Progressive Care Inc.
Form 10-K/A
April 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

Amendment No. 2

(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the year ended December 31, 2011
	Or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-52684

Progressive Care Inc.
(Exact name of registrant as specified in its charter)

Delaware	32-0186005
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1111 Park Center Blvd., Suite 202, Miami Gardens, FL 33169
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 1-786-657-2060

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.0001 per share	(OTC Bulletin Board)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the issuer: (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 whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes o 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 issuer'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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Approximate aggregate market value of the registrant’s common stock held by non-affiliates as of March 31, 2012, based upon the last sale price reported for such date on the OTC Bulletin Board was approximately $18,551,000.

Number of shares of common stock outstanding as of March 31, 2012 was 36,373,634.

Documents incorporated by reference: Please refer to section 15(a) (3) of this filing.

EXPLANATORY NOTE

We are filing this Amendment No. 2 on Form 10-K/A to amend and restate: (i) Item 9A. "Controls and Procedures" of Part II; and (ii) footnote 9 (Income Taxes) of Item 1 of Part I "Financial Information," of our Annual Report on Form 10-K for the year ended December 31, 2011 as originally filed with the Securities and Exchange Commission (the "SEC") on April 16, 2012 (the "Original Form 10-K"), and as amended February 15, 2013 (the "First Amended 10-K"). We have determined that in our First Amended 10-K, a scrivener error occurred which resulted in the adjustment column of our deferred tax asset table being shown as blank, when in fact adjustments were made.

We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-K/A restates in its entirety, as amended, our First Amended 10-K. This report on Form 10-K/A is presented as of the filing date of the Original Form 10-K and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the restatement described below.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the audited financial statements and notes thereto for the years ended December 31, 2011 and 2010 found in this report. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward looking statements by using words such as "anticipate," "believe," "intends,""may" or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under "Risk Factors" in Part I, Item 1A of this Report.

Introduction

The Company is a South Florida pharmacy, which specializes in providing anti-retroviral patient care management, durable medical equipment (DME) and pharmaceutical needs to long term care facilities and doctor's offices. The pharmacy industry is highly competitive; we compete with national and independent retail drug stores, specialty pharmacies, supermarkets, convenience stores, mail order prescription providers, discount merchandisers, membership clubs, health clinics, internet pharmacies, and home medical equipment providers.

The drugstore industry is highly competitive. In addition to other drugstore chains, independent drugstores and mail order prescription providers, we compete with various other retailers including grocery stores, convenience stores, mass merchants and dollar stores.

The Company's sales, gross profit margin and gross profit dollars are impacted by, among other things, both the percentage of prescriptions that we fill that are generic and the rate at which new generic versions are introduced to the market. In general, generic versions of drugs generate lower total sales dollars per prescription, but higher gross profit margins and gross profit dollars, as compared with patent-protected brand name drugs. The positive impact on gross profit margins and gross profit dollars has been significant in the first several months after a generic version of a drug is first allowed to compete with the branded version, which is generally referred to as a "generic conversion." In any given year, the number of blockbuster drugs that undergo a conversion from branded to generic status can increase or decrease, which can have a significant impact on our sales, gross profit margins and gross profit dollars. Moreover any number of factors outside of the Company's control or ability to foresee can affect timing for a generic conversion; we face substantial uncertainty in predicting when such conversions will occur and what effect they will have on particular future periods.

The long-term outlook for prescription utilization is strong due in part to the aging population, the increasing utilization of generic drugs, the continued development of innovative drugs that improve quality of life and control health care costs, and the expansion of health care insurance coverage under the Patient Protection and Affordable Care Act signed into law on March 23, 2010 (the ACA). The ACA seeks to reduce federal spending by altering the Medicaid reimbursement formula (AMP) for multi-source drugs, and when implemented, is expected to reduce Medicaid reimbursements. State Medicaid programs are also expected to continue to seek reductions in reimbursements independent of AMP. In addition, the Company continuously faces reimbursement pressure from pharmacy benefit management (PBM) companies, health maintenance organizations, managed care organizations, and other commercial third party payers, and the Company's agreements with these payers are regularly subject to expiration, termination or renegotiation.

We continue to increase our penetration in existing markets. To support our growth, we are looking at expanding to several new prime locations. We are focused on retail organic growth; however, consideration is given to retail and other acquisitions that provide unique opportunities and fit our business objectives.

