

Edgar Filing: CARECENTRIC INC - Form 10-Q

CARECENTRIC INC
Form 10-Q
May 09, 2003

=====

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 MARCH 31, 2003

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 by check mark whether the registrant is an accelerated filer (as
determined in Rule 12b-2 of the Exchange Act). 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 4/30/03
-----	-----
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 - March 31, 2003 (unaudited) and December 31, 2002 (audited).

Consolidated Statements of Operations - Three Months March 31, 2003 and 2002 (unaudited).

Consolidated Statements of Shareholders' Equity - Three months ended March 31, 2003 (unaudited).

Consolidated Statements of Cash Flows - Three months ended March 31, 2003 and 2002 (unaudited).

Notes to Consolidated Financial Statements - March 31, 2003 (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

2

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: CARECENTRIC INC - Form 10-Q

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 accounting principles generally accepted in the United States of America 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

	MARCH 31, 2003	DECEMBER 31, 2002
	----- (unaudited)	----- (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,183,000	\$ 1,183,000
Accounts receivable, net of allowance for doubtful accounts of \$1,087,000 and \$1,307,000 respectively	4,318,000	4,318,000
Prepaid expenses and other current assets	813,000	813,000
Notes receivable	180,000	180,000
Total current assets	----- 6,494,000	----- 6,494,000
Purchased software, furniture and equipment, net	931,000	931,000
Intangible assets, net	4,026,000	4,026,000
Long term notes receivable	313,000	313,000
Total assets	----- \$ 11,764,000	----- \$ 11,764,000
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Line of credit	\$ 4,125,000	\$ 4,125,000
Accounts payable	1,489,000	1,489,000
Accrued compensation expense	480,000	480,000
Accrued liabilities	6,125,000	6,125,000
Customer deposits	1,380,000	1,380,000
Unearned revenues	4,560,000	4,560,000
Total current liabilities	----- 18,159,000	----- 18,159,000
Accrued liabilities, less current portion	-	-
Note payable long-term	8,647,000	8,647,000
Commitments and contingencies		

Edgar Filing: CARECENTRIC INC - Form 10-Q

Shareholders' deficit		
Preferred Stock: 10,000,000 shares authorized		
Series B Preferred, \$.001 par value;		
5,600,000 issued and outstanding; liquidation value \$1.37		6,000
Series D Preferred, \$.001 par value;		
398,000 issued and outstanding; liquidation value \$3.14		-
Series E Preferred, \$.001 par value;		
210,000 issued and outstanding; liquidation value \$1.04		-
Common stock, \$.001 par value; 20,000,000 shares authorized;		
4,371,350 shares issued and outstanding at March 31, 2003 and		
December 31, 2002		4,000
Unearned compensation		(117,000)
Additional paid-in capital		20,430,000
Stock warrants		1,000,000
Accumulated deficit		(36,365,000)

Total shareholders' deficit		(15,042,000)

Total liabilities and shareholders' deficit	\$	11,764,000
		=====

See notes to consolidated financial statements

4

CARECENTRIC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	(unaudited)	(unaudited)
Net revenues	\$ 5,478,000	\$ 5,253,000
Costs and expenses:		
Cost of revenues	1,823,000	1,676,000
Selling, general and administrative	2,217,000	2,699,000
Research and development	835,000	947,000
Amortization and depreciation	394,000	425,000
	-----	-----
Total costs and expenses	5,269,000	5,747,000
	-----	-----
Income (loss) from operations	209,000	(494,000)
Other income (expense):		
Interest expense	(174,000)	(168,000)
Interest and other income	343,000	(2,000)
	-----	-----
Income (loss) before taxes	378,000	(664,000)
	-----	-----

Edgar Filing: CARECENTRIC INC - Form 10-Q

Income tax benefit (expense)	(23,000)	-
Net Income (loss)	355,000	(664,000)
Cumulative Preferred Dividends	(155,000)	(180,000)
Net Income (loss) available to common shareholders	\$ 200,000	\$ (844,000)
Net Income (loss) per share - basic and diluted	\$ 0.08	\$ (0.15)
Net Income (loss) per share - basic and diluted available to common shareholders	\$ 0.05	\$ (0.19)
Weighted average common shares - basic and diluted	4,371,000	4,371,000

