OPTICARE HEALTH SYSTEMS INC
Form 10-Q
December 03, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

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

COMMISSION FILE NUMBER 1-15223

OPTICARE HEALTH SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	76-0453392
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
87 GRANDVIEW AVENUE, WATERBURY, CONNECTICUT	06708
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code:
(203) 596-2236

Indicate by check X 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

The number of shares outstanding of the registrant's Common Stock, par value $.001 per share, at November 1, 2001 was 12,815,092 shares.

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OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	JUNE 30, 2001 (Unaudited)	DECEMBER 3 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,552	$ 1,445
Accounts receivable, net	9,715	9,548
Inventories	3,444	3,113
Other current assets	547	807
TOTAL CURRENT ASSETS	16,258	14,913
Property and equipment, net	7,139	8,222
Intangible assets, net	29,337	30,082
Other assets	2,108	2,296
TOTAL ASSETS	$ 54,842	$ 55,513
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 5,652	$ 5,798
Accrued expenses	9,819	9,523
Current portion of long-term debt	33,300	32,992
Other current liabilities	1,335	1,141
TOTAL CURRENT LIABILITIES	50,106	49,454
Long-term debt, less current portion	1,098	1,222

Other liabilities	804	960
TOTAL LIABILITIES	52,008	51,636
STOCKHOLDERS' EQUITY:		
Series A Convertible Preferred Stock, $.001 par value, 550,000 shares Authorized; 418,803 shares issued and outstanding	1	1
Common Stock, $0.001 par value; 50,000,000 shares authorized; 12,799,125 shares outstanding at June 30, 2001 and 12,747,324 shares at December 31, 2000	13	13
Additional paid-in-capital	60,667	60,554
Accumulated deficit	(57,847)	(56,691
TOTAL STOCKHOLDERS' EQUITY	2,834	3,877
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 54,842	$ 55,513

See notes to condensed consolidated financial statements

OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE ENDED
	2001	2000	2001
NET REVENUES:			
Managed care services	$ 6,704	$ 8,991	$ 14,40
Professional services	1,958	2,521	3,56
Other integrated services	20,396	22,705	40,66
Total net revenues	29,058	34,217	58,64
OPERATING EXPENSES:			
Cost of product sales	9,814	10,857	19,59
Medical claims expense	5,235	7,206	11,42
Salaries, wages and benefits	9,315	10,275	18,56
Selling, general and administrative	3,110	3,704	6,43
Terminated merger costs	--	1,810	-
Depreciation	686	659	1,35
Amortization	408	443	74
Interest	837	742	1,68
Total operating expenses	29,405	35,696	59,79
INCOME (LOSS) BEFORE INCOME TAXES	(347)	(1,479)	(1,15
Income tax expense (benefit)	--	(101)	-

NET INCOME (LOSS)	$ (347)	$ (1,378)	$ (1,15
Income (loss) per common share - basic and diluted	$ (0.03)	(0.11)	$ (0.0
Weighted average common shares outstanding - basic and diluted	12,799,300	12,574,343	12,796,86

See notes to condensed consolidated financial statements

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OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)
(UNAUDITED)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2001	2000
OPERATING ACTIVITIES:		
Net income (loss)	$ (1,156)	$ (1,084)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,359	1,294
Amortization	745	815
Changes in operating assets and liabilities		
Accounts receivable	(167)	(1,957)
Inventories	(331)	(221)
Other assets	664	(106)
Accounts payable and accrued expenses	150	463
Other liabilities	(131)	(582)
Net cash provided by (used in) operating activities	1,133	(1,378)
INVESTING ACTIVITIES:		
Purchases of equipment	(276)	(1,441)
Net cash (used in) investing activities	(276)	(1,441)
FINANCING ACTIVITIES:		
Net proceeds from issuance of long term debt	500	--
Net proceeds from issuance of common stock	--	10,093
Principal payments on long-term debt	(250)	(8,205)
Net increase in revolving credit facility	--	550
Net cash provided by financing activities	250	2,438
Increase (decrease) in cash and cash equivalents	1,107	(381)

Cash and cash equivalents at beginning of period	1,445	2,921
Cash and cash equivalents at end of period	$ 2,552	$ 2,540
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 102	$ 1,136
Cash paid (received) for income taxes	$ (108)	$ --

See notes to condensed consolidated financial statements

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OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of OptiCare Health Systems, Inc., a Delaware corporation, and subsidiaries (the "Company") for the three and six months ended June 30, 2001 and 2000 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934 and are unaudited. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2000 was derived from the Company's audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company is in default under loan agreements with its bank (its senior lender) and another lender. Accordingly, this debt has been classified within current liabilities on the company's financial statements at June 30, 2001 and December 31, 2000. As of June 30, 2001 the Company's current liabilities exceeded its current assets by $33,848. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and to obtain additional financing or refinancing as may be required.

In November 2001, management of the Company signed letters of intent to refinance and replace its long-term debt (See Note 6).

Certain prior period amounts have been reclassified to conform to the current period presentation.

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OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data)

2. SEGMENT INFORMATION

The Company currently manages the operations of the business through three operating segments: (1) Managed Care Services (2) Professional Services and (3) Other Integrated Services. The managed care services segment contracts with managed care organizations and health plans to administer the eye health portion of the healthcare benefit. The professional services segment operates an ambulatory surgical center and provides marketing, systems, software and other services to eye care professionals. The other integrated services segment owns and operates fully integrated eye health centers, retail optical stores and a buying group program for optical products. Management assesses the performance of its segments based on income before income taxes, interest expense, depreciation and amortization, and other corporate overhead.

Summarized financial information, by segment, for the three and six months ended June 30, 2001 and 2000 is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDE
	2001	2000	2001
REVENUES:			
Managed care services	$ 6,870	$ 9,690	$ 14,839
Professional services	1,958	2,521	3,567
Other integrated services	24,269	25,712	47,847
Segment totals	33,097	37,923	66,253
Elimination of inter-segment revenues	(4,039)	(3,706)	(7,613)
Total net revenue	$ 29,058	$ 34,217	$ 58,640
INCOME (LOSS) FROM OPERATIONS BEFORE TAX:			
Managed care services	$ 545	$ 761	$ 1,034
Professional services	639	978	1,042
Other integrated services	991	1,285	1,785
Segment totals	2,175	3,024	3,861
Depreciation	(686)	(659)	(1,359)
Amortization	(408)	(443)	(745)
Interest expense	(837)	(742)	(1,688)
Corporate (including terminated merger costs)	(591)	(2,659)	(1,225)
Income (loss) from operations Before income taxes	$ (347)	$ (1,479)	$ (1,156)

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OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data)

3. RESTRUCTURING

During the six months ended June 30, 2001, $298 was charged against the restructuring accrual that was established in the fourth quarter of 2000. These

charges principally relate to lease payments on vacant facilities that were closed as part of the Company's restructuring activities. The majority of the remaining restructuring liability at June 30, 2001 of $934 relates to lease obligations on excess office space that is not expected to be utilized over the remaining lease terms.