Overview

As we entered the 2011 fiscal year, our business plan was to take advantage of our competitive bidding contract with Medicare by providing DME in South Florida; it was also to enhance our long term care prescription services. Throughout the year we have taken steps to execute on this plan by increasing our marketing efforts and moving forward with our expansion plans. In addition, we sought out new sources of revenue and found that the specialty/anti-retroviral medication market is underserved in South Florida. Consequently, these areas are our primary focus for 2012.

In the second quarter of 2011 we entered the specialty/anti-retroviral medication market. We structured our pharmacy to not only provide prescription filling services but to also offer patient care management. To increase the credibility and quality of our services, we hired a team of personnel knowledgeable in the care and management of individuals with infectious diseases. Our services in this segment include customized and confidential prescription packaging, an extensive inventory of specialty/ anti-retroviral medications, and 24-hour emergency customer assistance.

We have grown the specialty pharmacy segment through grassroots marketing efforts target at physician groups and other referral sources. Overall our gross profit margin on specialty pharmacy services has been impacted by two primary factors: high medication costs and low reimbursements rates by Medicare and Medicaid. Specialty medication costs are notoriously high, but we believe this factor can be mitigated by acquiring bulk buying rates with wholesalers and improving our cash flow position by taking advantage of purchasing terms. Though the profit margin is lower than in other medications as well as DME, we believe there is much to be gained and we intend to enhance our efforts in the arena by significantly growing our presence.

In 2011, our competitive bidding contract became effective for the sale of durable medical equipment. Through the first two quarters of 2011 we ramped up marketing efforts. While our sales were increasing, Medicare, in an effort to stem the tide of billing fraud, instituted a review process on nearly all sales of hospital beds and oxygen products. This has led to a much higher denial rate on reviewed claims, as had been previously experienced. We believe we are in substantial compliance with all governmental regulations regarding equipment dispensing and billing; audits conducted by Medicare have not yielded any material deficiencies in our compliance processes. However, the overall process has affected our business, as collections have become a time consuming and costly task. Our cash flow has been significantly impacted by this process.

In the second and third quarter of 2011, we targeted two additional South Florida retail locations which are currently scheduled to open in 2012. Our first new location is in the City of Opa Locka, FL, where we believe the specialty pharmacy needs are underserved. Our second new location is across from North Shore Hospital in Miami, FL. This location was selected because of the lack of pharmacy services offered at North Shore Hospital and the close proximity of a new outpatient clinic currently under construction adjacent to this location. We believe we will also benefit from long term care and senior living facilities in the immediate area, and have plans to relocate our nursing home fulfillment center to this location.

Business Development Strategy

As we look to the future, we intend to implement several initiatives as part of our ambitious business plan. To bring more visibility to the Company, we recently hired world renowned recording artist Luther Campbell as a company spokesperson. With his long-standing reputation as a prominent community activist, Mr. Campbell is deeply involved in the Company’s community outreach program and in the development of our anti-retroviral patient management program. Mr. Campbell's work will also be in combination with the new initiative planned by our HIV/AIDS Action Committee headed by Mrs. McDonald, a former Florida Department of Health Program Manager.

We are also working diligently on the development and implementation of an initiative to create a cooperative effort in South Florida communities to get urgently needed care and education to HIV/AIDS and acute illness patients. This initiative is designed to reach “at-risk” demographics in urban and rural communities working in conjunction with charitable organizations to provide information, testing, education and other services to communities in need.

RESULTS OF OPERATIONS (As Restated)

For the year ended December 31, 2011 compared to the year ended December 31, 2010

The following table summarizes our results of operations for the years ended December 31, 2011 and 2010; all amounts have been rounded to the nearest thousandth.

	Year Ended December 31, 2011		Year Ended December 31, 2010			
	Dollars	% of Revenue	Dollars	% of Revenue	$ change	% change
Total revenues - net	$ 8,238,000	100 %	$ 5,885,000	100 %	$ 2,353,000	40 %
Total cost of sales	4,557,000	55 %	2,923,000	50 %	$ 1,634,000	56 %
Total gross margin	3,681,000	45 %	2,962,000	50 %	$ 719,000	24 %
Operating expenses	3,841,000	47 %	1,287,000	22 %	$ 2,554,000	198 %
Other income (expense)	(7,000)	0 %	38,000	1 %	$ (45,000)	-118 %
Operating income	(167,000)	-2 %	1,713,000	29 %	$ (1,880,000)	-110 %
Income tax benefit (expense)	(86,000)	-1 %	155,000	0 %	$ (241,000)	-155 %
Net income (loss)	(253,000)	-3 %	1,868,000	32 %	$ (2,121,000)	-114 %

Revenue

The following table summarizes our revenues for the years ended December 31, 2011 and 2010; all amounts have been rounded to the nearest thousandth.