5

CARECENTRIC, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2003
(unaudited)

	COMMON		PREFERRED		UNEARNED	ADDITIONAL	
	SHARES	STOCK	SHARES	STOCK	COMPENSATION	PAID-IN	WARRAN
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 2002	4,371,000	\$ 4,000	6,208,000	\$ 6,000	\$ (134,000)	\$ 20,430,000	\$1,000,
Amortization of unearned compensation					17,000		
Net profit							
Balance at March 31, 2003	4,371,000	\$ 4,000	6,208,000	\$ 6,000	\$ (117,000)	\$ 20,430,000	\$1,000,

See notes to Consolidated Financial Stat

Edgar Filing: CARECENTRIC INC - Form 10-Q

6

CARECENTRIC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months ended March 31,	
	2003	2002
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	\$ 200,000	\$ (844,000)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Provision for doubtful accounts	-	157,000
Amortization and depreciation	394,000	425,000
Stock based compensation charge to earnings	17,000	23,000
CHANGES IN ASSETS AND LIABILITIES:		
Accounts receivable	314,000	(1,406,000)
Prepaid expenses and other current assets	(117,000)	19,000
Notes receivable	(120,000)	37,000
Accounts payable	(95,000)	447,000
Accrued compensation	(76,000)	(50,000)
Accrued liabilities	(138,000)	(167,000)
Customer deposits	(115,000)	26,000
Unearned revenues	337,000	126,000
Net cash provided by / (used in) operating activities	601,000	(1,207,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of software, furniture and equipment	(6,000)	(19,000)
Net cash provided by / (used in) investing activities	(6,000)	(19,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	127,000	1,000,000
Increase (decrease) in line of credit	(400,000)	395,000
Payments on capital lease obligation	-	(9,000)
Proceeds from Consulting note receivable	35,000	96,000
Net cash provided by / (used in) financing activities	(238,000)	1,482,000
Net change in cash and cash equivalents	357,000	256,000
Cash and cash equivalents, beginning of		

Edgar Filing: CARECENTRIC INC - Form 10-Q

period	826,000	201,000
	-----	-----
Cash and cash equivalents, end of period	\$ 1,183,000	\$ 457,000
	=====	=====
Cash paid during period for interest	\$ 63,000	\$ 81,000

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.

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 11 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

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

8

support services. For the three months ended March 31, 2003, the Company recorded total revenues of \$5.5 million. The Company's core product lines of STAT2 and MestaMed(R) accounted for 30.0% and 53.7%, respectively, of the \$5.5 million in revenues.

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.

Edgar Filing: CARECENTRIC INC - Form 10-Q

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 three months ended March 31, 2003 and the year ended December 31, 2002, the Company had no capitalized computer software and development costs. Software and development expenses are accounted for as research and development costs.

CASH EQUIVALENTS

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 4. 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 3 and 4. 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

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.

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 ended March 31, 2003 and March 31, 2002 include the effects of options, warrants and conversion rights as if they would be dilutive.

STOCK BASED COMPENSATION

At March 31, 2003, the company has two stock-based employee compensation plans, which are described in Note 7. The Company accounts for those plans under the recognition and measurement principles of Accounting Principle Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

10

	THREE-MONTH PERIODS ENDED MARCH 31 2003	2002
	-----	-----
Net income (loss), as reported	\$ 200,000	\$ (844,000)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all		

Edgar Filing: CARECENTRIC INC - Form 10-Q

awards, net of related tax effects	\$ (28,000)	\$ (79,000)
	-----	-----
Pro forma net income	\$ 172,000	\$ (923,000)
	=====	=====
Earnings per share:		
Basic--as reported	\$ 0.05	\$ (0.19)
	=====	=====
Basic--pro forma	\$ 0.04	\$ (0.21)
	=====	=====
Diluted--as reported	\$ 0.05	\$ (0.19)
	=====	=====
Diluted--pro forma	\$ 0.04	\$ (0.21)
	=====	=====

FAIR VALUE OF FINANCIAL INSTRUMENTS

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 approximate their fair value assuming interest rates consistent with what the Company could obtain in the open market.

