CONTINUCARE CORP
Form 10-Q
February 14, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000

OR

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

COMMISSION FILE NUMBER 001-12115

CONTINUCARE CORPORATION
(Exact Name of Registrant as Specified in its Charter)

FLORIDA	59-2716023
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

80 SOUTHWEST EIGHTH STREET
SUITE 2350
MIAMI, FLORIDA 33130
(Address of principal executive offices)
(Zip Code)

(305) 350-7515
(Registrant's telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

At February 8, 2001, the Registrant had 33,240,090 shares of $0.0001 par value common stock outstanding.

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CONTINUCARE CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. - FINANCIAL STATEMENTS

CONTINUCARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 20
	(UNAUDITED)
ASSETS	
Current assets	
Cash and cash equivalents	$ 703,475
Accounts receivable, net of allowance for doubtful accounts of $5,752,000 at December 31, 2000 and June 30, 2000	85,022

Other receivables	453,773
Prepaid expenses and other current assets	146,353
Total current assets	1,388,623
Equipment, furniture and leasehold improvements, net	967,040
Cost in excess of net tangible assets acquired, net of accumulated amortization of approximately $7,138,000 at December 31, 2000 and approximately $5,929,000 at June 30, 2000	18,724,821
Deferred financing costs, net of accumulated amortization of approximately $1,086,000 at December 31, 2000 and $426,000 at June 30, 2000	2,304,375
Other assets, net	89,135
Total assets	$ 23,473,994

LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY

Current liabilities	
Accounts payable	$ 773,704
Accrued expenses	2,043,124
Accrued salaries and benefits	1,068,351
Medical claims payable	2,459,732
Due to Medicare	538,689
Current portion of convertible subordinated notes payable	700,000
Current portion of long term debt	3,555,989
Accrued interest payable	10,166
Current portion of capital lease obligations	165,188
Total current liabilities	11,314,943
Capital lease obligations, less current portion	178,171
Convertible subordinated notes payable, less current portion	10,700,000
Long term debt, less current portion	3,769,760
Total liabilities	25,962,874
Commitments and contingencies	
Shareholders' (deficit) equity	
Common stock; $0.0001 par value; 100,000,000 shares authorized, 36,236,282 shares issued (including treasury shares) and 33,240,090 shares outstanding at both December 31, 2000 and June 30, 2000	3,325
Additional paid-in capital	57,708,595
Accumulated deficit	(54,776,099
Treasury stock (2,996,192 shares at December 31, 2000 and June 30, 2000)	(5,424,701
Total shareholders' equity	(2,488,880
Total liabilities and shareholders' equity	$ 23,473,994

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONTINUCARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MO
	2000
Medical services revenue, net	$ 29,923,5
Expenses	
Medical services:	
Medical claims	24,842,2
Contractual revision of previously recorded medical claims liability ...	
Other	4,348,7
Payroll and employee benefits	1,505,3
Professional fees	316,7
General and administrative	1,464,4
Depreciation and amortization	729,3
Subtotal	33,206,8
(Loss) income from operations	(3,283,3
Other income (expense)	
Interest income	10,5
Interest expense	(435,0
Net (loss) income	$ (3,707,8
Basic and diluted (loss) earnings per common share:	
Net (loss) income	$ (.
Weighted average number of common shares outstanding:	
Basic and diluted	33,240,0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONTINUCARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	SIX MON
	2000
Medical services revenue, net	$ 59,560,0
Expenses	
Medical services:	
Medical claims	48,188,3
Contractual revision of previously recorded medical claims liability....	
Other	8,541,1
Payroll and employee benefits	2,907,6

Professional fees	594,6
General and administrative	2,819,4
Depreciation and amortization	1,452,1
Subtotal	64,503,5
(Loss) income from operations	(4,943,4
Other income (expense)	
Interest income	24,4
Interest expense	(832,9
Other	3
Loss before extraordinary item	(5,751,6
Gain on extinguishment of debt	
Net (loss) income	$ (5,751,6
Basic and diluted (loss) earnings per common share:	
Loss before extraordinary item	$ (.
Extraordinary gain on extinguishment of debt	
Net (loss) income	$ (.
Weighted average number of common shares outstanding:	
Basic and diluted	33,240,0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONTINUCARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MON
	2000
CASH FLOWS FROM OPERATING ACTIVITIES	
Net (loss) income	$ (5,751,6
Adjustments to reconcile net (loss) income to cash used in operating activities:	
Depreciation and amortization including amortization of deferred loan costs	2,180,9
Gain on extinguishment of debt	
Changes in operating assets and liabilities, excluding the effect of acquisitions and disposals:	
Decrease in accounts receivable	9,9
Decrease in prepaid expenses and other current assets	222,0
Decrease (increase) in other receivables	244,2
Increase in other assets	(19,0