	Year Ended December 31, 2011		Year Ended December 31, 2010			
	Dollars	% of Revenue	Dollars	% of Revenue	$ change	% change
Pharmacy	$ 7,237,000	88 %	$ 5,769,000	98 %	$ 1,468,000	25 %
DME	$ 1,001,000	12 %	$ 116,000	2 %	885,000	763 %
Total Sales	$ 8,238,000	100 %	$ 5,885,000	100 %	$ 2,353,000	40 %

Revenues grew 40% in 2011 due to our continued increased presence in the community, enhanced marketing efforts, and increased visibility with medical professionals. A key driver of growth was the enactment of new Florida legislation in late 2010 increasing regulations on “pain clinics”, causing many to send their prescriptions to local pharmacies.

Gross Margin

Our gross margin as a percent of sales decreased 5% primarily attributable to the increase in sales of generic medications, which carry a much lower profit margin.

Operating Expenses

Operating expenses increased year-over-year, largely attributable to increases in compensation-related expenses incurred after the Reverse Merger.

Net Loss

Our current year's net loss was primarily attributable to an increase in our operating expenses of approximately $2.5 million.

LIQUIDITY AND CAPITAL COMMITMENTS (As Restated)

Current Market Conditions

We regularly monitor economic conditions and associated impacts on the financial markets and our business. Though there has been improvement in the global economic environment we continue to be cautious. We continue to evaluate the financial health of our supplier base, carefully manage customer credit, and monitor the concentration risk of our cash.

We believe that no significant concentration of credit risk currently exists. For further discussions of risks associated with market conditions, See "Part I — Item 1A — Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011.

Liquidity and Capital Resources

	Year Ended		
	December 31, 2011	December 31, 2010	Change
Net change in cash from:			
Operating activities	$107,000	$1,385,000	$(1,278,000)
Investing activities	(356,000)	(251,000)	$(105,000)
Financing activities	134,000	(950,000)	$1,084,000
Change in cash	$(115,000)	$184,000	$(299,000)
Cash at end of Period	$89,000	$204,000	$115,000

We ended the year with cash of approximately $89,000 and working capital of approximately $756,000, compared to cash of approximately $204,000 and working capital of approximately $82,000 at December 31, 2010. Cash generated from operations was our primary source of operating liquidity and we believe that internally generated cash flows are sufficient to support business operations. We utilize external capital sources, such as notes and other term debt, to supplement our internally generated sources of liquidity, as necessary. We intend to maintain the appropriate debt levels based upon cash flow expectations, the overall cost of capital, cash requirements for operations, and discretionary spending, including for acquisitions. Due to the overall strength of our business, we believe that we will have adequate access to capital markets; however, any future disruptions, uncertainty or volatility in those markets may result in higher funding costs for us and adversely affect our ability to obtain funds.

Our year-over-year net cash provided by operating activities decreased approximately $1,279,000, primarily a result of an increase in stock-based compensation of approximately $608,000, and increase in depreciation expense of approximately $95,000, and decrease in gain on debt settlement of approximately $123,000, a decrease in deferred tax assets – net of approximately $199,000 and an increase in accounts payable and accrued liabilities of 208,000, offset by and increase in accounts receivables of approximately $406,000.

Our year-over-year net cash used in investing activities increased $106,000, primarily a result of an increase of approximately $257,000 used in the purchase of property and equipment, offset by approximately $151,000 in cash paid in the Reverse Merger in 2010.

Our year-over-year net cash used in financing activities decreased approximately $1,084,000, primarily a result of a decrease in member distributions of approximately $1,344,000 offset by a decrease in proceeds from convertible notes of approximately $358,000.

Critical Accounting Policies

The information required by this section is incorporated herein by reference to the information set forth under the caption “Summary of Significant Accounting Policies” in Note 2 of the Notes to Consolidated Financial Statements included in “Part I — Item 1 — Financial Statements” and is incorporated herein by reference.

Off-Balance Sheet Arrangements

We do not have any unconsolidated special purpose entities and, we do not have exposure to any off-balance sheet arrangements. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other documents that we file with the Securities and Exchange Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. Statements that are not historical facts are forward-looking statements, including forward-looking information concerning pharmacy sales trends, prescription margins, number and location of new store openings, outcomes of litigation, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, acquisition synergies, regulatory approvals, and competitive strengths. Words such as "expect," "outlook," "forecast," "would," "could," "should," "project," "intend," "plan," "continue," "sustain", "on track", "believe," "seek," "estimate," "anticipate," "may," "assume," and such words and similar expressions are often used to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and involve risks, assumptions and uncertainties, including, but not limited to, those described in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K and in other reports that we file or furnish with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements after the date they are made, whether as a result of new information, future events, changes in assumptions or otherwise.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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PROGRESSIVE CARE INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:
Progressive Care, Inc.

