

MAXICARE HEALTH PLANS INC

Form 10-Q

May 14, 2003

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended March 31, 2003 or**
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number: 0-12024

MAXICARE HEALTH PLANS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-9615709
(I.R.S. Employer
Identification No.)

**11231 South La Cienega Boulevard, Los Angeles,
California**
(Address of principal executive offices)

90045
(Zip 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

Common Stock, \$.01 par value 9,741,926 shares outstanding as of May 13, 2003.

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except par value)

	March 31, 2003	December 31, 2002
	(Unaudited)	
Current Assets		
Cash and cash equivalents	\$ 4,201	\$ 2,636
Other current assets	205	7
	\$ 4,406	\$ 2,643
Current Liabilities		
Estimated claims and other health care costs payable	\$ 736	\$ 736
Accounts payable		76
Accrued salary expense	179	328
Other current liabilities	8,227	9,019
	9,142	10,159
Long-Term Liabilities	2,012	2,091
	11,154	12,250
Shareholders' Equity		
Common stock, \$.01 par value 80,000 shares authorized, 9,742 shares issued and outstanding	98	98
Additional paid-in capital	283,466	283,466
Note receivable from shareholder		(3,408)
Accumulated deficit	(290,312)	(289,763)
	(6,748)	(9,607)
Total Liabilities and Shareholders' Equity	\$ 4,406	\$ 2,643

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands except per share data)
(Unaudited)

	For the three months ended March 31,	
	2003	2002
Investment income	\$ 5	\$ 17
Other income		93
	5	110
Salary, general and administrative expenses	554	199
Depreciation and amortization		120
Impairment of leased assets		1,036
	554	1,355
Loss before income taxes	(549)	(1,245)
Income tax provision		
Net loss	\$ (549)	\$(1,245)
Net loss per common share:		
Basic loss per common share:		
Basic loss per common share	\$ (.06)	\$ (.13)
	9,742	9,742
Weighted average number of common shares outstanding		
Diluted loss per common share:		
Diluted loss per common share	\$ (.06)	\$ (.13)
	9,742	9,742
Weighted average number of common shares outstanding		

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MAXICARE HEALTH PLANS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Amounts in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Other	Accumulated Deficit	Total
Balances at December 31, 2002	9,742	\$ 98	\$283,466	(3,408)	\$(289,763)	\$(9,607)
Net loss					(549)	(549)
Collection of note from shareholder				3,408		3,408
Balances at March 31, 2003	9,742	\$ 98	\$283,466	\$	\$(290,312)	\$(6,748)

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MAXICARE HEALTH PLANS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	For the three months ended March 31,	
	2003	2002
Cash Flows from Operating Activities:		
Net loss	\$ (549)	\$(1,245)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization		120
Impairment of leased assets		1,036
Changes in assets and liabilities:		
Increase in estimated claims and other health care costs payable		113
Decrease in deferred income		(113)
Changes in other miscellaneous assets and liabilities	(1,294)	(222)
Net cash used for operating activities	(1,843)	(311)
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of marketable securities		304
Collection of note receivable from shareholder	3,408	0
Net cash provided by investing activities	3,408	304
Net increase (decrease) in cash and cash equivalents	1,565	(7)
Cash and cash equivalents at beginning of period	2,636	3,426
Cash and cash equivalents at end of period	\$ 4,201	\$ 3,419

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Business Description

Maxicare Health Plans, Inc., a Delaware corporation (MHP), is a holding company that formerly operated subsidiaries, primarily in the field of managed care. As of January 1, 2002 substantially all operations of MHP and its subsidiaries were terminated. Additionally, as of March 31, 2003 we were not engaged in any business activities and we had a substantial working capital deficiency. See Note 3.

The California and Indiana HMOs and Maxicare Life and Health Insurance Company are currently in liquidation. It is unlikely that we will receive any distribution of assets from these entities.

