CYBER CARE INC
Form 10-Q
November 14, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

[ ] 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 0-20356

CYBERCARE, INC.
(Exact name of registrant as specified in its charter)

FLORIDA	65-0158479
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2500 QUANTUM LAKES DRIVE, SUITE 1000, BOYNTON BEACH, FLORIDA 33426-8308
(Address of principal executive offices)

(561) 742-5000
(Registrant's telephone number)

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

The Registrant has one class of common stock, $0.0025 par value, of which 66,464,892 shares were outstanding as of October 31, 2001.

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CYBERCARE, INC.

10-Q QUARTER ENDED SEPTEMBER 30, 2001

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CYBERCARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

ASSETS	(UNAUDITED) SEPTEMBER 30, 2001
Current Assets:	
Cash and cash equivalents	$ 4,697
Cash - restricted	369
Marketable securities	1,000
Trade accounts receivable, less allowance for doubtful accounts of $1,597 (2001) and $1,496 (2000)	5,445
Net assets of discontinued operations	6,747
Inventories, net	6,506
Notes receivable - related parties	555
Notes receivable and other current assets	1,937
Total current assets	27,256

Property and equipment, net	2,563
Intangible assets, net	15,721
Notes receivable - related parties	386
Notes receivable and other assets	3,757
Total assets	$ 49,683
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 2,607
Accrued liabilities	3,965
Lines of credit	2,138
Net liabilities of discontinued operations	653
Other current liabilities	361
Total current liabilities	9,724
Convertible subordinated debentures, net of $2,128 discount	7,872
Other liabilities	415
Total liabilities	18,011
Commitments and contingencies	
Stockholders' Equity:	
Preferred stock, 20,000,000 shares authorized; 19,800,000 shares available for issuance	--
Common stock, $0.0025 par value, 200,000,000 shares authorized; 65,924,203 and 64,775,282 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	165
Capital in excess of par	124,625
Stock subscription receivable	(4,740)
Accumulated other comprehensive income	--
Accumulated deficit	(88,378)
Total stockholders' equity	31,672
Total liabilities and stockholders' equity	$ 49,683

See Notes to Condensed Consolidated Financial Statements

CYBERCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

THREE MONTHS ENDED
SEPTEMBER 30,

	2001	2000
Net revenues	$ 5,195	$ 4,535
Costs and expenses:		
Cost of services	3,732	2,778
Selling, general and administrative	4,403	4,113
Research, development and engineering	2,513	1,838
Depreciation and amortization	579	312
Gain on sale of subsidiary	--	--
Total costs and expenses	11,227	9,041
Operating loss	(6,032)	(4,506)
Other income (expense):		
Interest income	263	489
Interest expense	(515)	--
Interest - accreted and beneficial conversion feature	(215)	--
Write-off of investment in equity securities	--	--
Other income	94	5
Total other (expense) income	(373)	494
Loss from continuing operations	(6,405)	(4,012)
Loss from operations of discontinued businesses	--	(945)
Estimated loss on disposal of discontinued business	(1,894)	--
Net loss	$ (8,299)	$ (4,957)
Loss per common share - basic and diluted:		
Loss from continuing operations	$ (0.10)	$ (0.06)
Discontinued operations	(0.03)	(0.02)
Net loss	$ (0.13)	$ (0.08)
Weighted average shares outstanding	65,823,776	64,706,447

See Notes to Condensed Consolidated Financial Statements.

CYBERCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(Unaudited)

	NIN
	2001
Cash Flows from Operating Activities:	
Net loss	$(21,22
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	51
Amortization	1,17
Write-off of investment in securities	-
Provision for doubtful accounts	93
Interest - accreted discount and beneficial conversion	32
Common stock issued for services and interest	39
Warrants issued for services	78
Net liabilities of discontinued operations	(59
Net assets of discontinued operations	(1,01
Gain on sale of subsidiary	(9
Estimated loss on disposal of discontinued business	2,84
Changes in operating assets and liabilities, net of effects from dispositions:	
Trade accounts receivable	(4,00
Inventories	(1,26
Notes receivable and other current assets	(73
Accounts payable	(26
Accrued and other current liabilities	83
Net cash used in operating activities	(21,40
Cash Flows from Investing Activities:	
Purchase of marketable securities	(51
Sale of marketable securities	1,01
Cash - restricted	(36
Capital expenditures	(20
Repayment from (advances to) related parties, net	1,15
Change in intangible and other assets	(21
Net cash provided by (used in) investing activities	86
Cash Flows from Financing Activities:	
Payments of other liabilities	(24
Net borrowings (repayments) under lines of credit	14
Proceeds from exercise of stock options and warrants	9
Proceeds from sale of common stock	-
Proceeds from sale of convertible subordinated debentures	10,00
Repayment of subordinated debentures	-
Net cash provided by financing activities	9,99
Net decrease in cash and cash equivalents	(10,53
Cash and cash equivalents at the beginning of period	15,23
Cash and cash equivalents at the end of period	$ 4,69

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See Notes to Condensed Consolidated Financial Statements.

CYBERCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(In thousands)
(Unaudited)

Supplemental disclosures of non-cash activities:

	Nine Months End September 30
	2001
Conversion of debentures to common stock	$ --
Reclass of deferred financing costs upon conversion of debentures	--
Fair market value of warrants issued for accrued consulting	--
Common stock matching contribution issued to retirement plan	61
Common stock issued for payment of accrued interest	366
Common stock issued under Employee Stock Purchase Plan	79
Common stock received as consideration for sale of subsidiary	(692)
Common stock issued for accrued settlement of a lawsuit	125
Common stock received in repayment of stock subscription receivable and accrued interest	(65)
Common stock received in repayment of notes receivable	(183)
Common stock issued to purchase domain name	16
Fair market value of detachable warrants issued with convertible subordinated debentures	2,618
Common stock issued for stock subscription receivable	900
Common stock issued under earn-out arrangement	--
Common stock issued for payment of long-term debt	--
Common stock issued under limited liability company agreement	--
Property and equipment purchases financed by other liabilities	568
Common stock received upon uncured breach of contract	(114)

The following is a summary of the significant non-cash amounts that resulted from the Company's disposition of Carolina Rehab :

	For the Nine Months Ended September 30,	
	2001	2000

Assets disposed:		
Accounts receivable	$(196)	$ --
Property and equipment	(76)	--
Goodwill	(412)	--
Assets disposed	(684)	--
Liabilities transferred:		
Accounts payable	(64)	--
Accrued expenses and short-term debt	(20)	--
Liabilities transferred	(84)	--
Common stock	(600)	--
Cash received from disposition	$ --	$ --

See Notes to Condensed Consolidated Financial Statements.

CYBERCARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(UNAUDITED)

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

CyberCare, Inc. ("CyberCare" or the "Company") is a network-based telehealth solutions company utilizing patented internet-based technology to provide a system for remote monitoring of individuals. The Company is developing the CyberCare SystemTM, which consists of the Electronic HouseCall(R) (EHCTM) family of products, the CyberCare 24 NetworkTM and the Cyber HealthManagerTM, to enable communications between chronically ill patients and a network of healthcare providers using transfers of voice, video and medical data. The CyberCare SystemTM, which has been cleared by the United States Food and Drug Administration ("FDA"), collects patient vital signs using devices such as an electronic stethoscope, thermometer, blood pressure cuff, pulse oximeter, weight scale and glucometer. The results are available for review by the care provider and are stored in a central database for retrieval. The care provider may measure results against a patient's historic data enabling the delivery of improved patient care and more effective disease management. The Company also has a physical, occupational and speech therapy business and an institutional pharmacy business, which have historically provided the majority of the Company's net revenues.

Basis of Presentation and Consolidation

The accompanying condensed consolidated financial statements have been prepared by the Company and are unaudited pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information related to the Company's significant accounting policies and footnote disclosures normally

included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. In the opinion of management, these unaudited condensed consolidated financial statements reflect all material adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the interim periods presented. These results are not necessarily indicative of a full year's results of operations. Certain reclassifications have been made to the prior period financial statements to conform to the September 30, 2001 presentation.

Although the Company believes that the disclosures provided are adequate to make the information presented not misleading, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000.

The Company's condensed consolidated financial statements include the activity of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as all changes in a Company's net assets except changes resulting from transactions with shareholders. It differs from net income (loss) in that certain items currently recorded to equity (e.g. foreign currency items and unrealized gains and losses on certain investments in debt and equity securities) are part of comprehensive income (loss). For the three months ended September 30, 2001 and 2000, the Company had a $0 and $10,000 after-tax realized loss on marketable securities, respectively. For the nine months ended September 30, 2001, the Company had a $1,000 after-tax realized gain on marketable securities. For the nine months ended September 30, 2000, the Company had a $2,000 after-tax unrealized loss and a $1,768,000 realized loss on marketable and equity securities.

Marketable Securities

The Company's marketable securities are considered "available for sale" and, as such, are stated at market value. The net unrealized gains and losses on marketable securities are reported as part of accumulated other comprehensive income (loss). Realized gains and losses from the sale of marketable securities are based on the specific identification method.

Recently Issues Accounting Pronouncements

In June 2001, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company will apply the new accounting rules beginning January 1, 2002. The Company is currently assessing the financial impact SFAS No. 141 and No. 142 will have on its consolidated financial statements.

Note 2 - Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. Inventories consist of the following:

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Component parts	$2,833,000	$1,790,000
Work-in-process	271,000	541,000
Finished goods	3,402,000	2,911,000
	$6,506,000	$5,242,000

Note 3 - Discontinued Operations and Dispositions

AIR AMBULANCE TRANSPORT - In October 2001, the Company regained ownership of the air ambulance business ("Air") it had previously agreed to sell in September 2000 from the buyer in that transaction, following the buyer's uncured breach of its payment obligations. The Company simultaneously entered into an agreement (the "Purchase Agreement") to sell the air ambulance business in a transaction in which all of the stock of one operating subsidiary and certain assets of the other two operating subsidiaries were sold to an unrelated third party ("New Buyer") for a $5,000,000 convertible promissory note (the "Note").

Completion of this Purchase Agreement is contingent on the release of a guarantee relating to the financing of the aircrafts and the unconditional approval of the leases from the aircraft lender (the Company has received conditional approvals subject to the agreements being prepared). The New Buyer purchased all the issued and outstanding stock of Global Air Charter, Inc. ("GAC"), and certain assets of each of Air Response North, Inc. ("ARN") and Global Air Rescue, Inc. ("GAR"), in exchange for the Note, which earns interest at 6% per annum and matures in 10 years. The debt service payments under the Note are based on distributable net profits and available cash of the buyer, as those terms are defined in the Note and the Purchase Agreement. The Note may be converted by the Company into a 19 percent non-voting equity interest in the New Buyer, subject to reduction based on debt service payments and dilution in the event the New Buyer issues additional equity securities.

