MAXICARE HEALTH PLANS INC
Form 10-K
April 11, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One) x	**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

or

o	**TRANSITION REPORT UNDER 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	**95-3615709**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
11231 South La Cienega Boulevard, Los Angeles, California	**90045**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (310) 649-7166

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value

(Title of Class)

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of April 10, 2003.

Common Stock, $.01 par value $38,965

The number of shares outstanding of each of the issuer s classes of capital stock, as of April 10, 2003.

Common Stock, $.01 par value 9,741,926 shares

DOCUMENTS INCORPORATED BY REFERENCE

Part III is incorporated by reference from the registrant s definitive proxy statement in connection with its 2003 Annual Meeting of Shareholders to be filed within 120 days of the close of the registrant s fiscal year.

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PART I

Item 1. *Business*

General

Since January 1, 2002 we have not been engaged in any active business and we have no reasonable prospects of obtaining or generating any ongoing business. At December 31, 2002 we had a substantial capital deficiency.

As noted above, we have no continuing business activities. We are in the process of exploring possible strategies to realize any possible value remaining in the Company. It is likely, however, that it will be necessary for us to liquidate. We cannot give assurance that any liquidation would provide any value to our shareholders.

We are a Delaware Corporation, organized on January 5, 1981. Our executive offices are located at 11231 South La Cienega Boulevard, Los Angeles, California 90045 and our telephone number is (310) 649-7166.

Disposition of Subsidiaries

Through our wholly-owned subsidiaries, we operated health maintenance organizations (HMOs) in California (through May 25, 2001) and Indiana (through May 3, 2001). Maxicare Life and Health Insurance Company, our licensed insurance company, operated preferred provider organizations (PPOs) in California (through December 31, 2001) and Indiana (through May 3, 2001) in conjunction with the HMO products of Maxicare (our California HMO) and Maxicare Indiana, Inc. (our Indiana HMO). As of January 1, 2002 our operations were substantially terminated.

On May 25, 2001, the California Department of Managed Health Care issued an order appointing a conservator for the California HMO. Also on that date the California HMO filed for Chapter 11 bankruptcy protection. Effective June 5, 2001, the California HMO and the California Department of Managed Health Care reached an agreement allowing the California HMO s bankruptcy filing to remain in effect. Effective August 31, 2001, the California HMO terminated its Medicare product. Effective November 30, 2001 the California HMO completed the assignment of its Medi-Cal contracts to other health care providers, effectively terminating the California HMO s Medi-Cal line of business. Effective December 31, 2001, all commercial membership was transferred to other health plans, leaving the California HMO with no operations. On December 31, 2001 the California HMO surrendered its California HMO license. On February 26, 2003 the California HMO s Liquidating Plan of Reorganization was confirmed in the United States Bankruptcy Court. It is unlikely that we will receive any distribution of assets from the California HMO.

The Indiana HMO is incorporated under the laws of the state of Indiana and is primarily regulated by the Indiana Department of Insurance. On May 4, 2001, the Indiana Department of Insurance placed the Indiana HMO into rehabilitation. The effect of this action was to terminate the ongoing operations of the Indiana HMO as of that date. The Indiana HMO was formally placed into liquidation on July 3, 2001. On that date the Indiana Commissioner of Insurance was appointed as Liquidator. It is unlikely that we will receive any distribution of assets from the Indiana HMO.

Maxicare Life and Health Insurance Company, Inc. is incorporated under the laws of the state of Missouri and is primarily regulated by the Missouri Department of Insurance. On May 24, 2001 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. under administrative supervision. Maxicare Life and Health Insurance Company, Inc. ceased offering all products effective December 31, 2001, effectively ceasing all operations. On January 28, 2002 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. into rehabilitation. . On March 4, 2003 the Board of Directors of Maxicare Life and Health Insurance Company agreed to its liquidation. It is unlikely that we will receive any distribution of assets from Maxicare Life and Health Insurance Company.

We also own and operate Health Care Assurance Company, Ltd., a captive insurer that provided certain insurance coverage to us and our 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 program (AIM) program through another of our subsidiaries. Administration of the AIM program was transferred to another health care provider effective March 15, 2002.

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Forward Looking Statements

Statements in this Form 10-K annual report may be forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in the Form 10-K annual report, including the risks described under Risks Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to our financial condition, as well as general market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

Risk Factors

Because we have no ongoing operations and no prospects of generating funds, we may not be able to continue in existence.

At December 31, 2002:

- We had a consolidated working capital deficiency of approximately $7.5 million.
- We had a deficiency in shareholders equity of approximately $9.6 million.
- Only $183,000 of our cash and cash equivalents of $2.6 million was immediately available to us; the remainder of our cash and cash equivalents was held at subsidiaries where the transfer of cash to us requires the approval of regulatory authorities, which we may not receive. Subsequent to December 31, 2002, we were able to transfer $100,000 from one of our subsidiaries to MHP.
- We had no means of generating cash or working capital.
- We had substantial contingent liabilities, including a claim by the Commissioner of the Indiana Department of Insurance seeking at least $3.5 million in money damages, a claim under a management information services agreement of up to $12.0 million, an undetermined liability in connection with a building we lease that must be returned to its original condition upon termination of the lease, and an undetermined amount due under a pharmacy services agreement.

As a result, we cannot give any assurance that it will not be necessary for us to seek protection under the Bankruptcy Code or liquidate without paying any consideration to our shareholders.

Because our shares are not listed on a stock exchange, our shares are subject to the penny stock rules, which make it difficult to purchase or sell our shares.

Our common stock is subject to the SEC s penny-stock rules, which impose additional sales practice requirements on broker-dealers who sell our stock to persons other than established customers and institutional accredited investors. These rules may affect the ability of broker-dealers to sell our common stock and may affect the ability of our shareholders to sell any common stock they may own.

Employees

As of March 31, 2003 we had no full-time employees. Certain employees of our California HMO work for us on a part time basis. We reimburse the California HMO for the cost of their time under an established agreement.

Our Executive Officers

Our executive officers at March 31, 2003 were as follows:

Name	Age	Position
Paul R. Dupee, Jr.	59	Chairman of the Board of Directors, Chief Executive Officer
Alan D. Bloom	57	Senior Vice President, Secretary and General Counsel
Patricia A Fitzpatrick	51	Treasurer
Joseph W. White	44	Chief Financial Officer, Director

Paul R. Dupee, Jr. was appointed Chairman of the Board of Directors in June 1999 and Chief Executive Officer of the Company in August 1999. For more than five years prior hereto, Mr. Dupee has been a private investor. From 1996 through 2000, he served as a Director of the Lynton Group, Inc. serving as Chairman from 1998 to 2000. From 1986 through 1996, Mr. Dupee was Director and Vice Chairman of the Boston Celtics Limited Partnership, which owns the National Basketball Association team, the Boston Celtics. Mr. Dupee has been a director of the Company since May 1998.

Alan D. Bloom has been Senior Vice President, Secretary and General Counsel to the Company since July 1987. Mr. Bloom joined the Company as General Counsel in 1981.

Patricia A. Fitzpatrick has served as Treasurer of the Company since July 1998. Previously, Ms. Fitzpatrick served as Assistant Treasurer of the Company from July 1988 to July 1998.

Joseph W. White has served as Chief Financial Officer of the Company since November 2001. Prior to November 2001 Mr. White served as Controller and Interim Chief Financial Officer since February 2001. Mr. White was named a Director of the Company in March 2002 and has served in various financial positions with the Company since March 1987. Mr. White is a certified public accountant.

Item 2. *Properties*

We lease space at three locations in California. All of these leases have remaining terms of less than two years. Our executive offices are located at 11231 South La Cienega Boulevard, Los Angeles, California 90045, pursuant to a lease expiring in May 2004. Under the terms of this lease, we pay a monthly rental of approximately $19,500, plus a percentage of operating costs and annual increases. Through March 31, 2003, the California HMO and Maxicare Life and Health Insurance Company were sharing space with us and paying a substantial portion of our lease costs, and may continue to do so.

