

Edgar Filing: PATIENT INFOSYSTEMS INC - Form 10KSB

PATIENT INFOSYSTEMS INC  
Form 10KSB  
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

X Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003

Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the transition period from \_\_\_ to \_\_\_

Commission File Number: 0-22319  
Patient Infosystems, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

16-1476509

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(State or other jurisdiction of  
incorporation or organization)

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

46 Prince Street  
Rochester, New York

14607

-----  
(Address of principal executive offices)

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(Zip Code)

Registrant's telephone number, including area  
code: (585) 242-7200 Securities registered  
pursuant to Section 12(b) of the Act:  
None.

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

Common Stock, par value \$.01 per share  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes X No \_\_\_

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes \_\_\_ No X

As of March 25, 2004, the aggregate market value of the voting and nonvoting common stock held by nonaffiliates of the registrant was \$12,084,880 and 2,416,976 shares of common stock were outstanding.

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As of March 30, 2004, there were 6,002,854 shares of the issuer's common stock outstanding.

Portions of the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders to be filed prior to April 30, 2002 are incorporated by reference in Part III.

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### PART I

#### Item 1. Description of Business.

##### General

Patient Infosystems, Inc. ("Patient Infosystems") was incorporated in the State of Delaware on February 22, 1995 under the name DSMI Corp., changed its name to Disease State Management, Inc. on October 13, 1995, and then changed its name to Patient Infosystems, Inc. on June 28, 1996. Patient Infosystems' principal executive offices are located at 46 Prince Street, Rochester, New York 14607 and its telephone number is 585-242-7200. Patient Infosystems' Internet address is [www.ptisys.com](http://www.ptisys.com).

Patient Infosystems is a health management solutions company that integrates clinical expertise with advanced Internet, call center and data management capabilities. Founded in 1995 as a disease management company, Patient Infosystems has evolved to offer a comprehensive portfolio of products and services designed to improve patient clinical outcomes and quality of life, reduce healthcare costs and facilitate patient-provider-payor communication. These products are now marketed under the label Care Team Connect for Health.

Patient Infosystems has historically marketed its services to a broad range of clients, including self-insured employers and trust funds, insurance companies, pharmaceutical and medical equipment and device manufacturers, pharmacy benefit managers ("PBMs"), other healthcare payors, such as managed care organizations ("MCOs") and healthcare providers, including integrated delivery networks ("IDN's"). Current marketing efforts are targeted to self-insured employers, employer groups, union health and welfare funds, and others who pay for the health care of defined populations.

During its first two years of operations, Patient Infosystems emphasized the development of pure disease management programs, which accounted for a substantial portion of its revenue through 1997. However, beginning in 1998, Patient Infosystems devoted resources to the development of broader applications of its technology platform, and its additional products grew to account for nearly 45% of the total revenue of Patient Infosystems during the fiscal year ended December 31, 2002. During 2003, the Company further expanded its product mix to include services in support of providers and their clinical improvement efforts. These services include support for development, training and maintenance of clinical registry software, consultative services in improvement methodologies and support of web-based informational and reporting resources. On December 31, 2003, Patient Infosystems acquired the assets of American Caresource Corporation ("ACS"). ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist our clients control the cost of a range of ancillary medical services.

The Care Team Connect portfolio now represents 40% percent of the Company's revenue; innovation and improvement services for providers represent 60% of the 2003 revenue.

## Products and Capabilities

### Care Team Connect for Health

Care Team Connect for Health, which is Patient Infosystems' principal product line, provides a complete solution for population health management that can be marketed as a comprehensive solution or a set of discrete services that complement a client's existing operations. Care Team Connect integrates a number of components that had historically been marketed by the Company as stand alone products. During the 2002 year, the clinical content of these components was revised and all components were migrated to an updated technology platform. During 2003, the Care Team Connect product was expanded to include certain wellness services, as well as utilization management and case management services, provided through subcontract relationships with partner organizations. Care Team Connect includes the following:

- o 24-hour nurse help/triage line,
- o Population analysis and identification,
- o Disease management services,
- o Care management,
- o Smoking cessation program,

#### Nurse help line

The Care Team Connect for Health nurse help line is a triage, advice, referral and health-counseling service that provides employees and members with round-the-clock access to registered nurses who use algorithm-based assessment tools and have access to provider and/or network information. The help line can provide users with information about a specific health problems or answers to their health-related questions. Use of nationally recognized clinical algorithms assist callers in determining the most cost-effective options for acute care treatment and has effectively been able to reduce the use of emergency rooms and after hours physician contact. Through the Nurse Help Line, individuals may also be identified for referral into disease management or case management intervention. The nurse help line is operated from Patient Infosystems' Utilization Review Accreditation Commission ("URAC") accredited call center.

#### Population analysis and identification

As part of its disease management services, Patient Infosystems provides comprehensive medical and pharmaceutical claims analysis that includes the administration of proprietary algorithms to identify patients with chronic disease and then stratifies them by level of risk for high resource utilization.

The stratification algorithm employed is categorical in nature as patients are classified into low, moderate, high and critical groupings. The data employed in the algorithm are both nominal (using claim codes known as "ICD9" and procedure codes known as "CPT") and ratio (usage of resources). The nominal data determines the presence of a particular chronic condition and thus identifies patients with a specific condition. A combination of the nominal and ratio data, as defined in the algorithm for each condition, determines the risk level for the individual patient.

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Following identification and stratification, patients/employees can be enrolled into the appropriate (low, moderate or high) disease management intervention program.

The first time the claims analysis is completed on the client's historical claims data, the client will be provided with a summary report that profiles its population as related to health care dollars spent, prevalence of disease, and the numbers of identified at-risk members by risk level. Claims data is used on a retrospective basis to assess the financial impact of the Care Team Connect programs and calculate savings and return on investment.

### Disease management services

Patient Infosystems' disease management services are provided for individuals with a diagnosis of asthma, diabetes, hypertension, or congestive heart failure. These services are comprehensive in approach and focus on both the medical and behavioral aspects of chronic health care management. The programs involve clinical assessments and the delivery of messages on self-care, medication compliance and treatment adherence. Through monitoring and on-going assistance, they empower the participants to become more proficient and proactive in managing their disease or condition. By including 24-hour access to the nurse help line, participants always have a place to turn for questions or issues that arise with their disease. The long-term goal of Patient Infosystems' disease management services is a judicious use of health care resources through health care education, as well as reinforcement of the provider's treatment plan.

