

Edgar Filing: CARECENTRIC INC - Form 10-Q

CARECENTRIC INC  
Form 10-Q  
May 15, 2002

=====

FORM 10-Q

-----

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

(Mark One)

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

FOR THE PERIOD ENDED MARCH 31, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-22162

CARECENTRIC, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

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

30339  
(zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes X 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<br>4/30/2002 |
|--------------------------------|-----------------------------|
| -----                          | -----                       |
| 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, 2002 (unaudited) and December 31, 2001 (audited).        |
|          | Consolidated Statements of Operations - Three Months Ended March 31, 2002 and 2001 (unaudited).  |
|          | Consolidated Statements of Shareholders' Equity - Three Months Ended March 31, 2002 (unaudited). |
|          | Consolidated Statements of Cash Flows - Three Months Ended March 31, 2002 and 2001 (unaudited).  |
|          | Notes to Consolidated Financial Statements - March 31, 2002 (unaudited).                         |
| Item 2.  | Management's Discussion and Analysis of Financial Condition and Results of Operations            |
| Item 3.  | Quantitative and Qualitative Disclosures About Market Risk                                       |
| 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

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,

Edgar Filing: CARECENTRIC INC - Form 10-Q

they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company, all adjustments (consisting only of normal recurring entries) necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included.

3

CARECENTRIC, INC.  
CONSOLIDATED BALANCE SHEETS

|   | MARCH 31,<br>2002             | DECEMBER 31,<br>2001 |
|---|-------------------------------|----------------------|
|   | -----<br>(unaudited)<br>----- | -----<br><br>-----   |
| ASSETS  |                               |                      |
| Current assets:   |                               |                      |
| Cash and cash equivalents   | \$ 457,000                    | \$ 201,000           |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$1,234,000 and \$1,042,000<br>respectively | 5,434,000                     | 4,185,000            |
| Prepaid expenses and other current assets   | 589,000                       | 608,000              |
| Notes receivable  | 327,000                       | 413,000              |
|   | -----                         | -----                |
| Total current assets  | 6,807,000                     | 5,407,000            |
| Purchased software, furniture and equipment, net  | 1,410,000                     | 1,533,000            |
| Intangible assets, net  | 5,155,000                     | 5,437,000            |
| Long term notes receivable  | 383,000                       | 431,000              |
|   | -----                         | -----                |
| Total assets  | \$13,755,000                  | \$12,808,000         |
|   | =====                         | =====                |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                               |                      |
| Current liabilities:  |                               |                      |
| Line of credit  | \$ 5,967,000                  | \$ 5,572,000         |
| Accounts payable  | 2,632,000                     | 2,185,000            |
| Accrued compensation expense  | 543,000                       | 593,000              |
| Accrued liabilities   | 6,548,000                     | 6,574,000            |
| Customer deposits   | 2,146,000                     | 2,120,000            |
| Unearned revenues   | 4,107,000                     | 3,981,000            |
|   | -----                         | -----                |
| Total current liabilities   | \$21,943,000                  | \$21,025,000         |
|   | =====                         | =====                |
| Accrued liabilities, less current portion   | 600,000                       | 750,000              |
| Note payable long-term  | 6,343,000                     | 5,343,000            |
| Commitments and contingencies   |                               |                      |
| Shareholders' deficit   |                               |                      |
| Preferred Stock: 10,000,000 shares authorized<br>Series B Preferred, \$.001 par value;                        |                               |                      |

Edgar Filing: CARECENTRIC INC - Form 10-Q

|   |               |              |
|---|---------------|--------------|
| 5,600,000 issued and outstanding; liquidation value \$1.27  | 6,000         | 6,000        |
| Series C Preferred, \$.001 par value; 850,000 issued and outstanding; liquidation value \$1.23  | 1,000         | 1,000        |
| Series D Preferred, \$.001 par value; 398,000 issued and outstanding; liquidation value \$2.92  | -             | -            |
| Series E Preferred, \$.001 par value; 210,000 issued and outstanding; liquidating Value \$1.01  | -             | -            |
| Common stock, \$.001 par value; 20,000,000 shares authorized; 4,371,350 shares issued and outstanding at March 31, 2002 and December 31, 2001 | 4,000         | 4,000        |
| Unearned compensation   | (187,000)     | (210,000)    |
| Additional paid-in capital  | 21,280,000    | 21,280,000   |
| Stock warrants  | 1,000,000     | 1,000,000    |
| Accumulated deficit   | (37,235,000)  | (36,391,000) |
| Total shareholders' deficit   | (15,131,000)  | (14,310,000) |
| Total liabilities and shareholders' deficit   | \$ 13,755,000 | 12,808,000   |

See notes to consolidated financial statements

4

CARECENTRIC, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

|                                     | THREE MONTHS ENDED MARCH 31, |              |
|-------------------------------------|------------------------------|--------------|
|                                     | 2002                         | 2001         |
|                                     | (unaudited)                  | (unaudited)  |
| Net revenues                        | \$ 5,253,000                 | \$ 5,728,000 |
| Costs and expenses:                 |                              |              |
| Cost of revenues                    | 1,676,000                    | 2,157,000    |
| Selling, general and administrative | 2,699,000                    | 2,825,000    |
| Research and development            | 947,000                      | 1,767,000    |
| Amortization and depreciation       | 425,000                      | 951,000      |
| Total costs and expenses            | 5,747,000                    | 7,700,000    |
| Loss from operations                | (494,000)                    | (1,972,000)  |
| Other income (expense):             |                              |              |
| Interest expense                    | (168,000)                    | (124,000)    |

Edgar Filing: CARECENTRIC INC - Form 10-Q

|   |              |                |
|---|--------------|----------------|
| Interest and other income   | (2,000)      | 126,000        |
| Loss before taxes   | (664,000)    | (1,970,000)    |
| Income tax benefit (expense)  | -            | -              |
| Loss from continuing operations   | (664,000)    | (1,970,000)    |
| Discontinued operation  |              |                |
| Loss from operations of discontinued segment before taxes               | -            | (185,000)      |
| Applicable tax expense  | -            | -              |
| Net loss from discontinued operations                                   | -            | (185,000)      |
| Net loss  | (664,000)    | (2,155,000)    |
| Cumulative Preferred Dividends  | (180,000)    | (176,000)      |
| Net loss available to common shareholders                               | \$ (844,000) | \$ (2,331,000) |
| Net loss per share - basic and diluted                                  |              |                |
| From continuing operations  | \$ (0.15)    | \$ (0.50)      |
| Net loss per share - basic and diluted                                  |              |                |
| From discontinued operations  | \$ -         | \$ (0.05)      |
| Net loss per share - basic and diluted                                  |              |                |
| From operations   | \$ (0.15)    | \$ (0.55)      |
| Net loss per share - basic and diluted available to common shareholders | \$ (0.19)    | \$ (0.59)      |
| Weighted average common shares - basic and diluted                      | 4,371,000    | 3,922,000      |

