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CARECENTRIC INC  
Form 10-Q  
August 14, 2001

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FORM 10-Q

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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 June 30, 2001

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Class	Outstanding at
-----	7/31/2001
Common Stock, \$.001 par value	----- 4,381,350 shares

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CARECENTRIC, INC.

QUARTERLY REPORT ON FORM 10-Q

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### Item 1. Consolidated Financial Statements

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

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#### CARECENTRIC, INC. CONSOLIDATED BALANCE SHEETS

	June 30, 2001
	(unaudited)
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 45,000
Accounts receivable, net of allowance for doubtful accounts of \$525,000 and \$237,000 respectively	8,075,000
Prepaid expenses, inventory and other current assets	943,000
Total current assets	9,063,000
Purchased software, furniture and equipment, net	1,819,000
Intangible assets, net	21,571,000
Other assets	350,000
Total assets	\$ 32,803,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current liabilities:	
Line of credit	\$ 5,996,000
Note payable	647,000
Accounts payable	2,713,000
Accrued compensation expense	817,000
Accrued liabilities	7,435,000
Customer deposits	2,206,000
Unearned revenues	3,609,000
Total current liabilities	23,423,000
Accrued liabilities, less current portion	36,000
Notes payable long-term	3,575,000

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Total liabilities	----- 27,034,000
Shareholders' equity:	
Preferred stock; 10,000,000 shares authorized	
Series B Preferred, \$.001 par value; 5,600,000 issued and outstanding	6,000
Series C Preferred, \$.001 par value; 850,000 issued and outstanding	1,000
Series D Preferred, \$.001 par value; 398,000 issued and outstanding	-
Common stock, \$.001 par value; 20,000,000 shares authorized, 4,381,350 shares issued and outstanding at June 30, 2001, and 3,849,816 shares issued and outstanding at December 31, 2000;	4,000
Additional paid-in capital	21,070,000
Stock warrants	1,000,000
Accumulated deficit	(16,312,000)
	-----
Total shareholders' equity	5,769,000
	-----
Total liabilities and shareholders' equity	\$ 32,803,000 =====

See notes to consolidated financial statements.

The above financial statements reflect the fact that for accounting purposes MCS, Inc. is deemed to have acquired CareCentric, Inc. on March 7, 2000, the date of the merger, as more fully explained in Notes 1 and 2 to the Consolidated Financial Statements.

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CARECENTRIC, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended June 30,		Six Mon
	2001	2000	2001
	-----	-----	-----
Net revenues:	\$ 6,549,000	\$ 6,257,000	\$ 13,393,000
Costs and expenses:			
Cost of revenues	3,135,000	3,954,000	6,403,000
Selling, general and administrative	2,711,000	2,807,000	5,536,000
Research and development	1,609,000	1,780,000	3,376,000
Depreciation and amortization	1,084,000	1,183,000	2,169,000
Restructuring charge	675,000	-	675,000
	-----	-----	-----
Total costs and expenses	9,214,000	9,724,000	18,159,000
	-----	-----	-----
Loss from operations	(2,665,000)	(3,467,000)	(4,766,000)

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Other (expense) income:			
Interest expense	(383,000)	(189,000)	(739,000)
Interest and other income	68,000	28,000	194,000
	-----	-----	-----
Net loss before taxes	(2,980,000)	(3,628,000)	(5,311,000)
	-----	-----	-----
Income tax benefit	-	-	-
	-----	-----	-----
Net loss	\$ (2,980,000)	\$ (3,628,000)	\$ (5,311,000)
	=====	=====	=====
Net loss per share - basic and diluted	\$ (0.67)	\$ (0.94)	\$ (1.27)
	=====	=====	=====
Weighted average common shares - basic and diluted	4,418,000	3,850,000	4,178,000
	=====	=====	=====

See notes to consolidated financial statements.

The above financial statements reflect the fact that for accounting purposes MCS, Inc. is deemed to have acquired Simone Central Holdings, Inc. on March 7, 2000, the date of the merger, as more fully explained in Notes 1 and 2 to the Consolidated Financial Statements. The weighted average shares computations have been recast to give effect to the shares of CareCentric common stock issued to MCS stockholders in connection with the MCS merger for both periods shown, as more fully described in Note 1 to the Consolidated Financial Statements.

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CARECENTRIC, INC.  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the six months ended June 30, 2001

	Shares	Common Stock	Shares	Preferred Stock	Paid-in Capital	Warrants
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2000	3,850,000	\$ 4,000	6,848,000	\$ 7,000	\$ 21,070,000	\$ 1,000,000
Issuance of \$.001 par value common stock (1)	593,000	-	-	-	-	-
Cancellation of \$.001 par value common stock (1)	(62,000)	-	-	-	-	-
Net loss	-	-	-	-	-	-

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Balance at						
June 30, 2001	4,381,000	\$ 4,000	6,848,000	\$ 7,000	\$ 21,070,000	\$ 1,000,000

(1) See Note 8 to the consolidated financial statements.