The disease management programs are based on nationally recognized treatment guidelines for each disease state. The programs provide condition-specific assessment, support and education with behavior-based interventions according to the patient's identified risk level. Each of Patient Infosystems' chronic condition management programs is reviewed and updated as needed on an annual basis to assure that these programs reflect current knowledge and practices in clinical management.

Disease management interventions include various components according to the risk level of the target individual. These components are as follows:

- 
- Low risk:
    - o Quality of life surveys
    - o Reminders
    - o Static educational mailings
    - o 24-hour nurse help line
- 
- Moderate risk:
    - o Nurse engagement
    - o Quality of life surveys
    - o Chronic condition management program
    - o Reminders
    - o Static educational mailings
    - o 24-hour nurse help line
- 
- High risk:
    - o Nurse engagement
    - o Quality of life surveys
    - o "Gold" chronic condition management program
    - o Telemonitoring signs and symptoms assessment
    - o Reminders
    - o Static educational mailings
    - o 24-hour nurse help line
- 
- o Dedicated registered nurse as disease care

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- Critical risk:            manager
- o Baseline clinical assessment and treatment action plan
  - o Regularly scheduled on-going clinical patient assessments
- 

Disease management program components

Nurse engagement call

All moderate, high and critical risk disease management programs begin with a nurse engagement call. The nurse care counselor explains the specific program for which the member is targeted and the benefits of the program, while starting to build a relationship with the member. The nurse care counselor confirms the patient's acceptance to participate and obtains pertinent member information.

The nurse intervention assesses specific areas of clinical management based on national clinical practice guidelines. Specific to each disease, these include the following types of information:

- o Healthcare utilization.
- o Disease status.
- o Functional status.
- o Quality of care.
- o Treatment adherence and self-care practices.
- o Education/knowledge.
- o Motivation and program evaluation.

The assessment focuses on the most important health behaviors the patient must manage in order to effectively control symptoms of their disease.

Chronic condition management program

Moderate risk patients are enrolled in our chronic condition management programs. Each of the chronic condition management programs utilize a combination of telephone and mail interventions to monitor patients while providing educational information about disease-specific treatment guidelines.

By providing unique, individually tailored intervention strategies, Patient Infosystems provides each patient with personalized, educational feedback and positive reinforcement, both verbally and through written communication. Each telephonic intervention also generates an on-demand published report for the patient's physician/case manager.

"Gold" chronic condition management program

High risk patients are enrolled in our "gold" chronic condition management program. The "gold" program includes all of the components of the chronic condition management programs described previously, plus the incorporation of symptom assessment and monitoring throughout the duration of the contract.

Quality of life re-assessment and on-going monitoring

Quality of life surveys are periodically administered to assess patients' functional status.

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### Educational mailings

During the re-assessment and on-going monitoring portion of the program, patients receive disease-specific educational or reminder mailings.

### Reminders

Patients are periodically reminded of preventive measures they should take to better manage their health.

### Disease care management for critical risk patients

Disease care management is a specialized clinical intervention. The highly specialized clinical support by a registered nurse provides the management and coordination of patient care services for critical-risk individuals in a population.

The program's key functions are the following:

1. One-on-one support by a dedicated registered nurse.
2. Establishing an extensive baseline clinical assessment and treatment action plan.
3. Regularly scheduled on-going clinical patient assessments that include extensive disease monitoring and surveillance.

All facets of the individual's care are comprehensively and regularly reviewed by the disease care manager and regular communication is made with all members of the health care team.

At any point during a disease care management intervention, if the patient is assessed to require even more intense management, the Nurse will connect the patient with traditional case management.

### Care management services

Care management programs include the components of utilization management and case management and ensure that participants receive quality medical care at the best possible price, while maximizing plan benefits. The programs assist in avoiding unnecessary expenditures with an objective, information-intensive approach that combines clinical judgment with accepted practice patterns.

Care management services are provided through subcontracts with partner companies that are accredited by URAC. All policies and procedures reflect compliance with URAC standards and are further developed to ensure compliance with the legislative requirements of the states in which utilization review functions are performed.

The data collected from the Care Team Connect for Health interventions is stored in an integrated information warehouse which links the numerous programs and services. This integrated data warehouse allows our clients, the patient's providers and other associated service providers access to program data as necessary in order to best manage the member's health.

### Smoking Cessation Services

During 2003, Patient Infosystems began providing the call center operations for a smoking cessation program which is owned by and marketed

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by Behavioral Solutions. Patient Infosystems has the right to independently market this program for direct sales.

### Provider innovation and improvement support

In 2003, Patient Infosystems expanded its role in services to certain federally funded health centers that are sponsored by the Bureau of Primary Healthcare through the Institute for Healthcare Improvement that promote disease management programs directly to the providers in the health centers.

### Population Health Disease Management Systems and Strategies

Patient Infosystems provides technical assistance to the health centers relative to management of chronic disease. This includes organizations such as the federal government, health plans, state primary care associations, and the National Association of Community Health Centers.

### Learning Organization Services

Patient Infosystems serves as a teaching organization promoting improvement in care delivery systems. This includes logistics support for learning sessions, training; recruitment, development and support of faculty, subject matter experts in key topics; training in improvement methods and knowledge management of best practices. Topics include chronic disease management, idealized clinical practice design and the business case for planned care. Patient Infosystems collaborates with the Institute for Healthcare Improvement on such initiatives.

### Technical assistance

Patient Infosystems assists with the development of clinical registries used to more effectively manage patients with chronic disease. Patient Infosystems services include (i) project management and implementation of a patient registry for federally qualified health centers through a national initiative known as the Health Disparities Collaboratives and (ii) Patient Infosystems provides technical assistance in web based reporting applications for clinical outcomes. This project is administered as a subcontract through the Institute for Healthcare Improvement.

### Outcome Assessment, Data Collection and Reporting

Patient Infosystems collects data about clinical, financial, quality of life and satisfaction. This data is analyzed and outcomes are reported.

### Ancillary benefits management

Ancillary healthcare services include a broad array of services that supplement or support the care provided by hospitals and physicians, including the non-hospital, non-physician services associated with surgery centers, free-standing diagnostic imaging centers, home health and infusion, durable medical equipment, orthotics and prosthetics, laboratory and many other services. These ancillary services are provided to patients as benefits under Group Health plans and Workers Compensation plans.