The New Buyer has also agreed to pay, out of available cash, up to $1,000,000 of accounts payable of ARN incurred prior to the effective date, for a six month period following the closing, and has agreed to purchase or lease a Lear 31 aircraft or equivalent within six months following the closing, for use in the business.

As part of the purchase, GAC (as owned by the New Buyer) entered into aircraft lease agreements with ARN and GAR, as lessors, for use of the air ambulance fleet for a term of 30 months. The leases for the Lear 35 and 36 aircrafts provide for rental payments equal to the monthly amount due the finance company for such aircraft and require GAC to be responsible for major structural repair and maintenance (except for one aircraft, for which lessor will remain responsible for major structural repair and maintenance). The master lease for the Lear 25 aircraft provide for hourly based rental payments, with

minimum use obligations, and requires the lessors to maintain and insure these aircrafts. Under the leases, GAC has the right to purchase the aircraft for an amount equal to the payoff amount due the finance company. The lessors, however, have the right to sell the leased aircraft to a third party; however, GAC has a thirty day first right of refusal to purchase the aircraft at the same price that was offered by the third party, which shall be at least equal to the amount due the finance company.

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The Company is not recognizing any gain or loss from this disposition and is accounting for the air ambulance business as a discontinued operation until the subsequent sale is completed and all of the aircraft have been sold or disposed of. Accordingly, amounts owed, net of an approximately $666,000 accrual for future losses of Air, have been classified as "Net assets of discontinued operations," in the accompanying condensed consolidated balance sheets. In addition, the operating results of Air for the three and nine month periods ended September 30, 2000 have been reported as "Loss from operations of discontinued businesses" in the accompanying condensed consolidated statements of operations. Also, this business reported a $1,894,000 and 2,844,000 "Estimated loss on disposal of discontinued business" for the three and nine month periods ended September 30, 2001, respectively, in the accompanying condensed consolidated statements of operations. The loss for the current three month period was significantly greater than management's estimated loss, partially due to a decrease in revenue as a result of the September 11, 2001 terrorist attack, which caused all flights the Company was servicing to be grounded for several days and apprehension on the part of patients to fly.

CAROLINA DISPOSITION - Effective October 31, 2000, the Company entered into a comprehensive settlement agreement to sell one of its rehabilitation subsidiaries ("Carolina Rehab"), to the former owner for $3,600,000. The Company received $375,000 in cash and a $3,225,000 note which bears interest at 8.0% and is payable over four years ("8% note"). The Company received a total of $750,000 in payments in 2001 on the 8% note. The note is collateralized by the stock of the former subsidiary and any related entities of the former owner.

PHYSICIAN PRACTICE DISPOSITION - Effective January 26, 2001, the Company sold certain assets and related liabilities of its physician practice to a related party in exchange for the return of 140,000 common shares of the Company owned by the related party valued at $691,000. The Company recognized a gain in the amount of $92,000 on this transaction.

The following unaudited pro forma financial data is presented to illustrate the estimated effects on the condensed consolidated results of operations as if the Company's discontinued operations and dispositions had occurred as of the beginning of each calendar year presented after giving effect to certain adjustments, including amortization of goodwill and related income tax effects. The pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the transactions taken place at the beginning of the periods presented or of future results of operations.

	NINE MONTHS ENDED SEPTEMBER 30, 2001	2000
Net revenues	$ 14,043,000	$ 10,498,000

Loss from continuing operations	$(18,523,000)	$(14,166,000)
Net loss	$(18,523,000)	$(14,166,000)
Net loss per common share (basic and diluted)	$ (0.28)	$ (0.24)

Note 4- Equity Line of Credit

The Company entered into a Private Equity Line Agreement ("Agreement") dated September 14, 2001 with Strategic Investment Management SA, an entity organized under the laws of the British Virgin Islands ("SIM"). Under the Agreement, the Company has the right to require SIM to purchase, from time to time, the Company's common stock (a "Put"), not to exceed, in the aggregate, $15,000,000 of the Company's common stock. The price for each share purchased pursuant to a Put is 85% of the lower of the closing bid price or the lowest trading price for the Company's common stock (as reported by Bloomberg, L.P.) on the trading day on which a Put notification is delivered by the Company to SIM. The Company is required to consummate a minimum Put of $1 million of the Company's common stock during the term of the Agreement. The Agreement will terminate at the earlier of twenty-four months after the commencement of the commitment period or the date on which the Company has made Puts with an aggregate investment amount equal to $15,000,000.

The maximum number of shares of common stock the Company is permitted to Put to SIM in any seven-day period is based on 17.5% of the average trading volume (measured over the 10-day period prior to the Put notification) multiplied by a factor of five. Each Put must be for at least 10,000 shares of common stock. The total number of shares of common stock which may be sold to SIM under the Agreement may not exceed 19.9% of the total outstanding common shares of the Company. Prior to the first Put, but not later than 120 days following the date of the Agreement, the Company must file a registration statement with the Securities and Exchange Commission for the registration and resale of the common stock being sold under the Agreement. As of September 30, 2001, the Company has not made any Puts to SIM.