See notes to consolidated financial statements.

The above financial statements reflect the fact that for accounting purposes MCS, Inc. is deemed to have acquired CareCentric, Inc. on March 7, 2000, the date of the merger, as more fully explained in Notes 1 and 2 to the Consolidated Financial Statements.

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CARECENTRIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months ended June 30,		Six Months
	2001	2000	2001
Cash flows from operating activities:			
Net loss	\$ (2,980,000)	\$ (3,628,000)	\$ (5,311,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts	84,000	281,000	153,000
Amortization and depreciation	1,084,000	1,184,000	2,178,000
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	1,423,000	494,000	376,000
Prepaid expenses and other current assets	166,000	197,000	(242,000)
Other assets	(146,000)	(137,000)	(139,000)
Accounts payable	(125,000)	(1,044,000)	1,557,000
Accrued compensation expense	(196,000)	(308,000)	201,000
Accrued liabilities	467,000	147,000	(12,000)
Customer deposits	(194,000)	714,000	(290,000)
Unearned revenues	(828,000)	598,000	(1,392,000)
Net cash used in operating activities	(1,245,000)	(1,502,000)	(2,921,000)

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Cash flows from investing activities:			
Purchase of software, furniture and equipment	(256,000)	(110,000)	(375,000)
	-----	-----	-----
Net cash used in investing activities	(256,000)	(110,000)	(375,000)
	-----	-----	-----
Cash flows from financing activities:			
Cash received in connection with MCS merger	-	-	-
Proceeds from issuance of preferred stock	-	1,000,000	-
Proceeds from issuance of notes payable	1,292,000	583,000	2,979,000
	-----	-----	-----
Net cash provided by financing activities	1,292,000	1,583,000	2,979,000
	-----	-----	-----
Net increase/(decrease) in cash and cash equivalents	(209,000)	(29,000)	(337,000)
Cash and cash equivalents, beginning of period	254,000	2,028,000	362,000
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 45,000	\$1,999,000	\$ 45,000
	=====	=====	=====

See notes to consolidated financial statements.

The above financial statements reflect the fact that for accounting purposes MCS, Inc. is deemed to have acquired CareCentric, Inc. on March 7, 2000, the date of the merger, as more fully explained in Notes 1 and 2 to the Consolidated Financial Statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2001 (Unaudited)

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### MCS as Deemed Acquirer of CareCentric, Inc.

On March 7, 2000, CareCentric, Inc. (formerly known as Simione Central Holdings, Inc.) ("CareCentric" or the "Company") and MCS, Inc. ("MCS") merged in a transaction accounted for as a reverse acquisition for financial reporting purposes. In connection with the acquisition, CareCentric issued 1,489,853 shares of its common stock in exchange for all the outstanding common stock of MCS, and thereby, the former shareholders of MCS acquired control of CareCentric. As a result, for financial reporting purposes MCS is considered the acquiring company; hence, the historical financial statements of MCS became the historical financial statements of CareCentric and include the results of operations of CareCentric only from the effective acquisition date.

The weighted average common shares for the six months ended June 30, 2000 are recast in the accompanying Consolidated Statements of Operations to give effect

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to the 1,489,853 shares of CareCentric common stock that were issued to the MCS shareholders in connection with the CareCentric/MCS merger on March 7, 2000 as though such shares had been outstanding for the entire period. For the period from January 1, 2000 through March 6, 2000, therefore, 1,489,853 shares of issued and outstanding CareCentric common stock are deemed to be owned by the MCS shareholders. For the period from March 7, 2000 through December 31, 2000, there were 3,849,816 total shares of issued and outstanding Company common stock (after giving effect to the CareCentric/MCS merger). The weighted average shares for the year ended December 31, 2000 are also recast to give effect to the 1,489,853 shares of CareCentric common stock that were issued to the MCS shareholders pursuant to the CareCentric/MCS merger as though such shares had been outstanding for the entire period.

### Basis of Presentation

The consolidated financial statements have been prepared by the Company (which as used herein refers to CareCentric, after giving effect to the merger with MCS and, as the context requires, MCS, prior to the CareCentric/MCS merger), include the results of operations of the parent company and its wholly owned subsidiaries and are unaudited (except for the December 31, 2000 balance sheet). In the opinion of management, all adjustments, which consist of normal recurring adjustments, considered necessary for a fair presentation have been included. All inter-company balances and transactions have been eliminated. Interim results are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of December 31, 2000 appearing in the Company's Report on Form 10-K for the year ended December 31, 2000.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and amounts and classification of liabilities that might be necessary should the Company be unable to continue to operate in the normal course of business. See the Liquidity section of Management Discussion and Analysis on page 14.

Certain prior period amounts have been reclassified to conform to the 2001 financial statement presentation.