SEGMENTS

The Company has one operating segment in continuing operations, which is the Software Systems segment.

NOTE 2 - NOTES RECEIVABLE

The Company has certain Notes Receivable of varying maturities, which have resulted from the sale of the assets of the Consulting segment in September 2001, and financing to a customer for purchase of a new software system. The Consulting segment Note Receivable is due from William Simione Jr., currently a director of the Company, the President and Chief Executive Officer of the acquirer of the Consulting business, Simione 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 12-31-02	\$ 409,000	\$ -	\$ 409,000
	=====	=====	=====
Balance as of 3-31-03	\$ 373,000	\$ 120,000	\$ 493,000
	=====	=====	=====
Interest Rate	8.50%	5.65%	

Edgar Filing: CARECENTRIC INC - Form 10-Q

NOTE 3 - PURCHASED SOFTWARE, FURNITURE AND EQUIPMENT

Purchased software, furniture and equipment consisted of the following:

	MARCH 31, 2003	DECEMBER 31, 2002	DEPRECIATION ESTIMATED USEFUL LIVES
Furniture and Fixtures	\$ 1,451,000	\$ 1,447,000	10 years
Computer equipment and purchased software	6,291,000	6,288,000	5 years
	7,742,000	7,735,000	
Accumulated depreciation	(6,811,000)	(6,699,000)	
	\$ 931,000	\$ 1,036,000	

NOTE 4 - 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 four to nine years. In accordance with 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	IMPAIRMENT WRITE-DOWN	ACCUMULATED AMORTIZATION
Developed technology	\$ 10,650,000	\$ -	\$ (4,220,000)	(3,687,000)
Customer base	1,700,000	(510,000)	-	(407,000)
Goodwill	14,151,000	(2,906,000)	(7,580,000)	(3,165,000)
	\$ 26,501,000	\$ (3,416,000)	\$ (11,800,000)	\$ (7,259,000)

NOTE 5 - 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. In accordance with the terms of the recapitalization plan and the convertible note agreements with B. C. O'Donnell, Mestek, Inc. and J. E. Reed, interest earned on the notes is accumulated since July 1, 2002 and included in the balances presented in the following chart at March 31, 2003 and December 31, 2002.

NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
SHORT TERM:		
Line of Credit	\$ 4,125,000	\$ 4,525,000
	=====	=====
LONG TERM:		
Convertible Payable - B. C. O'Donnell	\$ 628,000	\$ 619,000
Convertible Note - Mestek	4,188,000	4,126,000
Convertible Note - J.E. Reed	3,722,000	3,668,000
Note Payable - J.E. Reed Accrued Interest	109,000	107,000
	-----	-----
	\$ 8,647,000	\$ 8,520,000
	=====	=====

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 8), 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, 2004. 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,

Edgar Filing: CARECENTRIC INC - Form 10-Q

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. In December 2002, Mr. O'Donnell agreed to adjust the terms of the Note Payable to provide consistent treatment with the Mestek and J.E. Reed convertible notes payable as existing after the July 1, 2002 recapitalization plan. The effect of this adjustment was to reduce the interest rate on the note payable to a fixed rate of 6.25% and to defer all interest earned from July 1, 2002 through June 30, 2004 at which time the accumulated interest totaling \$75,000 will be capitalized into the principal of the note payable. After June 30, 2004, the

13

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 beginning on September 30, 2004. Together with any unpaid principal and accrued interest, the Barrett C. O'Donnell note will mature and become payable on June 30, 2007. Additionally, the \$600,000 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 subordinated to the Wainwright Bank \$6.0 million line of credit.