4. CONTINGENCIES

The Company is both a plaintiff and defendant in lawsuits incidental to its current and former operations. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at June 30, 2001 cannot be ascertained. Management is of the opinion that, after taking into account the merits of defenses, insurance coverage and established reserves, the ultimate resolution of these matters will not have a material adverse effect in relation to the Company's consolidated financial statements or results of operations.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which the Company was required to adopt effective January 1, 2001. SFAS No. 133 requires the Company to record all derivatives on the balance sheet at fair value. The adoption did not have a material effect on its consolidated financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations". SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests-method. The Company does not believe that the adoption of SFAS No. 141 will have a significant impact on its consolidated financial position or results of operations.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is currently assessing, but has not yet determined, the impact of SFAS No. 142 on its consolidated financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses the conditions under which an impairment charge should be recorded related to long-lived assets to be held and used, except for goodwill, and those to be disposed of by sale or otherwise. The Company is currently assessing, but has not yet determined, the impact of SFAS No. 144 on its consolidated financial position and results of operations.

OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data)

6. SUBSEQUENT EVENTS

In November 2001, the Company and one of its major shareholders, Palisade Concentrated Equity Partnership, LP ("Palisade") entered into preliminary, non-binding agreements with each other and with certain third parties, including the Company's senior lender, Bank Austria Creditanstalt Corporate Finance, Inc. (the "Bank"), and Capital Source Finance, LLC ("CapitalSource"), concerning a capital restructuring. Three preliminary, non-binding agreements (which are subject to the completion of binding, formal agreements and numerous substantial conditions, including a shareholder vote) have been signed by the parties as follows: (i) a letter of intent between Palisade and the Bank which establishes terms on which the Company's debt to the Bank would be refinanced and repaid at a discount (ii) a commitment letter from CapitalSource to the Company offering to loan the Company funds to repay the Bank debt at the discount negotiated between Palisade and the Bank and (iii) a letter of intent between Palisade and the Company setting terms on which Palisade would provide funds to repay the Bridge Loan.

The terms of the these agreements provide for, among other things:

(a) Refinancing of all of the Company's debts and other obligations, direct and contingent, to the Bank, totaling as of November 1, 2001, approximately $34.3 million and retirement of all of the Bank's stock, warrants and other ownership interests in the Company for payments totaling approximately $23.4 million. Of the payments of $23.4 million, $13.0 million would be paid in cash and $10.4 million would be paid in the form of a two-year, interest-bearing promissory note issued by the Company. The $13.0 million cash payment to the Bank would come from proposed loans provided by CapitalSource in the form of a $6.5 million three-year revolving credit facility, a $3.0 million term loan facility and a $5.5 million 18-month bridge loan.

(b) Palisade's investment of $3.5 million of cash in the Company to satisfy the outstanding Bridge Loan of $2.75 million plus interest and letter of credit backing for obligations of the Company totaling $16.7 million.

(c) Issuance, to Palisade, of 2,500,000 newly authorized shares of the Company's Series B, 12.5%, voting convertible redeemable participating preferred stock (convertible into common stock on a one-for-ten basis) and warrants to purchase approximately 16,730,000 additional shares of the Company's common stock.

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

The following discussion may be understood more fully by reference to the financial statements, notes to the financial statements, and management's discussion and analysis contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission.

Overview. OptiCare Health Systems, Inc. (the "company") is an integrated eye care services company focused on managed care and professional eye care services. The Company executes its business through three business segments: (1) managed care services (2) professional services and (3) other integrated services. The managed care services segment contracts with managed care organizations and health plans to administer the eye health portion of the

healthcare benefit. The professional services segment operates an ambulatory surgical center and provides marketing, systems, software and other services to eye care professionals. The other integrated services segment owns and operates fully integrated eye health centers, retail optical stores and a buying group program for optical.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2001 Compared to the Three Months Ended June 30, 2000

Managed care services revenue. Managed care services revenue decreased to $6.7 million for the three months ended June 30, 2001 from $9.0 million for the three months ended June 30, 2000, a decrease of $2.3 million or 25.6%. This decrease in revenue is primarily due to two managed care contracts that were not renewed in December 2000 by Anthem Blue Cross and Blue Shield of Connecticut ("Anthem"). In addition, the contract with ConnectiCare was amended in April 2001, allowing ConnectiCare to resume administration of the contract, further reducing managed care revenue.

Professional services revenue. Professional services revenue was $2.0 million for the three months ended June 30, 2001 compared to $2.5 million for the three months ended June 30, 2000, a decrease of $0.5 million or 20.0%. This decrease was primarily attributed to the closure of two ambulatory surgery centers in Connecticut in the fourth quarter of 2000.

Other integrated services revenue. Other integrated services revenue decreased to $20.4 million for the three months ended June 30, 2001 from $22.7 million for the three months ended June 30, 2000, a decrease of $2.3 million or 10.1%. This decrease represents a $1.5 million decrease in optometry and ophthalmology revenue primarily due to the closure of optical and eye health locations in Connecticut and a $0.8 million decrease in buying group revenue resulting primarily from a decrease in purchasing volume.

Cost of product sales. Cost of product sales decreased to $9.8 million for the three months ended June 30, 2001 from $10.9 million for the three months ended June 30, 2000, a decrease of $1.1 million or 10.1 %. This decrease is comprised of a $0.8 million reduction in cost of sales related to the buying group program, which is consistent with the decrease in purchasing volume. The remaining decrease is attributed to the closure of certain medical and optical locations in Connecticut.

Medical claims expense. Medical claims expense decreased to $5.2 million for the three months ended June 30, 2001 from $7.2 million for the three months ended June 30, 2000, a decrease of $2.0 million. The medical loss ratio (MLR) representing medical claims expense as a percentage of managed care revenue decreased to 78.0% for the three months ended June 30, 2001 from 80.1% for the three months ended June 30, 2000. This decrease is primarily due to the two Anthem contracts and the ConnectiCare contract that are no longer managed by the Company which had higher MLRs than the average of the Company's remaining contracts.

Salaries, wages and benefits. Salaries, wages and benefits decreased to $9.3 million for the three months ended June 30, 2001 from $10.3 million for the three months ended June 30, 2000, a decrease of $1.0 million. This decrease is comprised of $0.8 million from the reductions in staff resulting from the closure of certain locations in Connecticut and $0.2 million from net reductions in the corporate workforce.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased to $3.1 million for the three months ended June 30, 2001 from $3.7 million for the three months ended June 30, 2000, a decrease of $0.6 million. The decrease is primarily attributable to reduced overhead, including rent, utilities and maintenance associated with closed locations and other reductions in general and administrative expenses in connection with the company's overall cost-cutting measures.

Terminated merger costs. Terminated merger costs of $1.8 million in 2000 represent non-recurring costs associated with the proposed merger with Vision Twenty-One, which was terminated in June 2000. These costs consist primarily of professional fees.

Income (loss) from operations before income taxes. The company reported a loss from operations before income taxes of $0.3 million for the three months ended June 30, 2001 compared to a loss from operations before income taxes of $1.5 million for the three months ended June 30, 2000, an improvement of $1.2 million. However, since the loss from operations for the three months ended June 30, 2000 includes a one time $1.8 million charge representing merger costs related to the proposed merger with Vision Twenty-One, which was terminated in June 2000, the difference between the two three-month periods in the loss from operations excluding one-time charges is $0.6 million. The increased loss is primarily explained by reduced profits in the professional services segment.