We own Health Care Assurance Company, Ltd., a captive insurer that provided certain insurance coverage to MHP and its subsidiaries. Effective January 31, 2002 Health Care Assurance Company, Ltd., ceased providing all such insurance. We also served as administrator of the California Access for Infants and Mothers (AIM) program through another of our subsidiaries. Administration of the AIM program was transferred to another health care provider effective March 15, 2002.

Note 2 Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation, which consist solely of normal recurring adjustments, have been included. All significant intercompany balances and transactions have been eliminated.

Basis of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of the California HMO, the Indiana HMO and Maxicare Life and Health Insurance Company are not consolidated. All significant intercompany balances and transactions have been eliminated.

Accounting Policies

For further information on MHP and subsidiaries (collectively we or the Company) and our accounting policies refer to the consolidated financial statements and accompanying footnotes included in our annual report on Form 10-K for the year ended December 31, 2002.

Note 3 - Liquidity and Going Concern Issues

At March 31, 2003 we had a consolidated working capital deficiency of approximately \$4.7 million, and a deficiency in shareholders equity of approximately \$6.7 million. Furthermore, of our total cash of \$4.2 million at March 31, 2003, \$2.3 million was held at Health Care Assurance Company, Ltd. The transfer of cash to MHP from Health Care Assurance Company, Ltd requires the approval of regulatory authorities.

As noted above, we had no continuing business activities after March 15, 2002.

We are involved in various legal actions brought against us in the normal course of business, some of which seek damages in amounts that exceed those accrued in our consolidated balance sheets. The ultimate liability for these legal actions cannot be determined and could materially affect our consolidated financial position, results of operations or cash flows, if resolved unfavorably. See Note 4.

These conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Management is exploring possible strategies to realize any possible value remaining in the Company; however, given our financial condition, our stock price and the claims against us, it is very possible that management will not be successful in these efforts, and we may seek protection under the Bankruptcy Code.

Note 4 Commitments and Contingencies

Litigation and Contract Terminations

On or about June 25, 2001, the Commissioner of the Indiana Department of Insurance (the *Commissioner*), as the rehabilitator of Maxicare Indiana, Inc., the Company's Indiana HMO, filed a complaint (the *Complaint*) in the Marion County Circuit Court of Indiana against the Company and the five directors of the Indiana HMO, one of whom was a director of the Company. The Commissioner amended the Complaint on February 1, 2002. The Complaint, as amended, alleges, in substance, that: (1) the directors of the Indiana HMO breached their fiduciary duty by failing to maintain a plan providing for continuation of care benefits in the event that the Indiana HMO was placed in receivership, and that the Company is also liable for such failure; (2) the Company fraudulently concealed the financial condition of the Indiana HMO; (3) the Company manipulated the finances of the Indiana HMO for the Company's own benefit; and (4) the Company received preferential and/or fraudulent transfers of money from the Indiana HMO. The amended Complaint requests money damages but does not specify the amount of damages sought, except that it seeks approximately \$3.5 million respecting the alleged preferential and/or fraudulent transfers. All defendants answered the amended Complaint on April 5, 2002. Pre-trial discovery is proceeding but is not yet completed. The Company believes that the claims against it are without merit and intends to vigorously defend the suit.

On or about February 10, 2003, Peter J. Ratican, a shareholder and former executive officer and director of MHP, commenced an action against the Company in the Superior Court of the State of California, alleging that the Company had breached his consulting agreement with it and claiming damages in excess of \$700,000. On March 11, 2003, Mr. Ratican obtained an attachment in the amount of \$767,000 against the Company in connection with his claim. There has been no pre-trial discovery to date in the case. The Company intends to defend the action and to assert offsets and counterclaims against Mr. Ratican. The attachment has been offset against the liability recorded in connection with this matter.