Note 5- Convertible Subordinated Debentures

In May 2001, the Company sold an aggregate of $10,000,000 in convertible subordinated debentures to three accredited investors ("May 2001 Debentures") exempt from registration under Section 4(2) and Regulation D of the Securities Act of 1933, as amended. The convertible subordinated debentures have a three year term and pay interest quarterly beginning on August 1, 2001, ranging from 12.75% to 13.75% per annum, in the aggregate, depending on whether interest is payable in stock or cash. Beginning in November 2001, these subordinated debentures are convertible into Common Stock at a conversion price equal to 90% of the average closing price for the twenty trading days immediately prior to the date of conversion notice, but in no event shall the conversion price be less than $3.25 per share. In addition, the Company issued warrants to purchase up to 2,500,000 shares of Common Stock at exercise prices ranging from $3.00 to $5.00. All of the underlying shares, whether through exercise, conversion of the debt or by way of interest payments, have registration rights.

The fair value allocated to these warrants was $2,421,600, or $0.97 per share, and was recorded as a discount to the May 2001 Debentures. The discount is being accreted through interest expense over the 36 month life of the underlying debentures. Also, as noted above, the May 2001 Debentures are convertible at exercise prices of no less than $3.25 per share. The adjusted conversion price (calculated as proceeds received less the value allocated to the warrants divided by $3.25) was less than the trading price of the stock on the commitment date. As a result, the Company recorded a beneficial conversion that is being accreted through interest expense over the 36 month life of the underlying debentures. Accreted discount and beneficial conversion for the three and nine months ended September 30, 2001 were $215,000 and $323,000, respectively, and were recognized in "Interest - accreted and beneficial conversion feature" in the accompanying condensed consolidated statements of operations.

Note 6- Litigation and Contingencies

LITIGATION - The Company is engaged in litigation with various parties regarding matters of dispute that have arisen in the normal course of business. In most cases where there is a material amount in dispute, the Company has the benefit of insurance coverage, although there is no assurance that with respect to any particular dispute for which insurance coverage may be applicable the insurer will not assert that a defense or exemption to coverage applies or that the amount of coverage will be sufficient. In those cases where a material amount is in dispute and in which either insurance is not available or where an insurer asserts a defense or exemption to coverage, the Company cannot presently predict the outcome of such litigation, estimate the liability or predict the impact, if any, that any such litigation may have on the Company's liquidity or financial condition. The Company anticipates that there will not be a material impact on its financial condition or results of operations from the outcomes of these legal actions, except as discussed in the following paragraphs.

The Company has previously disclosed the 14 purported class action lawsuits that were filed against CyberCare and certain of its executive officers alleging violations of federal securities laws. These lawsuits were consolidated into a single class action lawsuit by the United States District Court for the Southern District of Florida on November 4, 2000. The Consolidated Amended Complaint ("Complaint") alleges that the Company made misrepresentations or omissions regarding the development and future sales forecasts of its Electronic HouseCall(R) system products and revenues of its pharmacy division. The Complaint seeks unspecified damages and costs. The Company filed a motion to dismiss, which was denied. Mediation has been ordered by the court. The Company and its management believe the Complaint lacks merit and they intend to vigorously defend against the Complaint. The Company and its management cannot predict the outcome of this litigation or the impact that the Complaint, or any other suits, claims, or investigations relating to the same subject matter, may have on the Company's liquidity or financial condition. In light of the foregoing, the Company's liability, if any, in relation to such possible claims cannot be estimated at this time.

The Company's Physical Therapy and Rehabilitation subsidiary ("PT&R") received a letter from the Center for Medicare and Medicaid Services ("CMS") and its intermediary in April 2001 notifying it of the suspension of Medicare payments. CMS alleged that certain patient complaints, which constitute less than 1% of PT&R's Medicare patients, and other alleged regulatory non-compliance, justify the payment suspension. During the suspension, the Medicare program continued to process PT&R's claims, but held payment in escrow.

In August 2001, the suspension was lifted and payment for processed claims was released although $1,114,000 of the reimbursement remains held in escrow, pending further review. The Company is working cooperatively with CMS to resolve any outstanding issues and effectuate release of the amount held in escrow.

FUTURE CAPITAL NEEDS - The capital requirements needed to fund the Company's operations, as well as to continue developing its CyberCare SystemTM family of products, systems and any other new services will be significant. The Company will need to raise additional funds through public or private offerings, equity or debt financings or sale of assets in order to fund its losses, continue to develop its CyberCare SystemTM and any other services.

Note 7- Operating Segments

The Company's operating groups have been aggregated into three reportable operating segments: network-based telehealth solutions, physical, occupational and speech therapy services and institutional pharmacy services. The "Other" category presented below includes the corporate office and elimination of inter-company activities, neither of which meet the requirements of being classified as an operating segment. As discussed in Note 3, the Company entered into an agreement to sell its Air segment during September 2000. On October 1, 2001, the Company reacquired the Air segment and simultaneously entered into an agreement to sell the business to a third party (see Note 3). Accordingly, the Air segment is not separately presented below for any of the three or nine month periods ended September 30, 2001 or 2000, but rather is included as part of the Other category because the Company is accounting for this disposition as a discontinued operation.