Income tax expense (benefit). The company did not record an income tax benefit derived from its operating loss for the quarter ended June 30, 2001, primarily due to the uncertainty surrounding the company's ability to utilize its net operating loss carryforwards. In comparison, the company reported an income tax benefit of $0.1 million for the three months ended June 30, 2000, which is the result of a tax benefit related to the terminated merger costs partially offset by income tax expense on current operations.

Six Months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000

Managed care services revenue. Managed care services revenue decreased to $14.4 million for the six months ended June 30, 2001 from $18.0 million for the six months ended June 30, 2000, a decrease of $3.6 million or 20.0%. This decrease in revenue is primarily due to two managed care contracts that were not renewed in December 2000 by Anthem Blue Cross and Blue Shield of Connecticut ("Anthem"). In addition, the contract with ConnectiCare was amended in April 2001, allowing ConnectiCare to resume administration of the contract, further reducing managed care revenue.

Professional services revenue. Professional services revenue was $3.6 million for the six months ended June 30, 2001 compared to $4.8 million for the six months ended June 30, 2000, a decrease of $1.2 million. . Of this decrease, approximately $0.9 million is attributed to the closure of two ambulatory surgery centers in Connecticut in the fourth quarter of 2000, in connection with the company's restructuring plan. The remaining decrease of $0.3 million is the result of a decrease in software sales and installations in the first quarter of 2001 as compared to 2000.

Other integrated services revenue. Other integrated services revenue decreased to $40.7 million for the six months ended June 30, 2001 from $46.1 million for the six months ended June 30, 2000, a decrease of $5.4 million. The decrease is comprised of a $3.1 million decrease in optometry and ophthalmology revenue, primarily due to the closure of certain Connecticut optical and eye health locations during 2000 and a $2.3 million decrease in buying group revenue resulting primarily from a decrease in purchasing volume.

Cost of product sales. Cost of product sales decreased to $19.6 million for the six months ended June 30, 2001 from $22.2 million for the six months ended

June 30, 2000, a decrease of $2.6 million. Of this decrease, $2.1 million represents a decrease in cost of sales related to the buying group program, and is directly related to the decrease in purchasing volume. The remaining decrease of $0.5 million results from the closures of certain optical, eye health and ambulatory surgery centers in Connecticut during 2000.

Medical claims expense. Medical claims expense decreased to $11.4 million for the six months ended June 30, 2001 from $14.4 million for the six months ended June 30, 2000, a decrease of $3.0 million. The medical loss ratio (MLR) representing medical claims expense as a percentage of managed care revenue decreased to 79.3% for the six months ended June 30, 2001 from 80.3% for the six months ended June 30, 2000. This decrease is primarily due to the two Anthem contracts and the ConnectiCare contract that are no longer managed by the Company which had higher MLRs than the average of the Company's remaining contracts.

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Salaries, wages and benefits. Salaries, wages and benefits decreased to $18.6 million for the six months ended June 30, 2001 from $20.6 million for the six months ended June 30, 2000, a decrease of $2.0 million. This decrease is comprised of $1.6 million from the reductions in staff resulting from the closure of certain locations in Connecticut and $0.4 million from net reductions in the corporate workforce.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased to $6.4 million for the six months ended June 30, 2001 from $7.3 million for the six months ended June 30, 2000, a decrease of $0.9 million. The decrease is primarily the result of reduced rent, utilities and maintenance costs related to certain locations in Connecticut which were consolidated or closed in 2000.

Terminated merger costs. Terminated merger costs of $1.8 million represent non-recurring costs associated with the proposed merger with Vision Twenty-One, which was terminated in June 2000. These costs consist primarily of professional fees.

Interest expense. Interest expense increased to $1.7 million for the six months ended June 30, 2001 from $1.4 million for the six months ended June 30, 2000 an increase of approximately $0.3 million. Interest expense primarily relates to the company's bank indebtedness and notes payable to sellers in connection with acquisition activities. The increase in interest expense primarily results from the higher average balance of the Company's outstanding long-term debt.

Income (loss) from operations before income taxes. The company reported a loss from operations before income taxes of $1.2 million for the six months ended June 30, 2001 compared to a loss from operations before income taxes of $1.0 million for the six months ended June 30, 2000, an increase of $0.2 million. However, since the loss from operations for the six months ended June 30, 2000 includes a one time $1.8 million charge representing merger costs related to the proposed merger with Vision Twenty-One, which was terminated in June 2000,the difference between the two six-month periods in the loss from operations excluding one-time charges is $2.0 million. The loss is primarily explained by reduced profits in the other integrated services and professional services segments.

Income tax expense. The company did not record an income tax benefit derived from its operating loss for the six months ended June 30, 2001, primarily due to the uncertainty surrounding the company's ability to utilize its net operating loss carryforwards. The income tax provision for the six months ended June 30,

2000 was the result of income tax expense from operations offset by tax benefits of $0.1 million related to the terminated merger costs.

LIQUIDITY AND CAPITAL RESOURCES

The company's principal sources of liquidity are from cash flows generated from operations and from borrowing under the company's Credit Facility. The company's principal uses of liquidity are to provide working capital, meet debt service requirements and finance the company's growth. As of June 30, 2001, the company had cash and cash equivalents of approximately $2.6 million and no additional borrowing capacity available under its revolving credit facility, net of a $0.4 million letter of credit obligation.

Net cash provided by operating activities of $1.1 million for the six months ended June 30, 2001 included a $1.2 million loss from operations offset by non-cash charges of $2.1 million for depreciation and amortization and $0.2 million of other changes in working capital. Net cash used in operating activities for the six months ended June 30, 2000 of $1.4 million included a $1.1 million loss from operations and a $2.4 million net increase in working capital offset by $2.1 million of non-cash charges for depreciation and amortization.

The company invested $0.3 million in property and equipment during the six months ended June 30, 2001 compared to $1.4 million for the three months ended June 30, 2000. Fixed asset purchases in 2000 were comprised of improvements to existing facilities, the purchase of equipment and the upgrade of certain information systems, which were incurred primarily to support the integration and anticipated growth of the company.

Net cash provided by financing activities was $0.3 million for the six months ended June 30, 2001 compared to cash provided by financing activities of $2.4 million for the three months ended June 30, 2000. Net cash provided by financing activities in 2001 consisted of $0.5 million of additional funds borrowed under the company's amended bridge loan which was partially offset by approximately $0.2 million of principal payments on long-term debt. The primary

sources of net cash from financing activities for the six months ended June 30, 2000 was $10.0 million of net proceeds from the sale of registered common stock and $0.5 million in advances under its credit facility with its bank which was partially offset by $8.2 million of principal payments on long-term debt.

As of June 30, 2001 under an agreement with the Texas Department of Insurance, the Company is required to maintain a restricted investment of $250,000. The Company does not believe the requirements of the Texas Department of Insurance will have a material impact on the Company's liquidity.