On September 1, 2000, the Company entered into an Application and Business Services Agreement (the *Trizetto Agreement*) with the Trizetto Group, Inc. (*TZG*). The Trizetto Agreement called for TZG to provide a full range of management information services to us over a period of seven years in exchange for monthly payments. It also called for a termination payment to be made by us under certain circumstances. In March 2001, the Company assigned the Trizetto Contract to Maxicare, the Company's California HMO. The California Department of Managed Health Care and the Committee of Creditors Holding Unsecured Claims in the California HMO's bankruptcy proceeding have questioned the validity of that assignment. Through December 31, 2002, the California HMO continued to pay TZG for post-petition services at a monthly amount less than that contemplated in the Trizetto Agreement while TZG provided services at a lower level than that contemplated in the Trizetto Agreement. TZG has asserted various pre- and post-petition claims in the California bankruptcy proceeding in connection with the Trizetto Agreement. In March 2003, TZG sued the Company in California state court, alleging breach of the Trizetto Agreement and claiming over \$12 million in damages. There have been no further proceedings to date in this case.

Effective January 1, 2001, the Company entered into a Pharmacy Benefits Management Agreement (the *PBM Agreement*) with Medimpact Healthcare Systems, Inc. (*Medimpact*). The PBM Agreement called for Medimpact to process and fill within its network of contracting pharmacies prescriptions for members of Maxicare Life and Health Insurance Company, Inc., the California HMO and the Indiana HMO. The PBM Agreement called for the Company to reimburse Medimpact for the cost of drugs dispensed and to pay per transaction administrative fees on a bi-weekly basis. As a result of the Indiana HMO being placed in rehabilitation and the California HMO's bankruptcy, Medimpact allegedly has not received reimbursement for certain prescriptions filled on behalf of the members of those subsidiaries. Although it has yet to do so, Medimpact may seek reimbursement from the Company for such costs in an amount not presently known. The Company, in turn, believes that it has claims against Medimpact for rebates due to the Company.

Effective February 2, 2000, the Company entered into a Services Agreement for back office administration with Nichols TXEN Corporation calling for Nichols TXEN to provide certain claims adjudication services to certain of our subsidiaries in exchange for a predetermined per member per month fee. On September 18, 2002 CSC Healthcare, Inc. (*CSC*), the successor in interest to Nichols TXEN, filed a complaint in the Circuit Court of Jefferson County, Alabama seeking approximately \$880,000 plus interest from the Company under the contract. This action has been stayed and the claim is now being heard in arbitration, which is in a preliminary

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stage. The Company believes that the claim against it is without merit and intends to vigorously defend the arbitration. The Company has asserted counterclaims against CSC in the arbitration alleging that it was fraudulently induced to enter into the contract and that CSC failed to perform under the contract, thereby causing damages to the Company in an amount not less than \$5 million.

By order dated March 9, 2001, the Missouri Department of Insurance approved the transfer of all of the outstanding shares of Maxicare Life and Health Insurance Company (MLH) from the Company to Maxicare Indiana, Inc., on the condition that control of MLH remain with the Company. The Company believes that this condition has not been complied with and that, accordingly, the transfer of the MLH shares by the Company to Maxicare Indiana, Inc. is null and void. The Company intends to present its position to the Missouri Department of Insurance at the appropriate time.

Under the terms of a lease expiring in May 2004 for 79,000 square feet of industrial space in Los Angeles, we are obligated to surrender that space in its original condition. We have previously made extensive modifications to the leased premises. The ultimate cost of any required repairs and renovations, if any, cannot be determined.

Other than those noted above, no claims have been filed against the Company by the creditors of Maxicare Life and Health Insurance Company, Inc., the California HMO or the Indiana HMO. However, claims may be filed against us by such creditors in the future.

We are also involved in other legal actions in the normal course of business. We do not believe that any ultimate liability in excess of amounts accrued which would likely arise from these actions would materially affect our consolidated financial position, results of operations or cash flows, except that the matters described above involving the Indiana Department of Insurance, TZG, Medimpact and the renovation of leased space, may have such effect.