See notes to consolidated financial statements

Edgar Filing: CARECENTRIC INC - Form 10-Q

|   | COMMON    |         | PREFERRED |          | UNEARNED     | ADDITIONAL   | WARRA   |
|---|-----------|---------|-----------|----------|--------------|--------------|---------|
|   | SHARES    | STOCK   | SHARES    | STOCK    | COMPENSATION | PAID-IN      |         |
|   | -----     | -----   | -----     | -----    | -----        | -----        | -----   |
| Balance at<br>December 31, 2001             | 4,371,000 | \$4,000 | 7,058,000 | \$ 7,000 | \$(210,000)  | 21,280,000   | 1,000   |
| Amortization<br>of unearned<br>compensation |           |         |           |          | 23,000       |              |         |
| Net loss                                    |           |         |           |          |              |              |         |
| Balance at<br>March 31, 2001                | 4,371,000 | \$4,000 | 7,058,000 | \$7,000  | \$(187,000)  | \$21,280,000 | \$1,000 |
|   | =====     | =====   | =====     | =====    | =====        | =====        | =====   |

See notes to Consolidated Financial Statements

6

CARECENTRIC, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOW

|  | THREE MONTHS ENDED MARCH |                |
|--|--------------------------|----------------|
|  | 2002                     | 2001           |
|  | -----                    | -----          |
|  | (unaudited)              | (unaudited)    |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                          |                |
| Net loss   | \$ (844,000)             | \$ (1,000,000) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET<br>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: |                          |                |
| Provision for doubtful accounts  | 157,000                  |                |
| Amortization and depreciation  | 425,000                  |                |
| Stock base compensation charge to earnings   | 23,000                   |                |
| CHANGES IN ASSETS AND LIABILITIES, NET OF ACQUISITIONS:                                      |                          |                |
| Accounts receivable  | (1,406,000)              |                |
| Prepaid expenses and other current assets  | 19,000                   |                |
| Notes receivable   | 37,000                   |                |
| Accounts payable   | 447,000                  |                |
| Accrued compensation   | (50,000)                 |                |
| Accrued liabilities  | (167,000)                |                |

Edgar Filing: CARECENTRIC INC - Form 10-Q

|  |             |       |
|--|-------------|-------|
| Customer deposits                              | 26,000      |       |
| Unearned revenues                              | 126,000     |       |
|  | -----       | ----- |
| Net cash used in operating activities          | (1,207,000) | (     |
|  | -----       | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES:          |             |       |
| Purchase of software, furniture and equipment  | (19,000)    |       |
|  | -----       | ----- |
| Net cash used by in investing activities       | (19,000)    |       |
|  | -----       | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES:          |             |       |
| Proceeds from notes payable                    | 1,000,000   |       |
| Increase (decrease) in line of credit          | 395,000     |       |
| Payments on capital lease obligation           | (9,000)     |       |
| Proceeds from Consulting note receivable       | 96,000      |       |
|  | -----       | ----- |
| Net cash provided by financing activities      | 1,482,000   |       |
|  | -----       | ----- |
| Net change in cash and cash equivalents        | 256,000     |       |
| Cash and cash equivalents, beginning of period | 201,000     |       |
|  | -----       | ----- |
| Cash and cash equivalents, end of period       | \$ 457,000  | \$    |
|  | =====       | ===== |
| SUPPLEMENTAL DISCLOSURE:                       |             |       |
| Cash paid during period for interest           | \$ 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 Companies financial position, results of operations and cash flow. The results of this period are not

## Edgar Filing: CARECENTRIC INC - Form 10-Q

necessarily indicative of the results for the entire year.

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

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

### DESCRIPTION OF BUSINESS

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

### MANAGEMENT ESTIMATES

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

### REVENUE RECOGNITION

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

Revenues are derived from the licensing and sub-licensing of software, the sale of computer hardware, accessories and supplies, implementation and training products and services, forms and case plans, and software maintenance and support services. For the quarter ended March 31, 2002, the Company recorded total revenues of \$5.2 million. The Company's core product lines of STAT2 and MestaMed accounted for 34.9% and 54.1% respectively of the \$5.2 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.

## Edgar Filing: CARECENTRIC INC - Form 10-Q

Limited amounts of revenues derived from the sale of software licenses requiring significant modification or customization are recorded based upon the percentage

8

### CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

of completion method using labor hours or contract milestones. Software support or maintenance allows customers to receive unspecified enhancements and regulatory data updates in addition to telephone support.

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

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

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

In addition to software licenses, software maintenance and support, and related hardware, the Company also provides computer-based training, CD-ROMs and 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 quarter ended March 31, 2002 and the year ended December 31, 2001, the Company had no capitalized computer software and development costs.

#### CASH EQUIVALENTS

All highly liquid investments purchased with an original maturity of three

## Edgar Filing: CARECENTRIC INC - Form 10-Q

months or less are considered to be cash equivalents.

### INTANGIBLE ASSETS AND LONG-LIVED ASSETS

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

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

9

### CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Pronouncements. In adopting SFAS No. 142, the Company ceased amortizing goodwill and reassessed the life going forward for developed technologies from the remaining 6 years to 4 years.