Increase (decrease) in medical claims payable	1,473,8
Increase (decrease) in due to (from) Medicare	835,7
Decrease in accounts payable and accrued expenses	(62,5
Increase in accrued interest payable	4,1
Net cash used in operating activities	(862,2
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from disposals of property and equipment	1,5
Property and equipment additions	(165,0
Net cash used in investing activities	(163,5
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on convertible subordinated notes	(350,0
Principal repayments under capital lease obligation	(42,6
Payments on long term debt	(413,5
Net cash used in financing activities	(806,2
Net decrease in cash and cash equivalents	(1,832,0
Cash and cash equivalents at beginning of period	2,535,5
Cash and cash equivalents at end of period	$ 703,4
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:	
Note payable issued for refunds due to Medicare for overpayments	$ 370,6
Purchase of furniture and fixtures with proceeds of capital lease obligations	$ 166,6

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000
(UNAUDITED)

NOTE 1 - UNAUDITED INTERIM INFORMATION

The accompanying unaudited condensed consolidated financial statements of Continucare Corporation ("Continucare" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2000 are not necessarily indicative of the results that may be expected for the year ended June 30, 2001.

The balance sheet at June 30, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2000.

Certain reclassifications have been made to the prior year amounts to conform to the current year.

NOTE 2 - GENERAL

Continucare, which was incorporated on February 1, 1996 as a Florida corporation, is a provider of integrated outpatient healthcare and home healthcare services in Florida. Continucare's predecessor, Zanart Entertainment, Incorporated ("Zanart") was incorporated in 1986. On August 9, 1996, a subsidiary of Zanart merged into Continucare Corporation (the "Merger"). As a result of the Merger, the shareholders of Continucare became shareholders of Zanart, and Zanart changed its name to Continucare Corporation. As of December 31, 2000, the Company operated, owned and/or managed: seventeen staff model clinics in south and central Florida; an Independent Practice Association ("IPA") with 72 physicians; and three Home Health agencies. For the six months ended December 31, 2000 approximately 58% of net medical services revenue was derived from managed care contracts with Humana Medical Plans, Inc. ("Humana") and 38% of net medical services revenue was derived from managed care contracts with Foundation Health Corporation ("Foundation"). For the six months ended December 31, 1999, approximately 54% of net medical services revenue was derived from Humana and 42% was derived from Foundation.

During the six month period ended December 31, 2000, the Company has experienced deterioration in its claim loss ratio. Changes in the claims loss ratio are due to fluctuations in utilization, the timing of claims paid by the HMOs on our behalf, as well as increases in medical costs without counterbalancing increases in premium revenues.

The financial statements of the Company have been prepared assuming that the Company will continue as a going concern. The Company believes that it will be able to fund its capital commitments, operating cash requirements and satisfy its obligations as they become due from a combination of cash on hand, expected operating cash flow improvements through HMO premium increases and improvements in the benefit structure of HMO contracts effective January 1, 2001, and the Company's credit facility ("Credit Facility"). However, there can be no assurances that these sources of funds will be sufficient to fund its operations and satisfy its obligations as they

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become due, including, but not limited to, its obligation of $350,000 for interest on the convertible subordinated notes, (the "Notes") due April 30, 2001.

NOTE 3 - CONVERTIBLE SUBORDINATED NOTES PAYABLE

On July 2, 1999, the Company repurchased $4,000,000 of its Notes, which mature on October 31, 2002, for $210,000 and recorded a gain on extinguishment of debt of approximately $3,776,000. The Company funded the purchase of the Notes from working capital. The Company has not provided for income taxes on the gain because it believes that it will be able to utilize certain of its net operating loss carryforwards to offset any income tax liability related to the transaction.

On February 15, 2000, the Company completed a restructuring of the Notes through the execution of a Consent Letter and Agreement to the First Supplemental Indenture which resulted in, among other things, the conversion of $31,000,000 of Notes into its common stock. The remaining outstanding principal balance of the Notes of $10,000,000 were reinstated as a performing non-defaulted loan. The $11,400,000 balance of the outstanding Notes at December 31, 2000 includes interest accrued through December 31, 2000 of $116,667 as well as the remaining interest of $1,283,333 which will be payable in semi-annual payments through October 31, 2002.

NOTE 4 - LONG-TERM DEBT

In March, 2000, the Company entered into a credit facility agreement ("Credit Facility") to provide a revolving loan of $3,000,000. Interest is payable monthly at 2.9% above the 30-day Dealer Commercial Paper Rate which was 6.48% at December 31, 2000. All assets of the Company serve as collateral for the Credit Facility. In addition, the Credit Facility has been guaranteed by a board member and an entity controlled by another board member. At December 31, 2000, the Company had not borrowed any amounts available under the Credit Facility. The Credit Facility currently expires on March 31, 2001 unless renewed at the option of the lender. As of the date of this filing, the lender has indicated verbally that it intends to renew the Credit Facility. However, there can be no assurance that the Credit Facility will be renewed or, if renewed, that it will be renewed in the same amount or on the same terms as the current Credit Facility.

