VISTACARE INC
Form S-1/A
May 01, 2003

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As filed with the Securities and Exchange Commission on May 1, 2003

Registration No. 333-104801

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

Form S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

VistaCare, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**8099**	**06-1521534**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

8125 North Hayden Road, Suite 300,

Scottsdale, Arizona 85258, (480) 648-4545
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Richard R. Slager

President and Chief Executive Officer
8125 North Hayden Road, Suite 300, Scottsdale, Arizona 85258, (480) 648-4545
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement of the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement of the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Class A Common Stock, $.01 par value	5,290,000 shares	$18.08	$95,643,198	7,738(3)

(1) Includes 690,000 shares which may be sold if the Underwriters over-allotment option is exercised.

(2) Calculated in accordance with Rule 457(c) under the Securities Act of 1933 based on the average high and low sale prices of the common stock of the registrant on April 25, 2003, as reported on the Nasdaq National Market.

(3) $7,401 was previously paid in connection with the original filing of this registration statement on April 29, 2003. The remainder of the currently due filing fee, $337, is being offset against a balance of $1,094 resulting from an overpayment made by the registrant in connection with the filing of a registration statement on Form S-1 (Registration No. 333-98033) initially filed with the Securities and Exchange Commission on August 13, 2002.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated May 1, 2003

PROSPECTUS

4,600,000 Shares

Class A Common Stock

All of the shares of our Class A Common Stock are being sold by the selling stockholders named in this prospectus. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our shares are quoted on the Nasdaq National Market under the symbol VSTA . On April 30, 2003, the last sale price of our common stock as reported on the Nasdaq National Market was $20.20 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to the selling stockholders (before expenses)	$	$

The selling stockholders have granted the underwriters a 30-day option to purchase up to an aggregate of 690,000 additional shares of common stock on the same terms and conditions as set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about , 2003.

LEHMAN BROTHERS **SG COWEN**

WILLIAM BLAIR & COMPANY **JEFFERIES & COMPANY, INC.**

, 2003

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. This prospectus is not an offer to sell or a solicitation of an offer to buy shares in any jurisdiction where such offer or any sale of shares would be unlawful. The information in this prospectus is complete and accurate only as of the date on the front cover regardless of the time of delivery of this prospectus or of any sale of shares.

Until , 2003, 25 days after the date of this offering, all dealers that effect transactions in our shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including our financial statements and the related notes, elsewhere in this prospectus.

VistaCare, Inc.

Overview of Our Business

We are a leading provider of hospice services in the United States. Through interdisciplinary teams of physicians, nurses, home healthcare aides, social workers, spiritual and other counselors and volunteers, we provide care primarily designed to reduce pain and enhance the quality of life of terminally ill patients, most commonly in the patient s home or other residence of choice. Our mission is to provide superior and financially responsible care for the physical, spiritual and emotional needs of our patients and their families, while maintaining a supportive environment for our employees.

We have grown rapidly since commencing operations in 1995. In 1998, we completed two significant acquisitions that increased our census from approximately 350 patients to approximately 1,750 patients. Since then, we have more than doubled our patient census primarily through growth of our existing hospice programs, which we sometimes refer to in this prospectus as same-store growth. As of March 31, 2003, we had 39 hospice programs serving patients in 14 states with a census of approximately 4,300 patients. Our net patient revenue was $132.9 million in 2002. For the three months ended March 31, 2003, our net patient revenue was $42.0 million, a 51.6% increase over our net patient revenue of $27.7 million for the three months ended March 31, 2002.

Our rapid growth has presented challenges. For example, our 1998 acquisitions required us to spend considerable time and resources integrating our systems and operating methods with those of the acquired businesses. Our efforts to improve our same-store growth required us to invest in the development of more extensive referral relationships. As a result of these and other challenges, we incurred net losses before accrued preferred stock dividends of $0.4 million and $6.7 million in 2000 and 2001, respectively. However, we recorded net income before accrued preferred stock dividends of $7.6 million and $2.8 million for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively.

We plan to continue our expansion through same-store growth and the development of new hospice programs, as well as through strategic alliances, partnerships and acquisitions. We expect that our growth strategy will present challenges similar to those we have faced in the past. However, as a result of the experience of our management team and our investment in information technology infrastructure, employee training and regulatory compliance programs, we believe we have developed a solid platform for future growth.