Item 3. *Legal Proceedings*

a. Promissory Note

At April 1, 2001, a note held by MHP in the approximate amount of $2.9 million (including accrued interest) became due. The note, issued by Eugene Froelich, a shareholder and former executive officer of MHP, was not paid, and we commenced an action in California state court to collect on the note. On October 18, 2001, the court granted summary adjudication and judgment was entered in our favor. On November 14, 2002, the California Court of Appeals affirmed the judgment**.** On or about March 14, 2003, Mr. Froelich satisfied the judgment in the net stipulated amount of $3.41 million by paying $2.583 million to MHP and by paying over the balance of $.767 million to the Sheriff pursuant to an attachment by Peter J. Ratican, as more fully set forth below. Offset against the judgment of $3.41 million was $.06 million that Mr. Froelich agreed to accept in full settlement of his claim against the Company in connection with his benefits under our Supplemental Executive Retirement Plan.

b. Indiana Department of Insurance

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

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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.

c. Derivative Action

On or about June 6, 2002, Mr. Froelich commenced a purported derivative action in the Superior Court of the State of California, Los Angeles County, on behalf of the Company against certain of its former and current officers and directors. The complaint, which names the Company as a nominal defendant, alleges, in substance, that the officers and directors breached their fiduciary duty to the Company in that they flagrantly mismanaged company affairs. The action seeks compensatory damages of not less than $10 million, together with an unspecified amount of punitive damages. On November 14, 2002 the Court dismissed the complaint with leave to replead. By order dated February 4, 2003, the action was dismissed without prejudice.

d. Executive Retirement

On or about July 1, 2002, Mr. Froelich commenced an action in the Superior Court of the State of California, County of Los Angeles, against the Company and certain unnamed Company officers/directors. The complaint alleges that defendants denial of a lump sum payment to Mr. Froelich under the Company s Supplemental Executive Retirement Program and the suspension of payments to him under such Program for one year constituted breaches of contract, breaches of fiduciary duty and violations of the Employee Retirement Income Security Act. The action seeks compensatory damages of no less than $1.0 million, punitive damages in an amount to be determined and an award of attorneys fees. On July 23, 2002, defendants served an answer to the complaint, and on July 26, 2002, defendants removed the case from California state court to the United States District Court for the Central District of California. On January 31, 2003, the District Court granted summary judgment in favor of the Company dismissing the action, and Mr. Froelich s time to appeal has now expired. On March 14, 2003 the Company satisfied its liability to Mr. Froelich under the Supplemental Executive Retirement Plan in conjunction with the settlement of a judgment against Mr. Froelich (see Item 3. Legal Proceedings, a. Promissory Note).

e. Consulting Agreement

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.

f. Business Services Agreement

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 Agreement 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. The California HMO has continued to pay TZG for post-petition services at a monthly amount less than that contemplated in the Trizetto Agreement while TZG has 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. On or about March 13, 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.

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g. Office of Personnel Management

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 associated with this action.

h. Back Office Services Agreement

Effective February 2, 2000, the Company entered into a Services Agreement for Back Office Administration with Nichols TXEN Corporation calling for Nichols TXEN to provided 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 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.

i. Other Litigation

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 and TZG, as well as certain other matters described in Item 8 of Part II hereof, may have such effect.

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

No matter was submitted to a vote of security holders during the three months ended December 31, 2002.

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PART II

Item 5. ***Market for the Registrant s Common Stock and Related Shareholder Matters***

(a) *Market Information*

Our Common Stock trades on the Over the Counter Bulletin Board under the trading symbol MAXIQ.

The following table sets forth the high and low sale prices per share of our common stock. The quotations are interdealer prices without retail mark-ups, markdowns, or commissions, and may not represent actual transactions.

On March 27, 2001 we effected a one-for-five reverse split of our common stock. All share and per share information in this Annual Report on Form 10-K retroactively reflect the reverse split as if it had been in effect from the beginning of the periods covered.

Common Stock

	Sale Price	
	High	**Low**
2002		
First Quarter	$ .02	$ .01
Second Quarter	$ .01	$ .01
Third Quarter	$ .01	$ .01
Fourth Quarter	$ .01	$ .01
2001		
First Quarter	$5.00	$2.03
Second Quarter	$2.19	$ .01
Third Quarter	$ .05	$ .01
Fourth Quarter	$ .03	$ .01

Our common stock is subject to the SEC s penny-stock rules, which impose additional sales practice requirements on broker-dealers who sell our stock to persons other than established customers and institutional accredited investors. These rules may affect the ability of broker-dealers to sell our common stock and may affect the ability of our shareholders to sell any common stock they may own.

(b) *Holders*

There were 896 holders of record of our Common Stock as of December 31, 2002.

(c) *Dividends*

We have not paid any cash dividends on our Common Stock and have no intention of doing so in the near future.

(d) *Sales of Unregistered Equity Security*

During 2002 we had no sales of unregistered equity securities.

(e) *Securities Authorized for Issuance Under Equity Compensation Plans*

No securities were authorized for issuance during 2002 pursuant to equity compensation plans.

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Item 6. ***Selected Financial Data***

	For the Years Ended December 31,				
	2002	2001	2000	1999	1998
	(Amounts in thousands except per share and membership data)				
Continuing operations(1):					
Revenues					
Premiums	$	$ 1,819	$ 2,343	$ 1,928	$ 1,798
Investment income(2)	569	239	529	288	888
Inter-company service agreement income			11,599	13,035	11,848
Other income	268	971	398	4,103	1,734
Total revenues	837	3,029	14,869	19,354	16,268
Expenses					
Health care expenses (credits)	(312)	582	2,615	866	521
Salary, general and administrative expenses	1,062	4,998	23,147	13,339	16,822
Depreciation and amortization	120	704	962	916	548
Impairment of leased assets	1,036				
Charges for litigation and management settlements(3)	209		1,510	5,500	250
Total expenses	2,115	6,284	28,234	20,621	18,141
Loss from continuing operations before income taxes	(1,278)	(3,255)	(13,365)	(1,267)	(1,873)
Income tax provision			(18,229)		
Net loss from continuing operations	(1,278)	(3,255)	(31,594)	(1,267)	(1,873)
Discontinued operations:					
Loss from discontinued operations (4)		(28,095)	(33,352)	(10,997)	(25,660)
Write-off of excess of rehabilitated and bankrupt subsidiaries liabilities over assets (5)		16,423			
Loss from discontinued operations	0	(11,672)	(33,352)	(10,997)	(25,660)
Net Loss	$(1,278)	$(14,927)	$(64,946)	$(12,264)	$(27,533)
Net loss per common share:					
Basic:(6)					
Basic loss per common share from continuing operations	$ (.13)	$ (.33)	$ (6.46)	$ (.35)	$ (.52)
Basic loss per common share from discontinued operations	$	$ (1.20)	$ (6.81)	$ (3.07)	$ (7.16)
Weighted average number of common shares outstanding	9,742	9,742	4,894	3,585	3,586

Diluted:(6)					
Diluted loss per common share from continuing operations	$ (.13)	$ (.33)	$ (6.46)	$ (.35)	$ (.52)
Diluted loss per common share from discontinued operations	$	$ (1.20)	$ (6.81)	$ (3.07)	$ (7.16)
Weighted average number of common and common dilutive potential shares outstanding	9,742	9,742	4,894	3,585	3,586

	At December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Balance Sheet Data:					
Assets of continuing operations	$ 2,643	$ 5,136	$ 13,198	$ 29,151	$ 32,181
Indebtedness of continuing operations(7)	$12,250	$12,942	$ 17,099	$ 19,931	$ 10,557
Net assets of discontinued operations(1)	$	$	$ 11,042	$ 33,936	$ 31,332
Shareholders equity (deficit)	$ (9,607)	$ (7,806)	$ 7,141	$ 43,156	$ 52,956
Membership Data:					
Number of members	0	0	416,000	466,600	512,000

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NOTES TO SELECTED FINANCIAL DATA

The selected financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

(1) The placement of our Indiana HMO into rehabilitation on May 4, 2001 and the bankruptcy filing of our California HMO on May 25, 2001 have effectively ended our involvement in the managed care industry. As a result, we have treated our HMO subsidiaries as discontinued operations in the preparation of these financial statements. (See Item 8. Financial Statements and Supplementary Data Notes 2 and 10 to our Consolidated Financial Statements .)