### Description of Business

The Company is a leading provider of information technology systems and related services and consulting services designed to help home health care providers more effectively operate their businesses in today's environment. The Company's focus is to help home health care providers streamline their operations and better serve their patients. The Company offers several comprehensive software solutions. Each of these solutions provides a basic set of software applications and specialized modules that can be added based upon customer needs. These software solutions are designed to enable customers to generate and utilize

comprehensive financial, operational and clinical information. In addition to its software solutions and related software support services, the Company's home health care consulting services assist providers in addressing the challenges of reducing costs, maintaining quality, streamlining operations and re-engineering organizational structures, as well as assisting with regulatory compliance and



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merger and acquisition due diligence.

### Cash Equivalents

All highly liquid investments purchased with an original maturity of three 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 intangible assets arising from the CareCentric/MCS merger are amortized using the straight-line method over the estimated useful lives of the related assets as more fully disclosed in Note 4. The Company reviews its long-lived and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The measurement of possible impairment is based upon determining whether projected undiscounted future cash flow from the use of the asset is less than the carrying amount of the asset.

### 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 has adopted SFAS No. 128, "Earnings Per Share." SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary 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 June 30, 2000 and 2001 exclude the effects of options, warrants and conversion rights as they would be antidilutive, and as a result, basic and diluted earnings are the same for the quarters ended June 30, 2000 and 2001. Per share amounts for all periods have been presented in conformity with SFAS No. 128 requirements.

### Stock Based Compensation

Stock options are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (SFAS No. 123 and related interpretations).

### 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 payable: The carrying amounts of the Company's notes payable approximate their fair value.

Recently Adopted Accounting Standards

In 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 became effective for the Company's fiscal quarter ended June 30, 2001. The Company's management does not believe that the adoption of SFAS No. 133 will have a material impact on the Company's financial position or results of operations.

On December 3, 1999, the SEC released Staff Accounting Bulletin 101, (SAB 101) "Revenue Recognition in Financial Statements". This bulletin established more clearly defined revenue recognition criteria than previously existing accounting pronouncements. On June 26, 2000, the SEC released SAB 101B, which delayed the required implementation of SAB 101 until no later than the fourth quarter of fiscal years ending December 31, 2000. The Company believes that the effects of this bulletin were not material to its financial position, results of operations or cash flow.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets", which, for all intents and purposes for the Company, will become effective December 31, 2001. Goodwill generated in purchase transactions will be recorded as a non-wasting asset subject to an impairment test at least once per year. Amortization of goodwill currently on the Company's books will cease as of January 1, 2002. The Company is currently evaluating the effect that adoption of FAS 142 will have on its financial position and results of operations in 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of New Accounting Standards" below.

NOTE 2 - CARECENTRIC/MCS MERGER

On March 7, 2000, MCS completed the merger with CareCentric. CareCentric issued 1,489,853 shares of common stock to MCS stockholders in exchange for all of the outstanding shares of MCS common stock. This number of shares has been adjusted to reflect a one-for-five reverse stock split that was completed by CareCentric immediately prior to the merger. In connection with the closing of the merger, Mestek invested \$6.0 million in CareCentric in exchange for 5.6 million shares of Series B preferred stock and warrants to purchase 400,000 shares (on a split adjusted basis) of CareCentric common stock and converted a pre-existing \$850,000 note receivable into 850,000 shares of Series C preferred stock. Additional information on the merger is included in the Company's Registration Statement on Form S-4 (Registration No. 333-96529).

As required by generally accepted accounting principles (GAAP), the effects of the merger on the Company's assets and liabilities have been excluded from the operating section of the cash flow statement for reporting purposes.

Pro-forma unaudited results assuming the merger took place as of January 1, 2000 are as follows:

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	2001	2000
Net revenues	\$ 13,393,000	\$ 13,626,000
Net (loss)	\$ (5,311,000)	\$ (6,439,000)
Net (loss) per share - basic and diluted	\$ (1.27)	\$ (1.27)

NOTE 3 - RESTRUCTURING AND OTHER CHARGES

In April 2001, CareCentric approved a plan to close one remote support office and to downsize the workforce at its remaining facilities. As a result of these actions the Company recorded a total charge of \$675,000 in the quarter ended June 30, 2001.

The restructuring charge includes \$598,000 of employee severance costs and \$77,000 in other exit costs (principally lease termination costs and functional relocation expenses). The plan entails the elimination of 33 positions, the layoff of six additional employees and the closing of one non-essential training and support facility. The Company expects to pay \$585,000 in cash related to the restructuring plan. During the quarter ended June 30, 2001 the Company paid \$294,000 in employee costs and \$18,000 in other exit costs. As of July 31, 2001, 39 employees had been separated under the plan.