CONVERTIBLE NOTE PAYABLE - MESTEK:

Prior to the July 1, 2002 recapitalization plan, the Company was obligated under a) an 18-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 e) \$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 June 30, 2004, at which time the accumulated interest will be capitalized into the related note. After June 30, 2004, the principal and capitalized interest will accumulate interest at the per

Edgar Filing: CARECENTRIC INC - Form 10-Q

annum rate equal to six and one-quarter percent (6.25%) with interest compounded and payable quarterly beginning on September 30, 2004. 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 subordinated 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 December 31, 2002 and 2001, borrowings were equal to \$4,668,000 and \$3,500,000 respectively, \$1,000,000 of which was participated to Mestek at December 31, 2002 and 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 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 June 30, 2004, at which time the accumulated interest will be capitalized into the related note. After June 30, 2004, the principal and

14

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 beginning on September 30, 2004. 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 subordinated to the Wainwright Bank \$6.0 million line of credit.

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 from 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

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 subordinated to the Wainwright Bank \$6.0 million line of credit.

CAPITAL LEASE OBLIGATIONS:

The Company has no capital lease obligations at March 31, 2003.

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 March 31, 2003.

Cash paid interest was \$63,000 and \$81,000 during the three months ended March 31, 2003 and 2002 respectively.

Maturities of long-term debt in each of the next five years are as follows in thousands:

2004	\$	-
2005		-
2006		-
2007		8,647
2008		-

Total	\$	8,647
		=====

NOTE 6 - 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 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

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 April 30, 2003, 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.

NOTE 7 - 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 March 31, 2003 and December 31, 2002. 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 Simone Central Holdings, Inc.) common shares in connection with the merger.

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 12), 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.

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

Edgar Filing: CARECENTRIC INC - Form 10-Q

5 above. Accumulated and unpaid dividends of \$208,000 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.

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. As a result of the July 1, 2002 recapitalization plan, the Series D Preferred Stock conversion price per share was amended from \$2.51 to \$1.00.

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 have a 3.5% annual non-cumulative dividend, are convertible into common stock at an initial conversion price of \$1.00 per share and have voting rights equal to those of common stock, among other rights.

As of March 31, 2003, the Company had a cumulative preferred dividends liability of \$1,915,000 comprised of \$1,655,500 for Series B Preferred shares, \$252,000 for Series D Preferred shares and \$7,500 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 5 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.

At March 31, 2003, the Company had outstanding warrants to purchase shares of the Company's common stock as follows

Edgar Filing: CARECENTRIC INC - Form 10-Q

DESCRIPTION OF WARRANTS	BEFORE JULY 1, 2002		AFTER
	EXERCISE PRICE	EXPIRATION DATE	EXERCISE PRICE
25,000 - Barrett C. O'Donnell	\$ 5.00	February 24 ,2005	\$ 5.00
400,000 - Mestek, Inc.	\$10.88	March 7 2003	\$ 1.00
490,396 - Mestek, Inc.	\$ 3.21	June 30, 2003	\$ 1.00
104,712 - Mestek, Inc.	\$ 2.51	July 12, 2003	Cancelled

17

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 97,933 shares, of which 88,024 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 March 31, 2003, options totaling 508,914 shares were outstanding, of which 299,413 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 8 - RELATED PARTY TRANSACTIONS

The Company had 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 expired on December 31, 2002 and required annual sublease payments equal to the original lease payments of approximately \$730,000.

Stewart B. Reed and Winston R. Hindle, Jr. are directors of the Company and directors 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 5, 7 and 12 to these Financial Statements.

The Company has a note receivable from Simone Consultants, LLC of \$373,000 at March 31, 2003. 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 March 31, 2003, the Company had a promissory note outstanding to Barrett C. O'Donnell, a director of the Company, as described in Note 5 to these Financial Statements. Mr. O'Donnell also owns a warrant for the purchase of

Edgar Filing: CARECENTRIC INC - Form 10-Q

25,000 shares of common stock of the Company at an exercise price of \$5.00 per share.