The company was unable to pay the interest and principal of approximately $1.7 million due on January 2, 2001 to its senior lender, Bank Austria, under its credit facility. Bank Austria formally declared an event of default under its credit facility on March 23, 2001, and on September 25, 2001, Bank Austria demanded payment in full of all outstanding obligations of the company to Bank Austria. In addition, on October 10, 2001, Alexander Enterprise Holdings Corp. formally declared an event of default under its loan to the company, as a result of the company's aforementioned default under its credit facility. As of November 1, 2001 the company has not made its scheduled principal payments due in 2001 under its credit facility and the company's arrearage with respect to such delinquent principal and interest totaled approximately $6.2 million. Total principal and accrued interest due to Bank Austria under its credit facility and to Alexander Enterprise Holdings Corp. under its bridge loan was approximately

$34.5 million at November 1, 2001. Without new financing, the company cannot pay its obligations to Bank Austria and Alexander Enterprise, and Bank Austria and Alexander Enterprise have the right to commence foreclosure upon the assets of the company.

The company will need to obtain additional financing or refinancing of its existing debt to ensure sufficient funding of its operations and to have the ability to service its debt obligations. In November 2001, the company signed preliminary, non-binding agreements (described below) with certain third parties, including the company's bank, to reduce and replace its existing credit facility. However, there can be no assurance that the company will complete such refinancing. Failure to obtain such refinancing would have a material adverse effect on the company's business, financial condition and results of operations.

The Bank Austria credit facility described below was established in 1999 at the time of the mergers of PrimeVision Health and OptiCare Eye Health Centers.

Bank Austria Credit Facility, Alexander Enterprise Bridge Loan

In August 1999, in connection with the mergers of PrimeVision Health and OptiCare Eye Health Centers, the company established a credit facility by entering into a loan agreement with Bank Austria Creditanstalt Corporate Finance, Inc., as agent for the lenders. Borrowings from the credit facility were used to pay certain indebtedness of PrimeVision Health and OptiCare Eye Health Centers and to fund the company's business operations. The credit facility is comprised of a term loan and up to a $12.7 million revolving credit facility, and is secured by a security interest in substantially all of the assets of the company. The company is required to maintain certain financial ratios, which are calculated on a quarterly and annual basis, as part of the financial covenants set forth in the credit facility. After giving effect to the amendment discussed below, the credit facility is to terminate on June 1, 2003. As of November 1, 2001, the company had $17.4 million of borrowings outstanding under the term loan and $12.3 million of advances outstanding under the revolving credit facility.

The interest rate applicable to the Bank Austria credit facility equals the Base Rate or the Eurodollar Rate (each, as defined in the credit facility agreement with Bank Austria), as the company may from time to time elect. The Base Rate, after giving effect to the amendment discussed below, is generally the higher of: (a) the prime rate of Bank Austria for domestic commercial loans in effect on such applicable day, or (b) the federal funds rate in effect on such applicable day plus three-quarters of one percent (3/4 of 1%), which generally equals LIBOR plus 2.25%. The Eurodollar Rate has generally equaled the offered rate quoted by Bank Austria in the inter-bank Eurodollar market for U.S. dollar deposits of an aggregate amount comparable to the principal amount of the Eurodollar loan to which the quoted rate is to be applicable.

The company's subsidiaries guaranteed the payments and other obligations under the credit facility, and the company (including certain subsidiaries) granted a security interest in substantially all assets in favor of the Bank Austria lenders. The company also pledged the capital stock of certain of subsidiaries to the lenders.

The Bank Austria credit facility contains certain restrictions on the conduct of our business, including restrictions on incurring debt, declaring or paying any cash dividends or making any other payment or distribution on our capital stock, and creating liens on the company's assets. We are required to maintain certain financial covenants, including

a minimum fixed charge coverage ratio, a leverage ratio, a senior leverage ratio, and an interest coverage ratio. The company is also restricted from incurring capital expenditures in excess of a specified amount and is required to achieve minimum cash flows.

The occurrence of certain events or conditions described in the credit facility constitute an "event of default," including:

- Failure to make payment of principal or interest when due;
- Failure to observe or perform certain affirmative covenants and other covenants; or
- The occurrence of a vacancy in the offices of the chief executive or chief financial officer which is not filled by a person reasonably acceptable to the lenders.

Effective June 30, 2000, the Bank Austria credit facility was amended to provide, among other things, that: (i) the terminated merger costs associated with the Vision Twenty-One merger were excluded from the calculation of the financial covenants and the company's borrowing availability; (ii) the interest rate was increased by one-half of one percent (1/2 of 1%) to the amount set forth above; (iii) the term was reduced by one year with the termination date changing from June 1, 2004 to June 1, 2003; and (iv) the company agreed to raise, or enter into binding commitments to raise, no less than $5.0 million by January 1, 2001 through the issuance of equity or subordinated indebtedness or other means reasonably approved by Bank Austria. In accordance with the terms of the amended credit facility, 50% of any capital raised through the issuance of equity or subordinated indebtedness would be used to reduce indebtedness under the credit facility. The remainder would be used for capital expenditures and to meet working capital requirements. In the event other means were used to raise such capital, the company could be required to use all of such funds to reduce indebtedness under the Credit Facility.

On October 10, 2000 the company obtained $2.25 million through a bridge financing arrangement with Alexander Enterprise Holdings Corp. and entered into a second amendment to the Bank Austria credit facility. Of the $2.25 million of proceeds from the bridge loan, $1.2 million was paid to Bank Austria as required by the amended credit facility, and the remaining $1.1 million was used for general working capital purposes. Of the $1.2 million paid to Bank Austria, $0.3 million was applied to past due interest, $0.4 million was used to repay principal and $0.5 million was applied as a prepayment of interest.

The bridge loan was secured through a security agreement in which Alexander Enterprise was granted a security interest in substantially all of the assets of the company, which is junior to the security interests of Bank Austria.

The bridge loan was evidenced by a secured promissory note (the "Note") issued to Alexander Enterprise which accrues interest at the Eurodollar rate, generally equal to LIBOR, plus two and one-quarter percent (2-1/4%). It is to mature on June 1, 2003, the same date as the maturity of the Bank Austria credit facility.

Also on October 10, 2000, Alexander Enterprise and Bank Austria entered into an intercreditor agreement pursuant to which Bank Austria agreed that, in the event of a "Qualified Sale" (a sale or other disposition of collateral securing the credit facility or the bridge loan; or a principal repayment of either the credit facility or the bridge loan as a result of a bankruptcy proceeding involving the company) from which Bank Austria receives at least $5.0 million, then, to the extent that the proceeds from such Qualified Sale exceed $5.0 million, such excess proceeds would be payable to Alexander Enterprise.

In connection with the bridge loan, the company issued a warrant to a designee of Alexander Enterprise to purchase 2,250,000 shares of common stock at $1.00 per share. The estimated fair value of the warrant at the date of issuance was $0.6 million. This value was determined using the Black-Scholes pricing model. This value was recorded as a discount to the bridge loan and is being amortized to interest expense over the life of the loan.

On January 5, 2001, the bridge loan from Alexander Enterprise was amended. In connection with the amended bridge loan, the company received an additional $0.5 million of cash; it cancelled warrants issued in October 2000 to purchase 2,250,000 shares of common stock at $1.00; and it issued new warrants to purchase (i) 2,000,000 shares of common stock at an exercise price of $1.00 per share and (ii) 750,000 shares of common stock at an exercise price of $0.40 per share. Funds for this $0.5 million addition to the bridge loan were provided by Palisade Private Concentrated Equity Partnership, L.P ($400,000); Dean J. Yimoyines, M.D., president and chief executive officer of the company ($50,000); and Alexander Enterprise ($50,000).