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NOTE 4 - PURCHASED SOFTWARE, FURNITURE AND EQUIPMENT

Purchased software, furniture and equipment consisted of the following:

	June 30, 2001	December 31, 2000	Depreciation Estimate Useful Life
Software	\$ 1,677,000	\$ 1,635,000	3 years
Furniture and fixtures	1,577,000	1,551,000	10 years
Computer equipment	4,552,000	4,415,000	5 years
	7,806,000	7,601,000	
Accumulated depreciation	(5,987,000)	(5,644,000)	
Net purchased software, furniture and equipment	\$ 1,819,000	\$ 1,957,000	

NOTE 5 - INTANGIBLE ASSETS

Intangible assets at June 30, 2001 consisted of the following:

	Cost	Accumulated Amortization	Net Book Value	Amortization Period
Developed technology	\$10,650,000	\$ (1,775,000)	\$ 8,875,000	

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Assembled workforce	2,300,000	(613,000)	1,687,000
Customer base	1,700,000	(252,000)	1,448,000
Goodwill	11,851,000	(2,290,000)	9,561,000
	-----	-----	-----
	\$26,501,000	\$ (4,930,000)	\$ 21,571,000
	=====	=====	=====

See also Note 1, "Summary of Significant Accounting Policies - Recently Adopted Accounting Standards".

NOTE 6 - NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

	June 30, 2001	December 31, 2000
	-----	-----
Short Term:		
Line of Credit	\$ 5,996,000	\$ 5,996,000
Note Payable - Mestek	\$ 647,000	\$ 600,000
Long Term:		
Convertible Note Payable - Barrett C. O'Donnell	\$ 600,000	\$ 600,000
Convertible Note Payable - J.E Reed	\$ 2,975,000	\$ -
	-----	-----
Total Long-term Notes Payable	\$ 3,575,000	\$ 600,000
	=====	=====

Line of Credit:

On July 12, 2001, the Company renewed a \$6.0 million Loan and Security Agreement facility (the Wainwright Facility) with Wainwright Bank and Trust Company, a commercial bank, under which the Company granted a first priority position on substantially all of its assets as security. The Wainwright Facility was initially used to pay off the line of credit with Silicon Valley Bank, certain short-term loans from Mestek, Inc., and a loan from David O. Ellis, and then to fund the Company's operations. 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

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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.

Convertible Note Payable - Barrett C. O'Donnell:

On November 11, 1999, Simone Central Holdings, Inc. ("Simione") borrowed \$500,000 from Barrett C. O'Donnell on an unsecured basis and executed a promissory note in connection therewith. Mr. O'Donnell is a director of the Company. When the CareCentric/MCS merger was completed on March 7, 2000, the Company succeeded to this obligation. 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

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9% per annum and a five-year maturity.

### Note Payable - Mestek:

The Company is obligated under an unsecured promissory note in the principal amount of \$600,000 payable to Mestek Inc. which bears interest at prime plus one percent with interest payable semiannually and which matures on July 30, 2002. 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.

### 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 revolving 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 payable quarterly, 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. Borrowings totaling \$2.975 million were outstanding under the J. E. Reed Facility as of July 31, 2001. The unused capacity under the J.E. Reed line as of July 31, 2001 was \$3.025 million.

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.

### NOTE 7 - COMMITMENTS AND 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.

### NOTE 8 - SHAREHOLDERS' EQUITY

Subsequent to December 31, 2000, changes in the Company's Shareholders' Equity (all on a split-adjusted basis) are as follows:

Common Shares - 20,000,000 shares authorized, \$.001 par value, 4,381,330 shares issued and outstanding. Of such shares, 1,489,853 were issued on March 7, 2000 to the former MCS common shareholders, 606,904 were issued on March 7, 2000 to the holders of CareCentric Series A Preferred Stock (the former preferred shareholders and noteholders of CareCentric Solutions, Inc.), which shares were converted into CareCentric common shares in connection with the merger, and 531,534 were issued on March 19, 2001 to the former preferred shareholders and noteholders of CareCentric Solutions, Inc. as described below.

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 did not equal \$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

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20, 2001, the Company issued 593,688 shares of its common stock to the former preferred shareholders and noteholders of CareCentric Solutions. 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 believed 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.

Stock Options - The Company has granted options to purchase an aggregate of 571,659 shares (on a split adjusted basis) of common stock as of July 31, 2001, of which 2,500 options with an exercise price of \$3.00 per share were granted during the three month period ended June 30, 2001. Of the options granted, none were exercised prior to July 31, 2001 and 41,705 have been cancelled. Of the remaining 557,454 options, 256,254 are vested and exercisable as of July 31, 2001. The exercise prices range from \$2.51 to \$73.55 per share, both on a split adjusted basis.

### NOTE 9 - SEGMENT RESULTS

The Company has two reportable segments: Software Systems and Consulting. The Company's Software Systems segment sells comprehensive and flexible software solutions and services to enable home health care providers to more effectively operate their businesses and compete in prospective payment (PPS) and managed care environments. The Consulting segment assists home health care providers in addressing the challenges of reducing costs, maintaining quality, streamlining operations and re-engineering organizational structures, as well as assisting with regulatory compliance and assisting with merger and acquisition due diligence.