Actual results of operations for the three months ended March 31, 2002 and the pro forma results of operations for the three months ended March 31, 2001 had we applied the provisions of SFAS 142 in that period follow (the impact on amortization expense is the result of a cessation of amortization of goodwill, the changed forward life of developed technologies and effect of the impairment charge recorded in the fourth quarter of the year ended December 31, 2001):

|   | THREE MONTHS ENDED MARCH 31, |                |
|---|------------------------------|----------------|
|   | 2002                         | 2001           |
| NET LOSS AVAILABLE TO COMMON SHAREHOLDERS | \$ (844,000)                 | \$ (2,331,000) |
| Add back: Goodwill amortization           | -                            | 427,000        |
| Add back: Technology amortization         | 249,000                      | 333,000        |
| Adjusted net income                       | \$ (595,000)                 | \$ (1,571,000) |
| NET LOSS PER SHARE - BASIC AND DILUTED    |                              |                |
| Reported net income                       | \$ (0.19)                    | \$ (0.50)      |

## Edgar Filing: CARECENTRIC INC - Form 10-Q

|                                  |           |         |
|----------------------------------|-----------|---------|
| Goodwill amortization            | -         | 0.      |
| Technology amortization          | 0.06      | 0.      |
| Adjusted net income              | \$ (0.14) | \$ (0.4 |
| Weighted average common shares - |           |         |
| basic and diluted                | 4,371,000 | 3,922,0 |

On October 3, 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses the accounting and reporting for the impairments or disposal of long-lived assets. It replaces SFAS No. 121. SFAS No. 144 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. This statement also focuses on reporting the effect of a disposal. This statement became effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 did not have a material impact to 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.

### NET (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 quarters ended March 31, 2002 and March 31, 2001, exclude the effects of options, warrants and conversion rights as they would be anti-dilutive, and as a result, basic and diluted earnings are the same for the periods.

### STOCK BASED COMPENSATION

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

10

## CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 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

## Edgar Filing: CARECENTRIC INC - Form 10-Q

receivable and payable approximates their fair value.

### SEGMENTS

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

### NOTE 2 -- DISCONTINUED OPERATIONS

The discontinued operations reported in the Company's results of operations for the quarter ending March 31, 2002 relate to the Company's Simone Consulting segment which was sold on September 28, 2001. The Consulting business, previous to its sale, was the Company's only separately reported segment of business. Accordingly, the Company no longer reports segment information. The Consulting business segment was discontinued through a transaction pursuant to which certain of the assets of the Company's wholly-owned subsidiary, Simone Consulting, Inc. were sold to Simone Consultants, L.L.C. ("Simione"), which is owned and controlled by William Simone, Jr., a director of the Company. The total sales price was approximately \$2.0 million plus the assumption of certain liabilities by Simone. The Company's net pre-tax loss on the disposal was approximately \$2.6 million and resulted from a write-off of the intangible assets associated with the Consulting segment as identified at the merger date of March 7, 2000 with MCS.

|  | MARCH 31, |          |
|--|-----------|----------|
|  | 2002      | 2001     |
| Operating Revenue                        | \$ -      | \$ 1,164 |
| Income before Provision for Income Taxes | -         | (185)    |
| Income from Discontinued Operations      |           |          |
| Net of Income Tax                        | \$ -      | \$ (185) |

### NOTE 3 - NOTES RECEIVABLE

The Company has certain Notes Receivable of varying maturities which have resulted from the sale of the assets of the Consulting segment, and financing to a customer for purchase of a new software system. The Consulting segment Note Receivable is due from Mr. William Simone Jr., currently a director of the Company, the President and Chief Executive Officer of the acquirer of the Consulting business, Simone Consulting, LLC, and past Chief Executive Officer of the Consulting segment when it was part of the Company. The Customer note occurred in the normal course of business.

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

|                   | NOTES RECEIVABLE |               |            |
|-------------------|------------------|---------------|------------|
|                   | CONSULTING       | CUSTOMER NOTE | TOTAL      |
| Balance 12-31-01  | \$ 707,000       | \$ 137,000    | \$ 844,000 |
| Balance 3-31-2002 | \$ 611,000       | \$ 99,000     | \$ 710,000 |
| Interest Rate     | 8.50%            | 5.65%         |            |

Edgar Filing: CARECENTRIC INC - Form 10-Q

11

CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 4 - PURCHASED SOFTWARE, FURNITURE AND EQUIPMENT

Purchased software, furniture and equipment consisted of the following:

|   | MARCH 31,<br>2002 | DECEMBER 31,<br>2001 | DEPRECIATIO<br>ESTIMATED<br>USEFUL LIV |
|---|-------------------|----------------------|--|
| Furniture and Fixtures                    | \$ 1,448,000      | \$ 1,428,000         | 10 years                               |
| Computer equipment and purchased software | 6,237,000         | 6,237,000            | 5 years                                |
|   | 7,685,000         | 7,665,000            |  |
| Accumulated depreciation                  | (6,275,000)       | (6,132,000)          |  |
|   | \$ 1,410,000      | \$ 1,533,000         |  |

NOTE 5 - INTANGIBLE ASSETS

As a result of the merger with MCS on March 7, 2000, the Company capitalized \$26.5 million of intangible assets. Those assets were amortized according to various lives ranging from five to nine years. In accordance with SFAS No. 121, the Company is 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<br>COST | ASSETS<br>DISPOSED | IMPAIRMENT<br>WRITE - DOWN | ACCUMULATED<br>AMORTIZATION |
|----------------------|------------------|--------------------|----------------------------|-----------------------------|
| Developed technology | \$10,650,000     | \$ -               | \$ (4,220,000)             | \$ (2,690,000)              |
| Customer base        | 1,700,000        | (510,000)          | -                          | (275,000)                   |
| Goodwill             | 14,151,000       | (2,906,000)        | (7,580,000)                | (3,165,000)                 |

Edgar Filing: CARECENTRIC INC - Form 10-Q

\$26,501,000      \$ (3,416,000)      \$(11,800,000)      \$ (6,130,000)  
 =====

12

CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

Included in Note 1 to the Financial Statements is a table presenting actual results of operations for the three months ended March 31, 2002 and pro forma results of operations for the three months ended March 31, 2001. The pro forma results for March 31, 2002 present the effect on earnings had the nonamortization provisions of SFAS 142 been applied and the effect of the write-off of the intangibles recorded in the fourth quarter of 2001.