- o Home Health Services
- o Surgical Centers
- o Laboratory Services
- o Home Infusion therapy
- o Chiropractic Services
- o Pain Management
- o Pharmacy
- o Respiratory Services
- o Sleep Studies
- o Sub-Acute and Skilled Nursing facilities

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- o Diagnostic Imaging/Radiology
- o Dialysis Services
- o Durable Medical Equipment
- o Hospice Services
- o Bone Growth Stimulators
- o Orthotics/Oanda/Prosthetics/Rehab

ACS manages the administration of these non-hospital, non-physician services.

Through its contracts with over 5000 ancillary service providers (with over 13,000 sites nationwide), ACS is able to offer its clients direct cost savings in the form of discounted rates for contracted services and administrative cost savings by functioning as a single point of contact for managing a comprehensive array of ancillary benefits. ACS benefits management services include processing the claims submitted by its covered providers, re-pricing the claims, submitting the claims for payment, receiving and disbursing claims payments and performing customer service functions for its clients and contracted providers. For preferred provider organization ("PPO"), third party administrator ("TPA") and similar clients, contracting with ACS also allows the clients to market comprehensive, efficient and affordable ancillary service benefits to their payor customers.

As part of its ancillary benefits management services, ancillary providers submit claims at full retail charges to ACS for services performed for covered members. ACS re-prices these claims under the relevant payor fee schedules, performs electronic conversion and HIPAA formatting services, and submits the re-priced claims to the appropriate payors. After adjudication of the claims by the Payor, the Payor issues an Explanation of Benefits and check for each claim. In most cases, these checks are sent to ACS. ACS then pays the providers under the relevant provider fee schedules. The difference between the amounts received by ACS from its clients and the amounts paid by ACS to its contracted providers represents ACS gross margin on its benefits management services.

Value-added services that ACS provides to its clients include the following:

**Ancillary network analysis.** ACS analyzes the available claims history from each client and develops a specific plan to meet their needs. This analysis identifies high-volume providers that are not already in ACS network. ACS attempts to contract with such providers to maximize discount levels and capture rates.

**Ancillary out-of-network negotiations.** For services performed by providers outside of the ACS network, ACS negotiates a discounted rate for the client on a case specific basis.

**Ancillary custom network.** ACS customizes its network to meet the needs of each client. In particular, ACS reviews the "out-of-network" claims history through its network analysis service and develops a strategy to create a network that efficiently serves the client's needs. This may involve adding additional providers for a client and removing providers the client wants excluded from their network.

**Ancillary reimbursement.** ACS uses its network analysis to develop a single reimbursement level for all ancillary providers. ACS also processes denials and appeals for its clients and for its contracted providers.

**Ancillary network management.** ACS manages ancillary service provider contracts, reimbursement and credentialing for its clients. This provides administrative benefits to ACS clients and reduces the burden on providers who typically must supply credentialing documentation and engage in contract negotiation with separate payors.



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Ancillary utilization management support. ACS provides support for utilization and case management efforts used by each payor. ACS facilitates preauthorization at the point of referral based on pre-established criteria. ACS also "flags" cases for follow-up, review, and concurrent reviews to ensure all the payor guidelines are followed by each service provider and the efficacy of services and progress of the patient is satisfactory. There are a large number of high demand cases that are subject to case management efforts. For those cases, ACS helps coordinate the supporting documentation and preparation of reports to manage and monitor progress and establishment of reserves for specific claims.

Ancillary systems integration. ACS has created a proprietary software system that enables it to manage many different customized accounts and includes the following modules:

- o Provider network management
- o Credentialing
- o Eligibility management and card printing
- o Claims and case referral management
- o Data transfer management/EDI
- o Repricing and auto-adjudication
- o Multi-level reimbursement management
- o Posting, EOB, check, and e-funds processes
- o Customer service management
- o Directory management
- o Claim repricing / adjudication
- o Advanced data reporting

Ancillary reporting. ACS provides a complete suite of reports to each client monthly. The reports cover contracting efforts and capture rates, discount levels, referral volumes by service category and complete claims and utilization reports.

Ancillary claims management. ACS provides claims management services through its operation in Pittsboro, Indiana. ACS can manage ancillary claims flow, both electronic and paper, and integrate into the client's process electronically or through repriced paper claims. ACS can also perform a number of customized processes that add additional value for each client. As part of the claims management process, ACS manages the documentation requirements specific to each payor. When claims are submitted from the service provider without required documentation, ACS works with the provider to get the documentation so that the claim is not denied by the payor. This also saves labor costs for the payors.

ACS estimates that at least 80% of all claims in ACS ancillary categories are submitted by paper. ACS is able to provide a conversion of these paper claims into the HIPAA-compliant Electronic Data Interchange ("EDI") form through its scanning operations.

### Sales and Marketing

Through 1997, Patient Infosystems' efforts focused primarily on the development of disease management programs. Beginning in 1998, Patient Infosystems began aggressively marketing the other services that its technology platform can provide, including demand management, patient surveys, pharmaceutical support programs and outcomes analysis. During 2002 and 2003, Patient Infosystems has marketed its integrated Care Team Connect for Health product. Its target market is the organization that pays for health care services on behalf of its members, employees or beneficiaries. These industry organizations include several groups: insurance companies, managed care organizations, third party administrators (TPA's), Taft-Hartley health and

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welfare funds, purchasing coalitions, and self-funded employer groups.

Sales and marketing efforts for the ACS product line are currently focused on healthcare payor organizations as well as certain value-added re-sellers in the form of TPAs or PPOs. ACS spent several years developing its business model, know-how, infrastructure, client base and provider base and until 2001, ACS focused on managing ancillary benefits in the Workers Compensation market. In early 2001, ACS expanded and refocused its business to address the management of ancillary benefits in the Group Health market. It launched its Group Health initiatives by marketing to healthcare networks such as TPAs and PPOs. As of the end of 2003, ACS began to focus its marketing efforts on the direct payor community. This is in alignment with the marketing focus for the Care Team Connect product line.

Patient Infosystems currently employs a sales and marketing staff of three persons to market its services. The Ancillary Network of ACS is marketed through one full time sales person and independent contractors providing additional commission salespersons. In addition, the senior members of Patient Infosystems' management are actively engaged in marketing Patient Infosystems' programs.

Patient Infosystems has agreements in place with several organizations to co-market Patient Infosystems' products and services. These agreements are in place with CBCA, formerly USI Administrators, Inc., Gilsbar, and Behavioral Solutions. CBCA and Gilsbar are third-party administrators; Behavioral Solutions is a subsidiary of Nelson Communications and the developers of the Quitting Your Way smoking cessation program. These agreements permit either company to co-market and sub-contract for the services of the other company.