The Company evaluates performance and allocates resources based on profit or loss from operations, not including gains and losses on the Company's investment portfolio. The accounting policies of the reportable segments are the same as those used for the Consolidated Financial Statements. The revenues, operating profits (losses) and assets of the Company include the operations of MCS only from January 1, 2000 through March 7, 2000 and CareCentric from March 7, 2000 forward. Accordingly, because CareCentric's 2000 results from operations are not fully included, comparability between the 2000 and 2001 figures is compromised. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of revenue and results of operations on a "comparable" basis. The revenues, operating losses and assets of the Company by business segment are as follows:

	Three months ended June 30,		Six months ended J
	2001	2000	2001
Revenues			
Software systems	\$ 5,324,000	\$ 5,233,000	\$ 10,979,000
Consulting services	1,225,000	1,024,000	2,414,000
Total	\$ 6,549,000	\$ 6,257,000	\$ 13,393,000

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Cost of Sales			
Software systems	\$ 2,054,000	\$ 2,927,000	\$ 4,542,000
Consulting services	1,081,000	1,027,000	1,861,000
Total	\$ 3,135,000	\$ 3,954,000	\$ 6,403,000
Research & development			
Software systems	\$ 1,609,000	\$ 1,780,000	\$ 3,376,000
Depreciation and amortization			
Software systems	\$ 947,000	\$ 1,040,000	\$ 1,894,000
Consulting services	137,000	143,000	275,000
Total	\$ 1,084,000	\$ 1,183,000	\$ 2,169,000

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Net income (loss) from continuing operations

Software systems	\$ (2,735,000)	\$ (3,285,000)	\$ (5,054,000)
Consulting services	(245,000)	(343,000)	(257,000)
Total	\$ (2,980,000)	\$ (3,628,000)	\$ (5,311,000)

	Three months ended June 30,		Six months ended
	2001	2000	2001
Interest expense			
Software systems	377,000	189,000	726,000
Consulting services	6,000	-	13,000
Total	\$ 383,000	\$ 189,000	\$ 739,000
Income taxes			
Software systems	-	-	-
Expenditures for long-lived assets			
Software systems	\$ 256,000	\$ 271,000	\$ 375,000

	June 30, 2001	December 31, 2000
Assets		
Software systems	\$ 28,309,000	\$ 30,648,000
Consulting services	4,494,000	\$ 4,472,000
Total	\$ 32,803,000	\$ 35,120,000

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Certain categories of expenses are omitted. See Consolidated Financial Statements above.

The Net Income (loss) from continuing operations reported above has been affected by non-cash depreciation and amortization charges as reported above.

### 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 - SUBSEQUENT EVENTS

The Company and the management of its wholly-owned subsidiary, Simone Consulting, Inc., recently have been evaluating the operations of Simone Consulting and its ability to maximize its business and methods of realizing its synergies with the Company. On July 31, 2001, William J. Simone, Jr., a Director and Executive Vice President of the Company and President of Simone Consulting and Robert J. Simone, Senior Vice President of Simone Consulting, each delivered written notice to the Company of their election to terminate their employment with Simone Consulting effective as of September 30, 2001. The Company has entered into and anticipates completing negotiations regarding the separation of Messrs. William and Robert Simone from the Company prior to that date and the orderly and mutually beneficial transition of the Company's consulting business. These negotiations are very preliminary and the ultimate financial effect on the Company resulting from these negotiations is currently uncertain; however, the Company expects that Messrs. William and Robert Simone will form a new stand-alone company employing the current consulting employees. While the Company believes that in the short term it will lose revenue associated with the consulting business, the Company believes that it will benefit in the longer term from greater management focus on the Company's core software businesses and from an arms length relationship with independent consultants. The Company is pleased that Mr. William Simone Jr. intends to remain on the Company's Board of Directors.

### 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 Act of 1934, as amended, and are subject to the safe harbor created by such sections. When used in this report, the words "believe", "anticipate", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. The Company's future financial performance could differ significantly from that set forth herein, and from the expectations of management. Important factors that could cause the Company's financial performance to differ materially from past results and from those expressed in any forward looking statements include, without limitation, the inability to close the transactions required to obtain the additional capital resources described herein, 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, the effects of changes in regulations affecting health care providers, uncertainties regarding the restructuring described herein, risks associated with acquisitions and the risk factors detailed in the



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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.

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### Liquidity and Capital Resources

The Company secured \$13.0 million in new debt and equity capital during 2000 as follows:

Source	Funding	Form	Date
-----	-----	-----	-----
John E. Reed	\$ 1,000,000	Series D Preferred Stock	J
John E. Reed	6,000,000	Line of Credit	J
Wainwright Bank and Trust Company	6,000,000	Line of Credit	J
	-----		
	\$ 13,000,000		
	=====		

Details on the line of credit transactions referenced above are described in greater detail in Note 6 to the accompanying Financial Statements.

The Wainwright Bank and Trust Company Line of Credit was initially used to pay off the Silicon Valley Bank Line of Credit, certain short term loans from Mestek Inc., and the note payable to David O. Ellis, and then to fund the Company's operations. As of July 31, 2001, the unused capacity under the John E. Reed and Wainwright Bank and Trust Company lines of credit are \$3,025,000 and \$0, respectively.