NOTE 5 - EARNINGS PER SHARE

Options and warrants to purchase the Company's common stock were not included in the computation of diluted earnings (loss) per share because the effect would be antidilutive.

NOTE 6 - CONTINGENCIES

The case of CONTINUCARE CORPORATION, A FLORIDA CORPORATION, CONTINUCARE PHYSICIAN PRACTICE MANAGEMENT, INC. ("CPPM") v. JAY A. ZISKIND, AN INDIVIDUAL, KENNETH I. ARVIN, AN INDIVIDUAL, TRACY ARVIN, AN INDIVIDUAL, ZISKIND & ARVIN, P.A., A PROFESSIONAL ASSOCIATION, NORMAN B. GAYLIS, M.D., AN INDIVIDUAL AND ZAG GROUP, INC., A FLORIDA CORPORATION, was filed on November 15, 1999 in the Circuit Court of the 11th Judicial District in and for Miami-Dade County, alleging breach of fiduciary duties, improper billing, and seeking the return of all consideration previously paid by the Company to ZAG, and damages, as well as seeking rescission of the Agreement and Plan of Merger and the Registration Rights Agreement. On December 20, 1999, a counterclaim was filed against the Company and CPPM alleging breach of contract, tortious interference and conversion and seeks damages in excess of $1,600,000. On August 11, 2000, the counterplaintiffs filed their Second Amended Counterclaim. Discovery is currently pending. The Company believes that there is little merit to the counterclaim and intends to vigorously defend the claims.

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The Company is a party to the case of WARREN GROSSMAN, M.D., ALAN REICH, M.D., AND RICHARD STRAIN, M.D. v. CONTINUCARE PHYSICIAN PRACTICE MANAGEMENT, INC. AND CONTINUECARE CORPORATION. This care was filed in May 1999 in the Circuit Court for Broward County, Florida. The complaint alleges breach of employment contracts based on the early termination of the Plaintiffs' employment and seeks damages in excess of $250,000. On January 5, 2000, the Company filed a counterclaim alleging breach of contract in connection with the Plaintiff's failure to return certain computer equipment, as well as a breach of the non-compete covenant. On February 18, 2000, the Company filed a Motion for Summary Judgment as to all Plaintiffs. On June 5, 2000, the Company filed a Motion for Judgment on the Pleadings as to all Plaintiffs. On April 28, 2000, the Plaintiffs filed a Motion for Summary Judgment as to the issue of liability. All of the aforementioned motions were heard on June 15, 2000. On November 14, 2000, the court granted the Company's motion as to one of the Plaintiffs' claims for deferred and incentive compensation, but reserved as to his claim for post termination compensation related to follow-up patient care, if any. The court denied the Plaintiffs' motion for summary judgment in all respects. The trial started on February 13, 2001. As of the date of this filing, the trial is still in progress. The Company believes the action has little merit and intends to vigorously defend the claims.

The Company is a party to the case of GE MEDICAL SYSTEMS, AN UNINCORPORATED DIVISION OF GENERAL ELECTRIC COMPANY v. CONTINUCARE OUTPATIENT SERVICES, INC. n/k/a OUTPATIENT RADIOLOGY SERVICES, INC., A FLORIDA CORPORATION AND CONTINUCARE CORPORATION, A FLORIDA CORPORATION. This case was filed in April, 2000 in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida. The Complaint alleges a breach of guaranty agreement and seeks damages of approximately $676,000. In August 2000, the Company filed a cross-claim and several third-party claims. The Company believes it has meritorious defenses, as well as valid indemnification claims against several other parties. Claims against those parties are being pursued and the Company intends to vigorously litigate its defenses, as well as its claims of indemnification.

Two subsidiaries of the Company are parties to the case of NANCY FEIT ET AL. v. KENNETH BLAZE, D.O. KENNETH BLAZE. D.O., P.A.; SHERIDEN HEALTHCORP, INC.; WAYNE RISKIN, M.D.; KAHN AND RISKIN, M.D., P.A.; CONTINUCARE PHYSICIAN PRACTICE MANAGEMENT, INC., D/B/A ARTHRITIS AND RHEUMATIC DISEASE SPECIALTIES, INC.; JAMES JOHNSON, D.C. AND JOHNSON & FALK, D.C., P.A. The case was filed in December, 1999 in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida and served on the companies in April, 2000. The complaint alleges vicarious liability and seeks damages in excess of $15,000. The Company filed its answer on May 3, 2000. Discovery is currently pending. The Company has made a demand for assumption of defense and indemnification from Kahn and Riskin, M.D., P.A. and Wayne Riskin, M.D. The demand was rejected. The Company believes it has meritorious defenses and intends to vigorously pursue them.

Prior to Fiscal 2000, the Company closed or dissolved certain subsidiaries, some of which had pending claims against them. A liability associated with these subsidiaries was approximately $749,000 at December 31, 2000.

The Company is also involved in various other legal proceedings incidental to its business that arise from time to time out of the ordinary course of business, including, but not limited to, claims related to the alleged malpractice of employed and contracted medical professionals, workers' compensation claims and other employee-related matters, and minor disputes with equipment lessors and other vendors.