### Competition

The market for health care information products and services is intensely competitive. Competitors vary in size and in scope and breadth of products and services offered, and Patient Infosystems competes with various companies in each of its disease target markets. Patient Infosystems' competitors include specialty health care companies, health care information system and software vendors, health care management organizations, pharmaceutical companies and other service companies within the health care industry. Many of these competitors have substantial installed customer bases in the health care industry and the ability to fund significant product development and acquisition efforts. Patient Infosystems also competes against other companies that provide statistical and data management services, including clinical trial services to pharmaceutical companies.

### Research and Development

Research and development expenses consist primarily of salaries, related benefits and administrative costs allocated to Patient Infosystems' research and development personnel. These personnel are actively involved in the conversion of Patient Infosystems' technology platform to a fully web-enabled design. Patient Infosystems' research and development expenses were \$131,782, or 2.3% of total revenues for the fiscal year ended December 31, 2003, \$105,614, or 4.5% of total revenues, for the fiscal year ended December 31, 2002, and \$190,731, or 12.0%, of total revenues, for the fiscal year ended December 31, 2001. Patient Infosystems anticipates that the amount spent on research and development will remain relatively constant in future periods as it continues its internal process to update its products.

### Government Regulation

The health care industry, including the current business of Patient Infosystems and the expanded operations of Patient Infosystems, including the business of ACS, following the closing of the acquisition described in the Asset

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Purchase Agreement, is subject to extensive regulation by both the Federal and state governments. A number of states have extensive licensing and other regulatory requirements applicable to companies that provide health care services. Additionally, services provided to health benefit plans in certain cases are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Furthermore, state laws govern the confidentiality of patient information through statutes and regulations that safeguard privacy rights. In addition, on August 21, 1996 Congress passed the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), P.L. 104-191. This legislation required the Secretary of the Department of Health and Human Services to adopt national standards for electronic health transactions and the data elements used in such transactions. Patient Infosystems and its customers may be subject to Federal and state laws and regulations that govern financial and other arrangements among health care providers. Furthermore, Patient Infosystems and its customers may be subject to federal and state laws and regulations governing the submission of false healthcare claims to the government and private payers. Possible sanctions for violations of these laws and regulations include minimum civil penalties between \$5,000-\$10,000 for each false claim and treble damages.

Therefore, Patient Infosystems must continually adapt to changing regulations. If Patient Infosystems' fails to comply with these applicable laws, the company may be subject to fines, civil penalties, or criminal prosecution.

### Employees

As of March 1, 2004, Patient Infosystems had 90 full time and 37 part-time employees.

## RISK FACTORS

### Forward-Looking Statements

When used in this and in future filings by Patient Infosystems with the Securities and Exchange Commission, in Patient Infosystems' press releases and in oral statements made with the approval of an authorized executive officer of Patient Infosystems, the words or phrases "will likely result," "expects," "plans," "will continue," "is anticipated," "estimated," "project," or "outlook" or similar expressions (including confirmations by an authorized executive officer of Patient Infosystems of any such expressions made by a third party with respect to Patient Infosystems) are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Patient Infosystems wishes to caution readers not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Patient Infosystems has no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

An investment in Patient Infosystems' common stock is speculative in nature and involves a high degree of risk. No investment in Patient Infosystems' common stock should be made by any person who is not in a position to lose the entire amount of such investment.

Working Capital Shortfalls; Urgent Need for Working Capital, Possible Cessation of Operations

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Patient Infosteams has never earned a profit and has depended upon the over \$30m that the Company has raised to date through its initial public offering, private placements of its equity securities and debt, to fund its working capital requirements. Patient Infosteams incurred an operating loss of approximately \$0.6 million with a net loss of approximately \$3.4 million for the year ended December 31, 2003 and had an approximate \$2.8 million deficit in working capital and shareholders' equity of approximately \$2 million at December 31, 2003. As of December 31, 2003, Patient Infosteams had total liabilities of \$7,174,782 and a working capital deficit of \$2,808,649. Since May 2003, Patient Infosteams' operation has been supported substantially by its operational cash flow. On December 31, 2003, Patient Infosteams acquired the assets of and assumed the liabilities for American Caresource Corporation and placed the operational assets and liabilities into a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"). It is anticipated that ACS will require significant additional working capital until it can fund its operational needs from operational cash flow, if at all. Existing working capital will last no more than a few months, and the Company anticipates that it will be required to raise at least an additional \$2 million in 2004 to sustain the operation of ACS. As with any forward-looking projection, no assurances can be given concerning the outcome of Patient Infosteams' actual financial status given the substantial uncertainties that exist. There can be no assurances that Patient Infosteams can raise either the required working capital through the sale of its securities or that Patient Infosteams can borrow the additional amounts needed. If it is unable to identify additional sources of capital, Patient Infosteams will likely be forced to curtail its operations or the operations of ACS. As a result of the above, the Independent Auditors' Report on Patient Infosteams' consolidated financial statements appearing at Item 13 includes an emphasis paragraph indicating that Patient Infosteams' recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### ACS' History of Operating Losses

ACS has incurred losses in each of the past four years and has not, since its inception, operated profitably. There can be no assurance that the acquisition of ACS will result in an increase in revenue or cash flows of Patient Infosteams.

During the last six months, ACS has received written notification of the termination of contractual relations from Pinnacol Assurance and two of its other customers which in the aggregate accounted for over 56% of ACS' revenues during the fiscal year ended December 31, 2003. The termination of these contracts will result in a significant reduction of ACS' revenues. Although a variety of reasons may be provided for the termination of each of the customer agreements, the termination of such an extensive amount of customer business may reflect a substantial level of customer dissatisfaction with the services provided by ACS. Although Patient Infosteams believes that it can provide assistance to ACS and that in combination with Patient Infosteams, ACS will be able to provide better services, no assurance can be given that more customers will not terminate their relationships with ACS following the closing of the Acquisition. In addition, ACS generally does not have long-term contracts with its other customers. Significant declines in the level of use of ACS services by one or more of its remaining customers could have a material adverse effect on ACS' business and results of operations. Additionally, an adverse change in the financial condition of any of these customers, including an adverse change as a result of a change in governmental or private reimbursement programs, could have a material adverse effect on its business.