On February 26, 2001, we entered into a Pre-Workout Agreement with Bank Austria Creditanstalt Corporate Finance, Inc. Bank Austria provides a term loan and revolving credit facility which totaled at December 31, 2000, $29.7million. The Pre-Workout Agreement established certain understandings between the bank and ourselves including the fact that we were in default under the loan documents which govern the term loan and revolving credit facility. Such defaults included our failure to pay principal and interest when due and our failure to observe or perform certain affirmative covenants and other covenants.

On March 23, 2001, Bank Austria formally notified us of the occurrence of events of default under the aforementioned credit facility. The bank forbid the company from making any payments on account of debt junior to that of the bank, including under certain Seller Notes representing long-term obligations of the company to certain medical practices.

Pursuant to an understanding reached with the bank shortly after receiving such notice, we engaged Morris-Anderson & Associates, Ltd., a management consulting firm, to assist us in restructuring our long-term debt. Although in its March 23 notice the bank had formally reserved its rights under the terms of the credit facility, the aforementioned understanding was that, during a period of unspecified duration, the events of default referred to in that notice would, on an operating basis, be considered waived while we worked with Morris-Anderson to restructure our debt. We continued, however, to be prohibited from paying any junior debt, including Seller Notes.

On September 25, 2001, Bank Austria gave the company formal notice of: (i) the occurrence of certain additional defaults under the credit facility loan documents; (ii) the immediate termination of the commitments under the loan documents; and (iii) the requirement that all amounts outstanding under the credit facility were to be immediately due and payable. The company continues to negotiate in good faith with Bank Austria and with other parties in an effort to replace the Bank Austria credit facility with another financing arrangement which would provide adequate capital support, at a manageable cost, to the company.

On October 2, 2001, Alexander Enterprise gave the company formal notice of: (i) the occurrence of a default under the bridge loan documents; (ii) the requirement that all amounts outstanding under the bridge loan were to be immediately due and payable. The company continues to negotiate in good faith with Alexander Enterprise and with other parties in an effort to replace the Alexander Enterprise credit facility with another financing arrangement which

would provide adequate capital support, at a manageable cost, to the company.

New Capital Structure for OptiCare

In November 2001, certain letters of intent were entered into concerning a major capital restructuring of the company. If certain conditions are met and the transactions contemplated by these letters of intent are consummated, these transactions as presently proposed are expected (as of November 2001) to lower the company's long-term debt by approximately $9.9 million, increase its equity by approximately $9.0 million and reduce its next-12-months' debt service by approximately $3.7 million.

One of the company's major shareholders, Palisade Concentrated Equity Partnership, L.P. ("Palisade") reached preliminary agreement with Bank Austria Creditanstalt Corporate Finance, Inc. ("Bank Austria") concerning new terms for refinancing all of the company's borrowings and other direct and indirect obligations to Bank Austria. Those terms, if implemented as proposed, provide that, in exchange for payments to the bank by the company which payments would total approximately $23.4 million (payable partly in cash at closing and partly by issuance of a two-year promissory note of the company), Bank Austria would:

- Cancel the company's existing principal and interest obligations, which total approximately $31.6 million (approximately $29.7 million in principal and $1.9 million in interest);

- Eliminate the company's contingent exposure to Bank Austria, which, as of November 1, 2001, totaled approximately $2.7 million;

- Relinquish to the company (which will retire) all of Bank Austria's stock, warrants and other ownership interests in the company.

As part of its letter of intent with the company, Palisade also --subject to a number of conditions--tentatively agreed if the proposed transactions are consummated, to provide funds with which the company could satisfy bridge loans of $2.3 million, plus interest, from Alexander Enterprise Holdings, Inc.

In this capital restructuring, if the proposed transactions are consummated, Palisade would invest in the company a total of $3.5 million of cash and provide letter of credit backing for obligations of the company totaling $16.7 million. A portion of the letter of credit backing would support new, secured credit facilities to be provided by CapitalSource Finance, LLC, which is an asset-based lender specializing in the health care industry. Palisade may also consider providing letter of credit backing for an as-yet-undetermined amount of undertakings by the company which would be required to support the company's growth.

After carefully considering options available to the company, both management and the special committee of the company's Board of Directors have concluded that, without the cash investment and credit support being offered by Palisade, the company would not be able to obtain the substantial--and necessary--reduction, described above, of the company's debt to Bank Austria, nor would the company be able to obtain the other financing involved in this proposed transaction.

In exchange for that investment and support, Palisade would acquire 2.5 million shares of the company's newly authorized Series B 12.5% Voting Convertible Redeemable Participating Preferred Stock (convertible into common stock on an one-for-ten basis) and warrants to purchase approximately 16.7 million additional shares of the company's common stock. Palisade would also

convert an existing bridge loan to the company into preferred stock. This would raise Palisade's effective ownership of voting stock of the company from the present 18.5% to approximately 75% on a fully-diluted basis.

There can be no assurance that these proposals will be carried out on the terms presently proposed, or on other terms comparably favorable to the company, or at all on any terms, or that, if the proposals are implemented, that the company will be able to recover its financial strength and become profitable.

Statements in this Form 10-Q regarding the proposed capital restructuring have not been reviewed or approved by Bank Austria and Bank Austria has assumed no responsibility for such statements.

RECENT ACCOUNTING CHANGES

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which the Company was required to adopt effective January 1, 2001. SFAS No. 133 requires the Company to record all derivatives on the balance sheet at fair value. The adoption did not have a material effect on its consolidated financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations". SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests-method. The Company does not believe that the adoption of SFAS No. 141 will have a significant impact on its consolidated financial position or results of operations.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is currently assessing, but has not yet determined, the impact of SFAS No. 142 on its consolidated financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses the conditions under which an impairment charge should be recorded related to long-lived assets to be held and used, except for goodwill, and those to be disposed of by sale or otherwise. The Company is currently assessing, but has not yet determined, the impact of SFAS No. 144 on its consolidated financial position and results of operations.

IMPACT OF INFLATION AND CHANGING PRICES

The Company is subject to pre-determined Medicare reimbursement rates which, for certain products and services, have decreased over the past three years. A decrease in Medicare reimbursement rates could have an adverse affect on the Company's results of operations if it can not manage these reductions through increases in revenues or decreases in operating costs. To some degree, prices for health care are driven by Medicare reimbursement rates, so that the

Company's non-Medicare business is also affected by changes in Medicare reimbursement rates.

Management believes that inflation has not had a material effect on the Company's revenues for the three and six-month periods ended June 30, 2001 and 2000.