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

GENERAL

Unless otherwise indicated or the context otherwise requires, all references in this Form 10-Q to "we," "us," "our," "Continucare" or the "Company" refers to Continucare Corporation and its consolidated subsidiaries.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, the words "believe," "anticipate," "think," "intend," "plan," "will be," and similar expressions, identify such forward-looking statements. Such statements regarding future events and/or the future financial performance of Continucare are subject to certain risks and uncertainties, which could cause actual events or our actual future results to differ materially from any forward-looking statement. Certain factors that might cause such a difference are set forth in our Form 10-K for the period ended June 30, 2000, including the following: our success or failure in implementing our current business and operational strategies; the availability, terms and access to capital and customary trade credit; general economic and business conditions; competition; changes in our business strategy; availability, location and terms of new business development; availability and terms of necessary or desirable financing or refinancing; labor relations; the outcome of pending or yet-to-be instituted legal proceedings; and labor and employee benefit costs.

Our medical claims payable include estimates of medical claims expenses incurred by our members but not yet reported to us. These estimates are based on a number of factors, including our prior claims experience and pre-authorizations of treatment. Adjustments, if necessary, are made to medical claims expenses in the period the actual claims costs are ultimately determined. We cannot assure that actual medical claims costs in future periods will not exceed our estimates. If these costs exceed our estimates, our profitability in future periods will be adversely affected.

GENERAL

We are a provider of integrated outpatient healthcare and home healthcare services in Florida. As of December 31, 2000, we operated, owned and/or managed seventeen staff model clinics in south and central Florida; an Independent Practice Association (the "IPA") with 72 physicians; and three home health agencies.

REIMBURSEMENT CONSIDERATIONS

We receive reimbursement from the Medicare and Medicaid programs or payments from insurers, self-funded benefit plans or other third-party payors. The Medicare and Medicaid programs are subject to statutory and regulatory changes, retroactive and prospective rate adjustments, administrative rulings and funding restrictions, any of which could have the effect of limiting or reducing reimbursement levels. Although we derived less than 5% of our net patient service revenue directly from Medicare and Medicaid in Fiscal 2000, a substantial portion of our managed care revenues are based upon Medicare reimbursable rates. Therefore, any changes which limit or reduce Medicare reimbursement levels could have a material adverse effect on our business.

Significant changes have been and may be made in the Medicare program, which could have a material adverse effect on our business, results of operations, prospects, financial results, financial condition or cash flows. In addition, legislation has been or may be introduced in the Congress of the United States which, if enacted, could adversely affect operations by, for example, decreasing reimbursement by third-party payors such as Medicare or limiting our ability to maintain or increase the level of services provided to patients.

Title XVIII of the Social Security Act authorizes Medicare Part A, the health insurance program that pays for inpatient care for covered persons (generally, those age 65 and older and the long-term disabled) and Medicare

Part B, a voluntary supplemental medical assistance insurance program. Healthcare providers may participate in the Medicare program subject to certain conditions of participation and acceptance of a provider agreement by the Secretary of Health and Human Services. Only enumerated services, upon satisfaction of certain criteria, are eligible for Medicare reimbursement. Relative to the services of our Home Health Agencies and previously owned or operated Medicare certified outpatient rehabilitation facilities and Comprehensive Outpatient Rehabilitation Facilities, in the past Medicare has reimbursed the "reasonable costs" for services up to program limits. Medicare-reimbursed costs are subject to audit, which may result in a decrease in payments we have previously received. Historically, Medicare Part B reimburses the operating cost component of most hospital outpatient services on a reasonable cost basis, subject to a 5.8% reduction which the Balanced Budget Act of 1997 (the "BBA"), extended through federal Fiscal year 2000. However, Medicare regulations became effective on August 1, 2000, pursuant to which hospital outpatient services are reimbursed on the basis of a prospective payment system ("PPS"). Such a PPS system was implemented on October 1, 2000. While we have been operating under PPS during the three month period ended December 31, 2000, it is to early to predict the effect PPS for these hospital outpatient services will have on us. There can be no assurance that the established fees will not change in a manner that could adversely affect our revenues.

Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to providers in an amount determined in accordance with procedures and standards established by state law under federal guidelines. Significant changes have been and may continue to be made in the Medicaid program which could have an adverse effect on our financial condition, results of operations and cash flows.

During certain fiscal years, the amounts appropriated by state legislatures for payment of Medicaid claims have not been sufficient to reimburse providers for services rendered to Medicaid patients. Failure of a state to pay Medicaid claims on a timely basis may have an adverse effect on our cash flow, results of operations and financial condition.

Payments per visit from managed care organizations typically have been lower than cost-based reimbursement from Medicare and reimbursement from other payors for nursing and related patient services. In addition, payors and employer groups are exerting pricing pressure on home health care providers, resulting in reduced profitability. Such pricing pressures could have a material adverse effect on our business, results of operations, prospects, financial results, financial condition or cash flows.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q.