History of Operating Losses; Continued Limited Patient Enrollment

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Patient Infosteams has incurred losses in every quarter since its inception in February 1995. Patient Infosteams' ability to operate profitably is dependent upon its ability to develop and market its products in an economically successful manner. To date, Patient Infosteams has been unable to do so. No assurances can be given that Patient Infosteams will be able to generate revenues or ever operate profitably in the future.

Patient Infosteams' prospects must be considered in light of the numerous risks, expenses, delays and difficulties frequently encountered in an industry characterized by intense competition, as well as the risks inherent in the development of new programs and the commercialization of new services particularly given its failure to date to operate profitably. There can be no assurance that Patient Infosteams will achieve recurring revenue or profitability on a consistent basis, if at all.

Patient Infosteams currently has patients enrolled in its disease-specific programs. Through January 2004, an aggregate of approximately 775,000 persons have been enrolled in Patient Infosteams' programs. While Patient Infosteams has been able to enroll a sufficient number of patients to cover the cost of its programs, it still has not been able to generate sufficient operational margin to achieve a net profit.

### Significant Customer Concentration

During 2000, a significant customer ceased operation of services supplied by Patient Infosteams, which had a material adverse effect on the results of operations. As of December 31, 2003, Patient Infosteams now has more customers than it did at December 31, 2001 or 2002. While the customer base is more diverse, there is still a significant concentration of Patient Infosteams' business in a small number of customers, with several of Patient Infosteams' most significant contracts being with IHI, CBCA and CHA Health. Patient Infosteams expects that its sale of services will be concentrated in a small number of customers for the foreseeable future. Consequently, the loss of any one of its customers could have a material adverse effect on Patient Infosteams and its operations. There can be no assurance that customers will maintain their agreements with Patient Infosteams, enroll a sufficient number of patients in the programs developed by Patient Infosteams for Patient Infosteams to achieve or maintain profitability, or that customers will renew their contracts upon expiration, or on terms favorable to, Patient Infosteams.

ACS' five largest (including its non-continuing customers) customers account for approximately 85% of its revenues. In addition, ACS does not have long-term contracts with its customers. The loss of one or more of these customers, or an adverse change in the financial condition of one or more of these customers, could have a material adverse effect on the business and results of operations of Patient Infosteams.

### Consequences of the Need to Raise Additional Working Capital

As Patient Infosteams seeks additional financing or purchases, it is likely that it will issue a substantial number of additional shares that may be extremely dilutive to the current stockholders and required substantial and material charges to earnings which will impact the net loss attributable to the common shareholders. As a result, the value of outstanding shares of common stock could decline further.

### Only One Independent Director; No Separate Audit Committee

The Board of Directors of Patient Infosteams now only consists of three persons. One director, Mr. Chaufournier, is also the Chief Executive Officer of Patient Infosteams. It is anticipated that it will be difficult to attract additional independent directors to join the Board of Directors. Currently, the

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Board of Directors meets as the Audit Committee. There is currently no independent director who qualifies as a qualified audit committee finance expert. The Company is seeking to identify additional persons who can serve as independent members of the Board of Directors and who may serve as members of its Audit Committee.

### Terminability of Agreements

Patient Infosystems' current services agreements with its customers generally automatically renew and may be terminated by those customers without cause upon notice of between 30 and 90 days. In general, customer contracts may include significant performance criteria and implementation schedules for Patient Infosystems. Failure to satisfy such criteria or meet such schedules could result in termination of the agreements.

### New Concept; Uncertainty of Market Acceptance; Limitations of Commercialization Strategy

In connection with the commercialization of Patient Infosystems' health information system, Patient Infosystems is marketing relatively new services designed to link patients, health care providers and payors in order to provide specialized disease management services for targeted chronic diseases. However, at this time, services of this type have not gained general acceptance from Patient Infosystems' customers. This is still perceived to be a new business concept in an industry characterized by an increasing number of market entrants who have introduced or are developing an array of new services. As is typical in the case of a new business concept, demand and market acceptance for newly introduced services are subject to a high level of uncertainty, and there can be no assurance as to the ultimate level of market acceptance for Patient Infosystems' system, especially in the health care industry, in which the containment of costs is emphasized. Because of the subjective nature of patient compliance, Patient Infosystems may be unable, for an extensive period of time, to develop a significant amount of data to demonstrate to potential customers the effectiveness of its services. Even after such time, no assurance can be given that Patient Infosystems' data and results will be convincing or determinative as to the success of its system. There can be no assurance that increased marketing efforts and the implementation of Patient Infosystems' strategies will result in market acceptance for its services or that a market for Patient Infosystems' services will develop or not be limited.

### Unpredictability of Patient Behavior May Affect Success of Programs

The ability of Patient Infosystems to monitor and modify patient behavior and to provide information to health care providers and payors, and consequently the success of Patient Infosystems' disease management system, is dependent upon the accuracy of information received from patients. Patient Infosystems has not taken and does not expect that it will take, specific measures to determine the accuracy of information provided to Patient Infosystems by patients regarding their medical histories. No assurance can be given that the information provided to Patient Infosystems by patients will be accurate. To the extent that patients have chosen not to comply with prescribed treatments, such patients might provide inaccurate information to avoid detection. Because of the subjective nature of medical treatment, it will be difficult for Patient Infosystems to validate or confirm any such information. In the event that patients enrolled in Patient Infosystems' programs provide inaccurate information to a significant degree, Patient Infosystems would be materially and adversely affected. Furthermore, there can be no assurance that patient interventions by Patient Infosystems will be successful in modifying patient behavior, improving patient health or reducing costs in any given case. Many potential customers may seek data from Patient Infosystems with respect to the results of its programs prior to retaining it to develop new disease management or other health information programs. Patient Infosystems' ability to market its system to new customers may

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be limited if it is unable to demonstrate successful results for its programs.

### Competition

The market for health care information products and services is intensely competitive and we expect this competition to increase. Patient Infosystems competes with various companies in each of its disease target markets. Many of Patient Infosystems' competitors have significantly greater financial, technical, product development and marketing resources than Patient Infosystems. Furthermore, other major information, pharmaceutical and health care companies not presently offering disease management or other health care information services may enter the markets in which Patient Infosystems intends to compete. In addition, with sufficient financial and other resources, many of these competitors may provide services similar to those of Patient Infosystems without substantial barriers. Patient Infosystems does not possess any patents with respect to its integrated information capture and delivery system.