NOTE 6 - NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Line of Credit:

|   | MARCH 31, 2002 | DECEMBER |
|---|----------------|----------|
|   | -----          | -----    |
| SHORT TERM:                                   |                |          |
| Line of Credit                                | \$ 5,967,000   | \$       |
| Note Payable - Mestek                         | -              |          |
|   | -----          | -----    |
|   | \$ 5,967,000   | \$       |
|   | =====          | =====    |
| LONG TERM:                                    |                |          |
| Convertible Note Payable - B.C. O'Donnell     | \$ 600,000     | \$       |
| Convertible Note Payable - J.E. Reed (1)      | 4,500,000      |          |
| Note Payable - Mestek                         | 1,019,000      |          |
| Note Payable - Mestek Capitalized Interest    | 40,000         |          |
| Note Payable - J.E. Reed Capitalized interest | 184,000        |          |
|   | -----          | -----    |
|   | \$ 6,343,000   | \$       |
|   | =====          | =====    |

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

On July 12, 2000, the Company entered into a \$6.0 million Loan and Security Agreement facility with Wainwright Bank and Trust Company (the Wainwright Facility), a commercial bank, under which the Company granted a first priority position on substantially all of its assets as security. The Wainwright Facility was used to pay off the line of credit with Silicon Valley Bank, certain short-term loans from Mestek, Inc. (a related party, See Note 9), and a loan from David O. Ellis. Borrowings under the Wainwright Facility accrue interest, at the bank's prime rate per annum, require monthly payments of interest and mature on July 12, 2002. The Company's obligations under the Wainwright Facility are guaranteed by Mestek in consideration of which the Company has issued a warrant to Mestek to purchase 104,712 shares of the Company's common stock as more fully explained in Note 8 to these Financial Statements.

## Edgar Filing: CARECENTRIC INC - Form 10-Q

### Convertible Note Payable - Barrett C. O'Donnell:

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

### Note Payable - Mestek:

The Company is obligated under an eighteen month unsecured promissory note in the principal amount of \$1,019,000 payable to Mestek Inc. which bears interest at prime plus one and one half percent (1.5%), with interest payable semiannually and which matures on June 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. Bruce Dewey's salary

13

### CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

for the periods from November 9, 1999 to October 31, 2001 when he was Chief Executive Officer of the Company.

### J.E. Reed Facility:

On June 22, 2000, the Company entered into a new 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 consists 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 can be drawn down by the Company as needed in \$500,000 increments and is secured by a second position on substantially all of the Company's assets. At March 31, 2002 and December 31, 2001, borrowings were equal to \$4,500,000 and \$3,500,000 respectively, \$1,000,000 of which was participated to Mestek at March 31, 2002 and at December 31, 2001, and \$3,500,000 and \$2,500,000 of which remains held by Mr. Reed at March 31, 2002 and December 31, 2001, respectively. On December 31, 2001, the facility was amended to change the interest rate to prime plus two percent, to change the payment term 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 be paid on December 31, 2003 or be converted to

## Edgar Filing: CARECENTRIC INC - Form 10-Q

additional convertible notes.

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

The fair value of the Company's long-term debt is estimated based on the current interest rates offered to the Company for debt offered under the liquidity conditions and credit profile of the Company. Management believes the carrying value of debt and the contractual values of the outstanding letters of credit approximate their fair values as of March 31, 2002.

### NOTE 7 - COMMITMENTS AND CONTINGENCIES

#### 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 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 March 22, 2002, no such action has been taken and nothing further has been heard from McLendon's attorney 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.

#### 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.

### NOTE 8 - SHAREHOLDERS' EQUITY

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

Common Shares - 20,000,000 shares authorized, \$.001 par value, 4,371,350 shares issued and outstanding as of March 31, 2002 and December 31, 2001. 1,489,853 of such shares were issued on March 7, 2000 to the former MCS common

## Edgar Filing: CARECENTRIC INC - Form 10-Q

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.

Pursuant to the terms of the July 12, 1999 merger agreement by which Simone acquired the stock of CareCentric Solutions, Inc., the Company was required to issue up to an additional 606,904 shares of common stock to the former preferred shareholders and noteholders of CareCentric Solutions if the average closing price of the Company's stock for the period October 1, 2000 through December 31, 2000 is not equal to or greater than \$15.00 per share. Since the Company's average closing stock price for the fourth quarter of 2000 was less than \$15.00 per share, on March 19, 2001, the Company issued 593,688 shares of its common stock to the former preferred shareholders and noteholders of CareCentric Solutions. As required by generally accepted accounting principles, no value was assigned to these shares as it was deemed not to impact total consideration paid. The Company asserted that it was not required to issue 13,216 additional shares of its common stock as well as 150,740 shares of common stock that were being held by it in escrow under the terms of the CareCentric Solutions Merger Agreement based upon various indemnification and expense overages claims it believes it had against the former CareCentric Solutions preferred shareholders and noteholders. On May 16, 2001, the Company finalized a settlement of these claims with the representative of the former CareCentric Solutions parties pursuant to which 88,586 shares of common stock were released from escrow and distributed to the former CareCentric Solutions preferred shareholders and noteholders, the remaining 62,154 escrow shares were cancelled, no additional shares of common stock will be issued, and the parties executed a comprehensive settlement agreement.

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

### Preferred Stock-10,000,000 shares authorized

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

Series C Preferred Stock - \$.001 par value, 850,000 shares issued. The shares of Series C Preferred Stock are held by Mestek and result 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 carry 170,000 common share votes (on a split adjusted basis) and are entitled to an 11% annual cumulative dividend, among other rights.

## Edgar Filing: CARECENTRIC INC - Form 10-Q

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

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

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

15

### CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

equal to \$2.51. The aforementioned number of shares and per share prices are 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.

Stock Options - Options totaling 1,000 shares were outstanding and vested under the now discontinued 1997 SCHI NQ (Directors) Plan at an exercise price of \$60.00. Non-plan options totaling 107,453 shares, of which 90,787 are exercisable, were 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. Options totaling 465,206 shares were outstanding, of which 267,332 shares are exercisable, at exercise prices ranging from \$2.51 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 are exercisable only to the extent that outstanding CareCentric options, warrants or other conversion rights are exercised. These options were designed to prevent dilution of Mestek's ownership interest in the Company after the merger. As options, warrants and other common rights are forfeited or cancelled, Mestek's option rights are correspondingly reduced. Due to the contingent nature of these options, they have been excluded from the above tables. At March 31, 2002, 159,573 shares of such options were available under the original terms of issuance.

