001 of \$1.2 million. Net cash used in operating activities for the nine months ended September 30, 2002 and September 30, 2001 was \$0.8 million and \$4.1 million, respectively.

Cash flows from financing activities during the nine months ended September 30, 2002 include John E. Reed and Mestek, Inc. borrowings made before the recapitalization plan was completed on July 1, 2002.

Inflation has not had, and is not expected to have, a material impact on the Company's operations. If inflation increases, the Company will attempt to increase its prices to offset increased expenses. No assurance can be given, however, that the Company will be able to adequately increase its prices in response to inflation.

IMPACT OF NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" SFAS No. 141 addresses financial accounting and reporting for all business combinations and requires that all business combinations entered into subsequent to June 2001 be recorded under the purchase method. This statement also addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. This statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. These statements were adopted by the Company on January 1, 2002. Under SFAS No. 142, goodwill is no longer amortized. In the place of amortization, the Company is required to periodically review the valuation of the Company's intangible assets using a discounted cash flow estimation approach. Following the accounting for impairment discussed immediately below, which has been made under the rules of SFAS No. 121, the effect of adopting SFAS No. 141 and 142 was limited to changes in amortization expense for the periods after December 31, 2001. Additionally, the assembled workforce intangible asset has been recharacterized as goodwill, which will no longer be amortized under the rules of SFAS No. 142.

Accounting for impairment. For the years ended December 31, 2001, 2000 and 1999, the Company reported its accounting for intangible assets under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB

Edgar Filing: CARECENTRIC INC - Form 10-Q

Opinion No. 30. Under the rules of SFAS No. 121, the Company performs periodic analysis to determine if the Company's intangible assets have been impaired using a combination of discounted and undiscounted estimated cash flow estimations. In the fourth quarter of 2001, the Company determined that the combination of new technologies being integrated in the Company's current and future products would result in its existing product platforms having smaller future revenue generation capability. Additionally, the Company determined that the continued support of existing products while migrating to new technology platforms would result in a lower estimated cash value to the Company of existing products. The resulting impairment to the intangible assets of the Company was \$11.8 million. As further detailed in Note 5 of the Financial Statements, the intangible assets of the Company, after the impairment charge, will be Developed Technologies, Customer Base and Assembled Workforce.

On October 3, 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," that replaced SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of." The primary objectives of this project were to develop one accounting model based on the framework established in SFAS No. 121 for long-lived assets to be disposed of by sales and to address significant implementation issues. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of the Accounting Principles Board (APB Opinion No. 30, Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business) for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to determine whether such assets should be reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or

28

include amounts for operating losses that have not yet occurred. The provisions of SFAS No. 144 were adopted by the Company effective January 1, 2002. The impact of those provisions were not material to the Company's statement of financial condition and results of operations.

In April 2002, the FASB issued SFAS No. 145. This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. SFAS No. 145 also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers and amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company does not believe SFAS No. 145 will have a material effect on its financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not believe SFAS No. 146 will have a material effect on its financial statements.

Edgar Filing: CARECENTRIC INC - Form 10-Q

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

As of September 30, 2002, the Company's obligations include variable rate notes payable and a line of credit bank note with aggregate principal balances of approximately \$13.5 million, which mature at various dates through 2007. The Company is exposed to the market risk of significant increases in future interest rates. Each incremental point change in the prime interest rate would correspondingly increase or decrease the Company's interest expense by approximately \$53,250 per year.

At September 30, 2002, the Company had accounts receivable of approximately \$5.7 million net of an allowance for doubtful accounts of \$1.3 million. The Company is subject to a concentration of credit risk because most of the accounts receivable are due from companies in the home health industry.

ITEM 4. CONTROLS AND PROCEDURES.

In the 90-day period before the filing of this report, the chief executive and chief financial officers of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures. These disclosure controls and procedures are those controls and other procedures management maintains, which are designed to insure that all of the information required to be disclosed by the Company in all its periodic reports filed with the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed or submitted under the Securities Exchange Act of 1934 is accumulated and communicated to Company management, including the chief executive and chief financial officer of the Company, as appropriate to allow those persons to make timely decisions regarding required disclosure.

Subsequent to the October 25, 2002, when the disclosure controls and procedures were evaluated, there have not been any significant changes in the Company's disclosure controls or procedures or in other factors that could significantly affect such controls or procedures. No significant deficiencies or material weaknesses in the controls or procedures were detected, so no corrective actions needed to be taken.

29

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Neither CareCentric nor any of its subsidiaries is currently a party to any legal proceedings which would be material to the business or financial condition of the Company on a consolidated basis.

Simione Central Holding, Inc., a subsidiary of CareCentric now known as SC Holding, Inc. ("SC Holding") was one of several defendants named in a "whistleblower" lawsuit related to alleged Medicare fraud filed under the False Claims Act in the Northern District of Georgia (U.S. ex re. McLendon v. Columbia/HCA Healthcare Corp., et al., No. 97-VC-0890 (N.D. Ga.)). The lawsuit involves alleged claims that SC Holding allegedly participated in a conspiracy with Columbia/HCA and other third parties to bill inflated and fraudulent claims to Medicare. On July 21, 1999, the Justice Department issued notice that it had elected not to join in the claims asserted against SC Holding by Donald

Edgar Filing: CARECENTRIC INC - Form 10-Q

McLendon, who is a former employee of an unrelated service provider to Columbia/HCA. Although the Justice Department joined the suit with regard to other defendants, it specifically declined to intervene with regard to SC Holding. In late 2000, CareCentric was advised by Mr. McLendon's attorney that notwithstanding the declination by the Justice Department, Mr. McLendon intends to pursue "whistleblower" claims against SC Holding directly. Through November 8, 2002, no such action has been taken and nothing further has been heard from McLendon's attorney for over one year. Management believes that this claim has been abandoned. In the event a claim is asserted, however, CareCentric and SC Holding intend to vigorously defend against it.