THE FINANCIAL RESULTS DISCUSSED BELOW RELATE TO THE OPERATION OF CONTINUCARE FOR THE THREE MONTHS ENDED DECEMBER 31, 2000 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 1999.

Revenue

Medical services revenues increased 3.8% from approximately $28,841,000 for the three months ended December 31, 1999 to approximately $29,924,000 for the three months ended December 31, 2000. We provided managed care services for approximately 68,000 and 63,000 member months (members per month multiplied by the months for which services were available) during the three months ended December 31, 2000 and 1999, respectively.

Revenue generated by our managed care entities under our contracts with HMOs as a percentage of medical services revenue was approximately 96% during each of the three months ended December 31, 2000 and 1999. Revenue generated by the Humana Medical Plans, Inc. ("Humana") contract was 58% and 57% of medical services revenue for the three months ended December 31, 2000 and 1999, respectively. Revenue generated by

Foundation Health Corporation ("Foundation") contracts was 38% and 39% of medical services revenue for the three months ended December 31, 2000 and 1999, respectively.

Our home health agencies' revenue was approximately 4% of medical services revenue during the three month periods ended December 31, 2000 and 1999, and consisted primarily of Medicare reimbursement.

Expenses

Medical services expenses for the three month period ended December 31, 2000 were approximately $29,191,000 or 98% of medical services revenue, compared to approximately $21,020,000 or 73% of medical services revenue for the three month period ended December 31, 1999 after giving effect to the negotiated $3,054,000 reduction in medical services expense (the "Contractual Adjustment"). Excluding the Contractual Adjustment, medical services expenses were approximately $24,074,000 or 83% of medical services revenue for the three month period ended December 31, 1999.

Medical claims represent the costs of medical services provided by providers other than us but which are to be paid by us for individuals covered by our capitated risk contracts with HMOs. Claims expense was approximately $24,842,000 and $19,497,000 for the three months ended December 31, 2000 and 1999, respectively, or 86.0% and 70.9% of medical services revenues derived from our managed care entities prior to the Contractual Adjustment of claims expense. The annualized claims ratio for Fiscal 2000 was 74%. Our claim loss ratio varies from quarter to quarter due to fluctuations in utilization, the timing of claims paid by the HMOs on our behalf, as well as increases in medical costs without counterbalancing increases in premium revenues.

Other direct costs include the salaries and benefits of health professionals providing primary care services, capitation payments to our contracted primary care IPA physicians, and other costs necessary to operate our facilities. Other direct costs were approximately $4,349,000 and $4,577,000 for the three months ended December 31, 2000 and 1999, respectively, or 14.5% and 15.9% of medical services revenues. The decrease primarily resulted from cost containment measures which were implemented throughout Fiscal 2000.

Payroll and employee benefits for administrative personnel was approximately $1,505,000 for the three months ended December 31, 2000, or 5.0% of revenues, compared to approximately $1,410,000 or 4.9% of revenue for the three months ended December 31, 1999.

General and administrative expenses for the three months ended December 31, 2000 were approximately $1,464,000 or 4.9% of revenues compared to approximately $1,516,000 or 5.3% of revenues for the three months ended December

31, 1999.

Interest expense for the three months ended December 31, 2000 was approximately $435,000 or 1.5% of revenues compared to approximately $1,091,000 or 3.8% of revenues for the three months ended December 31, 1999. Interest expense for the three months ended December 31, 2000 is comprised primarily of approximately $353,000 related to amortization of deferred financing costs and approximately $31,000 of imputed interest expense on non-interest bearing notes. Interest expense for the three months ended December 31, 1999 was comprised of approximately $175,000 related to amortization of deferred financing costs, approximately $57,000 of imputed interest expense on non-interest bearing notes, and approximately $820,000 of interest on our convertible subordinated notes (the "Notes"). The Notes were restructured during February, 2000 and, in accordance with Statement of Financial Accounting Standards, No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," all interest which would accrue over the remaining term of the Notes was included in the outstanding Notes on the balance sheet. Therefore, no interest expense will be recorded on the Notes through their maturity date.

Income/Loss from Operations

Loss from operations for the three months ended December 31, 2000 was approximately $3,283,000 or 11.0% of total revenues, compared to operating income of approximately $3,831,000 or 13.3% of total revenues for the three months ended December 31, 1999.

Net Income/Loss

Net loss for the three months ended December 31, 2000 was approximately $3,708,000 compared to net income of approximately $2,746,000 for the three months ended December 31, 1999.

THE FINANCIAL RESULTS DISCUSSED BELOW RELATE TO THE OPERATION OF CONTINUCARE FOR THE SIX MONTHS ENDED DECEMBER 31, 2000 AS COMPARED TO THE SIX MONTHS ENDED DECEMBER 31, 1999.