FORWARD-LOOKING INFORMATION

Certain statements in this Form 10-Q and elsewhere (such as in other filings by the company with the Securities and Exchange Commission, press releases, presentations by the company or its management and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those relating to the proposed new financial structure for the company, the end of the suspension of the trading of the company's common stock by the American Stock Exchange and the continued listing of the stock on the Exchange, future opportunities, the outlook of customers, the reception of new services, technologies and pricing methods, existing and potential strategic alliances, the likelihood of incremental revenues offsetting expenses related to new initiatives, and expected improvements in the company's financial condition as a result of the proposed new capital structure. In addition, such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results expressed or implied by such forward-looking statements. Such factors include: changes in the regulatory environment applicable to the company's business, demand and competition for the company's products and services, general economic conditions, risks related to the eye care industry, the company's ability to successfully integrate and profitably manage its operations, failure to restructure the Company's bank facility, the Company's ability to regain compliance with the AMEX requirements and to maintain continued listing of its common stock, the risks related to managed care contracting, the ability of the Company to successfully raise capital on commercially reasonable terms, if at all, and other factors and other risks detailed from time to time in the company's periodic earnings releases and reports filed with the Securities and Exchange Commission, as well as the risks and uncertainties discussed in this Form 10-Q. The company undertakes no obligation to publicly update or revise forward looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk from exposure to changes in interest rates based on financing activities under the Company's credit facility. The nature and amount of the Company's indebtedness may vary as a result of future business requirements, market conditions and other factors. The extent of the company's interest rate risk is not quantifiable or predictable due to the variability of future interest rates and financing needs. The Company does not expect changes in interest rates to have a material effect on income or cash flows in the year 2001, although there can be no assurances that interest rates will not significantly change. An increase of 10% in the interest rate payable by the Company would increase interest expense for the six months by approximately $0.2 million, assuming that the Company's borrowing level is unchanged. The Company did not use derivative instruments to adjust the Company's interest rate risk profile during the six months ended June 30, 2001.

PART II. OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The company was unable to pay the interest and principal of approximately

$1.7 million due on January 2, 2001 to its senior lender, Bank Austria, under its credit facility. Bank Austria formally declared an event of default under the credit facility on March 23, 2001, and on September 25, 2001, Bank Austria demanded payment in full of all outstanding obligations of the company to Bank Austria. In addition, on October 2, 2001, Alexander Enterprise formally declared an event of default under its loan to the company, as a result of the company's aforementioned default under its credit facility. As of November 1, 2001 the company has not made its scheduled principal payments due in 2001 under its credit facility and the company's arrearage with respect to such delinquent principal and interest totaled approximately

$6.2 million. Total principal and accrued interest due to Bank Austria under its credit facility and to Alexander Enterprise under its bridge loan aggregated approximately $34.5 million at November 1, 2001.

The company continues to negotiate in good faith with Bank Austria and with other parties in an effort to replace the Bank Austria credit facility with another financing arrangement which would provide adequate capital support, at a manageable cost, to the company.

ITEM 5. OTHER INFORMATION

Proposed New Capital Structure for OptiCare

In November 2001, certain letters of intent were entered into concerning a major capital restructuring of the company. If certain conditions are met and the transactions contemplated by these letters of intent are consummated, these transactions as presently proposed are expected (as of November 2001) to lower the company's long-term debt by approximately $9.9 million, increase its equity by approximately $9.0 million and reduce its next-12-months' debt service by approximately $3.7 million.

One of the company's major shareholders, Palisade Concentrated Equity Partnership, L.P. ("Palisade") reached preliminary agreement with Bank Austria Creditanstalt Corporate Finance, Inc. ("Bank Austria") concerning new terms for refinancing all of the company's borrowings and other direct and indirect obligations to Bank Austria. Those terms, if accepted by Bank Austria and implemented as proposed, would provide that, in exchange for payments to the bank by the company of approximately $23.4 million (payable partly in cash at closing and partly by issuance of a two-year promissory note of the company), Bank Austria:

- Would cancel the company's existing principal and interest obligations, which total approximately $31.6 million (approximately $29.7 million in principal and $1.9 million in interest);

- Would eliminate the company's contingent exposure to Bank Austria, which, as of November 1, 2001, totaled approximately $2.7 million;

- Would relinquish to the company (which would retire) all of Bank Austria's stock, warrants and other ownership interests in the company.

As part of Palisade's proposal, if the proposed transactions are consummated, Palisade would also, subject to a number of conditions, provide funds with which the company could satisfy bridge loans of $2.3 million, plus interest, owed to Alexander Enterprise Holdings, Inc.

In this capital restructuring, if the proposed transactions are consummated, Palisade would invest in the company a total of $3.5 million of cash and provide

letter of credit backing for obligations of the company totaling $16.7 million. A portion of the letter of credit backing would support new, secured credit facilities to be provided by CapitalSource Finance, LLC, which is an asset-based lender specializing in the health care industry. Palisade may also consider providing letter of credit backing for an as-yet-undetermined amount of undertakings by the company which would be required to support the company's growth.

After carefully considering its alternatives the company has concluded that, without the very substantial cash investment and credit support being offered by Palisade, or without a comparable amount of cash and credit support from another source, the company would not be able to obtain the substantial--and necessary--reduction, described above, of the company's debt to Bank Austria, nor would the company be able to obtain the other financing involved in this proposed transaction. If the company is unable to refinance its debt to Bank Austria, which is now due and payable in full, with the arrangements proposed by Palisade (or a comparable proposal from another source not presently known or available to the company), Bank Austria would have the right to commence foreclosure proceedings on substantially all the company's assets.

In exchange for the investment and support Palisade has proposed, Palisade would acquire 2.5 million shares of the company's newly authorized Series B 12.5% Voting Convertible Redeemable Participating Preferred Stock (convertible into common stock on an one-for-ten basis) and warrants to purchase approximately 16.7 million additional shares of the company's common stock. Palisade would also convert an existing bridge loan to the company into preferred stock. This would raise Palisade's effective ownership of voting stock of the company from the present 18.5% to approximately 75% (on a fully-diluted basis).

There can be no assurance that these proposals will be carried out on the terms presently proposed, or on other terms comparably favorable to the company, or at all on any terms, or that, if the proposals are implemented, the company will be able to recover its financial strength and become profitable.

Changes in the Board of Directors

On January 3, 2001, Martin Franklin and Ian Ashken resigned from the Board of Directors. Allan Barker, resigned from the Board of Directors on January 9, 2001, as did William Goss on January 25, 2001 and Norman S. Drubner on February 23, 2001. Carl Schramm and Steven Ditman resigned from the Board of Directors effective June 1, 2001 and June 15, 2001, respectively.

Effective November 1, 2001, Raymond W. Brennan, Alan J. Glazer, Norman S. Drubner, and Frederick A. Rice were appointed by the sole Director then serving, Dean J. Yimoyines, M.D., President of the Company, to fill vacancies on the company's Board of Directors.

William Blaskiewicz Named Chief Financial Officer

On September 1, 2001, William A. Blaskiewicz was named Chief Financial Officer, replacing Steven Ditman, who resigned on August 24, 2001 to pursue another opportunity. A certified public accountant since 1987, Mr. Blaskiewicz joined OptiCare in 1998 after four years as director of a billion-dollar budget at a large insurance company. Since then, as our Chief Accounting Officer, he worked very closely with Mr. Ditman in overseeing all aspects of our financial and cash management operations.

Proposed Sale of Connecticut Operations Cancelled

On May 21, 2001, we announced a decision to terminate an agreement relating to a proposed sale of our Connecticut-based medical, surgical and retail operations. That proposed sale, which was announced in November 2000, was to have been made to an investor group which included ophthalmologists employed through our Connecticut operations.