Item 2. Change in Securities.

On August 22, 2002, the Company's common stock was delisted from the Nasdaq SmallCap Market and has been listed on the Over the Counter Bulletin Board since that date. The delisting from Nasdaq was the result of certain financial indicators, as reported in the Company's December 31, 2001 financial statements, were below applicable minimum requirements issued by Nasdaq to maintain listing on the Nasdaq SmallCap Market. The Company's trading price during 2002 and its write-off of certain non-cash, impaired intangible assets contributed to the delisting by Nasdaq.

On July 1, 2002, the Company cancelled and reissued warrants to purchase 490,396 and 400,000 shares of its common stock to Mestek, Inc., pursuant to the terms of the recapitalization described in more detail in Notes 6 and 8 to the Financial Statements included herein. The reissued warrants have an exercise price of \$1.00 per share and expire in June 2004. In reissuing warrants without registration, the Company takes the position that this transaction does not constitute an "offer", "offer to sell" or "sale" under Section 5 of the Securities Act of 1933, and also relies on the exemption from registration provided in Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder. Mestek, the recipient of the warrants, is an accredited investor as defined in Regulation D, is a major shareholder of the Company, and has complete access to financial and other information pertaining to the Company.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

30

3.1 Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (File No. 000-22162)).

Edgar Filing: CARECENTRIC INC - Form 10-Q

- 3.2 Certificate of Ownership and Merger of Simone Central Holdings, Inc. with and into CareCentric Inc. (Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K dated as of January 31, 2001 (file No. 000-22162)).
- 3.3* Bylaws of the Company dated October 25, 2002.
- 3.4 Certificate of Designations, Preferences and Rights of Series E Preferred Stock of the Company (Incorporated by reference to Exhibit 3.4 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 000-22162)).
- 3.5** Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series B Preferred Stock of the Company.
- 3.6** Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series D Preferred Stock of the Company.
- 10.47** Promissory Note in the original principal amount of \$4,000,000 dated as of July 1, 2002 from the Company and certain of its subsidiaries in favor of Mestek, Inc.
- 10.48** Secured Convertible Credit Facility and Security Agreement dated as of July 1, 2002 by and between the Company, SC Holding, Inc., CareCentric National, LLC and Mestek, Inc.
- 10.49** Promissory Note in the original principal amount of \$3,555,555 dated as of July 1, 2002 from the Company and certain of its subsidiaries in favor of John E. Reed.
- 10.50** Amended and Restated Secured Convertible Credit Facility and Security Agreement dated as of July 1, 2002 by and between the Company, SC Holding, Inc., CareCentric National, LLC and John E. Reed.
- 10.51** Warrant for 400,000 shares of common stock dated as of July 1, 2002 by and between the Company and Mestek, Inc.
- 10.52** Warrant Exchange Agreement with respect to 400,000 shares of common stock dated as of July 1, 2002 by and between the Company and Mestek, Inc.
- 10.53** Warrant for 490,396 shares of common stock dated as of July 1, 2002 by and between the Company and Mestek, Inc.
- 10.54** Warrant Exchange Agreement with respect to 490,396 shares of common stock dated as of July 1, 2002 by and between the Company and Mestek, Inc.
- 10.55** Registration Rights Agreement dated as of July 1, 2002 by and between the Company and Mestek, Inc.
- 10.56** Promissory Note in the original principal amount of \$103,818 dated as of July 1, 2002 from the Company and certain of its subsidiaries in favor of John E. Reed.
-

Edgar Filing: CARECENTRIC INC - Form 10-Q

- * Filed herewith
- ** Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

31

(b) Reports on Form 8-K:

On April 30, 2002, the Company filed a Form 8-K regarding a letter from Nasdaq indicating that certain financial indicators as reported in the December 31, 2001 financial statements were below applicable minimum requirements issued by Nasdaq to maintain listing on the Nasdaq SmallCap Market.

On August 20, 2002, the Company filed a Form 8-K regarding the delisting of the Company's common stock from the Nasdaq SmallCap Market. Effective August 22, 2002, the Company's common stock has traded on the Over the Counter Bulletin Board.

SIGNATURES

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

CARECENTRIC, INC.

Dated: November 11, 2002

By: /s/ George M. Hare

GEORGE M. HARE
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

32

1560966

CareCentric, Inc., Certification for Quarterly Report on Form 10-Q

I, John R. Festa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CareCentric, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash

Edgar Filing: CARECENTRIC INC - Form 10-Q

flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ John R. Festa

John R. Festa
President and Chief Executive Officer

CareCentric, Inc., Certification for Quarterly Report on Form 10-Q

I, George M. Hare, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CareCentric, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

Edgar Filing: CARECENTRIC INC - Form 10-Q

make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ George M. Hare

George M. Hare
Chief Financial Officer