Revenue

Medical services revenues increased 2.8% from approximately $57,923,000 for the six months ended December 31, 1999 to approximately $59,560,000 for the six months ended December 31, 2000. We provided managed care services for approximately 136,000 and 129,000 member months (members per month multiplied by the months for which services were available) during the six months ended December 31, 2000 and 1999, respectively.

Revenue generated by our managed care entities under our contracts with HMOs as a percentage of medical services revenue was approximately 96% during each of the six months ended December 31, 2000 and 1999. Revenue generated by the Humana contract was 58% and 54% of medical services revenue for the six months ended December 31, 2000 and 1999, respectively. Revenue generated by Foundation contracts was 38% and 42% of medical services revenue for the six months ended December 31, 2000 and 1999, respectively.

Our home health agencies' revenue was approximately 4% of medical services revenue during the six month periods ended December 31, 2000 and 1999, and consisted primarily of Medicare reimbursement.

Expenses

Medical services expenses for the six month period ended December 31, 2000 were approximately $56,730,000 or 95% of medical services revenue, compared to approximately $48,452,000 or 84% of medical services revenue for the six month period ended December 31, 1999 after giving effect to the negotiated $3,054,000 reduction in medical services expense (the "Contractual Adjustment"). Excluding the Contractual Adjustment, medical services expenses were approximately $51,506,000 or 89% of medical services revenue for the six month period ended December 31, 1999.

Medical claims represent the costs of medical services provided by providers other than us but which are to be paid by us for individuals covered by our capitated risk contracts with HMOs. Claims expense was approximately $48,188,000 and $42,495,000 for the six months ended December 31, 2000 and 1999, respectively, or 84.0% and 76.6% of medical services revenues derived from our managed care entities prior to the Contractual Adjustment of claims expense. The annualized claims ratio for Fiscal 2000 was 74%. Our claim loss ratio varies from quarter to quarter due to fluctuations in utilization, the timing of claims paid by the HMOs on our behalf, as well as increases in medical costs without counterbalancing increases in premium revenues.

Other direct costs include the salaries and benefits of health professionals providing primary care services, capitation payments to our contracted primary care IPA physicians, and other costs necessary to operate our facilities. Other direct costs were approximately $8,541,000 and $9,010,000 for the six months ended December 31, 2000 and 1999, respectively, or 14.3% and 15.6% of medical services revenues. The decrease primarily resulted from cost containment measures which were implemented throughout Fiscal 2000.

Payroll and employee benefits for administrative personnel was approximately $2,908,000 for the six months ended December 31, 2000, or 4.9% of revenues, compared to approximately $3,279 ,000 or 5.7% of revenue for the six months ended December 31, 1999. This decrease is due to certain positions which were eliminated during Fiscal 2000.

General and administrative expenses for the six months ended December 31, 2000 were approximately $2,819,000 or 4.7% of revenues compared to approximately $3,024,000 or 5.2% of revenues for the six months ended December 31, 1999. The decrease in general and administrative expense as a percent of revenues primarily resulted from cost containment measures which were implemented throughout Fiscal 2000.

Interest expense for the six months ended December 31, 2000 was approximately $833,000 or 1.4% of revenues compared to approximately $2,162,000 or 3.7% of revenues for the six months ended December 31, 1999. Interest expense for the six months ended December 31, 2000 is comprised primarily of approximately $660,000 related to amortization of deferred financing costs and approximately $69,000 of imputed interest expense on non-interest bearing notes. Interest expense for the six months ended December 31, 1999 was comprised of approximately $357,000 related to amortization of deferred financing costs, approximately $117,000 of imputed interest expense on non-interest bearing notes, and approximately $1,599,000 of interest on the Notes. The Notes were restructured during February, 2000 and, in accordance with Statement of Financial Accounting Standards, No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," all interest which would accrue over the remaining term of the Notes was included in the outstanding Notes on the balance sheet. Therefore, no interest expense will be recorded on the Notes through their maturity date.

Income/Loss from Operations

Loss from operations for the six months ended December 31, 2000 was approximately $4,943,000 or 8.3% of total revenues, compared to operating income of approximately $1,142,000 or 2.0% of total revenues for the six months ended December 31, 1999.

Extraordinary Gain on Extinguishment of Debt

In July, 1999, we recorded an extraordinary gain on extinguishment of debt of approximately $3,776,000 as a result of repurchasing $4,000,000 of our outstanding convertible subordinated notes payable (the "Notes") for a cash payment of $210,000 and the write-off of related deferred financing costs and accrued interest payable. We have not provided for income taxes on the gain because we believe that we will be able to utilize certain of our net operating loss carryforwards to offset any income tax liability related to this transaction.

Net Income/Loss

Net loss for the six months ended December 31, 2000 was approximately $5,752,000 compared to net income of approximately $3,060,000 for the six months ended December 31, 1999.

LIQUIDITY AND CAPITAL RESOURCES

On July 2, 1999, we repurchased $4,000,000 face value of our Notes for approximately $210,000, recognizing a gain on extinguishment of debt of approximately $3,776,000. The purchase of the Notes was funded from working capital.