We have audited the accompanying consolidated balance sheets of Progressive Care, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included considerations of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Progressive Care, Inc. and Subsidiaries as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Berman & Company, P.A.

Boca Raton, Florida
April 16, 2012 except for notes 1, 4, 8 and 9 as to which the date is February 12, 2013

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Progressive Care Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2011 (As Restated)	December 31, 2010
Assets		
Current Assets		
Cash	$88,874	$204,336
Accounts receivable - net	1,006,835	406,587
Inventory	248,678	272,468
Prepaids	21,741	-
Deferred tax asset	-	2,545
Total Current Assets	1,366,128	885,936
Property and equipment - net	276,795	77,133
Other Assets		
Deposits	44,741	-
Debt acquistion costs	22,259	-
Deferred tax asset	167,613	158,988
Total Other Assets	234,613	158,988
Total Assets	$1,877,536	$1,122,057
Liabilities and Stockholders' Equity		
Current Liabilities		
Cash overdraft	$71,380	$-
Accounts payable and accrued liabilities	248,785	137,163
Deferred rent payable	17,535	-
Income taxes payable	43,344	7,017
Notes payable	87,767	567,067
Notes payable - related parties	73,329	73,329
Accrued interest payable - related parties	24,732	18,866
Deferred tax liability	43,599	-
Total Current Liabilities	610,471	803,442
Convertible note payable	150,000	-
Total Liabilities	760,471	803,442
Stockholders' Equity		
Common stock, par value $0.0001; 100,000,000 shares authorized;		
36,348,830 and 33,562,000 issued and outstanding, respectively	3,635	3,356

Additional paid in capital	(267,831)	(1,320,279)
Retained earnings	1,381,261	1,635,538
Total Stockholders' Equity	1,117,065	318,615
Total Liabilities and Stockholders' Equity	$1,877,536	$1,122,057

See accompanying notes to consolidated financial statements

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Progressive Care Inc. and Subsidiaries
Consolidated Statements of Operations

	Years ended December 31, 2011 (As Restated)	2010
Sales - net	$8,237,622	$5,884,855
Cost of sales	4,557,188	2,923,265
Gross profit	3,680,434	2,961,590
Selling, general and administrative expenses	3,840,972	1,286,977
Income (loss) from operations	(160,538)	1,674,613
Other income (expense)		
Interest expense	(17,197)	(85,249)
Gain on debt settlement	12,585	122,886
Loss on sale of equipment	(2,671)	-
Total other income (expense) - net	(7,283)	37,637
Income (loss) before provision for income taxes	(167,821)	1,712,250
Provision for income tax benefit (expense)		
Current income tax expense	(48,937)	(7,017)
Deferred income tax benefit (expense)	(37,519)	161,533
Total income tax benefit (expense) - net	(86,456)	154,516
Net income (loss)	$(254,277)	$1,866,766
Basic and diluted earnings (loss) per share	(0.01)	0.06
Weighted average number of common shares outstanding during the year - basic and diluted	35,393,718	30,692,882

See accompanying notes to consolidated financial statements

Progressive Care Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
Years ended December 31, 2011 and 2010
(As Restated)

	Common Stock $0.0001 Par Value		Addition Paid-in Capital
	Shares	Amount	
Balance, December 31, 2009	30,000,000	$3,000	$289,500
Contributions	-	-	200
Distributions	-	-	(1,343,8
Recapitalization	5,280,000	528	(266,30
Retirement of shares	(1,718,000)	(172)	172
Net income for the year ended December 31, 2010	-	-	-
Balance, December 31, 2010	33,562,000	3,356	(1,320,2
Issuance of common stock for services rendered	302,261	30	83,213
Issuance of common stock for services rendered - related parties	1,385,596	139	524,861
Issuance of common stock in connection with the conversions of debt and acrrued interest	1,098,973	110	439,479
Issuance of warrants as debt issue cost - related party	-	-	4,895
Net loss for the year ended December 31, 2011	-	-	-
Balance, December 31, 2011	36,348,830	$3,635	$(267,83

See accompanying notes to consolidated financial statements

Progressive Care, Inc. and Subsidiary