Notwithstanding the Company's continued commitment to marketing, research and development, its net borrowings from all sources, representing in effect the Company's cash utilization rate, were significantly reduced during the three months ended June 30, 2001, to \$1.275 million, as compared with \$1.7 million for the three months ended March 31, 2001 and \$2.7 million for the three months ended December 31, 2000. The Company had no borrowings during the month of July and, based upon internally generated cash forecasts, expects to borrow less than \$500,000 though the quarter ending September 30, 2001. As of July 31, 2001 the Company had \$3.025 million in available capacity remaining under the J E Reed line. As disclosed in the financial statements, the Company has a working capital deficit of \$14.4 million at June 30, 2001.

In furtherance of its plan to achieve a breakeven cash utilization rate in the near term, the Company implemented a restructuring plan in April 2001, as more fully described herein, in addition to the various other ongoing cost reduction initiatives undertaken subsequent to the MCS/CareCentric merger on March 7, 2000. The Company believes in light of these cost reduction efforts that its funding sources, as described above, will be sufficient to meet its working capital needs in 2001. The Company remains dependent, however, on its majority shareholder, J. E. Reed, for its working capital financing needs.

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As part of the restructuring plan, the Company recorded a restructuring charge of \$675,000 to cover the cost of employee severance and related benefits for the elimination of 33 positions, the layoff of 6 employees, and the closing of one non-essential training and support facility. The total annual payroll and associated benefits for the affected employees is approximately \$3.8 million and the total annual operating cost for the closed facility is approximately \$55,000.

The Company's operating earnings for the three months ended June 30, 2001, after adding back non-cash charges (amortization and depreciation), spending on research and development, and the restructuring charge was \$703,000, computed as follows:

(Loss) Income from operations	\$	(2,665,000)
Amortization and depreciation		1,084,000
Research and development		1,609,000
Restructuring charge		675,000
		-----
	\$	703,000
		=====

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### Background

CareCentric, Inc. (formerly known as Simone Central Holdings, Inc.) ("CareCentric" or the "Company") is a leading provider of information technology systems and related software support services and consulting services designed to help home health care providers more effectively operate their businesses in today's environment. 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 solutions provides a basic set of software applications and specialized modules, which can be added based on customer needs. These software solutions are designed to enable customers to generate and utilize comprehensive financial, operational and clinical information.

In addition to its software solutions and related software support services, the Company's home health care consulting services assist providers in addressing the challenges of reducing costs, maintaining quality, streamlining operations and re-engineering organizational structures, as well as assisting with regulatory compliance and merger and acquisition due diligence.

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 SOP 97-2, these revenues are recognized when products are delivered and the collectibility of fees is probable, provided that no significant obligations remain under the contract. 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 shipped. 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 charges for software implementation, training and

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technical consulting services as well as management consulting services on an hourly or daily basis. The price of such services varies depending on the level and expertise of the related professionals. These revenues are recognized as the related services are performed.

The Company believes that continued enhancement of its software systems is critical to its future success, and anticipates that investment in existing and new products will continue as needed to support the Company's product strategies. Costs incurred to establish the technological feasibility of computer software products are expensed as incurred. The Company's policy is to capitalize costs incurred between the point of establishing technological feasibility and general release only when such costs are material. For the three months ended June 30, 2001 and 2000, the Company did not capitalize any computer software development costs.

### Backlog

The Company had backlog associated with its software operations of approximately \$3.1 million, \$3.7 million, and \$4.1 million on June 30, 2001, March 31, 2001, and December 31, 2000, 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 twelve months.

### Results of Operations for Three Months ended June 30, 2001

Net Revenues. Total net revenues for the three months ended June 30, 2001 increased by \$0.3 million, or 4.6%, to \$6.5 million in 2001 from \$6.2 million for the three months ended June 30, 2000. Revenues from software systems increased \$.3 million, or 11.7%, to \$2.3 million in 2001 from \$2.0 million in 2000. Revenues from software maintenance decreased by \$0.2 million, or 6.6%, to

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\$3.0 million in 2001 from \$3.2 million in 2000. Revenue from consulting services increased by \$0.2 million, or 19.6%, to \$1.2 million in 2001 from \$1.0 million in 2000.

Cost of Revenues. Total cost of revenues decreased approximately \$0.8 million, or 20.7%, to \$3.1 million for the three months ended June 30, 2001 from \$3.9 million for the three months ended June 30, 2000. As a percentage of total revenues, cost of revenues decreased to 47.9% in 2001 from 63.2% in 2000. The \$0.8 million decrease resulted primarily from efficiencies achieved from the combination of support operations, elimination of excess capacity and cost management after the merger. The improvement in gross margin percentage resulted from efficiencies achieved from the combination of support operations and other cost management activities, as well as an increase in software sales, which carry a higher gross margin, as compared to total sales.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses decreased \$0.1 million to \$2.7 million for the three months ended June 30, 2001 from \$2.8 million for the three months ended June 30, 2000. This decrease is principally attributable to synergies derived from centralization of administrative functions and elimination of non-essential

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facilities and excess capacity, and the reduction in force (described in Note 3 to the financial statements) totaling \$0.4 million, which were partially offset by one-time expenditures surrounding the change in corporate identity and increased advertising and marketing costs totaling \$0.3 million. As a percentage of total net revenues, selling, general and administrative expenses were 41.4% for the three months ended June 30, 2001 compared with 44.9% for the three months ended June 30, 2000.