Also on May 21, 2001, we announced that the Connecticut operations would be managed by Gordon Bishop as President, and Nancy Noll as Vice President. Mr. Bishop is an industry veteran with broad experience who has been an employee of the company since 1999; Ms. Noll has held positions of increasing responsibility with OptiCare over a 23-year career.

American Stock Exchange Suspends Trading, Issues Notice of Intent to De-list the OptiCare Stock

On April 20, 2001, the American Stock Exchange suspended trading of the company's common stock, and the stock has not traded since that date. The last reported sale price of our common stock, on April 20, 2001, was $0.26 per share.

On November 21, 2001, the American Stock Exchange notified the Company of its intent to de-list OptiCare stock. The principal reasons for the determination, according to the Exchange, were the company's failure to file its Form 10-K for the year 2000 and its quarterly Form 10-Qs for the first three quarters of 2001.

The company immediately appealed this determination and requested a hearing before a committee of the Exchange. We subsequently filed the Form 10-K and, as of the date of this filing, will have filed all of our required Form 10-Qs. These filings move the company in the direction of compliance with American Stock Exchange listing requirements.

Further, if the company's proposed new capital structure were in place, and the company becomes current in its SEC filings, the company believes it would be eligible, subject to review by the exchange, for the resumption of trading of its common stock on the American Stock Exchange. However, there can be no assurance that the company's request for continued listing will be granted, or that trading of its stock will resume, or, if trading is resumed, of the prices at which the stock will be traded.

Pre-Workout Agreement Signed with Bank Austria

On February 26, 2001, we entered into a Pre-Workout Agreement with Bank Austria Creditanstalt Corporate Finance, Inc. Bank Austria provides a term loan and revolving credit facility, which totaled at December 31, 2000, $29.7 million. The Pre-Workout Agreement established certain understandings between the bank and ourselves including the fact that we were in default under the loan documents, which govern the term loan and revolving credit facility. Such defaults included our failure to pay principal and interest when due and our failure to observe or perform certain affirmative covenants and other covenants.

On March 23, 2001, Bank Austria formally notified us of the occurrence of events of default under the aforementioned credit facility. The bank forbade the company from making any payments on account of debt junior to that of the bank, including under certain Seller Notes representing long-term obligations of the company to certain medical practices.

Pursuant to an understanding reached with the bank shortly after receiving such notice, we engaged Morris-Anderson & Associates, Ltd., a management consulting firm, to assist us in restructuring our long-term debt. Although in its March 23 notice the bank had formally reserved its rights under the terms of the credit facility, the aforementioned understanding was that, during a period of unspecified duration, the events of default referred to in that notice would, on an operating basis, be considered waived while we worked with Morris-Anderson to restructure our debt. We continued, however, to be prohibited from paying any junior debt, including Seller Notes.

On September 25, 2001, Bank Austria gave the company formal notice of: (i) the occurrence of certain additional defaults under the credit facility loan documents; (ii) the immediate termination of the commitments under the loan documents; and (iii) the requirement that all amounts outstanding under the credit facility were to be immediately due and payable. The company continues to negotiate in good faith with Bank Austria and with other parties in an effort to replace the Bank Austria credit facility with another financing arrangement which would provide adequate capital support, at a manageable cost, to the company. It believes that the proposed transactions involving Bank Austria, Palisade Concentrated Equity Partnership, L.P. and CapitalSource Finance, LLC, comprise such an arrangement.

Alexander Enterprise Bridge Loan

On October 10, 2000 the company obtained $2.25 million through a bridge financing arrangement with Alexander Enterprise Holdings Corp. and entered into a second amendment to the Bank Austria credit facility. Of the $2.25 million of proceeds from the bridge loan, $1.2 million was paid to Bank Austria as required by the amended credit facility, and the remaining $1.1 million was used for general working capital purposes. Of the $1.2 million paid to Bank Austria, $0.3 million was applied to past due interest, $0.4 million was used to repay principal and $0.5 million was applied as a prepayment of interest. On January 5, 2001, the company borrowed an additional $0.5 million under the Alexander Enterprise bridge loan. Funds for this addition to the bridge loan were provided by Palisade ($400,000), Dean J. Yimoyines, M.D., president and chief executive officer of the company ($50,000), and Alexander Enterprise ($50,000). The lenders under this bridge loan also received warrants to purchase the company's common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 10-Q.

a. Exhibits

The following Exhibits are filed as part of this Quarterly Report on Form 10-Q:

EXHIBIT	DESCRIPTION
3.1	Certificate of Incorporation of Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB filed February 3, 1995.

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EXHIBIT	DESCRIPTION
3.2	Certificate of Amendment of the Certificate of Incorporation, dated as of August 13, 1999, as filed with the Delaware Secretary of State on August 13, 1999, incorporated by reference to Exhibit 3.1 to Registrant's report on Form 8-K

filed on August 30, 1999.

3.3 Amended and Restated By-laws of Registrant adopted March 27, 2000, incorporated by reference to Exhibit 3.3 to Registrant's report on Form 10-K filed on March 30, 2000.

3.4 Certificate of Designation with respect to the Registrant's Series A Convertible Preferred Stock, as filed with the Delaware Secretary of State on August 13, 1999, incorporated by reference to Exhibit 3.2 to Registrant's report on Form 8-K filed on August 30, 1999.

3.5 Warrant agreement dated as of August 13, 1999 between the Registrant and Bank Austria Creditanstalt Corporate Finance, Inc., incorporated by reference to Exhibit 3.3 to the Registrant's report on Form 8-K filed on August 30, 1999.

3.6 Warrant Agreement dated as of October 10, 2000 by and between OptiCare Health Systems, Inc. and Medici Investment Corp., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended 9/30/00, Exhibit 10.14

10.1 Vision care capitation agreement between OptiCare Eye Health Centers and Blue Cross & Blue Shield of Connecticut, Inc. (and its affiliates) dated October 23, 1999, incorporated by reference to Exhibit 10.9 to the Registration Statement 333-78501.

10.2 Eye care services agreement between OptiCare Eye Health Centers and Anthem Health Plans, Inc. (d/b/a Anthem Blue Cross and Blue Shield of Connecticut), effective November 1, 1998, incorporated by reference to Exhibit 10.10 to the Registration Statement 333-78501.

10.3 Contracting provider services agreement dated April 26, 1996, and amendment thereto dated as of January 1, 1999, between Blue Cross and Blue Shield of Connecticut, Inc., and OptiCare Eye Health Centers, incorporated herein by reference to Exhibit 10.11 to the Registration Statement 333-78501.

10.4 Form of employment agreement between the Registrant and Dean J. Yimoyines, M.D., effective August 13, 1999, incorporated herein by reference to Exhibit 10.12 to the Registration Statement 333-78501.+

10.5 Form of employment agreement between the Registrant and Steven L. Ditman, effective August 13, 1999, incorporated herein by reference to Exhibit 10.13 to the Registration Statement 333-78501.+

10.6 Amended and Restated Loan and Security Agreement, dated as of August 13, 1999, among Consolidated Eye Care, Inc., renamed OptiCare Eye Health Network, Inc, OptiCare Eye Health Centers, and PrimeVision Health, Inc. as borrowers, the Registrant as the Parent, the lenders named therein (the "Lenders"), Bank Austria, AG (the "LC Issuer"), and Bank Austria Creditanstalt Corporate Finance, Inc., as the agent (the "Agent") (excluding schedules and other attachments thereto), incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 8-K filed on August 30, 1999.