Patient Infosystems' competitors include specialty health care companies, health care information system and software vendors, health care management organizations, pharmaceutical companies and other service companies within the health care industry. Many of these competitors have substantial installed customer bases in the health care industry and the ability to fund significant product development and acquisition efforts. Patient Infosystems also competes against other companies that provide statistical and data management services, including clinical trial services to pharmaceutical companies.

Patient Infosystems believes that the principal competitive factors in its market are the ability to link patients, health care providers and payors, and provide the relevant health care information at an acceptable cost. In addition, Patient Infosystems believes that the ability to anticipate changes in the health care industry and identify current needs are important competitive factors. There can be no assurance that competitive pressures will not have a material adverse effect on Patient Infosystems.

### Substantial Fluctuation in Quarterly Operating Results

Patient Infosystems' results of operations have fluctuated significantly from quarter to quarter as a result of a number of factors, including the volume and timing of sales and the rate at which customers implement disease management and other health information programs within their patient populations. Accordingly, Patient Infosystems' future operating results are likely to be subject to variability from quarter to quarter and could be adversely affected in any particular quarter.

### Dependence on Data Processing and Telephone Equipment

The business of Patient Infosystems is dependent upon its ability to store, retrieve, process and manage data and to maintain and upgrade its data processing capabilities. Interruption of data processing capabilities for any extended length of time, loss of stored data, programming errors, other computer problems or interruptions of telephone service could have a material adverse effect on the business of Patient Infosystems.

### Quality Control

Patient Infosystems has developed quality control measures designed to insure that information obtained from patients is accurately transcribed, that reports covering each patient contact are delivered to health care providers and patients and that Patient Infosystems' personnel and technologies are interacting appropriately with patients and health care providers. Quality control systems include random monitoring of telephone calls, patient surveys to confirm patient participation and effectiveness of the particular program, and

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supervisory reviews of telephone agents.

Patient Infosystems may have difficulty integrating the business of ACS with existing operations

The acquisition of ACS will involve the integration of a company that has previously operated in an entirely different business than that of Patient Infosystems. Patient Infosystems cannot assure you that the integration of Patient Infosystems with ACS will be successfully completed without encountering difficulties or experiencing the loss of key Patient Infosystems or ACS employees, customers or suppliers, or that the benefits from such integration will be realized. In addition, Patient Infosystems cannot assure you that the management teams of ACS and Patient Infosystems will be able to successfully work with each other.

### Government Regulation

The health care industry, including the current business of Patient Infosystems and the expanded operations of Patient Infosystems, including the business of ACS, is subject to extensive regulation by both the Federal and state governments. A number of states have extensive licensing and other regulatory requirements applicable to companies that provide health care services. Additionally, services provided to health benefit plans in certain cases are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and may be affected by other state and Federal statutes. Generally, state laws prohibit the practice of medicine and nursing without a license. Many states interpret the practice of nursing to include health teaching, health counseling, the provision of care supportive to, or restorative of, life and well being and the execution of medical regimens prescribed by a physician. Accordingly, to the extent that Patient Infosystems assists providers in improving patient compliance by publishing educational materials or providing behavior modification training to patients, such activities could be deemed by a state to be the practice of medicine or nursing. Although Patient Infosystems has not conducted a survey of the applicable law in all 50 states, it believes that it is not engaged in the practice of medicine or nursing. There can be no assurance, however, that Patient Infosystems' operations will not be challenged as constituting the unlicensed practice of medicine or nursing. If such a challenge were made successfully in any state, Patient Infosystems could be subject to civil and criminal penalties under such state's law and could be required to restructure its contractual arrangements in that state. Such results or the inability to successfully restructure its contractual arrangements, could have a material adverse effect on Patient Infosystems.

Patient Infosystems is subject to state laws governing the confidentiality of patient information. A variety of statutes and regulations exist to safeguard privacy and regulating the disclosure and use of medical information. State constitutions may provide privacy rights and states may provide private causes of action for violations of an individual's "expectation of privacy." Tort liability may result from unauthorized access and breaches of patient confidence. Patient Infosystems intends to comply with state law and regulations governing medical information privacy.

In addition, on August 21, 1996 Congress passed the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), P.L. 104-191. This legislation required the Secretary of Health and Human Services to adopt national standards for electronic health transactions and the data elements used in such transactions. The Secretary is required to adopt safeguards to ensure the integrity and confidentiality of such health information. Violation of the standards is punishable by fines and, in the case of negligent or intentional disclosure of individually identifiable health information, imprisonment. The Secretary has promulgated final rules addressing



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the standards, however, the implementation time line extends into 2003 and beyond. Although Patient Infosystems intends to comply with all applicable laws and regulations regarding medical information privacy, failure to do so could have an adverse effect on Patient Infosystems' business.

Patient Infosystems and its customers may be subject to Federal and state laws and regulations that govern financial and other arrangements among health care providers. These laws prohibit certain fee splitting arrangements among health care providers, as well as direct and indirect payments, referrals or other financial arrangements that are designed to induce or encourage the referral of patients to, or the recommendation of, a particular provider for medical products and services. Possible sanctions for violation of these restrictions include civil and criminal penalties. Specifically, HIPAA increased the amount of civil monetary penalties from \$2,000 to \$10,000. Criminal penalties range from misdemeanors, which carry fines of not more than \$10,000 or imprisonment for not more than one year, or both, to felonies, which carry fines of not more than \$25,000 or imprisonment for not more than five years, or both. Further, criminal violations may result in permanent mandatory exclusions and additional permissive exclusions from participation in Medicare and Medicaid programs.

Furthermore, Patient Infosystems and its customers may be subject to federal and state laws and regulations governing the submission of false healthcare claims to the government and private payers. Possible sanctions for violations of these laws and regulations include minimum civil penalties between \$5,000-\$10,000 for each false claim and treble damages.

Regulation in the health care field is constantly evolving. Patient Infosystems is unable to predict what government regulations, if any, affecting its business may be promulgated in the future. Patient Infosystems' business could be adversely affected by the failure to obtain required licenses and governmental approvals, comply with applicable regulations or comply with existing or future laws, rules or regulations or their interpretations.