(2) In 2002 we recorded investment income of $521,000 in connection with the March, 2003 collection of a note that had been issued by a former executive officer of the Company. (See Item 8. Financial Statements and Supplementary Data Note 5 to our Consolidated Financial Statements .)

(3) In 2002 we recognized a gain of $671,000 in connection with the settlement of a former executive s benefits under our Supplemental Executive Retirement Plan. Additionally in 2002 we recorded $880,000 in legal reserves in connection with a contract we had previously entered into for the benefit of our subsidiaries. In 2000 we recorded charges of $785,000 for employee severance costs and $725,000 in litigation reserves for costs associated with the defense and settlement of various legal actions. A $5.5 million charge for management settlement costs was recorded in 1999. A $250,000 charge for litigation costs was recorded in 1998. (See Item 8. Financial Statements and Supplementary Data Note 9 to our Consolidated Financial Statements .)

(4) The loss from discontinued operations in 2000 includes charges of $4.9 million, for losses associated with certain of our capitated provider arrangements. The loss from discontinued operations for 1999 includes a $3.0 million charge for loss contracts related to the Carolinas commercial line of business. The loss from discontinued operations for 1998 includes a $10 million charge for loss contracts and divestiture costs and a $6.25 million charge for litigation, provider insolvency/impairment, and an increase to the loss contracts and divestiture costs reserve. (See Item 8. Financial Statements and Supplementary Data Note 10 to our Consolidated Financial Statements .)

(5) The results of discontinued operations for the year ended December 31, 2001 include a gain of $16.4 million realized by MHP in the second quarter of 2001 upon the placement of the Indiana HMO into rehabilitation, the subsequent disposition of Maxicare Life and Health Insurance Company, and the placement of the California HMO into Chapter 11 bankruptcy. This gain represents the extent to which consolidated losses of those entities through May 3, 2001 (the Indiana HMO and Maxicare Life and Health Insurance Company, Inc.) and May 24, 2001 (the California HMO) exceeded MHP s investment in those subsidiaries. (See Item 8. Financial Statements and Supplementary Data Note 2 to our Consolidated Financial Statements .)

(6) All share and per share amounts have been retroactively restated to reflect the one for five reverse stock split completed on March 27, 2001.

(7) Includes long-term liabilities of $2.1 million, $3.8 million, $5.1 million, $1.2 million and $.1 million, in 2002, 2001, 2000, 1999, and 1998, respectively.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Current Status

We have no active business and no reasonable prospects of obtaining or generating any active business

On December 31, 2001, we effectively ceased all operations. On that date, our California HMO and PPO terminated all membership. Our remaining operations at December 31, 2001 consisted of Health Care Assurance Company, Ltd., a captive insurer that provided certain insurance coverage to us and our subsidiaries, and our administration of the California Access for Infants and Mothers (AIM) program through another of our subsidiaries. The activities of Health Care Assurance Company, Ltd., essentially ended with the termination of our HMO and PPO business. Our involvement with the AIM program ended on March 15, 2002.

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 December 31, 2002, we had a consolidated working capital deficiency of approximately $7.5 million, and a deficiency in shareholders equity of approximately $9.6 million. Furthermore, of our total cash and cash equivalents of $2.6 million at December 31, 2002, all but $183,000 was held at subsidiaries where the transfer of cash to MHP requires the approval of regulatory authorities. Subsequent to December 31, 2002, we were able to transfer $100,000 from one of our subsidiaries to MHP. We may not be able to transfer any more funds from our subsidiaries to MHP. 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.

At April 1, 2001, a note held by MHP in the approximate amount of $2.9 million (including accrued interest) became due. The note, issued by a shareholder and former executive officer of MHP, was not paid, and we commenced an action in California state court to collect on the note. On October 18, 2001, the court granted summary adjudication in our favor. On November 14, 2002 the California Court of Appeal affirmed the summary adjudication. On March 14, 2003, the former executive satisfied the judgment in the net stipulated amount of $3.41 million by paying $2.583 million to MHP and by paying over the balance of $.767 million to the Sheriff pursuant to an attachment by another former executive. Offset against the judgment of $3.41 million was $.06 million 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 sheets at December 31, 2002 and 2001.

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. This action remains pending.

MHP has defaulted in making the monthly payments due a former executive under his consulting agreement since October of 2001. The total amount due the former executive for the period of October 2001 through December 2002 is approximately $645,000. Under that agreement, the former executive may elect to receive the present value of the remaining consulting fees due to him through June 30, 2003, which is estimated at no more than $950,000. On March 11, 2003, the former executive obtained an attachment in the amount of approximately $767,000 against the Company in connection with his claim.

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 Item 8 Note 3 Commitments and Contingencies .

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Disposition of Subsidiaries

On May 25, 2001, the California Department of Managed Health Care issued an order appointing a conservator for the California HMO. Also on that date the California HMO filed for Chapter 11 bankruptcy protection. Effective June 5, 2001, the California HMO and the California Department of Managed Health Care reached an agreement allowing the California HMO s bankruptcy filing to remain in effect. Effective August 31, 2001, the California HMO terminated its Medicare product. Effective November 30, 2001 the California HMO completed the assignment of its Medi-Cal contracts to other health care providers, effectively terminating the California HMO s Medi-Cal line of business. Effective December 31, 2001, all commercial membership was transferred to other health plans, leaving the California HMO with no operations. On December 31, 2001 the California HMO surrendered its California HMO license. On February 26, 2003 the California HMO s Liquidating Plan of Reorganization was confirmed in the United States Bankruptcy Court. It is unlikely that we will receive any distribution of assets from the California HMO.

On May 24, 2001 the Missouri Department of Insurance placed our subsidiary, Maxicare Life and Health Insurance Company, Inc., under administrative supervision. Maxicare Life and Health Insurance Company, Inc. ceased offering all products effective December 31, 2001, effectively ceasing all operations. On January 28, 2002 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. into rehabilitation. On March 4, 2003 the Board of Directors of Maxicare Life and Health Insurance Company agreed to its liquidation. It is unlikely that we will receive any distribution of assets from Maxicare Life and Health Insurance Company.

On May 4, 2001, the Indiana Department of Insurance placed the Indiana HMO into rehabilitation. The effect of this action was to terminate the ongoing operations of the Indiana HMO as of that date. The Indiana HMO was formally placed into liquidation on July 3, 2001. On that date the Indiana Commissioner of Insurance was appointed as Liquidator. It is unlikely that we will receive any distribution of assets from the Indiana HMO.

As a result of these events, results for the year ended December 31, 2001 include the Indiana HMO only through May 3, 2001. The financial results of Maxicare Life and Health Insurance Company are also included in the 2001 results only through May 3, 2001, due to the contribution of the capital stock of Maxicare Life and Health Insurance Company to the Indiana HMO effective December 31, 2000. The results of the California HMO are included in our results only through May 24, 2001.