10.7	Guaranty dated as of August 13, 1999, among the Registrant, OptiCare Eye Health Centers, PrimeVision Health, Inc., Consolidated Eye Care, Inc., renamed OptiCare Eye Health Network, Inc., and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of the Lenders, the LC Issuer and the Agent, incorporated by reference to Exhibit 10.2 to the Registrant's report on Form 8-K filed on August 30, 1999.
10.8	Security Agreement dated as of August 13, 1999, among the Registrant and the other parties listed on the signature page thereto in favor of the Agent for the benefit of the Lenders and the LC Issuer, incorporated by reference to Exhibit 10.3 to the Registrant's report on Form 8-K filed on August 30, 1999.

EXHIBIT	DESCRIPTION
10.9	Conditional Assignment and Trademark Security Agreement dated as of August 13, 1999, between the Registrant and the Agent for the benefit of the Lenders and the LC Issuer, incorporated by reference to Exhibit 10.4 to the Registrant's report on Form 8-K filed on August 30, 1999.
10.10	Pledge and Security Agreement, dated as of August 13, 1999, among each of the Registrant, OptiCare Eye Health Centers, PrimeVision Health, Inc., Consolidated Eye Care, Inc., renamed OptiCare Eye Health Network, Inc., and each of the other subsidiaries and affiliates of the company listed on the signature pages thereto, in favor of the Agent for the benefit of the Lenders and the LC Issuer, incorporated by reference to Exhibit 10.5 to the Registrant's report on Form 8-K filed on August 30, 1999.
10.11	Assignment of Notes and Security Agreement, dated as of August 13, 1999, between PrimeVision Health, Inc. and the Agent, incorporated by reference to Exhibit 10.6 to the Registrant's report on Form 8-K filed on August 30, 1999.
10.12	Agreement and Plan of Merger, dated as of April 12, 1999, among the Registrant (then known as "Saratoga Resources, Inc."), OptiCare Shellco Merger Corporation, Prime Shellco Merger Corporation, OptiCare Eye Health Centers, Inc., a Connecticut corporation, and PrimeVision Health, Inc., incorporated herein by reference to Exhibit 2 to the Registration Statement 333-78501.
10.13	First Amendment to Amended and Restated Loan and Security Agreement, dated as of June 30, 2000 by and among Bank Austria Creditanstalt Corporate Finance, Inc., and the Registrant, incorporated by reference to Exhibit 10.9 to the Registrant's Form 10-Q filed on August 14, 2000.
10.14	Second Amendment to Amended and Restated Loan and Security Agreement, dated as of October 10, 2000 by and among the Registrant and Bank Austria Creditanstalt Corporate Finance, Inc., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended 9/30/00, Exhibit 10.11.

10.15	Secured promissory note dated as of October 10, 2000, made by the company to Alexander Enterprise Holdings Corp., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended 9/30/00, Exhibit 10.12
10.16	Security Agreement dated as of October 10, 2000 among the Registrant, OptiCare Eye Health Centers, PrimeVision Health, Inc., Consolidated Eye Care, Inc. and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of Alexander Enterprise Holdings Corp., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended 9/30/00, Exhibit 10.13
10.17	Amended and Restated Secured Promissory Note issued as of October 10, 2000 by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Alexander Enterprise Holdings Corp. ("Bridge Loan"). Incorporated by reference to Exhibit 10.49 to Registrant's report on Form 10-K filed on November 29, 2001.
10.18	Pre-Workout Agreement dated February 26, 2001 among Bank Austria Creditanstalt Corporate Finance, Inc. and OptiCare Eye Health Network, Inc., OptiCare Eye Health Centers, Inc., PrimeVision Health Inc., and the Registrant. incorporated by reference to Exhibit 10.51 to Registrant's report on Form 10-K filed on November 29, 2001.
10.19	OptiCare Directors' and Officers' Trust Agreement dated November 7, 2001 between the Registrant and Norman S. Drubner, Esq., as Trustee. incorporated by reference to Exhibit 10.52 to Registrant's report on Form 10-K filed on November 29, 2001.+
10.20	Agreement for Consulting Services dated April 16, 2001 between the Registrant and Morris Anderson and Associates, Ltd. Incorporated by reference to Exhibit 10.53 to Registrant's report on Form 10-K filed on November 29, 2001.

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EXHIBIT	DESCRIPTION
10.21	Employment Agreement dated as of September 1, 2001 between the Registrant and William Blaskiewicz. Incorporated by reference to Exhibit 10.21 to Registrant's report on Form 10 Q for the period ended March 31, 2001, filed on December 3, 2001.+
10.22	Form of Warrant to purchase 2,250,000 shares of common stock issued in connection with the Secured Promissory Note issued as of October 10, 2000 by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Medici Investment Corp. ("Bridge Loan"). Incorporated by reference to Exhibit 10.54 to Registrant's report on Form 10-K filed on November 29, 2001.
10.23	Form of Warrant to purchase 300,000 shares and 2,000,000 shares of common stock issued in connection with the Amended

and Restated Secured Promissory Note issued as of October 10, 2000 by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Medici Investment Corp. ("Bridge Loan"). Incorporated by reference to Exhibit 10.55 to Registrant's report on Form 10-K filed on November 29, 2001.

10.24 Form of Warrant to purchase 50,000 shares of common stock issued in connection with the Amended and Restated Secured Promissory Note issued as of October 10, 2000 by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Dean J. Yimoyines, M.D. ("Bridge Loan"). Incorporated by reference to Exhibit 10.56 to Registrant's report on Form 10-K filed on November 29, 2001.

10.25 Form of Warrant to purchase 400,000 shares of common stock issued in connection with the Amended and Restated Secured Promissory Note issued as of October 10, 2000 by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Palisade Concentrated Equity Partnership, LLP. ("Bridge Loan"). Incorporated by reference to Exhibit 10.57 to Registrant's report on Form 10-K filed on November 29, 2001.

10.26 Third Amendment to Amended and Restated Loan and Security Agreement, dated as of January 5, 2001 by and among Bank Austria Creditanstalt Corporate Finance, Inc. and OptiCare Eye Health Network, Inc., OptiCare Eye Health Centers, Inc., PrimeVision Health Inc., and the Registrant. Incorporated by reference to Exhibit 10.58 to Registrant's report on Form 10-K filed on November 29, 2001.

10.27 Amendment to Security Agreement dated as of January 5, 2001 among the Registrant, OptiCare Eye Health Centers, PrimeVision Health, Inc., Consolidated Eye Care, Inc. and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of Alexander Enterprise Holdings Corp. Incorporated by reference to Exhibit 10.59 to Registrant's report on Form 10-K filed on November 29, 2001.

\+ Management contract or compensatory plan

b. Reports filed on Form 8-K filed in the period covered by this report:

None

SIGNATURE

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

Date: December 3, 2001 OPTICARE HEALTH SYSTEMS, INC.

By: /s/ William A. Blaskiewicz

William A. Blaskiewicz

Vice President and Chief Financial
Officer (Principal Financial and
Accounting Officer and duly
authorized officer)