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 5 to the Financial Statements.

John E. Reed, Chairman of the Company and Chairman and Chief Executive 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 5 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 7 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 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.

18

NOTE 9 - 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 sublicenses.

NOTE 10 - EXECUTIVE COMPENSATION

The Company entered into an employment agreement with its President and Chief Executive Officer, John Festa. Under the agreement, 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) is entitled to payment of an annual bonus of up to 50% of his annual salary based on completion of annual performance objectives, and (iii) is entitled to 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 months ended March 31, 2003 and 2002, approximately \$17,000 and \$23,000, respectively, was recorded as current expense associated with earnings under this grant.

NOTE 11 - LIQUIDITY

As disclosed in the Financial Statements, the Company generated \$0.6 million of cash from operations during the three months ended March 31, 2003.

Edgar Filing: CARECENTRIC INC - Form 10-Q

This improved cash flow, which was a continuation of improved results reported in the second quarter of 2002, was largely used to pay back \$0.4 million of liability on the Wainwright Bank Credit Line between January 1, 2003 and March 31, 2003. As a result of the July 1, 2002 recapitalization, and as more fully explained in Note 5 to these Financial Statements, the Reed Credit facility was cancelled and replaced by long-term interest deferred notes that mature on September 30, 2007. The Company has a working capital deficit of \$11.7 million at March 31, 2003.

During the month of April 2003, the Company paid back an additional \$0.4 million of liability on the Wainwright Bank Credit Line. As of April 30, 2003, the Company had unused credit capacity of approximately \$2.3 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 March 31, 2004, assuming no material adverse change in the operation of the Company's business.

NOTE 12 - SUBSEQUENT EVENTS

On January 29, 2003, CareCentric received an offer to merge with Borden Associates, Inc., pursuant to a letter dated January 28, 2003. In the proposed transaction, Borden would merge into CareCentric and purchase the shares of shareholders holding less than 4,000 shares for \$0.55 per share. Each share of CareCentric common stock owned of record by a holder of 4,000 shares or more of CareCentric common stock will continue to represent one share of common stock after the merger. The outstanding shares of Borden Associates capital stock will, in the aggregate, be converted into the right to receive that number of shares of CareCentric common stock equal to the quotient of the total cash consideration paid to the holders of fewer than 4,000 shares of CareCentric common stock divided by the \$0.55 per share price. CareCentric would remain the surviving entity. The Company filed a Form 8-K on February 4, 2003 summarizing the terms of the offer. This transaction, if consummated, may result in the Company becoming private so that it would no longer be a reporting company under SEC regulations or be publicly traded on the OTC Bulletin Board. The Board of Directors is evaluating the proposal and has formed a special committee of independent directors, consisting of Winston R. Hindle, Jr. and William J. Simone, Jr., to evaluate, respond to or negotiate the proposal with the principals of Borden Associates. Borden Associates is an investment company formed for the purpose of this transaction and owned by John Reed, Stewart Reed and James Burk. John Reed and Stewart Reed are material shareholders of

19

CareCentric and members of its Board of Directors. As of the end of March 2003, the special committee of the Board had selected legal counsel and an investment banking firm to assist in the special committee's review of the offer by Borden Associates.

On April 23, 2003, Borden Associates sent the Special Committee of the Board a revised proposal letter that increased the offer price to the holders of less than 4,000 shares of CareCentric common stock from \$0.55 to \$0.75 per share and provides that the original proposal set forth in the January 28 letter as so amended will expire on May 23, 2003. The Company filed a Form 8-K on May 1, 2003 summarizing the terms of the revised offer. The Special Committee of the Board is evaluating the revised proposal.

20

Edgar Filing: CARECENTRIC INC - Form 10-Q

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. All statements, other than statements of historical facts, included or incorporated by reference in this 10-Q which address activities, events, or developments which the Company expects or anticipates will or may occur in the future, including statements regarding the Company's competitive position, the successful development of its software products, the impact on the Company of actual or proposed regulatory changes, the Company's expectations regarding the adequacy of current financing arrangements, product demand and market growth, and other statements regarding future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. 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 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.