Discontinued Operations

The placement of the Indiana HMO into rehabilitation and the bankruptcy filing of the California HMO have effectively ended our involvement in the managed care industry. As a result, we have treated our HMO subsidiaries and Maxicare Life and Health Insurance Company, Inc. as discontinued operations in the preparation of our financial statements. Although our remaining operations (parent, Health Care Assurance Company, Ltd., and the AIM program through March 15, 2002) are insignificant in size, financially dependent upon our California and Indiana HMOs, and may also be terminated, they represent services not intrinsically linked to the managed care industry and have been treated as continuing operations.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

We reported a net loss of $1.3 million ($.13 per share basic and diluted) for the year ended December 31, 2002. We reported a net loss of $14.9 million ($1.53 per share basic and diluted) for the year ended December 31, 2001. Net income for the year ended December 31, 2002 included investment income of $521,000 recorded in connection with the previously mentioned collection of a note that had been issued by a former executive officer of the Company. In 2002 we also recognized a gain of $671,000 in connection with the settlement of a former executive s benefits under our Supplemental Executive Retirement Plan and $880,000 in legal reserves in connection with a contract we had previously entered into for the benefit of our subsidiaries. Losses from continuing operations for the year ended December 31, 2001 were $3.3 million; losses from discontinued operations for the year ended December 31, 2001 were $11.7 million, which included a gain of $16.4 million realized by MHP upon the placement of our Indiana HMO (to which MHP had contributed the capital stock of Maxicare Life and Health Insurance Company effective December 31, 2000) into rehabilitation and the bankruptcy of our California HMO. This gain represents the extent to which liabilities of those subsidiaries exceeded their assets at May 3, 2001 (the Indiana HMO and Maxicare Life and Health Insurance Company) or May 25, 2001 (the California HMO).

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Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

We reported a net loss of $3.3 million, or $.33 per share (basic and diluted), from continuing operations for the year ended December 31, 2001. We sustained a loss of $31.6 million, or $6.46 per share (basic and diluted), from continuing operations for the year ended December 31, 2000. Year 2000 results from continuing operations included an $18.2 million non-cash charge associated with the write off of deferred tax assets.

Revenues from continuing operations decreased by $11.8 million in 2001 when compared to 2000 due to the assumption of MHP s inter-entity service agreements by the California HMO effective January 1, 2001. Through December 31, 2000, our HMOs and Maxicare Life and Health Insurance Company, Inc. paid monthly fees to MHP pursuant to administrative services agreements for various management, financial, legal, computer and telecommunications services. As a result of a corporate reorganization and simplification implemented on December 31, 2000, certain employees performing functions in support of the administrative service agreements were transferred from MHP to the California HMO. For the period January 1, 2001 to April 30, 2001 the Indiana HMO and Maxicare Life and Health Insurance Company, Inc. paid monthly fees to the California HMO for the services previously provided to them by MHP. Prior to the reclassification of our HMO activities as discontinued operations, the service agreement income and related expense were eliminated in consolidation. Salary, general and administrative expenses of continuing operations declined from $23.1 million in 2000 to $5.0 million in 2001, principally due to decreased salary costs as a result of the transfer of employees from MHP to the California HMO ($5.1 million); reserves taken against certain prepaid items and accounts receivable in 2000 ($4.0 million); and higher consulting costs in 2000 associated with various infrastructure enhancements ($5.9 million).

Results of discontinued operations for the year ended December 31, 2001 include a gain of $16.4 million realized by MHP upon the placement of our Indiana HMO (to which MHP had contributed the capital stock of Maxicare Life and Health Insurance Company effective December 31, 2000), into rehabilitation and the bankruptcy of our California HMO. This gain represents the extent to which liabilities of those subsidiaries exceeded their assets at the date of rehabilitation or bankruptcy. Loss from discontinued operations before adjustment for this gain was $28.1 million in 2001 compared to $33.4 million in 2000. The accelerating losses from discontinued operations in 2001 (results for 2001 are only through May 3, 2001 for Indiana and Maxicare Life and Health Insurance Company, Inc. and May 25, 2001 for California) stem from rapidly deteriorating operating performance in the first quarter of 2001 and additional claims liabilities of the Indiana HMO relating to dates of service prior to December 31, 2000.

Forward Looking Information

Statements in this Form 10-K annual report may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this Form 10-K annual report, including the risks described under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to our financial condition, as well as general market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K.

Item 7a. ***Quantitative and Qualitative Disclosures About Market Risk***

As of December 31, 2002, we had approximately $2.6 million in cash and cash equivalents, 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 December 31, 2002, we did not have any outstanding bank borrowings or debt obligations.

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Item 8. 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.

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Item 8. ***Financial Statements and Supplementary Data***

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Maxicare Health Plans, Inc.

We have audited the accompanying consolidated balance sheets of Maxicare Health Plans, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the information with respect to the financial statement schedules listed in the index at Item 14(a). These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Maxicare Health Plans, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared assuming that Maxicare Health Plans, Inc. will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and deficiencies in working capital and shareholders equity. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from this uncertainty.

ERNST & YOUNG LLP

Los Angeles, California
March 14, 2003

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MAXICARE HEALTH PLANS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2001
	(Amounts in thousands except par value)	
Current Assets		
Cash and cash equivalents	$ 2,636	$ 3,426
Marketable securities		306
Other current assets	7	248
Total Current Assets	2,643	3,980
Furniture and Equipment		
Furniture and equipment		2,462
Less accumulated depreciation and amortization		1,306
Net Property and Equipment	0	1,156
Total Assets	$ 2,643	$ 5,136
Current Liabilities		
Estimated claims and other health care costs payable	$ 736	$ 1,050
Accounts payable	76	54
Deferred income		113
Accrued salary expense	328	247
Other current liabilities	9,019	7,663
Total Current Liabilities	10,159	9,127
Long-Term Liabilities	2,091	3,815
Total Liabilities	12,250	12,942
Commitments and Contingencies		
Shareholders Equity (Deficit)		
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
Notes receivable from shareholders	(3,408)	(2,887)
Accumulated deficit	(289,763)	(288,485)
Accumulated other comprehensive income		2
Total Shareholders Deficit	(9,607)	(7,806)
Total Liabilities and Shareholders Equity	$ 2,643	$ 5,136

See notes to consolidated financial statements.

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MAXICARE HEALTH PLANS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2002	**2001**	**2000**
		(Amounts in thousands except per share data)	
Revenues			
Premiums	$	$ 1,819	$ 2,343
Investment income	569	239	529
Inter-company service agreement income			11,599
Other income	268	971	398
Total Revenues	837	3,029	14,869
Expenses			
Health care expenses (credits)	(312)	582	2,615
Salary, general and administrative expenses	1,062	4,998	23,147
Depreciation and amortization	120	704	962
Impairment of capital assets	1,036		
Charges for litigation and management settlements	209		1,510
Total Expenses	2,115	6,284	28,234
Loss from continuing operations before income taxes	(1,278)	(3,255)	(13,365)
Income tax provision			(18,229)
Loss from continuing operations	(1,278)	(3,255)	(31,594)
Discontinued operations			
Loss from discontinued operations		(28,095)	(33,352)
Write-off of excess of rehabilitated and bankrupt subsidiaries liabilities over assets		16,423	
Loss from discontinued operations	0	(11,672)	(33,352)
Net Loss	$ (1,278)	$ (14,927)	$ (64,946)
Net Loss Per Common Share:			
Basic loss per common share:			
Continuing operations	$ (.13)	$ (.33)	$ (6.46)
Discontinued operations	$	$ (1.20)	$ (6.81)
Basic loss per common share	$ (.13)	$ (1.53)	$ (13.27)
Weighted average number of common shares outstanding	9,742	9,742	4,894
Diluted loss per common share:			
Continuing operations	$ (.13)	$ (.33)	$ (6.46)
Discontinued operations	$	$ (1.20)	$ (6.81)

Diluted loss per common share	$ (.13)	$ (1.53)	$ (13.27)
Weighted average number of common and common dilutive potential shares outstanding	9,742	9,742	4,894

See notes to consolidated financial statements.