Our operations are built around a mission-oriented philosophy that emphasizes superior care and open access to our services. We believe our high care standards, distinctive service philosophy and expertise in cost-effective care management help us develop strong relationships with the medical and consumer communities we serve and give us a competitive advantage in obtaining patient referrals.

Overview of the Hospice Care Industry

Since the opening of the first hospice in the United States in the 1970s, hospice care has grown into a multi-billion dollar industry that served approximately 700,000 patients in 2000 through more than 3,100 hospice care programs. Today, Medicare pays for the majority of hospice services. Hospice care is also covered by most private insurance plans, and 43 states and the District of Columbia provide hospice coverage to their Medicaid beneficiaries. Medicare hospice expenditures alone are expected to reach an estimated $5.0 billion in 2003.

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Market Opportunity

We believe that the hospice care industry is poised for substantial growth over the next several years as a result of the following factors:

Awareness and Acceptance of Hospice Care Services is Expanding. Recent trends, including dramatic increases in the number of patients receiving hospice care and in the amount of Medicare hospice expenditures, demonstrate that awareness and acceptance of hospice care is expanding.

Hospice Care Provides Significant Cost Savings Over Traditional Care. Recent estimates have concluded that the cost of care for hospice patients is substantially less than the cost of care for similarly situated patients receiving traditional medical services.

The American Population is Aging. In 2002, 82.5% of our patients were over the age of 65. This segment of the American population is expected to grow at a rate three times greater than the rate of the general population through the year 2022.

Hospice Services are Underutilized. Recent studies have found that in 2000 only 25% of decedents received hospice care, 75% of Americans were not aware that hospice care can be provided in the home and 90% of Americans did not know that hospice care is covered by Medicare.

In addition, we believe that there will be consolidation within the fragmented hospice industry and that large, well managed hospice care providers are best positioned to grow by affiliating with or acquiring small hospice care providers.

Our Competitive Strengths

We believe a number of factors differentiate us from our competitors and provide us with important competitive advantages.

We Benefit from Being One of the Nation s Largest Hospice Care Providers. Because we are one of the nation s largest hospice care providers, we are able to negotiate volume discounts on the purchase of pharmaceuticals, durable medical equipment and medical supplies and spread our fixed costs over a large patient population. In addition, the geographic scope of our operations gives us a competitive advantage in developing referral relationships with national and regional nursing home and assisted living companies.

We Have Implemented a Highly Effective Pharmacy Cost Control System. Our comprehensive pharmacy cost management system has enabled us to achieve an average daily pharmacy cost per patient that is significantly lower than the industry average.

We Have Developed an Advanced, Proprietary Technology Infrastructure. Our proprietary technology infrastructure enables us to manage our costs effectively while allowing us to deliver a consistently high level of care across our organization. We intend to continue to invest in our technology infrastructure to streamline our decision-making and drive efficiencies in our operations.

We Provide Open Access to Hospice-Eligible Patients. Our service philosophy is to provide hospice care to all adult patients who are eligible to receive hospice care under Medicare guidelines, regardless of the complexity of their illness. We call this philosophy open access . Operating with this service philosophy enables us to build strong relationships with our referral sources, encourages earlier utilization of our services and increases the average length of stay of our patients.

We Have an Experienced Management Team. We have assembled a management team at both the corporate and program level with financial, regulatory and operating experience. Our corporate executive officers, half of whom have joined us since January 1, 2001, have significant experience operating publicly traded healthcare companies and growing businesses both organically and through acquisitions.

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Our Business Strategy

We intend to enhance our position as a market leader in the hospice care industry by pursuing the following strategies:

Continue to Drive Same-Store Census Growth. We have more than doubled our patient census over the past three years through same-store growth. We intend to continue to increase our same-store growth by:

- continuing to provide superior quality of care;
- building relationships that enhance our presence in local markets;
- focusing on our formal marketing initiatives; and
- building relationships with national and regional nursing homes, assisted living facilities and managed care organizations.

Expand Through Strategic Acquisitions and New Program Development. We believe we will have significant opportunities to acquire or enter into strategic alliances with other hospice programs, including not-for-profit providers. In attractive markets where there are no suitable acquisition or strategic alliance opportunities, we may develop new hospice programs.

Build Market Share in Non-Urban Markets. Hospice care usage by Medicare beneficiaries in non-urban areas has increased dramatically in recent years. A significant portion of our current business involves providing care in those markets. We plan to continue to focus on building market share in non-urban markets.