Edgar Filing: CARECENTRIC INC - Form 10-Q

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.

21

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.

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. Revenue is recognized for instances where tiered pricing is used according to separately defined portions of service and software as those portions are completely delivered to the customer.

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.

Edgar Filing: CARECENTRIC INC - Form 10-Q

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. As of March 31, 2003 no event or business situation had been identified which indicated the

22

carrying value of the intangibles and long-lived assets and related goodwill and enterprise level of goodwill should be adjusted. As of December 31, 2001, a \$11.8 million impairment adjustment was recorded resulting in net intangible assets amounting to \$5.4 million as of December 31, 2001. See Note 4 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THREE MONTHS ENDED MARCH 31, 2003

Net Revenues. Revenues were \$5.5 million for the three months ended March 31, 2003 and \$5.3 million for the three months ended March 31, 2002, or an increase of 4.3%. The \$0.2 million increase was attributable to a decrease in software system sales and related income of \$0.2 million to \$2.2 million in 2003 from \$2.4 million in 2002 and increase in maintenance revenues of \$0.4 million to \$3.3 in 2003 from \$2.9 million in 2002.

Cost of Revenues. Cost of revenues increased \$0.1 million, to \$1.8 million in 2003 from \$1.7 million for the three months ended March 31, 2002. As a percentage of total net revenues, cost of revenues increased 1.4% to 33.3% in 2003 from 31.9% in 2002. The \$0.1 million increase in cost of revenues and the 1.4% increase in percentage of total revenues resulted from higher sales and changes in product mix.

Edgar Filing: CARECENTRIC INC - Form 10-Q

Selling, General and Administrative. Selling, general and administrative expenses decreased \$0.5 million, or 17.9%, to \$2.2 million for the three months ended March 31, 2003 from \$2.7 million for the three months ended March 31, 2002. As a percentage of total net revenues, selling, general and administrative expenses were 40.5% for the three months ended March 31, 2003 and 51.4% for the three months ended March 31, 2002. This decrease was attributable to synergies derived from cost savings initiatives completed during 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 \$0.1 million, or 11.8%, to \$0.8 million for the three months ended March 31, 2003 from \$0.9 million for the three months ended March 31, 2002. As a percentage of total net revenues, research and development expenses decreased to 11.8% for the three months ended March 31, 2003 from 18.0% for the three months ended March 31, 2002. The decrease in research and development expenditures was primarily due to the Company's realignment of research efforts between existing and future platform products. As development of new product platforms advance, the Company expects research and development expenses to rise above the 11.8% experienced for the three months ended March 31, 2003.

Amortization and Depreciation. Amortization and depreciation was materially unchanged at \$0.4 million for the three months ended March 31, 2003 and March 31, 2002.

Operating income (Loss). The Company's net income from operations increased from a loss of \$0.5 million for the three months ended March 31, 2002 to a net profit of \$0.2 million for the three months ended March 31, 2003. This change to profitability from a loss from continuing operations is due to the combined effect of the increase in revenue and 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 \$6,000 to \$174,000 for the three months ended March 31, 2003 compared to \$168,000 for the three months ended March 31, 2002. Other income increased \$345,000 to \$343,000 from an expense of \$2,000 in the first quarter of 2002. The increase is principally attributable to receipt of a \$295,000 cash settlement of the Columbia Home Health lawsuit combined with interest income related to customer finance charges. The increase in net interest expense in 2003 was caused by an increase in interest bearing debt in 2002.

Income Taxes. The Company has not incurred or paid any substantial Federal income taxes since March 2000. At December 31, 2002, CareCentric had net operating loss ("NOL") carryforwards for federal and state income tax purposes of \$38.5 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 March 31, 2003, and accordingly, a 100% deferred tax valuation allowance has been recorded against these assets.