In or about November 1999, MHP, on its own behalf and also on behalf of various closed and then operating subsidiaries, commenced an action in the United States Court of Federal Claims against the United States, seeking to recover approximately \$9 million for the underpayment of amounts due for health care coverage provided to employees of the United States Office of Personnel Management. The parties are engaged in settlement discussions. We cannot give any assurances as to the ultimate collection of amounts claimed in this action or the extent to which any amounts awarded will be available to MHP.

Note 5 Impairment of Leased Assets

During the first quarter of 2002 we determined that the termination of our business operations eliminated our need for certain high volume copying equipment held under capital lease agreements. We have returned that equipment to the lessor and have recorded an impairment charge of approximately \$1.0 million on our Consolidated Statements of Operations for the three months ended March 31, 2002 to write off the entire net book value of these leased assets. The liability associated with these leased assets remains on our Consolidated Balance Sheets.

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations, Rehabilitation and Bankruptcy

Current Status

We have had no active business since March 15, 2002 and have no reasonable prospects of obtaining or generating any active business

We are exploring possible strategies to realize any possible value remaining in the Company. Any such strategy may include the ultimate liquidation of Health Care Assurance Company, Ltd.; however, because of our financial condition and the claims of our creditors, we may seek protection under the Bankruptcy Code.

Liquidity/ Working Capital Deficiency

As noted above, we have terminated all operations. At March 31, 2003, we had a consolidated working capital deficiency of approximately \$4.7 million, and a deficiency in shareholders' equity of approximately \$6.7 million. Furthermore, of our total cash of \$4.2 million at March 31, 2003, \$2.3 million was held at Health Care Assurance Company, Ltd. The transfer of cash to MHP from Health Care Assurance Company, Ltd requires the approval of regulatory authorities. MHP has certain contractual undertakings for which it may be liable and there are various alleged claims that may be asserted against it, including, among others, undertakings to and/or purported claims against it by vendors and former employees of its subsidiaries who have provided goods or services to those subsidiaries.

Our only source of cash during the first quarter was approximately \$3.41 million that we received as result of a judgment we obtained on a note issued by a former executive. Offset against the judgment of \$3.41 million was \$60,000 that the former executive agreed to accept in full settlement of his claim against the Company in connection with his benefits under our Supplemental Executive Retirement Plan. The note is presented as a reduction in shareholders' equity in the consolidated balance sheet at December 31, 2002. Pursuant to an attachment obtained by another former executive, \$767,000 of the \$3.41 million judgment was paid to the Sheriff.

In or about November 1999, in substance, MHP, on its own behalf and also on behalf of various closed and then operating subsidiaries, commenced an action in the United States Court of Federal Claims against the United States, seeking to recover approximately \$9 million for the underpayment of amounts due for health care coverage provided to employees of the United States Office of Personnel Management. The parties are engaged in settlement discussions. We cannot give any assurances as to the ultimate collection of amounts claimed in this action or the extent to which any amounts awarded will be available to MHP.

We are involved in various legal actions brought against us in the normal course of business, some of which seek damages in amounts that exceed those accrued in our consolidated balance sheets. The ultimate liability for these legal actions cannot be determined and could materially affect our consolidated financial position, results of operations or cash flows, if resolved unfavorably. See Note 4 Commitments and Contingencies to our Unaudited Consolidated Financial Statements.

Disposition of Subsidiaries

The California and Indiana HMOs and Maxicare Life and Health Insurance Company are currently in liquidation. It is unlikely that we will receive any distribution of assets from these entities.

Results of Operations

We reported a net loss of \$.5 million for the quarter ended March 31, 2003. We sustained a loss of \$1.2 million for the quarter ended March 31, 2002.