The Company evaluates the performance of its reportable operating segments based primarily on net revenues, (loss) income from continuing operations and working capital. Segment information for the three and nine month periods ended September 30, 2001 and 2000 are as follows:

FOR THE THREE MONTHS ENDED SEPTEMBER 30,	NETWORK-BASED TELEHEALTH SOLUTIONS	PHYSICAL, OCCUPATIONAL AND SPEECH THERAPY	INSTITUTIONAL PHARMACY	
2001				
Net revenues	$ 1,030,000	$ 2,579,000	$ 1,586,000	$
(Loss) income from continuing operations	(4,925,000)	150,000	(226,000)	
Working capital (deficit)	3,960,000	2,164,000	(894,000)	
Total assets	20,921,000	6,501,000	2,361,000	
2000				
Net revenues	178,000	2,707,000	1,650,000	
(Loss) income from continuing operations	(4,485,000)	327,000	(129,000)	
Working capital (deficit)	(6,146,000)	725,000	292,000	
Total assets	17,970,000	10,510,000	2,683,000	

FOR THE NINE MONTHS ENDED SEPTEMBER 30,	NETWORK-BASED TELEHEALTH SOLUTIONS	PHYSICAL, OCCUPATIONAL AND SPEECH THERAPY	INSTITUTIONAL PHARMACY

2001				
Net revenues	$ 1,646,000	$ 7,891,000	$ 4,606,000	$
(Loss) income from continuing operations	(16,440,000)	683,000	(444,000)	
2000				
Net revenues	641,000	8,775,000	4,714,000	
(Loss) income from continuing operations	(12,597,000)	1,008,000	(76,000)	

Note 8- Related Party Transactions

During the nine months ended September 30, 2001, certain officers and former employees satisfied all or a portion of amounts under notes issued to the Company evidencing debt for amounts previously advanced to them. The total amount received in cash by the Company during the nine months ended September 30, 2001 was approximately $1,500,000, plus accrued interest. Also, in March 2001, two directors returned to the Company 107,048 shares of the Company's common stock owned by the directors and valued at approximately $248,000 for repayment of a stock subscription receivable balance, a portion of a loan and accrued interest. In April 2001, the Board of Directors approved loans to certain officers totaling approximately $386,000. The loans call for interest at the applicable federal rate ("AFR"), adjusted monthly. The outstanding principal and all unpaid accrued interest is due on or before March 31, 2003. These loans are collateralized by shares of the Company's common stock owned by the officers.

Note 9- Issuances of Common Stock

In June 2001, the Company sold 825,000 shares of the Company's common stock valued at $900,000 in exchange for an interest-bearing note at 10%, maturing on June 29, 2004 and collateralized by shares of the Company's common stock. This note is included in stockholders' equity as part of stock subscription receivable in the accompanying September 30, 2001 balance sheet.

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Note 10- Agreement to Acquire Certain Home Workstation Technology

The Company entered into an agreement on April 5, 2001 to acquire certain home workstation technology in exchange for $250,000 in cash and 1,500,000 restricted voting common shares valued at $2,900,000, which was subject to the execution and performance of certain final terms and conditions and approval by the Board of Directors (the "Agreement"). The parties subsequently mutually agreed to abandon the transaction and terminate the Agreement pursuant to a settlement agreement under which the seller is entitled to receive $125,000 in cash and 125,000 shares of restricted company stock (entitled to registration). In addition, as part of the settlement, the Seller is to receive a license to utilize certain software components of the Company's CyberCare System(TM) in connection with the home workstation technology in exchange for a license fee. The Company also agreed to provide 25,000 shares of Company common stock in settlement of any "finder's fee" arising under the Agreement.

Note 11- Strategic Alliances

On October 11, 2001, the Company entered into a Marketing, Distribution and License Agreement ("Agreement") with CyberAmeriCare, Inc., a Delaware

corporation ("AmeriCare"), which grants to AmeriCare the exclusive geographic rights (subject to minimum unit sales requirements), to use, market, distribute, install, support and maintain the Company's CyberCare SystemTM within North, South and Central America, subject to certain retained rights, and further subject to initial capitalization of AmeriCare of at least $30,000,000 which is to take place within ninety days following execution of the Agreement. Within fifteen days of the initial capitalization or promptly upon AmeriCare's first commercial operation of the services in the defined territory, which ever is earlier, AmeriCare will be obligated to pay the Company $15,000,000 as a fee for the exclusive geographic rights described above. Neither the Company nor any of its subsidiaries are responsible for any of AmeriCare's capitalization; however, the Company shall receive, as additional consideration for the exclusive geographic rights, a twenty-five percent equity interest in AmeriCare. Based on AmeriCare's performance, the Company is expected to generate revenue from sales of its Electronic HouseCall(R) (EHCTM) System units to AmeriCare and ongoing revenue for network services provided after deployment of the units.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "could," "may," "will," "believes," "anticipates," "plans," "expects," "projects," "estimates," "intends," "continues," "seeks," "predicts," "expectations," variations of such words and similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") that are difficult to predict. As a result, because these statements are based on expectations as to future performance and events and are not statements of fact, actual events or results may differ materially from those expressed or forecast in such forward-looking statements. Factors that might cause the Company's actual results to differ materially from those indicated by such forward-looking statements include, without limitation, those discussed in our filings with the Securities and Exchange Commission, including but not limited to our most recent proxy statement and "Risk Factors" in our most recent Form 10-KSB as well as Future Factors that may have the effect of reducing our available operating income and cash balances.