#### STOCK PURCHASE WARRANTS

## Edgar Filing: CARECENTRIC INC - Form 10-Q

At March 31, 2002, the Company had outstanding warrants to purchase shares of the Company's common stock as follows:

| COMMON SHARES | EXERCISE<br>PRICE | EXPIRATION DATE   |
|---------------|-------------------|-------------------|
| -----         | -----             | -----             |
| 25,000        | \$ 5.00           | February 24, 2005 |
| 104,712       | \$ 2.51           | July 12, 2003     |
| 490,396       | \$ 3.21           | June 30, 2003     |
| 400,000       | \$ 10.88          | March 7, 2003     |
| -----         |                   |                   |
| 1,020,108     |                   |                   |
| =====         |                   |                   |

### NOTE 9 - RELATED PARTY TRANSACTIONS

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

R. Bruce Dewey is Vice-Chairman of the Board of Directors, and the President and Chief Operating Officer of Mestek and Winston R. Hindle, Jr., a director of the Company, is a director of Mestek. Mestek has certain investments in the Company in the form of notes, convertible notes, warrants, stock options and preferred stock as described in Note 6 and Note 8 to these Financial Statements.

The Company has a note receivable from Simone Consultants, LLC of \$611,000 at March 31, 2002. On September 28, 2001, the Company discontinued its Consulting business segment by closing the sale of certain of the assets of its wholly-owned subsidiary, Simone Consulting, Inc. ("Consulting") to Simone Consultants, LLC, which is owned and controlled by William J. Simone, Jr., a director and former officer of CareCentric. The total sales price was approximately \$2.0 million plus the assumption of certain liabilities. The sale was made pursuant to an asset purchase agreement. William Simone, Jr. has resigned as an officer of, but remains a director of, CareCentric. The assets sold under the agreement included the Consulting accounts receivable, computer equipment, and miscellaneous prepaid expenses. Consideration received consisted of approximately \$1.0 million in cash and \$1.0 million in notes, \$770,000 with a 36-month term and \$230,000 with a 5-month term. The cash proceeds were used to pay down CareCentric's line of credit.

As of March 31, 2002, the Company had a promissory note outstanding to Barrett C. O'Donnell, a director of the Company, as described in Note 6 to these Financial Statements.

### CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## Edgar Filing: CARECENTRIC INC - Form 10-Q

John E. Reed, Chairman of the Company and Chairman and Chief Executive Officer of Mestek, has provided the Company with a \$6.0 million line of credit (unrelated to the Wainwright Bank and Trust \$6.0 million line of credit described above) as more fully described in Note 6 to the Financial Statements and has also purchased \$1.0 million of the Company's Series D Preferred Stock on June 12, 2000, as more fully described in Note 8 to these Financial Statements. 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. The conversion price for Mr. Reed's \$6.0 million loan, which converts into CareCentric common stock as described in more detail in Note 6 to these Financial Statements, is also \$2.51 per share. On March 31, 2002, \$4.5 million was outstanding under this credit facility, \$3.5 million payable to Mr. Reed, and \$1.0 million payable to Mestek pursuant to a participation agreement.

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

### NOTE 10 - LICENSE AGREEMENTS

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

### NOTE 11 - EXECUTIVE COMPENSATION

The Company has entered into an employment agreement with its President and Chief Executive Officer, Mr. John Festa. Among other specific contents, Mr. Festa (i) has been granted 210,000 shares of Series E preferred stock, one half of which vest evenly over the course of three years from his hire date dependent upon his continued employment as President and CEO and one half of which are forfeitable pro rata over a three year period if certain financial milestones are not met, (ii) payment of an annual bonus of up to 50% of his annual salary based on completion of annual performance objectives, (iii) the possibility of receiving a special bonus which varies in dollar amount in the event there is a sale of the Company while Mr. Festa is President and CEO and for nine months thereafter. The Series E preferred stock was valued at approximately \$210,000 and will be charged to earnings as earned. The amount representing unearned compensation is recorded as an increase in the stockholders deficit account. For the three months ended March 31, 2002, approximately \$23,000 was recorded as current expense associated with earnings under this grant.

### NOTE 12 - LIQUIDITY

As disclosed in the financial statements, the Company's operations used significant amounts of cash in 2001. The Company has a working capital deficit of \$15.1 million at March 31, 2002. During the first quarter of 2002, the Company continued to use its Wainwright Bank Credit Line and the Reed Credit Line in order to meet its working capital needs.

The merger with Simone added additional products and resources and, importantly, added to the Company's critical mass of installed sites but the

## Edgar Filing: CARECENTRIC INC - Form 10-Q

Company's longer term success will depend upon increased sales of new software systems and successful installation performance. Additionally, the Company's continuing efforts to develop new products using the latest software and hardware platforms will be most important to its long-term success.

As of May 9, 2002, the Company had untapped credit capacity of approximately \$0.7 million from combined Wainwright Bank and Reed credit facilities. As discussed in Note 13 below, and pending shareholder approval, which is expected to be obtained, certain terms of the Wainwright and Reed credit facilities will be changed. The Company believes that a successful completion and closing of the refinancing and recapitalization plan (described in more detail in Note 13), in combination with the funds available from cash to be generated from future operations, will be sufficient to meet the Company's operating requirements through at least June 30, 2003, assuming no material adverse change in the operation of the Company's business. Notwithstanding the financial conditions prevailing in the home health marketplace, the Company

17

### CARECENTRIC NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

continued to fund significant product development initiatives during 2001 and intends to do so throughout 2002 by reinvesting the moneys saved in its re-engineering which was undertaken beginning on February 5, 2002. Nevertheless, until revenues increase sufficiently to cover fluctuations in forward-looking costs and operating expenses, the Company remains dependent on its majority shareholder for its working capital financing. The Company's majority shareholder has stated his intention and ability to continue to advance cash to the Company in accordance with the terms of his credit facility.

#### NOTE 13 - SUBSEQUENT EVENTS

On April 8, 2002, the Company secured two commitments for additional financing, both from existing shareholders. John E. Reed, a director of the Company, agreed to provide \$871,117 in short-term funds, to be refinanced along with other debt of the Company due Mr. Reed upon the obtaining of shareholder approval in June, 2002. The refinancing would be evidenced by a \$3,555,555 subordinated, secured convertible term note, with principal payable in a single balloon payment in 60 months and with interest at a fixed rate of 6.25% deferred and capitalized for 24 months. Interest would then be payable quarterly. The note would be convertible at any time for common stock at a price of \$1.00 per share. The conversion rights of Mr. Reed's 398,406 shares of Series D Preferred Stock would also be amended to increase the conversion exchange rate from one share of common stock for one share of Series D Preferred to 2.51 shares of common stock for one share of Series D Preferred Stock.