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MAXICARE HEALTH PLANS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIT)
(Amounts in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Other	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balances at December 31, 1999	3,579	$ 36	$254,393	$(2,651)	$(208,612)	$ (10)	$ 43,156
Comprehensive income (loss):							
Net loss					(64,946)		(64,946)
Other comprehensive income, net of tax, related to unrealized gains on marketable securities						11	11
Comprehensive loss							(64,935)
Issuance of common stock	6,163	62	28,991				29,053
Notes receivable from shareholder				(191)			(191)
Warrants issued in connection with professional services contract			58				58
Balances at December 31, 2000	9,742	98	283,442	(2,842)	(273,558)	1	7,141
Comprehensive income (loss):							
Net loss					(14,927)		(14,927)
Other comprehensive income, net of tax, related to unrealized gains on marketable securities						1	1
Comprehensive loss							(14,926)
Notes receivable from shareholder				(45)			(45)
Warrants issued in connection with professional services contract			24				24
Balances at December 31, 2001	9,742	98	283,466	(2,887)	(288,485)	2	(7,806)
Comprehensive income (loss):							
Net loss					(1,278)		(1,278)
Other comprehensive income, net of tax, related to unrealized gains on marketable securities						(2)	(2)
Comprehensive loss							(1,280)
Interest earned on note receivable from shareholder				(521)			(521)
Balances at December 31, 2002	9,742	$ 98	$283,466	$(3,408)	$(289,763)	$ 0	$ (9,607)

See notes to consolidated financial statements.

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MAXICARE HEALTH PLANS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2002	**2001**	**2000**
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net loss	$(1,278)	$ (14,927)	$(64,946)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	120	1,305	1,527
Impairment of capital assets	1,036		
Provision for deferred income taxes			18,229
Write-off of rehabilitated and bankrupt subsidiaries liabilities over assets		(16,423)	
Charges for litigation and management settlements	209		1,959
Changes in assets and liabilities (net of effect of rehabilitation and bankruptcy of subsidiaries):			
(Increase) decrease in accounts receivable		8,403	(7,216)
Increase (decrease) in estimated claims and other health care costs payable	(314)	(5,969)	31,337
Decrease in deferred income	(113)	(5,789)	(3,177)
Changes in other miscellaneous assets and liabilities	(233)	2,161	6,874
Net cash used for operating activities	(573)	(31,239)	(15,413)
Cash Flows from Investing Activities:			
Cash surrendered in rehabilitation and bankruptcy of subsidiaries		(42,040)	
Purchases of property and equipment and intangible assets		(5,256)	(3,276)
Decrease in restricted investments		708	1,957
Increase in long-term receivables			(497)
Loans to shareholders	(521)		
Proceeds from sales and maturities of marketable securities	304	1,231	4,620
Purchases of marketable securities		(299)	(4,535)
Net cash used for investing activities	(217)	(45,656)	(1,731)
Cash Flows from Financing Activities:			
Issuance of common stock			29,053
Payments on capital lease obligations		(372)	(333)
Net cash provided by (used for) financing activities	0	(372)	28,720
Net (decrease) increase in cash and cash equivalents	(790)	(77,267)	11,576
Cash and cash equivalents at beginning of year	3,426	80,693	69,117
Cash and cash equivalents at end of year	$ 2,636	$ 3,426	$ 80,693
Supplemental disclosures of cash flow information:			
Cash paid during the year for Interest		$ 98	$ 107
Supplemental schedule of non-cash investing activities:			
Capital lease obligations incurred for purchase of property and equipment and intangible assets		$ 114	$ 813
Liabilities of rehabilitated and bankrupt subsidiaries		$101,405	
Assets of rehabilitated and bankrupt subsidiaries excluding cash		42,942	

Net liabilities of rehabilitated and bankrupt subsidiaries excluding cash	58,463
Cash of rehabilitated and bankrupt subsidiaries surrendered	42,040
Write-off of rehabilitated and bankrupt subsidiaries liabilities over assets	$ (16,423)

See notes to consolidated financial statements.

MAXICARE HEALTH PLANS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

Note 1 Business Description

Maxicare Health Plans, Inc., a Delaware corporation (MHP), is a holding company that owns various 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 December 31, 2002 we were operating with a substantial capital deficiency (see Liquidity below).

We operated an HMO in California (the California HMO) prior to May 25, 2001. On May 25, 2001, the California Department of Managed Health Care issued an order appointing a conservator for the California HMO. Also on that date the California HMO filed for Chapter 11 bankruptcy protection. Effective June 5, 2001, the California HMO and the California Department of Managed Health Care reached an agreement allowing the California HMO s bankruptcy filing to remain in effect. All operations of the California HMO were terminated December 31, 2001. On February 26, 2003 the California HMO s Liquidating Plan of Reorganization was confirmed in the United States Bankruptcy Court. It is unlikely that we will receive any distribution of assets from the California HMO.

We operated an HMO in Indiana (the Indiana HMO) prior to May 4, 2001. On May 4, 2001, the Indiana Department of Insurance placed the Indiana HMO into rehabilitation. The effect of this action was to terminate the ongoing operations of the Indiana HMO as of May 4, 2001. The Indiana HMO was formally placed into liquidation on July 3, 2001. On that date the Indiana Commissioner of Insurance was appointed as Liquidator. It is unlikely that we will receive any distribution of assets from the Indiana HMO.

Maxicare Life and Health Insurance Company, the indemnity provider that had underwritten the preferred provider organization (PPO), point of service (POS) and life insurance products offered by both our Indiana (PPO only) and California HMOs, is incorporated under the laws of the state of Missouri and is primarily regulated by the Missouri Department of Insurance. 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 from the Company to Maxicare Indiana, Inc., on the condition that control of Maxicare Life and Health Insurance Company LH remain with the Company. On May 24, 2001 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. under administrative supervision. Maxicare Life and Health Insurance Company, Inc. ceased offering all products effective December 31, 2001. The effect of these actions was to terminate the ongoing operations of Maxicare Life and Health Insurance Company, Inc. as of December 31, 2001. On January 28, 2002 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. into rehabilitation. On March 4, 2003 the Board of Directors of Maxicare Life and Health Insurance Company agreed to its liquidation. It is unlikely that we will receive any distribution of assets from Maxicare Life and Health Insurance Company.

We also own and operate 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.

Reverse Stock Split

On March 27, 2001, we effected a one-for-five reverse split of our common stock. All share and per share information included in this Report on Form 10-K have been retroactively adjusted to reflect the reverse stock split.

Liquidity and Going Concern

At December 31, 2002 we had a consolidated working capital deficiency of approximately $7.5 million, and a deficiency in shareholders equity of approximately $9.6 million. Furthermore, of our total cash and cash equivalents of $2.6 million at December 31, 2002, all but $183,000 was held at subsidiaries where the transfer of cash to MHP requires the approval of regulatory authorities. As noted above, we had no continuing business activities after March 15, 2002. We are in the process of evaluating the ultimate disposition of MHP and its surviving subsidiaries.

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 3 Commitments and Contingencies .

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 associated with this action.

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.

Management is exploring possible strategies to realize any possible value remaining in the Company; however, given our financial condition 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 2 Significant Accounting Policies

Basis of Consolidation and Gain on Disposition of Subsidiaries

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. As a result of the placement of Maxicare Indiana, Inc. into rehabilitation on May 4, 2001, the consolidated financial statements include the operations and accounts of the Indiana HMO and Maxicare Life and Health Insurance Company, Inc (the outstanding shares of which were transferred to the Indiana HMO on March 9, 2001) only through May 3, 2001. As a result of the California HMO s bankruptcy on May 24, 2001 the consolidated financial statements include its operations and accounts only through that date. The Consolidated Statements of Operations for the year ended December 31, 2001 include a gain of $16.4 million realized by MHP in the second quarter of 2001 upon the occurrence of these events. The gain represents the extent to which consolidated losses of these subsidiaries through May 3, 2001 (the Indiana HMO and Maxicare Life and Health Insurance Company, Inc.) and May 24, 2001 (the California HMO) exceeded MHP s investment in them.