On February 15, 2000, we completed a troubled debt restructuring of the Notes through the execution of a Consent Letter and Agreement to the First Supplemental Indenture (the "Restructuring") which resulted in, among other things, the conversion of $31,000,000 of Notes into our common stock. The remaining outstanding principal balance of the Notes of $10,000,000 were reinstated as a performing non-defaulted loan.

We have entered into a credit facility (the "Credit Facility") to provide a revolving loan of $3,000,000. Interest is payable monthly at 2.9% above the 30-day Dealer Commercial Paper Rate which was 6.48% at December 31, 2000. The Credit Facility has been guaranteed by a board member and an entity controlled by another board member. At December 31, 2000, we had not borrowed any amounts available under the Credit Facility. The Credit Facility currently expires on March 31, 2001 unless renewed at the option of the lender. As of the date of this filing, the lender has indicated verbally that it intends to renew the Credit Facility. However, there can be no assurance that the Credit

Facility will be renewed or, if renewed, that it will be renewed in the same amount or on the same terms as the current Credit Facility.

Our net loss was approximately $5,752,000 for the six months ended December 31, 2000. Net cash used in operating activities for the six months ended December 31, 2000 was approximately $862,000 due primarily to the net loss of approximately $5,752,000, and offset by non-cash amortization and depreciation expenses of approximately $2,181,000, an increase in due to Medicare of approximately $836,000 and an increase in medical claims payable of approximately $1,480,000.

Net cash used in investing activities for the six months ended December 31, 2000 was approximately $164,000, primarily for the purchase of computer equipment. Net cash used in financing activities for the six months ended December 31, 2000 was approximately $806,000, all of which was used for scheduled payments for various notes payable.

Our working capital deficit was approximately $9,926,000 at December 31, 2000.

We currently have no knowledge of any intermediary audit adjustment trends with respect to previously filed cost reports. However, as is standard in the industry, we remain at risk for disallowances and other adjustments to previously filed cost reports until final settlement. Our average settlement period with respect to our cost reports has historically ranged from two to three years.

The financial statements have been prepared assuming we will continue as a going concern. We believe that we will be able to fund our capital commitments, operating cash requirements and satisfy our obligations as they become due from a combination of cash on hand, expected operating cash flow improvements through HMO premium increases and improvements in the benefit structure of HMO contracts effective January 1, 2001, and the Credit Facility. However, there can be no assurances that these sources of funds will be sufficient to fund our operations and satisfy our obligations as they become due, including but not limited to our obligation of $350,000 for interest on the Notes due April 30, 2001.

If we are unable to satisfy our cash requirements, we may be required to take certain steps, such as borrowing additional funds, restructuring our indebtedness, selling assets, reducing costs, and reducing or delaying capital expenditures. If we need additional capital to fund our operations, there can be no assurance that such additional capital can be obtained or, if obtained, that it will be on terms acceptable to us. The incurring or assumption of additional indebtedness could result in the issuance of additional equity and/or debt which could have a dilutive effect on current shareholders and a significant effect on our operations.

On November 21, 2000, the American Stock Exchange notified us of its decision to continue to list our common stock pending a review of our December 31, 2000 Form 10-Q. As of the date of this filing, we are still below the continued listing requirements of the American Stock Exchange with respect to requirements which include the need for us to maintain stockholders' equity of at least $2 million and not sustain losses from continuing operations and/or net losses in two of its three most recent fiscal years. We are unable to guarantee that the American Stock Exchange will continue to list our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2000, our cash equivalents were invested in high grade, very short-term securities, which are not typically subject to material market risk. We have loans outstanding at fixed rates. For loans with fixed interest rates, a hypothetical 10% change in interest rates would have no impact on our future earnings and cash flows related to these instruments and would have an immaterial impact on the fair value of these instruments. Our Credit Facility is interest rate sensitive, however, there is no balance currently outstanding. We have no material risk associated with interest rates, foreign currency exchange rates or commodity prices.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the case of CONTINUCARE CORPORATION, A FLORIDA CORPORATION, CONTINUCARE PHYSICIAN PRACTICE MANAGEMENT, INC. ("CPPM") v. JAY A. ZISKIND, AN INDIVIDUAL, KENNETH I. ARVIN, AN INDIVIDUAL, TRACY ARVIN, AN INDIVIDUAL, ZISKIND & ARVIN, P.A., A PROFESSIONAL ASSOCIATION, NORMAN B. GAYLIS, M.D., AN INDIVIDUAL AND ZAG GROUP, INC., A FLORIDA CORPORATION, filed on November 15, 1999 in the Circuit Court of the 11th Judicial District in and for Miami-Dade County, we are alleging breach of fiduciary duties, improper billing, and seeking the return of all consideration previously paid by us to ZAG, and damages, as well as seeking rescission of the Agreement and Plan of Merger and the Registration Rights Agreement. On December 20, 1999, a counterclaim was filed against us and CPPM alleging breach of contract, tortious interference and conversion and seeks damages in excess of $1,600,000. On August 11, 2000, the counterplaintiffs filed their Second Amended Counterclaim. Discovery is currently pending. We believe that there is little merit to the counterclaim and intend to vigorously defend the claims.