Mestek, Inc., a preferred shareholder of the Company, agreed to provide \$1,092,000 in short-term funds, to be refinanced along with other debt of the Company due Mestek upon the obtaining of shareholder approval in June, 2002. The refinancing would be evidenced by a \$4,000,000 subordinated, secured convertible term note, with principal payable in a single balloon payment in 60 months and with interest at a fixed rate of 6.25% deferred and capitalized for 24 months. Interest would then be payable quarterly. The note would be convertible at any time for common stock of the Company at a price of \$1.00 per share. The rights of Mestek's 5,600,000 shares of Series B Preferred Stock would also be amended to provide for a conversion exchange rate of 1.0714 shares of common stock for one share of Series B Preferred Stock. Mestek will also give up its stock options and a warrant it holds for the purchase of 104,712 shares of common stock and will exchange a warrant it holds for 400,000 shares of common stock at

## Edgar Filing: CARECENTRIC INC - Form 10-Q

\$10.875 per share, expiring March 7, 2003, for a Warrant for 400,000 shares of common stock at \$1.00 per share, expiring June 15, 2004. It will also exchange a warrant it holds for 490,396 shares of common stock at \$3.21 per share, expiring March 7, 2003, for a Warrant for 490,396 shares of common stock at \$1.00 per share, expiring June 15, 2004.

A condition to the refinancing of the Company's debt to Mestek and Mr. Reed is that the present \$6.0 million Wainwright Bank line of credit facility be paid down by the Company to \$5.9 million or less on or before July 31, 2002 and continue to be reduced by no less than \$100,000 each month thereafter until all amounts have been repaid to Wainwright or the Wainwright Facility or any replacement thereof is obtained by CareCentric without a guarantee of Mestek.

The refinancing and recapitalization transactions between the Company and each of Mestek and Reed are subject to the satisfaction of various conditions, including approval by the Company's shareholders at its annual meeting expected to be held in June 2002 and approvals by Mestek's board of directors and the Company's senior lender. The transactions contemplated by the commitment letters, if approved, would (i) reduce the total financing facilities of the Company by approximately \$0.3 million, (ii) extend the guaranty by Mestek of the Company's senior line of credit with Wainwright Bank through the end of June 2003, (iii) refinance existing debt owed by the Company to Mestek and Reed to provide a deferral of both interest and principal for a period of two (2) years following the date that the commitment letters are approved, and (iv) restructure certain of the Company's existing voting securities and warrants held by Mestek and Reed.

Management believes the required shareholder approvals will be obtained.

On April 19, 2002, the Company received a letter from Nasdaq indicating that certain financial indicators as reported in the Company's December 31, 2001 financial statements were below applicable minimum requirements issued by Nasdaq to maintain listing on the Nasdaq SmallCap Market. The Company's current trading price and its write-off of certain non-cash, impaired intangible assets contributed to the Nasdaq letter. On May 10, 2002, the Company submitted a plan to Nasdaq that might allow the Company to work towards meeting Nasdaq's requirements for continued listing on the Nasdaq SmallCap Market. In the event the Company's plan does not receive acceptance, the Company's stock will be de-listed from Nasdaq. Nevertheless, the Company is considering the actions necessary to achieve continued trading on the OTC Bulletin Board.

On April 22, 2002, the Company employed George M. Hare as its Senior Vice President and Chief Financial Officer. Mr. Hare has over twenty years of varied experience in both financial and operating management positions and holds a certified public accountant certificate from the state of Pennsylvania.

### 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

## Edgar Filing: CARECENTRIC INC - Form 10-Q

statements. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-K 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 our Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods that we follow.

#### General

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

Our critical accounting policies are as follows:

## Edgar Filing: CARECENTRIC INC - Form 10-Q

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

19

### 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.

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

### ESTIMATE OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

### VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL

The Company assesses the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill annually or whenever

## Edgar Filing: CARECENTRIC INC - Form 10-Q

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 our management to be commensurate with the risk inherent in our current business model. After recording a \$11.8 million impairment adjustment, net intangible assets amounted to \$5.4 million as of December 31, 2001. See Note 5 of the Notes to the Consolidated Financial Statements.

### RESULTS OF OPERATIONS

#### EFFECT OF DISCONTINUED OPERATIONS AND SFAS NO. 142 ON MANAGEMENT DISCUSSION AND ANALYSIS

To present a more meaningful analysis of operating performance, the comparison of the three months ended March 31, 2002 and March 31, 2001 compares the 2002 reported Financial Statements in the accompanying Financial Statements

20

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

#### RESULTS OF OPERATIONS FOR THREE MONTHS ENDED MARCH 31, 2002

**Net Revenues.** Revenues (exclusive of the Consulting segment which was discontinued in September 2001) were \$5.3 million for the three months ended March 31, 2002 and \$5.7 million for the three months ended March 31, 2001. The \$0.4 million decrease was mainly attributable to a reduction in software systems of \$0.5 million to \$1.6 million in 2002 from \$2.1 million in 2001. Maintenance revenues were unchanged at \$2.8 million in both 2002 and 2001.

The Company believes that the economic conditions for the home healthcare marketplace, more fully discussed in the overview section of the Form 10-K for the period ended December 31, 2001, have now stabilized, and are expected to improve in the years ahead. The Company also recognizes the importance of successfully introducing new products using more current technologies, and the Company intends to continue to develop and invest in new products in 2002 and beyond.

**Cost of Revenues.** Cost of revenues decreased \$0.5 million, or 22.3%, to \$1.7 million in 2002 from \$2.2 million in 2001. As a percentage of total net revenues, cost of revenues decreased to 31.9% in 2002 from 37.7% in 2001. The

## Edgar Filing: CARECENTRIC INC - Form 10-Q

\$0.5 million decrease resulted primarily from cost cutting, changes in product mix and the decrease in revenues from software systems. The decrease as a percentage of total net revenues is due to the combined impact of many factors including efficiencies in installation and support costs resulting from reduced sales discounts and changes in product mix.

**Selling, General and Administrative.** Selling, general and administrative expenses decreased \$126,000, or 4.5%, to \$2.7 million in 2002 from \$2.8 million in 2001. As a percentage of total net revenues, selling, general and administrative expenses were 51.4% in 2002 and 49.3% in 2001. This dollar decrease was attributable to synergies derived from cost savings initiatives implemented in 2001 and 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 \$0.8 million, or 46.4%, to \$0.9 million in 2002 from \$1.7 million in 2001. As a percentage of total net revenues, research and development expenses decreased to 18.0% in 2002 from 30.9% in 2001. The decrease in research and development expenditures was primarily due to the Company's realignment of research efforts between existing and future platform products. Although the comparative value of research and expenditure expenses has fallen in the first quarter of 2002, the Company believes the 18% of revenue level experienced in the first quarter of 2002 is the proper amount to both enhance and maintain existing products. As the Company develops its next generation product platforms, research and development expenditures are expected to increase to a higher level than experienced in the first quarter of 2002.