All significant intercompany balances and transactions have been eliminated.

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Discontinued Operations

The placement of the Indiana HMO (to which MHP had contributed the capital stock of Maxicare Life and Health Insurance Company, Inc.) into rehabilitation on May 4, 2001 and the bankruptcy filing of the California HMO on May 25, 2001 have effectively ended our involvement in the managed care industry. As a result, we have treated our HMO subsidiaries and Maxicare Life and Health Insurance Company, Inc. as discontinued operations in the preparation of these financial statements (see Note 10 Discontinued Operations). Although our remaining operations (parent, Health Care Assurance Company, Ltd., and the AIM program) are insignificant in size, financially dependent upon the California and Indiana HMOs, and also either terminated or likely to be terminated, they represent services not intrinsically linked to the managed care industry and have been treated as continuing operations.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

We consider all highly liquid investments that are both readily convertible into known amounts of cash and mature within 90 days from their date of purchase to be cash equivalents.

Cash and cash equivalents consist of the following at December 31:

	2002	2001
	(Amounts in thousands)	
Cash	$ 259	$ 166
Certificates of deposit	15	105
Money market funds	2,362	3,155
	$2,636	$3,426

Investments

Realized gains and losses and unrealized gains and losses judged to be other than temporary with respect to available-for-sale and held-to-maturity securities are included in the determination of net income. The cost of securities sold is based on the specific identification method. Fair values of marketable securities are based on published or quoted market prices.

We have designated our marketable securities included in current assets as available-for-sale. Such securities have been recorded at fair value, and unrealized holding gains and losses, net of related tax effects, are reported as accumulated other comprehensive income (loss) in the Consolidated Statements of Changes in Shareholders Equity until realized.

We had no sales of investments during 2002. During 2001, in response to a draw upon a letter of credit issued by Health Care Assurance Company, Ltd., in connection with its reinsurance of Indiana Medicaid claims, we sold held-to-maturity securities having a book value of $700,000, realizing a net gain of approximately $3,500. During 2000, we sold available-for-sale marketable securities having a book value of $300,000, realizing a net loss of approximately $2,500.

We had no investments at December 31, 2002. Investments at December 31, 2001 were comprised of U.S. Government obligations with a carrying value of $304,000 and fair value of $306,000 (gross unrealized gains and losses are immaterial).

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Furniture and Equipment

Furniture and equipment are recorded at cost and include assets acquired through capital leases and improvements that significantly add to the productive capacity or extend the useful lives of the assets. Costs of maintenance and repairs are charged to expense as incurred. Depreciation for financial reporting purposes is provided on the straight-line method over the estimated useful lives of the assets. The costs of major remodeling and improvements are capitalized as leasehold improvements. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining term of the applicable lease or the life of the asset.

Other Current Liabilities

Other current liabilities include estimated liabilities related to litigation and contract termination costs and lease obligations (see Note 3 Commitments and Contingencies).

Revenue Recognition

Premiums are recorded as revenue in the month for which enrollees are entitled to health care services. Premiums collected in advance are deferred. A portion of premiums is subject to possible retroactive adjustment. Provision has been made for estimated retroactive adjustments to the extent the probable outcome of such adjustments can be determined. Other revenues are recognized as services are rendered.

Reinsurance Ceded

Health Care Assurance Company, Ltd., provided excess of loss health care reinsurance coverage to the California HMO through November 30, 2001 (the date the California HMO s Medi-Cal contracts were assigned to other providers) for the costs of medical services provided to Medi-Cal enrollees in California. From January 1, 1996 through April 30, 2001 Maxicare Life and Health Insurance Company, Inc. assumed 90% of the claims risk pursuant to this coverage. The effect on Health Care Assurance Company, Ltd. s premiums written and earned in 2002, 2001 and 2000 was as follows:

	`Years Ended December 31,		
	2002	**2001**	**2000**
Direct premiums	$	$ 2,877	$ 4,964
Ceded premiums		(1,058)	(2,621)
Net premiums	$ 0	$ 1,819	$ 2,343

Reinsurance ceded contracts do not relieve the Health Care Assurance Company, Ltd., from its obligations to policyholders. Health Care Assurance Company, Ltd., remains liable to its policyholders for the portion reinsured to the extent that Maxicare Life and Health Insurance Company, Inc. does not meet the obligations assumed under the reinsurance agreements. Consequently, allowances are established for amounts deemed not collectible. At December 31, 2002, there were no significant amounts recoverable from Maxicare Life and Health Insurance Company, Inc.

Health Care Expense Recognition

The cost of health care services is expensed in the period we are obligated to provide such services. We establish an accrual for estimated claims payable including claims reported as of the balance sheet date and estimated (based upon utilization trends and projections of historical developments) costs of health care services rendered but not reported. Estimated claims payable are continually monitored and reviewed and, as settlements are made or accruals adjusted, differences are reflected in current operations.

Insurance

Effective August 1, 2000, we obtained insurance for medical malpractice claims. Prior to August 1, 2000 we were self-insured for such claims. Effective June 1, 2000 through May 31, 2001 we obtained reinsurance for medical claims in excess of $500,000 per member with an aggregate limit per member of $1.0 million per year and $2.0 million per lifetime for our commercial membership. Prior to June 1, 2000 and subsequent to May 31, 2001 we were self-insured for such claims. Maxicare Life and Health Insurance Company, Inc. (through May 3, 2001) and Health Care Assurance Company, Ltd., (through December 31, 2001) provided various reinsurance and medical malpractice coverage to the affiliated HMOs of the Company.

Premium Deficiencies

Estimated future health care costs and maintenance expenses under a group of contracts in excess of estimated future premiums and reinsurance recoveries on those contracts are recorded as a loss when determinable. No premium deficiencies existed at December 31, 2002 and 2001.

Stock Based Compensation

At December 31, 2002 we had several stock-based employee compensation plans as described in Note 4. We account for these plans under the recognition and measurement principles (the intrinsic-value method) prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation cost for stock options is reflected in net income and is measured as the excess of the market price of the Company s stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans.

In December 2002, SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, was issued. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition to SFAS No. 123 s fair value method of accounting for stock-based employee compensation. It also amends and expands the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not require companies to account for employee stock options using the fair-value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair-value method of SFAS No. 148 or the intrinsic-value method of APB Opinion No. 25. The Company has adopted the disclosure requirements of SFAS No. 148.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair-value recognition provision to stock-based employee compensation.

	Years ended December 31,		
	2002	**2001**	**2000**
Net loss from continuing operations, as reported	$(1,278)	$(3,255)	$(31,594)
Less stock-based employee compensation expense determined under the fair-value based method		(26)	(3)
Net loss from continuing operations, as adjusted	$(1,278)	$(3,281)	$(31,597)
Loss per common share from continuing operations:			
Basic as reported	$ (.13)	$ (.33)	$ (6.46)
Basic as adjusted	$ (.13)	$ (.34)	$ (6.46)
Diluted as reported	$ (.13)	$ (.33)	$ (6.46)
Diluted as adjusted	$ (.13)	$ (.34)	$ (6.46)

The fair value for the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000: volatility factor of the expected market price of the Company s common stock of .59; a weighted-average expected life of the options of 5.0 years; risk-free interest rate of 6.1%, and dividend yield of 0%. No options were granted in 2002 or 2001.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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Net Income Per Common Share

Basic earnings per share are computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding, after giving effect to stock options with an exercise price less than the average market price for the period. The following is a reconciliation of the numerators and denominators used in the calculation of basic and diluted earnings per share for each period presented in the financial statements:

	Years Ended December 31,		
	2002	**2001**	**2000**
Basic loss per share of common stock:			
Continuing operations:			
Numerator net loss	$(1,278)	$ (3,255)	$(31,594)
Denominator Weighted average number of common shares outstanding	9,742	9,742	4,894
Basic loss per common share	$ (.13)	$ (.33)	$ (6.46)
Discontinued operations:			
Numerator net loss	$	$(11,672)	$(33,352)
Denominator Weighted average number of common shares outstanding		9,742	4,894
Basic loss per common share	$	$ (1.20)	$ (6.81)
Diluted loss per share of common stock:			
Continuing operations:			
Numerator net loss	$(1,278)	$ (3,255)	$(31,594)
Denominator Weighted average number of common and common dilutive potential shares outstanding	9,742	9,742	4,894
Diluted loss per common share	$ (.13)	$ (.33)	$ (6.46)
Discontinued operations:			
Numerator net loss	$	$(11,672)	$(33,352)
Denominator Weighted average number of common shares outstanding		9,742	4,894
Basic loss per common share	$	$ (1.20)	$ (6.81)

Stock options are excluded from the calculation of diluted loss per share for 2002, 2001 and 2000 because the inclusion of stock options would have an anti-dilutive effect.