### Significant and Extensive Changes in the Health Care Industry

The health care industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of health care industry participants. Several lawmakers have announced that they intend to propose programs to reform the U.S. health care system. These programs may contain proposals to increase governmental involvement in health care, lower reimbursement rates and otherwise change the operating environment for Patient Infosystems and its targeted customers. Health care industry participants may react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring certain expenditures, including those for Patient Infosystems' programs. Patient Infosystems cannot predict what impact, if any, such changes in the health care industry might have on its business, financial condition and results of operations. In addition, many health care providers are consolidating to create larger health care delivery enterprises with greater regional market power. As a result, the remaining enterprises could have greater bargaining power, which may lead to price erosion of Patient Infosystems' programs. The failure of Patient Infosystems to maintain adequate price levels could have a material adverse effect on its business.

### Dependence on Customers for Marketing and Patient Enrollment

Patient Infosystems has limited financial, personnel and other resources to undertake extensive marketing activities. One element of Patient Infosystems' marketing strategy involves marketing specialized disease management programs to pharmaceutical companies and managed care organizations, with the intent that those customers will market the program to parties responsible for the payment of health care costs, who will enroll patients in the programs. Accordingly,

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Patient Infosystems, will to a degree, be dependent upon its customers, over whom it has no control, for the marketing and implementation of its programs and for the receipt of valid patient information. The timing and extent of patient enrollment is completely within the control of Patient Infosystems' customers. Patient Infosystems has faced difficulty in receiving reliable patient information from certain customers, which has hampered its ability to complete certain of its projects. To the extent that an adequate number of patients are not enrolled in the program, or enrollment of initial patients by a customer is delayed for any reason, Patient Infosystems' revenue may be insufficient to support its activities.

### Control of Patient Infosystems

The executive officers, directors and certain stockholders of Patient Infosystems who beneficially own in the aggregate approximately 87.5% of the outstanding common stock control Patient Infosystems. As a result of such ownership, these stockholders, in the event they act in concert, will have control over the management policies of Patient Infosystems and all matters requiring approval by the stockholders of Patient Infosystems, including the election of directors.

### Potential Liability and Insurance

Patient Infosystems will provide information to health care providers and managed care organizations upon which determinations affecting medical care will be made. As a result, it could share in potential liabilities for resulting adverse medical consequences to patients. In addition, Patient Infosystems could have potential legal liability in the event it fails to record or disseminate correctly patient information. Patient Infosystems maintains an errors and omissions insurance policy with coverage of \$5 million in the aggregate and per occurrence. Although Patient Infosystems does not believe that it will directly engage in the practice of medicine or direct delivery of medical services and has not been a party to any such litigation, it maintains a professional liability policy with coverage of \$5 million in the aggregate and per occurrence. There can be no assurance that Patient Infosystems' procedures for limiting liability have been or will be effective, that Patient Infosystems will not be subject to litigation that may adversely affect Patient Infosystems' results of operations, that appropriate insurance will be available to it in the future at acceptable cost or at all or that any insurance maintained by Patient Infosystems will cover, as to scope or amount, any claims that may be made against Patient Infosystems.

### Intellectual Property

Patient Infosystems considers its methodologies, processes and know-how to be proprietary. Patient Infosystems seeks to protect its proprietary information through confidentiality agreements with its employees. Patient Infosystems' policy is to have employees enter into confidentiality agreements that contain provisions prohibiting the disclosure of confidential information to anyone outside Patient Infosystems. In addition, the policy requires employees to acknowledge, and, if requested, assist in confirming Patient Infosystems' ownership of any new ideas, developments, discoveries or inventions conceived during employment, and requires assignment to Patient Infosystems of proprietary rights to such matters that are related to Patient Infosystems' business.

### Item 2. Description of Properties.

Patient Infosystems' executive and corporate offices are located in Rochester, New York in approximately 6,500 square feet of leased office space. American Caresource Holdings, Inc., a subsidiary of Patient Infosystems, leases 18,400 square feet of office space in Irving, Texas and 7,500 square feet of office space in Pittsboro, Indiana. These operating leases expire at various

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times between April 30, 2004 and July 31, 2008. Patient Infossystems expects to extend those leases that expire during 2004 for a minimum of 12 months.

Patient Infossystems believes its offices are suitable to meet its current needs.

### Item 3. Legal Proceedings.

Neither Patient Infossystems, nor any of its subsidiaries, is a party to any material legal proceeding, nor, to the knowledge of Patient Infossystems, is any such proceeding threatened against it or any of its subsidiaries.

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

On December 31, 2003, Patient Infossystems held a special meeting of its stockholders to vote on the following proposals:

1. Approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of capital stock to 100,000,000 divided into 80,000,000 shares of common stock, par value \$0.01 per share and 20,000,000 shares of preferred stock, par value \$0.01 per share.

Vote results, Proposal 1:

For	Against	Abstain
48,170,647	445,940	6,920

This proposal was approved by the majority of shares voted.

2. Approval of an amendment to the Company's Certificate of Incorporation to change the Company's name to American CareSource Corporation.

Vote results, Proposal 2:

For	Against	Abstain
21,860,691	28,408,122	11,731

This proposal was NOT approved by the majority of shares voted.

3. Approval of an amendment to the Company's Certificate of Incorporation to provide for a 1 for 12 reverse stock split.

Vote results, Proposal 3:

For	Against	Abstain
50,220,884	56,700	2,890

This proposal was approved by the majority of shares voted.

4. Approval of an amendment to the Company's Amended and Restated Stock Option Plan to increase the number of authorized shares reserved for issuance under the plan from 1,680,000 to 3,500,000 shares.

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Vote results, Proposal 4:

For	Against	Abstain
48,506,897	112,710	3,900

This proposal was approved by the majority of shares voted.

### PART II

#### Item 5. Market Price for Registrant's Common Equity and Related Stockholder Matters.

##### (a) Market Information

Patient Infosteams' common stock is traded on the Over-the-Counter Bulletin Board (the "OTC Bulletin Board") under the symbol PATY. The following table sets forth, for the periods indicated, the range of high and low bid quotations for Patient Infosteams' common stock as quoted on the OTC Bulletin Board. The reported bid quotations reflect inter-dealer prices without retail markup, markdown or commissions, and may not necessarily represent actual transactions. Prices set forth below have been adjusted to give effect to the one for twelve reverse stock split which was approved by the stockholders on December 31, 2003.

	High	Low
2002		
First Quarter	\$2.40	\$0.72
Second Quarter	\$2.40	\$1.44
Third Quarter	\$3.60	\$1.08
Fourth Quarter	\$6.12	\$0.96
2003		
First Quarter	\$3.12	\$1.68
Second Quarter	\$3.00	\$0.96
Third Quarter	\$3.00	\$0.96
Fourth Quarter	\$4.08	\$1.32

##### (b) Holders

The approximate number of record holders of Patient Infosteams' common stock as of February 27, 2004 is 89. The approximate number of beneficial owners is in excess of 750.