We are a party to the case of WARREN GROSSMAN, M.D., ALAN REICH, M.D., AND RICHARD STRAIN, M.D. v. CONTINUCARE PHYSICIAN PRACTICE MANAGEMENT, INC. AND CONTINUCARE CORPORATION. This case was filed in May 1999 in the Circuit Court for Broward County, Florida. The complaint alleges breach of employment contracts based on the early termination of the Plaintiffs' employment and seeks damages in excess of $250,000. On January 5, 2000, we filed a counterclaim alleging breach of contract in connection with the Plaintiff's failure to return certain computer equipment, as well as a breach of the non-compete covenant. On February 18, 2000, we filed a Motion for Summary Judgment as to all Plaintiffs. On June 5, 2000, we filed a Motion for Judgment on the Pleadings as to all Plaintiffs. On April 28, 2000, the Plaintiffs filed a Motion for Summary Judgment as to the issue of liability. All of the aforementioned motions were heard on June 15, 2000. On November 14, 2000, the court granted our motion as to one of the Plaintiffs' claims for deferred and incentive compensation, but reserved as to his claim for post termination compensation related to follow-up patient care, if any. The court denied our motions as to the other two Plaintiffs. Also on November 14, 2000, the court denied the Plaintiffs' motion for summary judgment in all respects. The trial started on February 13, 2001. As of the date of this filing, the trial is still in progress. We believe the action has little merit and intend to vigorously defend the claims.

We are party to the case of GE MEDICAL SYSTEMS, AN UNINCORPORATED DIVISION OF GENERAL ELECTRIC COMPANY v. CONTINUCARE OUTPATIENT SERVICES, INC. n/k/a OUTPATIENT RADIOLOGY SERVICES, INC., A FLORIDA CORPORATION AND CONTINUCARE CORPORATION, A FLORIDA CORPORATION. This case was filed in April, 2000 in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida. The complaint alleges a breach of guaranty agreement and seeks damages of approximately $676,000. In August 2000, we filed a cross-claim and several third-party claims. We believe we have meritorious defenses, as well as valid indemnification claims against several other parties. Claims against those parties are being pursued and we intend to vigorously litigate our defenses, as well as our claims of indemnification.

Two of our subsidiaries are parties to the case of NANCY FEIT ET AL. v. KENNETH BLAZE, D.O. KENNETH BLAZE., D.O., P.A.; SHERIDEN HEALTHCORP, INC.; WAYNE RISKIN, M.D.; KAHN AND RISKIN, M.D., P.A.; CONTINUCARE PHYSICIAN PRACTICE MANAGEMENT, INC., D/B/A ARTHRITIS AND RHEUMATIC DISEASE SPECIALTIES, INC.; JAMES JOHNSON, D.C. AND JOHNSON & FALK, D.C., P.A. The case was filed in December, 1999 in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida and served on the companies in April, 2000. The complaint alleges vicarious liability and seeks damages in excess of $15,000. We filed an answer on May 3, 2000. Discovery is currently pending. We have made a demand for assumption of defense and indemnification from Kahn and Riskin, M.D., P.A. and Wayne Riskin, M.D. The demand was rejected. We believe we have meritorious defenses and intend to vigorously pursue them.

Prior to Fiscal 2000, we closed or dissolved certain subsidiaries, some of which had pending claims against them. We are also involved in various other legal proceedings incidental to our business that arise from time to time out of the ordinary course of business, including, but not limited to, claims related to the alleged

malpractice of employed and contracted medical professionals, workers' compensation claims and other employee-related matters, and minor disputes with equipment lessors and other vendors.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At our Annual Meeting of Shareholders held on December 12, 2000, the shareholders voted to elect Charles M. Fernandez, Dr. Phillip Frost, Spencer J. Angel, Robert J. Cresci and Patrick M. Healy as Directors of the Company. The number of votes cast for, against or withheld, with respect to each of the nominees, were as follows:

Nominee	For	Against
Charles M. Fernandez	23,043,511	7,779,226
Dr. Phillip Frost	30,639,609	183,128
Spencer J. Angel	30,639,609	183,128
Robert J. Cresci	30,639,609	183,128
Patrick M. Healy	30,639,609	183,128

In addition, our shareholders voted to approve the Amended and Restated Continucare Corporation 2000 Stock Option Plan (the "Plan"). The shareholders cast 25,533,489 votes for approval of the Plan, 1,217,300 votes against the Plan and shareholders abstained with respect to 19,200 votes.

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K

None.

SIGNATURES

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

CONTINUCARE CORPORATION

Dated: February 14, 2001

By: /s/ Spencer J. Angel

Spencer J. Angel
Chief Executive Officer and President

By: /s/ Janet L. Holt

Janet L. Holt
Chief Financial Officer