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Forward Looking Statements

The statements in this Form 10-Q may be forward-looking statements that are subject to risks and uncertainties. In particular, statements in this Form 10-Q that state our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions are forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are beyond our control, including, but not limited to, those identified under Risk Factors and Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Form 10-K for the year ended December 31, 2002 and Management's Discussion and Analysis of Financial Conditions and Results of Operations in this Form 10-Q, as well as those described in any other filings by us with the Securities and Exchange Commission, as well as general economic conditions, any one or more of which could cause actual results to differ materially from those stated in such statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of March 31, 2003, we had approximately \$4.2 million in cash, no marketable securities and no restricted investments. Our investment policies emphasize return of principal and liquidity and are focused on fixed returns that limit volatility and risk of principal. Because of our investment policies, the primary market risk associated with our portfolio is interest rate risk. As of March 31, 2003, the Company did not have any outstanding bank borrowings or debt obligations.

Item 4. Controls and Procedures

Our chief executive officer and chief financial officer have supervised and participated in an evaluation of the effectiveness of our disclosure controls and procedures as of a date within 90 days of the date of this report, and, based on their evaluations, they believe that our disclosure controls and procedures (as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934, as amended) are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. As a result of the evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
 - 99.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 99.2 Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Reports on Form 8-K.
 - None

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SIGNATURES

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

MAXICARE HEALTH PLANS, INC
(Registrant)

May 13, 2003

/s/ PAUL R. DUPEE, JR

Date

Paul R. Dupee, Jr.,
Chief Executive Officer

May 13, 2003

/s/ JOSEPH W. WHITE

Date

Joseph W. White
Chief Financial Officer

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CERTIFICATIONS

Paul R. Dupee, Jr. does hereby certify that he is the duly elected and incumbent chief executive officer of Maxicare Health Plans, Inc. (the issuer) and does hereby certify, with respect to the issuer s Form 10-Q for the quarter ended March 31, 2003 (the report) as follows:

1. He or she has reviewed the report;
2. Based on his or her knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on his or her knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in the report;
4. He or she and the other certifying officers are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934, as amended, for the issuer and have:
 - i. Designed such disclosure controls and procedures to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the periodic reports are being prepared;
 - ii. Evaluated the effectiveness of the issuer s disclosure controls and procedures as of a date within 90 days prior to the filing date of the report (the Evaluation Date); and
 - iii. Presented in the report their conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation as of the Evaluation Date
5. He or she and the other certifying officers have disclosed to the issuer s auditors and to the audit committee of the board of directors (or persons fulfilling the equivalent function):
 - i. All significant deficiencies in the design or operation of internal controls which could adversely affect the issuer s ability to record, process, summarize and report financial data and have identified for the issuer s auditors any material weaknesses in internal controls; and
 - ii. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer s internal controls; and
6. He or she and the other certifying officers have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 13, 2003

/s/ PAUL R. DUPEE, JR.

Date

Paul R. Dupee, Jr.,
Chief Executive Officer

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Joseph White does hereby certify that he is the duly elected and incumbent chief financial officer of Maxicare Health Plans, Inc. (the issuer) and does hereby certify, with respect to the issuer s Form 10-Q for the quarter ended March 31, 2003 (the report) as follows:

1. He or she has reviewed the report;
2. Based on his or her knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on his or her knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in the report;
4. He or she and the other certifying officers are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934, as amended, for the issuer and have:
 - i. Designed such disclosure controls and procedures to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the periodic reports are being prepared;
 - ii. Evaluated the effectiveness of the issuer s disclosure controls and procedures as of a date within 90 days prior to the filing date of the report (the Evaluation Date); and
 - iii. Presented in the report their conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation as of the Evaluation Date
5. He or she and the other certifying officers have disclosed to the issuer s auditors and to the audit committee of the board of directors (or persons fulfilling the equivalent function):
 - i. All significant deficiencies in the design or operation of internal controls which could adversely affect the issuer s ability to record, process, summarize and report financial data and have identified for the issuer s auditors any material weaknesses in internal controls; and
 - ii. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer s internal controls; and
6. He or she and the other certifying officers have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 13, 2003

/s/ JOSEPH W. WHITE.

Date

Joseph W. White
Chief Financial Officer