**Amortization and Depreciation.** Amortization and depreciation decreased by approximately \$0.5 million to \$0.4 million in 2002 from \$1.0 million in 2001. This decrease is attributable to the net effect of the adoption of SFAS No. 142 and the reduction in amortization from the write off of the intangibles in the fourth quarter of 2001.

**Operating Loss.** The Company's loss from continuing operations, reflecting the same assumptions as above for purposes of comparability, decreased from \$2.0 million for the three months ended March 31, 2001 to \$644,000 for the three months ended March 31, 2002. This decrease in loss from continuing operations is due to the combined effect of reductions in selling, general and administrative, research and development and amortization expenses. Continued high levels of research and development expenditures over the last two years are a material cause of the recurring loss from continuing operations, although the reduction in research and development expenses in the first quarter of 2002 versus the first quarter of 2001 positively contributed to the reduction in the first quarter operating loss reported for 2002 compared to 2001.

**Other Income (Expense).** Interest expense related to borrowings under the Company's line of credit agreements and capital lease obligations increased by approximately \$44,000 to \$168,000 for the three months ended March 31, 2002 from \$124,000 for the three months ended March 31, 2001. Interest and other income consist principally of interest income related to customer finance charges and the Company's short term cash investments and have decreased by approximately \$128,000. The Company expects further increases in interest expense in 2002 due to increased borrowing.

**Income Taxes.** The Company has not incurred or paid any substantial income taxes since March 2000. At December 31, 2001, CareCentric had net operating loss ("NOL") carryforwards for federal and state income tax purposes of \$36.7 million. Such losses expire beginning in 2010, 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, 2002, and accordingly, a 100% deferred tax valuation allowance has been recorded against these assets.

Loss from Operations of Discontinued Segment. The loss of (\$185,000) for the three months ended March 31, 2001 is attributable to the discontinued operations of the Consulting segment.

#### BACKLOG

The Company's backlog associated with its software operations remained unchanged at approximately \$3.2 million on March 31, 2002 and December 31, 2001, respectively. 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 (\$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 are entitled to an 11.0% annual cumulative dividend. The loan from Mr. O'Donnell along with \$100,000 in deferred salary were exchanged for a \$600,000 subordinated note, convertible into common stock at \$2.51 per share, with interest at 9% per annum and a maturity date of August 8, 2005. In January 2002, this loan was amended to change the interest rate to prime plus two percent and to change the terms of payment of interest for 2002 to require that one-half of the accrued interest be timely paid each quarter and the balance to be paid on December 31, 2003 or to be converted into an additional convertible note. The loan from Dr. Ellis was paid in full on July 12, 2000 from the credit facility provided by Wainwright Bank and Trust Company. See Note 6 to the accompanying Consolidated Financial Statements.

In February 2000, Simione received an additional \$1.0 million of loan proceeds from Mestek. The loan proceeds were used to fund Simione's operating needs until completion of the merger with MCS, and carried the same terms and security as the \$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. 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.

## Edgar Filing: CARECENTRIC INC - Form 10-Q

Immediately after the Simone/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 which resulted in the creation of the following credit and debt facilities and preferred equity securities:

| SOURCE                            | FUNDING      | FORM                     | DATE C  |
|-----------------------------------|--------------|--------------------------|---------|
| John E. Reed                      | \$ 1,000,000 | Series D Preferred Stock | June 22 |
| John E. Reed                      | 6,000,000    | Line of Credit           | June 22 |
| Wainwright Bank and Trust Company | 6,000,000    | Line of Credit           | July 12 |
|                                   | \$13,000,000 |                          |         |
|                                   | =====        |                          |         |

22

These three transactions are described in greater detail in Note 6 to the accompanying Consolidated Financial Statements. The Wainwright Bank and Trust Company line of credit was used to pay off the Silicon Valley Bank (the Company's commercial bank prior to the merger with MCS) line of credit, certain short-term loans from Mestek, and the note payable to David O. Ellis. The Wainwright Line of Credit expired July 11, 2001 and was renewed through July 11, 2002. Payment of the Wainwright Line of Credit is guaranteed by Mestek. Based upon representations received from Wainwright Bank, the Company expects the Line of Credit to be renewed through July 11, 2003. As of April 8, 2002, the Company owes Wainwright approximately \$5,967,000 under the Line of Credit.

The Company is obligated under an 18 month unsecured promissory note in the principal amount of \$1,018,000 payable to Mestek which bears interest at prime plus one and one half percent (1.5%), with interest payable semiannually and which matures on June 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.

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 December 31, 2001, the outstanding amount under the Credit Facility was \$3.5 million, \$1.0 million of which was participated to Mestek, and the balance of which was retained by Mr. Reed. On December 31, 2001, the facility was amended to change the interest rate to prime plus two percent, to change the payment terms for unpaid 2001 interest to require payment at December 31, 2003 or to convert the outstanding unpaid interest to additional convertible notes in the amount of \$184,438 at the option of Mr. Reed, and in the amount of \$40,463 at the option

## Edgar Filing: CARECENTRIC INC - Form 10-Q

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, 2001 and the first quarter of 2002, the Company incurred operating losses and experienced significant problems collecting its accounts receivable because of the uncertain operating condition of its customers due to the negative effects of the current government limits over home medical cost reimbursement and the costs to date of developing, implementing and supporting The Smart Clipboard(R) product, which have been much higher than anticipated. 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. The merger with Simone added additional products and resources and, importantly, added to the Company's critical mass of installed sites but the Company's longer term success will depend upon increased sales of new software systems and successful installation performance, including its point-of-care and MestaMed(R) systems. In this connection, the Company recorded a significant increase in bookings of new systems in several of its major product lines through March 2002. Bookings have increased steadily through the first quarter of 2002 and prospect opportunities have been clearly identified. The existing pipeline, if realized, will exceed the Company's 2002 bookings budget and cash flow needs. Notwithstanding the financial conditions prevailing in the home health marketplace, the Company continued to fund significant product development initiatives during 2001. Accordingly, until revenues increase sufficiently to cover these forward-looking costs and operating expenses, the Company remains dependent on outside funding sources, including John E. Reed, Mestek and Wainwright Bank and Trust Company, for its working capital financing.