Restrictions on Fund Transfers

All of the Company s consolidated subsidiaries that maintain cash and investment balances require regulatory approval before transferring cash to MHP. Of the $2.6 million of cash and cash equivalents held by MHP and consolidated subsidiaries at December 31, 2002, approximately

$183,000 was held directly by MHP; the remainder was held by subsidiaries requiring approval of regulatory authorities in order to transfer cash to MHP. Subsequent to December 31, 2002, we were able to transfer $100,000 from one of our subsidiaries to MHP.

Through December 31, 2000, our HMOs and Maxicare Life and Health Insurance Company, Inc. paid monthly fees to MHP pursuant to administrative services agreements for various management, financial, legal, computer and telecommunications services. As a result of a corporate reorganization and simplification implemented on December 31, 2000, certain employees performing functions in support of the administrative service agreements were transferred from MHP to the California HMO. For the period January 1, 2001 to April 30, 2001 the Indiana HMO and Maxicare Life and Health Insurance Company, Inc. paid monthly fees to the California HMO for the services previously provided to them by MHP.

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Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of investments in marketable securities. Our investments in marketable securities are managed by internal investment managers within the guidelines established by the board of directors, which, as a matter of policy, limit the amounts that may be invested in any one issuer. As of December 31, 2002, we believe that we had no significant concentrations of credit risk.

Other Income

Other income includes revenue recognized in conjunction with our participation in the AIM program, which terminated March 15, 2002. Also recognized as other income in 2002 was $100,000 received in connection with the sale of certain intellectual property rights.

New Accounting Pronouncements

In May 2002, SFAF No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002*, was issued. As a result of the rescission of SFAS No. 4, gains and losses related to the extinguishment of debt should be classified as extraordinary only if they meet the criteria outlined in APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS No. 64, *Extinguishments of Debt Made to Satisfy Sinking Fund Requirements*, was an amendment of SFAS No. 4 and is no longer necessary. SFAS No. 44, *Accounting for the Assets of Motor Carriers*, defined accounting requirement for the effects of the transition to the Motor Carrier Act of 1980. The transitions are complete, and SFAS No. 44 is no longer necessary. SFAS No. 145 amends SFAS No. 13, *Accounting for Leases*, requiring that any capital lease that is modified resulting in an operating lease should be accounted for under the sale-leaseback provision of SFAS No. 98, *Accounting for Leases*, or SFAS No. 28, *Accounting for Sales with Leasebacks*, as applicable. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The adoption of the provisions of SFAS No. 145 is not expected to have a material impact on the Company s results of operations, financial position or cash flows.

In June 2002, SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, was issued. This statement nullifies Emerging Issues Task Force Issue No, 94-3*, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring*), which requires that a liability for an exit cost be recognized upon the entity s commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption pf the provisions of SFAS No. 146 is not expected to have a material impact on the Company s results of operations, financial position or cash flows.

Note 3 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 June 6, 2002, Eugene Froelich, a shareholder and former executive officer of MHP, commenced a purported derivative action in the Superior Court of the State of California, Los Angeles County, on behalf of the Company against certain of its former and current officers and directors. The complaint, which names the Company as a nominal defendant, alleges, in substance, that the officers and directors breached their fiduciary duty to the Company in that they flagrantly mismanaged company affairs. The action seeks compensatory damages of not less than $10 million, together with an unspecified amount of punitive damages. On November 14, 2002 the Court dismissed the complaint with leave to replead. By order dated February 4, 2003, the action was dismissed without prejudice.

On or about July 1, 2002, Mr. Froelich commenced an action in the Superior Court of the State of California, County of Los Angeles, against the Company and certain unnamed Company officers/directors. The complaint alleges that defendants denial of a lump sum payment to Mr. Froelich under the Company s Supplemental Executive Retirement Program and the suspension of payments to him under such Program for one year constituted breaches of contract, breaches of fiduciary duty and violations of the Employee Retirement Income Security Act. The action seeks compensatory damages of no less than $1.0 million, punitive damages in an amount to be determined and an award of attorneys fees. On July 23, 2002, defendants served an answer to the complaint, and on July 26, 2002, defendants removed the case from California state court to the United States District Court for the Central District of California. On January 31, 2003, the District Court granted summary judgment in favor of the Company dismissing the action, and Mr. Froelich s time to appeal has expired.

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.

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. The California HMO has continued to pay TZG for post-petition services at a monthly amount less than that contemplated in the Trizetto Agreement while TZG has 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. On or about March 13, 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 provided 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 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 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

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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.

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 associated with this action.

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.

Leases

We have operating leases, some of which provide for initial free rent and all of which provide for subsequent rent increases. Rental expense is recognized on a straight-line basis with rental expense of $.1 million, $.8 million and $2.5 million reported for the years ended December 31, 2002, 2001 and 2000, respectively.

In the first quarter of 2002 we determined that the termination of our business operations eliminated our need for certain equipment held under capital lease agreements (principally high volume copying equipment). We have returned that equipment to the lessor and have removed the leased assets from our balance sheet. The liability associated with these leased assets remains on our consolidated balance sheets. (Please see Note 8 Impairment of Leased Assets). Assets held under capital leases at December 31, 2001 of $1,156,000 (net of $1,306,000 of accumulated amortization) are comprised primarily of equipment leases. Amortization expense for capital leases is included in depreciation expense. Future minimum lease commitments for noncancelable leases at December 31, 2002 were as follows:

	Operating Leases	Capitalized Leases
	(Amounts in thousands)	
2003	$336	$1,033
2004	183	202
2005		96
2006		
2007		
Total minimum obligations	$519	1,331
Amount representing interest		(195)
Less current obligations		(860)
Long-term obligations		$ 276

The California HMO and Maxicare Life and Health Insurance Company, Inc. continue to contribute to the payment of the capital and operating lease obligations of MHP. Although there can be no assurance that such payments will continue, management believes it likely that the California HMO and Maxicare Life and Health Insurance Company, Inc. will together contribute approximately $78,000 to the payment of operating and capital lease obligations in 2003. Such payments by the California HMO and Maxicare Life and Health Insurance Company, Inc.

are unlikely to continue after June 30, 2003.

Note 4 Capital Stock

We are authorized to issue 80,000,000 shares of common stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share. The board of directors has the right to determine the rights, preferences and privileges of one or more series of preferred stock. As of December 31, 2002, the board of directors had created two series of preferred stock Series A Convertible Cumulative Preferred Stock, consisting of 2,500,000 shares, and Series B Preferred Stock, consisting of 500,000 shares. As of December 31, 2002, there were no shares of either series of preferred stock outstanding.

At December 31, 2002, 9,741,926 shares of common stock were issued and outstanding; 209,000 shares were reserved for stock options (all of which had vested); and 107,000 shares were reserved for the fulfillment of warrants. Warrants having an exercise price of $7.50 per share for 81,000 shares expire on November 3, 2007. Warrants having an exercise price of $7.50 per share for 20,000 shares expire on September 12, 2005. Warrants having an exercise price of $6.25 per share for 6,000 shares expire on January 3, 2006.