**Research and Development Expenses.** Research and development expenses decreased \$0.2 million, or 9.6%, to \$1.6 million for the three months ended June 30, 2001 from \$1.8 million for the three months ended June 30, 2000. As a percentage of total net revenues, these expenses decreased to 24.6% for the three months ended June 30, 2001 from 28.4% for the three months ended June 30, 2000. This dollar decrease was attributable primarily to the reduction in force (described in Note 3 to the financial statements).

**Amortization and Depreciation.** Amortization and depreciation decreased by \$0.1 million, or 8.4%, to \$1.1 million for the three months ended June 30, 2001 from \$1.2 million for the three months ended June 30, 2000. This decrease resulted from the normal disposition of fully depreciated assets.

**Restructuring and Other Charges.** In April 2001, CareCentric approved a plan to close one remote support office and to downsize the workforce at its remaining facilities. As a result of these actions the Company recorded a total charge of \$675,000.

The restructuring charge includes \$598,000 of employee severance costs and \$77,000 in other exit costs (principally lease termination costs and functional relocation expenses). The plan entails the elimination of 33 positions (10% of salaried employees), the layoff of six additional employees and the closing of one non-essential training and support facility in Houston, Texas. Employees at impacted locations have been informed of the restructuring initiatives and benefits available to them under applicable benefit plans or related contractual provisions have been communicated. Affected employees will leave CareCentric using a mixture of voluntary and involuntary separation programs and layoffs. The Company expects to pay \$585,000 in cash related to the restructuring plan. During the quarter ended June 30, 2001, the Company paid \$294,000 in employee costs and \$18,000 in other exit costs. As of July 31, 2001, 39 employees had been separated under the plan. The Company expects to fully realize savings related to these headcount reductions during the second half of 2001 with estimated ongoing annual net savings of \$3.2 million. The Company expects these savings will be realized as reductions in cost of sales and selling, general and administrative expense, and research and development expense.

**Other Income (Expense).** Interest expense for the three months ended June 30, 2001 relates primarily to borrowings under the Company's lines of credit agreement and capital lease obligations and has increased by approximately \$194,000 from the interest expense incurred during the three months ended June 30, 2001 as a result of increased borrowing subsequent to June 30, 2000.

**Income Taxes.** The Company has not incurred or paid taxes since its inception.

### Results of Operations for the Six Months Ended June 30, 2001

Results of operations for the six months ended June 30, 2000 included the operations of the former MCS for six months and the operations of CareCentric (formerly Simone Central Holdings, Inc.) for only the period subsequent to March 7, 2000. As a result, a comparison of the 2001 and 2000 Statements of Operations is not meaningful to an understanding of the Company's relative

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performance. Therefore, for purposes of comparability, the following discussion reflects the assumption that the operations of CareCentric and MCS were combined on a pro-forma basis for the six months ended June 30, 2000, as illustrated in Table 1 below.

**Net Revenues.** Total net revenues for the six months ended June 30, 2001 decreased by \$0.2 million, or 2.4%, to \$13.4 million in 2001 from \$13.6 million in 2000. Revenues from software systems increased by \$0.3 million, or 6.2%, to \$4.9 million in 2001 from \$4.6 million in 2000. Revenues from software maintenance decreased by \$0.1 million, or 3.5%, to \$6.1 million in 2001 from \$6.2 million in 2000. Revenue from consulting services decreased by \$0.4 million, or 14.2%, to \$2.4 million in 2001 from \$2.8 million in 2000.

**Cost of Revenues.** Total cost of revenues decreased approximately \$2.3 million, or 26.7%, to \$6.4 million for the six months ended June 30, 2001 from \$8.7 million for the six months ended June 30, 2000. As a percentage of total revenues, cost of revenues decreased to 47.8% in 2001 from 64.1% in 2000. The \$2.3 million decrease resulted from efficiencies achieved from the combination of support operations, elimination of excess capacity and cost management after the CareCentric/MCS merger. The improvement in gross margin percentage resulted from efficiencies achieved from the combination of support operations and other cost management activities, as well as a reduction in hardware revenues as a percentage of total revenues.

**Selling, General and Administrative Expenses.** Total selling, general and administrative expenses decreased \$0.2 million to \$5.5 million for the six months ended June 30, 2001 from \$5.7 million for the six months ended June 30, 2000. This decrease is principally attributable to synergies derived from centralization of administrative functions and elimination of non-essential facilities and excess capacity totaling \$0.6 million, which were partially offset by one-time expenditures surrounding the change in corporate name and increased advertising and marketing costs totaling \$0.4 million. As a percentage of total net revenues, selling, general and administrative expenses were 41.0% for the six months ended June 30, 2001 compared with 42.4% for the six months ended June 30, 2000.