Become the Employer of Choice in the Hospice Care Industry. We are committed to maintaining a superior work environment consisting of competitive compensation, proper staffing, useful management tools and extensive internal training.

Corporate Information

Our principal executive offices are located at 8125 North Hayden Road, Suite 300, Scottsdale, Arizona 85258 and our main telephone number is (480) 648-4545. Our website address is www.vistacare.com. **Information contained on our website does not constitute part of this prospectus.**

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THE OFFERING

Common stock offered by the selling stockholders	4,600,000 shares
Common stock to be outstanding after the offering	15,604,035 shares
Nasdaq National Market symbol	VSTA
Use of proceeds	We will not receive any of the proceeds from this offering

The number of shares of common stock that will be outstanding after this offering is based on the number of shares of common stock outstanding on March 31, 2003. This number does not include:

- 20,000 shares of common stock issuable upon the exercise of a warrant outstanding on March 31, 2003 with an exercise price of $0.025 per share;
- 1,981,900 shares of common stock issuable upon the exercise of stock options outstanding on March 31, 2003 with exercise prices ranging from $1.68 to $15.17 per share and a weighted average exercise price of $6.62 per share; and
- an aggregate of 1,335,700 additional shares of common stock reserved for future issuance under our stock option and stock purchase plans.

Except as otherwise specified in this prospectus, all information in this prospectus assumes:

- the conversion of all 58,096 outstanding shares of our Class B Common Stock, which are convertible at any time at the option of the holder into an equal number of shares of our common stock; and
- the underwriters do not exercise the over-allotment option that the selling stockholders have granted to them to purchase additional shares in this offering, as described in the section of this prospectus entitled Underwriting .

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SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

You should read this summary information with the discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes to those statements included elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
	(dollars in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net patient revenue	$ 81,595	$ 91,362	$ 132,947	$ 27,674	$ 42,001
Operating expenses:					
Patient care	55,256	63,950	79,752	17,269	24,085
General and administrative (exclusive of stock-based compensation charges reported below)	23,541	30,666	42,535	8,911	13,352
Depreciation and amortization	1,797	1,990	1,349	272	344
Stock-based compensation		50	427	50	1,047
Total operating expenses	80,594	96,656	124,063	26,502	38,828
Operating (loss) income	1,001	(5,294)	8,884	1,172	3,173
Non-operating income (expense):					
Interest income	202	52	25	2	101
Interest expense	(1,497)	(1,157)	(935)	(201)	(48)
Other expense	(8)	(163)	(137)	(28)	(16)
Net (loss) income before income taxes	(302)	(6,562)	7,837	945	3,210
Income tax expense	81	150	281	36	386
Net (loss) income	(383)	(6,712)	7,556	909	2,824
Accrued preferred stock dividends(1)	3,482	3,839	4,052	1,032	
Net (loss) income to common stockholders	$ (3,865)	$ (10,551)	$ 3,504	(123)	2,824
Net (loss) income per common share:					
Basic	$ (0.76)	$ (2.07)	$ 0.63	$ (0.02)	$ 0.18
Diluted	$ (0.76)	$ (2.07)	$ 0.52	$ (0.02)	$ 0.17
Weighted average shares outstanding:					
Basic	5,098,000	5,098,000	5,580,000	5,100,000	15,500,000
Diluted	5,098,000	5,098,000	6,776,000	5,100,000	16,656,000
Operating Data:					
Number of hospice programs(2)	38	38	38	38	39
Admissions(3)	9,455	10,330	12,745	2,893	3,734

Days of care(4)	823,885	948,001	1,227,787	258,980	371,253
Average daily census(5)	2,251	2,597	3,364	2,878	4,125
Other Data:					
Adjusted EBITDA(6)	$ 2,790	$ (3,417)	$ 10,523	$ 1,466	$ 4,548
Net cash provided by (used in) operating activities	$ 2,080	$ 3,164	$ 6,142	$ (3,390)	$ 1,347
Net cash used in investing activities	$ (2,266)	$ (2,051)	$ (6,008)	$ (314)	$ (1,160)
Net cash (used in) provided by financing activities	$ (2,190)	$ (2,277)	$ 37,587	$ 3,194	$ 220

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	March 31, 2003
	(in thousands)
Consolidated Balance Sheet Data:	
Cash and cash equivalents	$ 39,511
Working capital	44,756
Total assets	99,735
Capital lease obligations, including current portion	156
Long-term debt, including current portion	250
Accumulated deficit(1)	(26,693)
Total stockholders equity	73,338

(1) Reflects accrued dividends on the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock at the rate of 10.0% per annum, compounded semi-annually. This preferred stock was converted into common stock upon the closing of our initial public offering, and the accrued preferred stock dividends, which were not payable in the event of a conversion into common stock, were reclassified as additional paid-in-capital.