On April 8, 2002, the Company secured two commitments for additional financing, from existing shareholders John Reed and Mestek. See Notes 12 and 13 to the Financial Statements. Mr. Reed and Mestek have agreed to provide \$871,117 and \$1,092,000 in short-term debt financing, respectively, to be refinanced along with other debt of the Company due such parties upon obtaining shareholder approval in June 2002.

As of May 9, 2002, the Company had untapped credit capacity of approximately \$0.7 million from the aforementioned Reed and Wainwright Bank facilities. The Company believes that a successful completion of its refinancing commitments from John Reed and Mestek, in combination with the funds available from its cash, cash equivalents and cash to be generated from future operations, will be sufficient to meet the Company's operating requirements, assuming no material adverse change in the operation of the Company's business, until at least December 31, 2002. See also Note 12 to Financial Statements.

23

The table below summarizes the Company's debt and other contractual obligations:

|                         |       | PAYMENTS DUE BY PERIOD |           |           |
|-------------------------|-------|------------------------|-----------|-----------|
|                         |       | -----                  |           |           |
|                         |       | LESS THAN              |           |           |
| CONTRACTUAL OBLIGATIONS | TOTAL | 1 YEAR                 | 1-3 YEARS | 4-5 YEARS |
| -----                   | ----- | -----                  | -----     | -----     |

## Edgar Filing: CARECENTRIC INC - Form 10-Q

|                                    |              |             |             |             |
|------------------------------------|--------------|-------------|-------------|-------------|
| Long-Term Debt                     | \$ 6,343,000 | \$ --       | \$1,243,000 | \$5,100,000 |
| Capital Lease Obligations          | 27,000       | 27,000      | --          | --          |
| Operating Leases                   | 5,145,000    | 2,359,000   | 2,114,000   | 672,000     |
| Line of Credit                     | 5,967,000    | 5,967,000   | --          | --          |
| Other Long-Term Obligations        | 1,302,000    | 702,000     | 600,000     | --          |
|                                    | -----        | -----       | -----       | -----       |
| Total Contractual Cash Obligations | \$18,038,000 | \$8,669,000 | \$4,107,000 | \$5,262,000 |
|                                    | =====        | =====       | =====       | =====       |

As of March 31, 2002, the Company had negative working capital of \$15.3 million and cash equivalents of \$0.5 million. The Company's current liabilities as of March 31, 2002 include customer deposits of \$2.1 million and unearned revenues of \$4.1 million.

Net cash used in operating activities for the years ended March 31, 2002 and March 31, 2001 was \$1.1 million, and \$1.7 million, respectively.

Cash flows from financing activities include the Wainwright and Reed lines of credit borrowings during 2002.

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

### IMPACT OF NEW ACCOUNTING STANDARDS

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

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

## Edgar Filing: CARECENTRIC INC - Form 10-Q

platforms would result in a lower estimated cash value to the Company of existing products. The resulting impairment to the intangible assets of the Company was \$11.8 million. As further detailed in Note 5 of the Financial Statements, the intangible assets of the Company, after the impairment charge, will be Developed Technologies, Customer Base and Assembled Workforce.

On October 3, 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," that replaced SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of." The primary objectives of this project were to develop one accounting model based on the framework established in SFAS No. 121 for long-lived assets to be disposed of by sales and to address significant implementation issues. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations,

24

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 see whether 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 financial condition and results of operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

As of March 31, 2002, the Company's obligations include variable rate notes payable and a line of credit bank note with aggregate principal balances of approximately \$12.3 million, which mature at various dates through 2005. 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 \$107,000 per year.

At March 31, 2002, the Company had accounts receivable of approximately \$5.4 million net of an allowance for doubtful accounts of \$1.2 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.

### 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

## Edgar Filing: CARECENTRIC INC - Form 10-Q

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 March 22, 2002, no such action has been taken and nothing further has been heard from McLendon's attorney for over one year. Management believes that this claim has been abandoned. In the event a claim is asserted, however, CareCentric and SC Holding intend to vigorously defend against it.

### Item 2. Change in Securities.

On April 19, 2002, the Company received a letter from Nasdaq indicating that certain financial indicators as reported in the Company's December 31, 2001 financial statements were below applicable minimum requirements issued by Nasdaq to maintain listing on the Nasdaq SmallCap Market. The Company's current trading price and its write-off of certain non-cash, impaired intangible assets contributed to the Nasdaq letter. On May 10, 2002, the Company submitted a plan to Nasdaq that might allow the Company to work towards meeting Nasdaq's requirements for continued listing on the Nasdaq SmallCap Market. In the event the Company's plan does not receive acceptance, the Company's stock will be de-listed from Nasdaq. Nevertheless, the Company is considering the actions necessary to achieve continued trading on the OTC Bulletin Board.

### Item 3. Defaults Upon Senior Securities.

None.

25

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

None.

### Item 5. Other Information.

None.

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

- (a) Exhibits:
  - 3.1 Amended and Restated Certificate of Incorporation of the Company.
  - 3.2 Certificate of Ownership and Merger of Simone Central Holdings, Inc. with and into CareCentric Inc. (Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K dated as of January 31, 2001 (file No. 000-22162)).
  - 3.3 Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-1 (Registration Number 333-25551) as filed with the Securities and Exchange Commission).

## Edgar Filing: CARECENTRIC INC - Form 10-Q

- 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)).
- 10.46 Convertible Note Agreement dated as of August 8, 2000 by and between the Company and Barrett C. O'Donnell.
- 10.46.1 Convertible Promissory Note dated August 8, 2000 from the Company in favor of Barrett C. O'Donnell.
- 10.46.2 First Amendment to Convertible Note Agreement and Convertible Promissory Note dated as of January 21, 2002 by and between the Company and Barrett C. O'Donnell.
- (b) Reports on Form 8-K:
- On February 8, 2002, the Company filed a Form 8-K regarding its plan to realign its business.
- On March 29, 2002, the Company filed a Form 8-K regarding a change to its 2001 earnings for an impairment write-down of goodwill and other intangible assets.

### 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 15, 2002

By: /s/ George M. Hare

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