**Research and Development Expenses.** Research and development expenses increased \$0.1 million, or 3.3%, to \$3.4 million for the six months ended June 30, 2001 from \$3.3 million for the six months ended June 30, 2000. As a percentage of total net revenues, these expenses increased to 25.4% for the six months ended June 30, 2001 from 24.06% for the six months ended June 30, 2000. This dollar increase was attributable to additional development costs for all products, but especially for The Smart Clipboard(R), PharmMed Rx(TM) and HMExpress(TM).

**Amortization and Depreciation.** Amortization and depreciation decreased by \$0.1 million, or 4.3%, to \$2.2 million for the six months ended June 30, 2001 from \$2.3 million for the six months ended June 30, 2000. This decrease resulted from the normal disposition of fully depreciated assets.

**Other Income (Expense).** Interest expense for the six months ended June 30, 2001 relates primarily to borrowings under the Company's line of credit agreement and capital lease obligations and has increased by approximately \$0.4 million from the interest expense incurred during the six months ended June 30, 2001 as a result of increased borrowing subsequent to June 30, 2000.

### Impact of New Accounting Standards

In 1998, the Financial and Accounting Standards Board issued SFAS No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for the Company's fiscal year ending December 31, 2001. The Company's management does not believe that the adoption of SFAS No. 133 will

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have a material impact on the Company's position or results of operations.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets", which, for all intents and purposes for the Company, will become effective December 31, 2001. Goodwill generated in purchase transactions will be recorded as a non-wasting asset subject to an impairment test at least once per year. Amortization of goodwill currently on the Company's

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books will cease as of January 1, 2002. The Company is currently evaluating the effect that adoption of FAS 142 will have on its financial position and results of operations in 2002.

Table 1. CONSOLIDATED PROFORMA STATEMENTS OF OPERATIONS  
(unaudited)

	Six Months Ended June 30	
	2001	2000
Net revenues:	\$ 13,393,000	\$ 13,393,000
Costs and expenses:		
Cost of revenues	6,403,000	6,403,000
Selling, general and administrative	5,536,000	5,536,000
Research and development	3,376,000	3,376,000
Depreciation and amortization	2,169,000	2,169,000
Restructuring and other charges	675,000	675,000
Total costs and expenses	18,159,000	18,159,000
Loss from operations	(4,766,000)	(4,766,000)
Other (expense) income:		
Interest expense	(739,000)	(739,000)
Interest and other income	194,000	194,000
Net loss before taxes	(5,311,000)	(5,311,000)
Income tax benefit	-	-
Net loss	\$ (5,311,000)	\$ (5,311,000)
Net loss per share - basic and diluted	\$ (1.27)	\$ (1.27)
Weighted average common shares - basic and diluted	4,178,000	4,178,000

### Item 3. Quantitative and Qualitative Disclosure About Market Risk.

As of June 30, 2001, the Company's obligations include variable rate notes payable and a line of credit bank note with aggregate principal balances of approximately \$10.2 million, which mature at various dates through 2005. The

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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 \$66,000 per year.

At June 30, 2001, the Company had accounts receivable of approximately \$8.1 million (net of an allowance for doubtful accounts of \$525,000). 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 management believes would be material to the business or financial condition of the Company on a consolidated basis.

#### Item 2. Change in Securities.

In May 2001, the Company released from escrow 88,586 shares of its common stock to the former preferred shareholders and noteholders of CareCentric Solutions, Inc. previously issued pursuant to the terms of the July 12, 1999 Merger Agreement. In issuing shares without registration, the Company takes the position that this transaction does not constitute an "offer", "offer to sell" or "sale" under Section 5 of the Securities Act of 1933, and also relies on the

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exemption from registration provided in Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder.

#### Item 3. Defaults Upon Senior Securities.

None

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

None.

#### Item 5. Other Information.

None.

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

##### (a) Exhibits:

The following Exhibits are filed as part of this Quarterly Report on Form 10-Q:

10.1 Settlement Agreement and Mutual Release dated as of May 16, 2001 by and between the registrant and the former shareholders and noteholders of CareCentric Solutions, Inc. by and through Daniel J. Mitchell as their representative and agent.

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\*Filed herewith.

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(b) Reports on Form 8-K:

The Company has not filed any reports on Form 8-K during the quarter for which this report is filed.

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: August 10, 2001

By: /s/ Stephen M. Shea

-----  
STEPHEN M. SHEA  
Senior Vice President - Finance and  
Chief Financial Officer  
(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit No. -----	Description -----
10.1	Settlement Agreement and Mutual Release dated as of May 16, 2001 by and between the registrant and the former shareholders and noteholders of CareCentric Solutions, Inc. by and through Daniel J. Mitchell as their representative and agent.

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