(2) Number of hospice programs at end of period.

(3) Represents the total number of patients admitted into our hospice programs during the period.

(4) Represents the total days of care provided to our patients during the period.

(5) Represents the average number of patients for whom we provided hospice care each day during the period and is computed by dividing days of care by the number of days during the period.

(6) Adjusted EBITDA consists of net (loss) income before accrued preferred stock dividends, excluding net interest, taxes, depreciation and amortization and stock-based compensation charges. We present adjusted EBITDA to enhance the understanding of our operating results. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles. Items excluded from adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA is a key measure we use to evaluate our operations. In addition, we provide our adjusted EBITDA because we believe that investors and securities analysts will find adjusted EBITDA to be a useful measure for evaluating our cash flows from operations, for comparing our operating performance with that of similar companies that have different capital structures and for evaluating our ability to meet our future debt service, capital expenditures and working capital requirements. Adjusted EBITDA should not be considered in isolation or as an alternative to net (loss) income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted EBITDA as presented may not be comparable to other similarly titled measures of performance of other companies. For a reconciliation of net (loss) income to adjusted EBITDA, see Management s Discussion and Analysis of Financial Condition and Results of Operations Adjusted EBITDA .

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RISK FACTORS

An investment in our common stock represents a high degree of risk. There are a number of factors, including those specified below, which may adversely affect our business, financial results or stock price. Additional risks that we do not know about or that we currently view as immaterial may also impair our business or adversely impact our financial results or stock price. You should carefully consider the risks described below, together with the other information in this prospectus, before making a decision to invest in our common stock.

Risks Relating to Our Business

We are dependent on payments from Medicare and Medicaid. Changes in the rates or methods governing these payments for our services could adversely affect our net patient revenue and profitability.

Approximately 92.1%, 98.9%, 96.6% and 95.9% of our net patient revenue for the years ended December 31, 2000, 2001 and 2002 and for the three months ended March 31, 2003, respectively, consisted of payments from Medicare and Medicaid programs. Because we generally receive fixed payments for our hospice care services based on the level of care provided to our hospice patients, we are at risk for the cost of services provided to our hospice patients. We cannot assure you that Medicare and Medicaid will continue to pay for hospice care in the same manner or in the same amount that they currently do. Reductions in amounts paid by government programs for our services or changes in methods or regulations governing payments, which would likely result in similar changes by private third-party payors, could adversely affect our net patient revenue and profitability.

Our profitability may be adversely affected by limitations on Medicare payments.

Medicare payments for hospice services are subject to an annual per-beneficiary cap, which for the twelve months ended October 31, 2002 was $17,391. Medicare has not yet announced the per-beneficiary cap amount that will be effective for services performed during the twelve months ending October 31, 2003. Medicare may not announce the new cap amount until the third quarter of 2003. Once announced, the new cap amount will become effective retroactively for all services performed since November 1, 2002. Compliance with the cap is measured by calculating the annual Medicare payments received by a hospice program with respect to services provided to all Medicare hospice care beneficiaries and comparing the result with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that program during that year. We reflected as a reduction to net patient revenue of approximately $1.1 million in 2001, $0.9 million in 2002 and $0.4 million in the three-month period ended March 31, 2003 as a result of estimated reimbursements in excess of the per-beneficiary cap in those periods. Our ability to comply with this limitation depends on a number of factors relating to a given hospice program, including the rate at which our patient census increases, the average length of stay and the mix in level of care. Our profitability may be adversely affected if, in the future, we are unable to comply with this and other Medicare payment limitations.

If our costs were to increase more rapidly than the fixed payment adjustments we receive from Medicare and Medicaid for our hospice services, our profitability could be negatively impacted.