Future Factors include risks associated with the uncertainty of future financial results; government approval processes; changes in the regulation of the healthcare and technology industries at either the federal or state levels; changes in reimbursement for services by government or private payors; competitive pressures in the healthcare and technology industries and the Company's response thereto; delays or inefficiencies in the introduction, acceptance or effectiveness of new products; the impact of competitive products or pricing; the Company's dealings with customers and partners; cash expenditures related to possible future acquisitions and expansions; on-going capital expenditures; the Company's ability to obtain capital in favorable terms and conditions; increasing price, products and services; competition by U.S. and non-U.S. competitors, including new entrants; rapid technological developments and changes and the Company's ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the mix of products and

services; the availability of manufacturing capacity, components and materials; the ability to recruit and retain talent; the achievement of lower costs and expenses; credit concerns in the emerging service provider market; customer demand for the Company's products and services; U.S. and non-U.S. government and public policy changes that may affect the level of new investments and purchases made by customers; changes in environmental and other U.S. and non-U.S. governmental regulations; protection and validity of patent and other intellectual property rights; reliance on large customers and significant suppliers; the ability to supply customer financing; technological implementation, and cost/financial risks in the use of large, multiyear contracts; the Company's credit ratings; the outcome of pending and future litigation; continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support the Company's future business; general industry and market conditions and growth rates; general U.S. and non-U.S. economic conditions, including interest rate and currency exchange rate fluctuations.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented herein. These statements should be considered only after carefully reading this entire Form 10-Q and the documents incorporated herein by reference.

The following discussion and analysis addresses the Company's results of operations and financial condition and should be read in conjunction with the Company's unaudited Condensed Consolidated Financial Statements and Notes thereto appearing in Part I, Item 1 in this Form 10-Q, and the Company's audited Consolidated Financial Statements listed in Part II, Item 7 and the Notes thereto appearing in the Company's 2000 Annual Report on Form 10-KSB.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

Net revenues for the quarter ended September 30, 2001 increased 14.6% to $5,195,000 compared with $4,535,000 for the prior year's comparable quarter. Quarterly net revenues increased from internal growth in the network-based telehealth solutions segment and physical, occupational and speech therapy segment. The increase was offset by a decrease in the net revenues of the institutional pharmacy segment and resulting from the October 31, 2000 sale of Carolina Rehab and January 26, 2001 sale of the Company's physician practice (which together aggregated $1,026,000 net revenues for the 2000 third quarter).

Cost of services for the quarter ended September 30, 2001 increased 34.3% to $3,732,000 compared with $2,778,000 for the prior year's comparable quarter. The increase was substantially due to significantly higher technology start-up costs resulting from continued implementation of demonstration and pilot programs, related connectivity costs and expansion of the number of facilities serviced by the physical, occupational and speech therapy segment which required hiring additional personnel and increased rent expense, offset by costs relating to the rehab subsidiary sold in 2000 and physician practice sold in January 2001.

Selling, general and administrative expenses increased 7.1% to $4,403,000 for the quarter ended September 30, 2001, compared with $4,113,000 for the prior year's comparable quarter. The net increase is primarily attributable to

additional personnel, professional fees and severance costs, offset by costs relating to the rehab subsidiary sold in 2000 and physician practice sold in January 2001.

Research, development and engineering expenses for the quarter ended September 30, 2001 increased 36.7% to $2,513,000 compared to $1,838,000 for the prior year's comparable quarter. The significant increase was due to the Company's acceleration of expenditures for the development of the CyberCare 24 NetworkTM, Cyber HealthManagerTM and Electronic Housecall(R) (EHCTM) family of products that are now able to connect via both broadband and plain old telephone service ("POTS"). All such expenditures are being expensed as incurred.

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The Company's on-going cost management program resulted in a reduction of $1,750,000 in 2001 third quarter operating costs and expenses (compared with 2001 second quarter operating costs and expenses, excluding depreciation and amortization and certain 2001 third quarter non-cash expenses). The 2001 third quarter non-cash expenses included $398,000 of severance and related benefit accruals due to staff reductions and $753,000 of expense resulting from warrants issued for services related to establishment of certain foreign joint ventures.

The Company had an operating loss of $6,032,000 for the three months ended September 30, 2001 as compared to an operating loss of $4,506,000 for the prior year's comparable period. A significant portion of this increase was due to costs incurred for the development of the CyberCare SystemTM.

For the quarter ended September 30, 2001, interest income decreased to $263,000, compared with $489,000 for the prior year's comparable period, primarily as a result of greater cash, cash equivalent and marketable security balances invested at higher interest rates in the prior period.

The Company's net loss for the three months ended September 30, 2001 was $8,299,000 in comparison to a net loss of $4,957,000 for the prior year's comparable period, primarily as a result of costs incurred for the development of the CyberCare SystemTM. In addition, the current quarter included a $1,894,000 accrual for the estimated disposal of the Company's air ambulance transport segment, while the prior year's comparable period included a $945,000 loss from discontinued operations.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

Net revenues for the nine months ended September 30, 2001 of $14,143,000 were consistent with net revenues of $14,130,000 for the prior year's comparable period. Net revenues increased from internal growth in the network-based telehealth solutions segment and physical, occupational and speech therapy segment. The increase was offset by a decrease in the net revenues of the institutional pharmacy segment and resulting from the October 31, 2000 sale of Carolina Rehab and January 26, 2001 sale of the Company's physician practice (together aggregated $3,632,000 net revenues for the nine months ended September 30, 2000).

Cost of services for the nine months ended September 30, 2001 increased 14.7% to $10,311,000 compared with $8,990,000 for the prior year's comparable period. The increase was substantially due to technology start-up costs resulting from continued implementation of demonstration and pilot programs and related connectivity costs and expansion of the number of facilities serviced by

the physical, occupational and speech therapy segment which required hiring additional personnel and increased rent expense, offset by costs relating to the rehab subsidiary sold in 2000 and physician practice sold in January 2001.