Edgar Filing: CARECENTRIC INC - Form 10-Q

BACKLOG

The Company's backlog associated with its software operations was approximately \$3.7 million at March 31, 2003 compared to \$3.8 million at December 31, 2002. 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.

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, Inc. (\$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 5 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 5 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.

Edgar Filing: CARECENTRIC INC - Form 10-Q

These three transactions are described in greater detail in Note 5 to the accompanying Consolidated Financial Statements and resulted in the creation of the following credit and debt facilities and preferred equity securities:

24

CREDIT AND DEBT AND PREFERRED EQUITY SECURITIES IN JULY 2000

SOURCE	FUNDING	FORM	DATE
Barrett C. O'Donnell	\$ 600,000	Convertible Note	November
Mestek, Inc.	\$ 6,000,000	Convertible Preferred Stock Series B; 9% cumulative dividend	March
Mestek, Inc.	\$ 850,000	Preferred Stock Series C; 11% cumulative dividend	March
John E. Reed	\$ 1,000,000	Convertible Preferred Stock Series D; 9% cumulative dividend	June
John E. Reed	\$ 6,000,000	Line of Credit	June
Wainwright Bank and Trust Company	\$ 6,000,000	Line of Credit	July
	\$ 20,450,000		

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 Reed 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.

Edgar Filing: CARECENTRIC INC - Form 10-Q

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 implementing 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 Simione 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 initiated 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 was completed on July 1, 2002. See Notes 5 and 7 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:

25

CREDIT AND DEBT AND PREFERRED EQUITY SECURITIES AT MARCH 31, 2003

SOURCE	FUNDING	FORM
Barrett C. O'Donnell	\$ 600,000	Convertible Note maturing June 30, 2007
Mestek, Inc.	\$ 6,000,000	Convertible Preferred Stock Series B; 9% cumulative dividend
John E. Reed	\$ 1,000,000	Convertible Preferred Stock Series D; 9% cumulative dividend
Mestek, Inc.	\$ 4,000,000	Convertible deferred interest Note maturing June 30, 2007
John E. Reed	\$ 3,555,555	Convertible deferred interest Note maturing June 30, 2007
John E. Reed	\$ 103,818	Capitalized deferred interest Note maturing June 30, 2007
Wainwright Bank and Trust Company	\$ 6,000,000	Line of Credit
	\$ 21,259,373	

Edgar Filing: CARECENTRIC INC - Form 10-Q

=====

The John E. Reed and Mestek debt and equity amounts were fully funded to the Company as of July 1, 2002. During the third and fourth quarters of 2002, following the recapitalization of July 1, 2002, the Company paid back \$1.5 million on the Wainwright Bank and Trust Company line of credit. During the first quarter of 2003, the Company paid back \$0.4 million on the Wainwright Bank and Trust Company line of credit, resulting in an outstanding balance of \$4.1 million at March 31, 2003.

During the month of April 2003, the Company has paid back an additional \$0.4 million on the Wainwright Bank line of credit, resulting in \$2.3 million of unused credit capacity as of April 30, 2003. 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 March 31, 2004, assuming no material adverse change in the operation of the Company's business. See also Note 11 to Financial Statements.

The table below summarizes the Company's debt and other contractual obligations at March 31, 2003:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	2-3 YEARS	4 - 6 YEAR
Long-Term Debt	\$ 8,647,000	\$ -	\$ -	\$ 8,647,000
Capital Lease Obligations	-	-	-	-
Operating Leases	2,926,000	832,000	1,366,000	728,000
Line of Credit	4,125,000	4,125,000	-	-
Other Long-Term Obligations	1,177,000	1,177,000	-	-
Total Contractual Cash Obligations	\$ 16,875,500	\$ 6,134,500	\$ 1,366,000	\$ 9,375,000

As of March 31, 2003, the Company had negative working capital of \$11.7 million and cash equivalents of \$1.2 million. The Company's current liabilities as of March 31, 2003 include customer deposits of \$1.4 million and unearned revenues of \$4.6 million.