We generally receive fixed payments for our hospice services based on the level of care that we provide to patients and their families. Accordingly, our profitability is largely dependent on our ability to manage costs of providing hospice services and to maintain a patient base with a sufficiently long length of stay to attain profitability. We are susceptible to situations, particularly because of our open access philosophy, where we may be referred a disproportionate share of patients requiring more intensive and therefore more expensive care than other providers. Although Medicare and Medicaid currently provide for an annual adjustment of the various hospice payment rates based on the increase or decrease of the medical care expenditure category of the Consumer Price Index, these hospice care increases have historically been less

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than actual inflation. If these annual adjustments were eliminated or reduced, or if our costs of providing hospice services, over one-half of which consist of labor costs, increased more than the annual adjustment, our profitability could be negatively impacted. In addition, cost pressures resulting from shorter patient lengths of stay and the use of more expensive forms of palliative care, including drugs and drug delivery systems, could negatively impact our profitability.

We may be adversely affected by governmental decisions regarding our nursing home patients.

For our patients receiving nursing home care under certain state Medicaid programs, the applicable Medicaid program pays us an amount equal to no more than 95% of the Medicaid per diem nursing home rate for room and board services furnished to the patient by the nursing home in addition to the applicable Medicare or Medicaid hospice per diem payment. We, in turn, are generally obligated to pay the nursing home for these room and board services at a rate between 95% and 100% of the full Medicaid per diem nursing home rate. In the past, we have experienced situations where both we and the Medicaid program have paid a nursing home for the same room and board service and the Medicaid program has imposed on us the burden of recovering the amount we previously paid to the nursing home. There can be no assurance these situations will not recur in the future or that if they do, we will be able to fully recover from the nursing home.

In addition, many of our patients residing in nursing homes are eligible for both Medicare and Medicaid benefits. In these cases, the patients state Medicaid program pays their nursing home room and board charges and Medicare pays their hospice services benefits. Government audits conducted in the last several years have suggested that the reimbursement levels for these dual-eligible hospice patients as well as for Medicare-only patients living in nursing homes may be excessive. Specifically, the government has expressed concerns that hospice programs may provide fewer services to patients who reside in nursing homes than to patients living in other settings due to the presence of the nursing home s own staff to address problems that might otherwise be handled by hospice personnel. Because hospice programs are paid a fixed daily amount, regardless of the volume or duration of services provided, the government is concerned that by shifting the responsibility and cost for certain patient care or counseling services to the nursing home, hospice programs may inappropriately increase their profitability. In the case of these dual-eligible patients, the government s concern is that the cost of providing both the room and board and hospice services may be significantly less than the combined reimbursement paid to the nursing homes and hospice programs as a result of the overlap in services.

From time to time, there have been legislative proposals to reduce or eliminate Medicare reimbursement for hospice patients residing in nursing homes and to require nursing homes to provide end-of-life care, or alternatively to reduce or eliminate the Medicaid reimbursement of room and board services provided to hospice patients. The likelihood of this type of change may be greater when federal and state governments experience budgetary shortfalls. If any such proposal were adopted, it could significantly affect our ability to obtain referrals from and continue to serve patients residing in nursing homes.

Medical reviews and audits by governmental and private payors could result in material payment recoupments and payment denials, which could negatively impact our business.

Medicare fiscal intermediaries and other payors periodically conduct pre-payment or post-payment medical reviews or other audits of our reimbursement claims. In order to conduct these reviews, the payor requests documentation from us and then reviews that documentation to determine compliance with applicable rules and regulations, including the eligibility of patients to receive hospice benefits, the appropriateness of the care provided to those patients, and the documentation of that care. We cannot predict whether medical reviews or similar audits by federal or state agencies or commercial payors of our hospice programs reimbursement claims will result in material recoupments or denials, which could have a material adverse effect on our financial condition and results of operations.

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We have a limited history of profitability and may incur substantial net losses in the future.

We began operations in November 1995. For 1999, 2000 and 2001, we recorded net losses before accrued preferred stock dividends of $0.8 million, $0.4 million and $6.7 million, respectively. Although we recorded net income before accrued preferred stock dividends of $7.6 million for 2002 and $2.8 million for the three months ended March 31, 2003, we had an accumulated deficit of $26.7 million at March 31, 2003. We cannot assure you that we will operate profitably in the future. In addition, we may experience significant quarter-to-quarter variations in operating results. We are pursuing a growth strategy focused primarily on sa