Selling, general and administrative expenses increased 8.2% to $10,794,000 for the nine months ended September 30, 2001, compared with $9,973,000 for the prior year's comparable period. The increase is principally attributable to the increase in staff and organizational costs to support continued domestic and international (Asia and Europe) development and sales and marketing costs, as the Company continues to develop its network-based telehealth solutions segment, offset by costs relating to the rehab subsidiary sold in 2000 and physician practice sold in January 2001.

Research, development and engineering expenses for the nine months ended September 30, 2001 increased 103.5% to $10,244,000 compared to $5,035,000 for the prior year's comparable period. The significant increase was due to the Company's acceleration of expenditures for the development of the CyberCare 24 NetworkTM, Cyber HealthManagerTM and Electronic Housecall(R) (EHCTM) family of products that are now able to connect via both broadband and plain old telephone service ("POTS"), including the development of additional products, software and peripheral monitoring equipment. All such expenditures are being expensed as incurred.

The Company had an operating loss of $18,802,000 for the nine months ended September 30, 2001 as compared to an operating loss of $11,084,000 for the prior year's comparable period. A significant portion of this increase was due to costs incurred for the development of the CyberCare SystemTM, which includes the EHCTM family of products, the CyberCare 24 NetworkTM and the Cyber HealthManagerTM.

The Company's net loss for the nine months ended September 30, 2001 was $21,228,000 in comparison to a net loss of $15,046,000 for the prior year's comparable period, primarily as a result of costs incurred for the development of the CyberCare SystemTM. In addition, the current year's period included a $2,844,000 accrual for the estimated disposal of the Company's air ambulance transport segment while the prior year's comparable period included both a $1,627,000 loss from discontinued operations of its Air segment and a one-time $2,424,000 investment write-off.

LIQUIDITY AND CAPITAL RESOURCES

CyberCare has historically funded its growth from the sale of equity securities and convertible debentures. Through September 30, 2001 and in 2000, CyberCare raised, net of expenses, approximately $10,000,000 and $27,600,000, respectively, through private debt and equity offerings, which is being used for research, development, engineering, marketing and working capital purposes. CyberCare's cash requirements will be significant through 2001. The Company had working capital of approximately $17,532,000 as of September 30, 2001.

Since we do not generate sufficient revenues to fund our operations, we anticipate that our current working capital will provide sufficient liquidity to

fund operations through 2001. However, we can provide no assurance that our ability to fund operations through 2001 will not be shortened due to factors beyond our control, such as lower than expected revenues or increased expenses.

As of September 30, 2001, we had current liabilities of approximately $9,724,000, which includes accounts payable, accrued expenses and approximately $2,138,000 of borrowings under two lines of credit, with interest rates ranging from 8.50% to 8.65% at September 30, 2001. We had the ability to borrow up to an aggregate of approximately $5,000,000 under the lines of credit at September 30, 2001. In January 2001, the Company entered into a $500,000 financing arrangement to lease certain furniture and equipment. The lease is collateralized by a certificate of deposit reflected as "Cash - restricted" in the condensed consolidated balance sheet as of September 30, 2001. The lease calls for interest at 12.4% and matures in February 2004.

In May 2001, the Company sold an aggregate of $10,000,000 in convertible subordinated debentures to three accredited investors ("May 2001 Debentures") exempt from registration under Section 4(2) and Regulation D of the Securities Act of 1933, as amended. The convertible subordinated debentures have a three year term and pay interest quarterly beginning on August 1, 2001, ranging from 12.75% to 13.75%per annum, in the aggregate, depending on whether interest is payable in stock or cash. Beginning in November 2001, these subordinated debentures are convertible into Common Stock at a conversion price equal to 90% of the average closing price for the twenty trading days immediately prior to the date of conversion notice, but in no event shall the conversion price be less than $3.25 per share. In addition, the Company issued warrants to purchase up to 2,500,000 shares of Common Stock at exercise prices ranging from $3.00 to $5.00. All of the underlying shares, whether through exercise, conversion of the debt or by way of interest payments, have registration rights.

The Company entered into a Private Equity Line Agreement ("Agreement") dated September 14, 2001 with Strategic Investment Management SA, an entity organized under the laws of the British Virgin Islands ("SIM"). Under the Agreement, the Company has the right to require SIM to purchase, from time to time, the Company's common stock (a "Put"), not to exceed, in the aggregate, $15,000,000 of the Company's common stock. The price for each share purchased pursuant to a Put is 85% of the lower of the closing bid price or the lowest trading price for the Company's common stock (as reported by Bloomberg, L.P.) on the trading day on which a Put notification is delivered by the Company to SIM. The Company is required to consummate a minimum Put of $1 million of the Company's common stock during the term of the Agreement. The Agreement will terminate at the earlier of twenty-four months after the commencement of the commitment period or the date on which the Company has made Puts with an aggregate investment amount equal to $15,000,000.

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The maximum number of shares of common stock the Company is permitted to Put to SIM in any seven-day period is based on 17.5% of the average trading volume (measured over the 10-day period prior to the Put notification) multiplied by a factor of five. Each Put must be for at least 10,000 shares of common stock. The total number of shares of common stock which may be sold to SIM under the Agreement may not exceed 19.9% of the total outstanding common shares of the Company. Prior to the first Put, but not later than 120 days following the date of the Agreement, the Company must file a registration statement with the Securities and Exchange Commission for the registration and resale of the common stock being sold under the Agreement. As of September 30, 2001, the Company has not made any Puts to SIM.