Restrictions on Transfers of Common Stock

On September 14, 2000 our shareholders approved an amendment to our certificate of incorporation that would prohibit transfer of our stock, unless approved by the Board, to the extent the transfer would (i) cause the ownership interest of the transferee or any other person to equal 5% or more of the our fair market value; or (ii) increase the ownership interest of the transferee or any other person where such transferee s or other person s ownership interest equaled 5% or more of our fair market value before the transfer.

Shareholder Rights Plan

On February 24, 1998, our Board of Directors (the Board) adopted a Shareholder Rights Plan (the Rights Plan) designed to assure that in the event of an unsolicited or hostile attempt to acquire the Company, the Board would have the opportunity to consider and implement a course of action which would best maximize shareholder value. Additionally, on February 24, 1998, the Board declared a dividend distribution of one preferred share purchase right (a Right) for each outstanding share of Common Stock.

The dividend was paid to the shareholders of record on March 16, 1998, and with respect to Common Stock issued thereafter, until the Distribution Date (as defined below) and, in certain circumstances, with respect to Common Stock issued after the Distribution Date.

Each Right entitled the holder thereof to purchase 1/500(th) of a share of our Series B Preferred Stock (the Series B Preferred) for $45.00 (the Exercise Price). Each 1/500 Series B Preferred (the Preferred Fraction) share shall be entitled to one vote in all matters being voted on by the holders of Common Stock and shall also be entitled to a liquidation preference of $0.20.

The Rights initially attached to our Common Stock and will not be exercisable until a shareholder, or group of shareholders acting together, without the approval of the Board, announce their intent to become a 15% or more owner in our Common Stock. At that time, certificates evidencing the Rights shall be distributed to shareholders (the Distribution Date) and the Rights shall detach from the Common Stock and shall become exercisable. When such buyer acquires 15% or more of our Common Stock, all Rights holders, except the non-approved buyer, will be entitled to acquire an amount of the Preferred Fraction at a rate equal to twice the Exercise Price divided by the then market price of the Common Stock. In addition, if we are acquired in a non-approved merger, after such an acquisition, all Rights holders, except the aforementioned 15% or more buyer, will be entitled to acquire stock in the surviving corporation at a 50% discount in accordance with the Rights Plan. The Rights attached to all common shares held by our shareholders of record as of the close of business on March 16, 1998. Shares of Common Stock newly-issued after that date will also carry Rights until the Rights become detached from the Common Stock. The Rights will expire on February 23, 2008. We may redeem the Rights for $.01 each at any time before a non-approved buyer acquires 15% or more of the Company s Common Stock. Any current holder that has previously advised us of owning an amount in excess of 15% of our Common Stock as of the date hereof has been grandfathered with respect to their current position, including allowance for certain small incremental additions thereto.

In order to further protect our tax loss carryforward, from the impact of an ownership change, the Board on June 6, 2000 voted to amend the Rights Plan to provide that the exercisability of the Share Purchase Rights is triggered in the event any party acquires 5% or more of our Common Stock or any party which currently holds 5% or more of the Common Stock acquires additional shares, without the approval of the Board.

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Rights Offering

On September 15, 2000 we initiated a Rights Offering and the subscription period extended through October 6, 2000. Upon the completion of the subscription period, we accepted subscriptions (including over-subscriptions) for the purchase of approximately 21.9 million shares of Common Stock (before giving effect to the subsequent one-for-five reverse stock split) at $1.00 per share. Accordingly, we issued the shares to the subscribing shareholders and received gross proceeds of approximately $21.9 million.

Private Placement

On October 17, 2000 we entered into agreements for the sale in a private placement of 1.62 million shares of our common stock at $5.00 per share with certain qualified institutional buyers and highly accredited institutional investors. On November 3, 2000 the private placement was consummated and we received gross proceeds of $8.1 million for the issuance of 1.62 million shares of our common stock at $5.00 per share. In connection with the private placement we issued warrants for the purchase of 81,000 shares of our common stock at $7.50 per share. In June 2000, we issued 160,000 shares of our common stock at $6.25 per share to Meespierson Cayman Limited, as trustee of Sofaer Funds/SCI Global Hedge Fund. The Rights Offering and the private placements taken together enabled us to receive gross proceeds of approximately $31.0 million.

Stock Option Plans

In December 1990, we approved the 1990 Stock Option Plan (the 1990 Plan). Under the terms of the 1990 Plan, as amended, we may issue up to an aggregate of 1,000,000 nonqualified stock options to directors, officers and other employees. In July 1995, we approved the 1995 Stock Option Plan (the 1995 Plan). Under the terms of the 1995 Plan, we may issue up to an aggregate of 1,000,000 nonqualified or incentive stock options to directors, officers and other employees. In June 1999, we approved the 1999 Stock Option Plan (the 1999 Plan). Under the terms of the 1999 Plan, we may issue up to an aggregate of 750,000 nonqualified or incentive stock options to directors, officers and other employees. In September 2000, we approved the 2000 Stock Option Plan (the 2000 Plan). Under the terms of the 2000 Plan, we may issue up to an aggregate of 4,000,000 nonqualified or incentive stock options to directors, officers and other employees. Under the 1990 Plan, the 1995 Plan, the 1999 Plan and the 2000 Plan, stock options granted to date have been nonqualified stock options which expire no later than 10 years from the date of grant. Stock options granted to date under the 1990 Plan, the 1995 Plan, the 1999 Plan and the 2000 Plan have been at an exercise price equal to or greater than the fair market value of the stock at the date of grant.

In July 1996, we approved the Outside Directors 1996 Formula Stock Option Plan (the Formula Plan). Under the terms of the Formula Plan, we may issue up to an aggregate of 125,000 nonqualified stock options to directors who are not employees or officers of the Company (the Outside Directors). On the date the Formula Plan was adopted, each Outside Director received a grant of stock options to purchase 5,000 shares of Common Stock (before giving effect to the subsequent one-for-five reverse stock split). Commencing January 2, 1997, and each January 2nd thereafter, each Outside Director then serving on the Board shall receive a grant of stock options to purchase 5,000 shares of Common Stock (before giving effect to the subsequent one-for-five reverse stock split). Options granted under the Formula Plan are at an exercise price equal to the fair market value of the stock at the date of grant, vest six months from the date of grant and expire 10 years from the date of grant. No options have been granted under the Formula Plan subsequent to January 1999.

In July 1996, we approved the Senior Executives 1996 Stock Option Plan (the Senior Executives Plan). Under the terms of the Senior Executives Plan, we were authorized to issue up to an aggregate of 700,000 nonqualified stock options to Peter J. Ratican and Eugene L. Froelich, former Chief Executive Officer and Chief Financial Officer of the Company, respectively (the Senior Executives and individually the Senior Executive). On the date the Senior Executives Plan was adopted, each Senior Executive received a grant of stock options to purchase 70,000 shares of Common Stock (before giving effect to the subsequent one-for-five reverse stock split). Commencing January 1, 1997, and each January 1st thereafter through and including January 1, 2000, each Senior Executive then employed by us was to receive a grant of stock options to purchase 70,000 shares of Common Stock (before giving effect to the subsequent one-for-five reverse stock split). Mr. Froelich s continuing participation in the Senior Executives Plan ceased when his employment with us was terminated in December 1997. Mr. Ratican s continuing participation in the Senior Executives Plan ceased when his employment with us terminated effective June 30, 1999. Options granted under the Senior Executives Plan are at an exercise price equal to the fair market value of the stock at the date of grant, vest immediately and expire 10 years from the date of grant. No options have been granted under the Senior Executives Plan subsequent to January 1999.

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A summary of our stock option activity and related information for the years ended December 31 follows:

	2002		2001		2000	
	Options	Weighted-Average	Options	Weighted-Average	O	Weighted-