Net cash provided by operating activities for the three months ended March 31, 2003 was \$0.6 million compared to a use of cash by operating activities for the three months ended March 31, 2002 of \$1.2 million.

There were no cash flows from financing activities during the three months ended March 31, 2003. 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.

Edgar Filing: CARECENTRIC INC - Form 10-Q

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. There has been no event or indicator identified by the Company through April 30, 2003 which indicates there has been any impairment in the \$500,000 value of goodwill included in the Company's Statement of Financial Condition as of March 31, 2003.

Accounting for impairment. For the years ended December 31, 2002, 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 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 4 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 standard 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 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

financial condition and results of operations.

In April 2002, 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

27

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.

On December 31, 2002, FASB issued FASB No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure." This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for companies that voluntarily change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of FASB No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company does not believe FAS 148 will have a material effect on its financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

As of March 31, 2003, the Company's obligations include fixed rate notes payable and a variable rate line of credit bank note with aggregate principal balances of approximately \$12.8 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 \$41,125 per year.

At March 31, 2003, the Company had accounts receivable of approximately \$4.3 million net of an allowance for doubtful accounts of \$1.1 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

procedures are those controls and other procedures management maintains, which are designed to ensure 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 April 30, 2003, 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.

28

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 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 April 30, 2003, 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.

In January 2003 the Company reached settlement with Columbia Home Health on litigation between the Company and Columbia which was begun before the merger with MCS Inc. Under the final terms of settlement, the Company received a cash payment in the amount of \$295,000. 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, 2002 financial statements,

Edgar Filing: CARECENTRIC INC - Form 10-Q

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 5 and 7 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 2. Change in Securities

None

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

29

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

(a) Exhibits:

- 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)).
- 3.2 Certificate of Ownership and Merger of Simione 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 as of October 25, 2002 (Incorporated by reference to Exhibit 3.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (Registration Number 000-22162)).
- 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)).

Edgar Filing: CARECENTRIC INC - Form 10-Q

- 3.5 Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series B Preferred Stock of the Company (Incorporated by reference to Exhibit 3.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (Registration Number 000-22162)).
- 3.6 Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series D Preferred Stock of the Company (Incorporated by reference to Exhibit 3.6 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (Registration Number 00022162)).
- 99.1 Certification of Periodic Financial Reports.
- 99.2 Proposal Letter dated January 28, 2003 (Incorporated by reference to Exhibit 99.2 of the Company's Current Report on Form 8-K filed February 4, 2003 (Registration Number 000-22162)).
- 99.3 Revised Proposal Letter dated April 23, 2003 (Incorporated by reference to Exhibit 99.2 of the Company's Current Report on Form 8-K filed May 1, 2003 (Registration Number 000-22162)).

(b) Reports on Form 8-K:

On February 4, 2003, the Company filed a Current Report on Form 8-K reporting an offer had been received proposing a merger transaction between the Company and Borden Associates, Inc.

On February 24, 2003, CareCentric, Inc. filed a Current Report on Form 8-K reporting the availability of its billing and operation management system, AC-CURA(TM), for the home health care community.

On March 12, 2003, CareCentric, Inc. filed a Current Report on Form 8-K regarding the report of its Annual Report of Financial Results for the year ended December 31, 2002.

On May 1, 2003, CareCentric, Inc. filed a Current Report on Form 8-K reporting a revised offer had been received proposing a merger transaction between the Company and Borden Associates, Inc.

30

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: May 9, 2003

By: /s/ George M. Hare

GEORGE M. HARE
Senior Vice President and

Edgar Filing: CARECENTRIC INC - Form 10-Q

Chief Financial Officer
(Principal Financial Officer)

31

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 flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer 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 officer 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

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: May 9, 2003

/s/ John R. Festa

John R. Festa
President and Chief Executive Officer

32

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 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 registrant's other certifying officer 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 officer 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

Edgar Filing: CARECENTRIC INC - Form 10-Q

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: May 9, 2003

/s/ George M. Hare

George M. Hare
Chief Financial Officer