Cash used in operating activities was $21,401,000 and $15,094,000 for the nine months ended September 30, 2001 and 2000, respectively. The increase was primarily a result of increased net loss due to costs to develop, implement and market our CyberCare SystemTM, which includes the CyberCare 24 NetworkTM, Cyber HealthManagerTM and Electronic Housecall(R) (EHCTM) family of products. In addition, the increase was also due to payments for liabilities of discontinued operations, an increase in accounts receivable and purchase of additional inventory.

Cash provided by investing activities was $868,000 for the nine months ended September 30, 2001 compared to cash used in investing activities of $19,757,000 for the prior year's comparable period. The increase primarily resulted from repayments from certain officers and directors of amounts loaned in previous quarters and greatly reduced marketable security purchases during the current nine month period compared to the prior year's comparable period.

Cash provided by financing activities was $9,999,000 and $34,353,000 for the nine months ended September 30, 2001 and 2000, respectively. The decrease was primarily due to funds received in 2000 from direct sales of the Company's common stock, reduction in proceeds from the exercise of stock options and warrants and 2000 proceeds resulting from the December 1999 issuance of debentures, offset by the May 2001 sale of convertible subordinated debentures.

Except for our lines of credit and the financing arrangements discussed above, we have no commitments for additional financings or borrowings. We can provide no assurance that additional debt or equity financing will not be undertaken, and if undertaken, whether it will be successful. Lower than expected earnings resulting from adverse conditions or otherwise, could restrict our ability to expand our operations, or otherwise to fully execute our business plan.

ITEM 3   QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - None.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is engaged in litigation with various parties regarding matters of dispute that have arisen in the normal course of business. In most cases where there is a material amount in dispute, the Company has the benefit of insurance coverage, although there is no assurance that with respect to any particular dispute for which insurance coverage may be applicable the insurer will not assert that a defense or exemption to coverage applies or that the amount of coverage will be sufficient. In those cases where a material amount is in dispute and in which either insurance is not available or where an insurer asserts a defense or exemption to coverage, the Company cannot presently predict the outcome of such litigation, estimate the liability or predict the impact, if any, that any such litigation may have on the Company's liquidity or financial condition. The Company anticipates that there will not be a material impact on its financial condition or results of operations from the outcomes of these legal actions, except as discussed in the following paragraphs.

The Company has previously disclosed the 14 purported class action lawsuits that were filed against CyberCare and certain of its executive officers alleging violations of federal securities laws. These lawsuits were consolidated into a single class action lawsuit by the United States District Court for the

Southern District of Florida on November 4, 2000. The Consolidated Amended Complaint ("Complaint") alleges that the Company made misrepresentations or omissions regarding the development and future sales forecasts of its Electronic HouseCall(R) system products and revenues of its pharmacy division. The Complaint seeks unspecified damages and costs. The Company filed a motion to dismiss, which was denied. Mediation has been ordered by the court. The Company and its management believe the Complaint lacks merit and they intend to vigorously defend against the Complaint. The Company and its management cannot predict the outcome of this litigation or the impact that the Complaint, or any other suits, claims, or investigations relating to the same subject matter, may have on the Company's liquidity or financial condition. In light of the foregoing, the Company's liability, if any, in relation to such possible claims cannot be estimated at this time.

Our Physical Therapy and Rehabilitation subsidiary ("PT&R") received a letter from the Center for Medicare and Medicaid Services ("CMS") and its intermediary in April 2001 notifying it of the suspension of Medicare payments. CMS alleged that certain patient complaints, which constitute less than 1% of PT&R's Medicare patients, and other alleged regulatory non-compliance, justify the payment suspension. During the suspension, the Medicare program continued to process PT&R's claims, but held payment in escrow. In August, the suspension was lifted and payment for processed claims was released although $1,114,000 of the reimbursement remains held in escrow, pending further review. The Company is working cooperatively with CMS to resolve any outstanding issues and effectuate release of the amount held in escrow.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The following is a summary of the Company's equity transactions for the three months ended September 30, 2001 that were not registered under the Securities Act of 1933, as amended:

(1) issuance of 3,120 shares of common stock valued at approximately $7,800 to purchase a domain name,

(2) issuance of 5,000 shares of common stock valued at approximately $5,500 for a member of the Company's Medical Advisory Board,

(3) issuance of 201,818 shares of common stock valued at $224,000 for payment of consulting services and

(4) issuance of 71,178 shares of common stock valued at approximately $135,000 for payment of interest.

All the issuances were exempt transactions under Section 4(2) and of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES - Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - Not applicable.

ITEM 5. OTHER INFORMATION - Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(1) Resignation of Paul C. Pershes as a Director and President,

appointment of Steven M. Cohen as Chief Financial Officer, and other senior management reorganizations and promotions, filed September 17, 2001.

SIGNATURES

In accordance with 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.

CYBERCARE, INC.
(Registrant)

NOVEMBER 14, 2001 By: /s/ MICHAEL F. MORRELL
(Date) Michael F. Morrell, Chairman of the Board & Chief Executive Officer

NOVEMBER 14, 2001 By: /s/ STEVEN M. COHEN
(Date) Steven M. Cohen, Chief Financial Officer