##### (c) Dividends

Patient Infosteams has not declared cash dividends on its common stock.

Patient Infosteams is obligated to declare 9% cumulative dividends on its Series C Cumulative Convertible Preferred Stock that was issued on March 31, 2000 and its Series D Cumulative Convertible Preferred Stock that was issued between April 2003 and January 2004.

##### (d) Recent sales of unregistered securities

On February 24, 2004, Patient Infosteams sold 592,500 shares of common stock, for \$1,185,000 to six accredited investors, under an exemption from

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registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. There was \$68,250 of fees paid and a warrant to purchase 12,500 shares of Patient Infosteams common stock for \$2.00 per share issued in connection with these funds. Patient Infosteams has agreed to file a registration statement on Form SB-2 for these shares by April 23, 2004.

Between April 2003 and January 2004, Patient Infosteams issued 840,118 shares of Series D 9% Cumulative Convertible Preferred Stock ("Series D Preferred Stock") under the terms of the Note and Stock Purchase Agreement dated April 11, 2003 and amended on September 10, 2003. There was no placement agent and no commissions were paid to any party. These shares can be converted into common stock at a rate of 10 shares of common stock to 1 share of Series D Preferred Stock. Each share of Series D Preferred Stock has voting rights equivalent to 10 shares of common stock. John Pappajohn and Derace Schaffer, members of the Board of Directors of Patient Infosteams, held 424,233 and 5,318 shares of Series D Preferred Stock respectively. There was no placement agent and no commissions were paid to any party. The proceeds from this issuance have been used to repay debt and support the operations of Patient Infosteams' subsidiary, American Caresource Holdings, Inc.

On December 31, 2003, \$4,482,500 in debt and \$438,099 of accrued interest owed to Mr. Pappajohn and Dr. Schaffer was converted into 2,928,986 shares of Patient Infosteams' common stock, adjusted for the 1 for 12 reverse stock split that was approved by the shareholders on December 31, 2003. This debt conversion transaction could not occur until the stockholders of Patient Infosteams approved the amendment to the Certificate of Incorporation authorizing sufficient capital stock on December 31, 2003. The shares were issued to accredited investors under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. There was no placement agent and no commissions were paid to any party. A date for a meeting of the stockholders of Patient Infosteams has not yet been established.

On March 31, 2000, Patient Infosteams completed a private placement of 100,000 shares of newly issued Series C 9% Cumulative Convertible Preferred Stock ("Series C Preferred Stock"), raising \$1,000,000 in total proceeds. The shares were sold to four accredited investors, under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. There was no placement agent and no commissions were paid to any party. Due to the effect of the anti-dilution provisions of the Series C Preferred Stock and as a result of the issuance of the Series D Preferred Stock, these shares can be converted into common stock at a rate of ten shares of common stock to one share of Series C Preferred Stock. Each share of Series C Preferred Stock has voting rights equivalent to 10 shares of common stock. John Pappajohn and Derace Schaffer, members of the Board of Directors of Patient Infosteams, purchased 50,000 and 25,000 shares of Series C Preferred Stock respectively. The proceeds from this issuance have been used to support Patient Infosteams' operations. In February 2004, certain holders of 25,000 shares of these Series C Preferred Stock converted their shares into 250,000 shares of common stock.

On June 6, 2001, Patient Infosteams issued a total of 2,319,156 shares of unregistered common stock to Mr. Pappajohn and Dr. Schaffer as consideration for their continued financial support of Patient Infosteams. Based upon recent trading of Patient Infosteams' common stock at the time of issuance, Patient Infosteams assigned a fair market value of \$0.15 per share or a total of \$347,873 to these unregistered shares and realized this amount as an operating expense in June of 2001. The shares were issued to accredited investors under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. There was no placement agent and no commissions were paid to any party.

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## Equity Compensation Plan Information

	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in
	(a)	(b)	(c)
Equity compensation plans approved by securities holders	101,160	\$9.36	3,
Equity compensation plans not approved by securities holders	-	-	
<b>Total</b>	<b>101,160</b>	<b>\$9.36</b>	<b>3,</b>

### Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis provides a review of Patient Infosystems' operating results for the fiscal years ended December 31, 2003 and 2002, and its financial condition at December 31, 2003. The focus of this review is on the underlying business reasons for significant changes and trends affecting the revenues, net losses and financial condition of Patient Infosystems. This review should be read in conjunction with the accompanying consolidated financial statements.

In an effort to give investors a well-rounded view of Patient Infosystems' current condition and future opportunities, this Annual Report on Form 10-K includes forecasts by Patient Infosystems' management about future performance and results. Because they are forward-looking, these forecasts involve uncertainties. They include risks of market acceptance of, or preference for, Patient Infosystems' systems and services, competitive forces, the impact of, and changes in, government regulations, general economic factors in the healthcare industry, and other factors discussed in Patient Infosystems' filings with the Securities and Exchange Commission.

#### Overview

Patient Infosystems was formed on February 22, 1995. Although Patient Infosystems has completed the development of its core systems and has developed several disease management programs for specific diseases, Patient Infosystems is continuing to refine its products for additional applications. In October 1996, Patient Infosystems began enrolling patients in its first disease management program and began substantial patient contacts during 1998. Also in 1998, Patient Infosystems expanded its offered products to include demand management and health related surveys.

On December 31, 2003, Patient Infosystems acquired substantially all the assets and liabilities of American Caresource Corporation in exchange for 1,100,000 shares of Patient Infosystems common stock. Patient Infosystems

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created a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"), a Delaware corporation, and assigned the acquired assets and liabilities into this subsidiary, net of certain amounts which represented borrowings between Patient Infosystems and American Caresource Corporation. ACS enters into agreements with the providers of ancillary services pursuant to which ACS provides administrative services for its contracted providers, including patient scheduling services, call center services, payor contracting services, and billing and collection services. ACS also enters into agreements with preferred provider organizations ("PPOs"), third party administrators ("TPAs"), workers compensation benefits administrators, utilization review companies, case management companies and other healthcare networks pursuant to which ACS provides ancillary benefits management services for these payor clients.

Because the acquisition of assets and the operation of ACS occurred on December 31, 2003, the 2003 consolidated statement of operations of Patient Infosystems does not include any ACS operational results. Patient Infosystems acquired \$1,118,567 of assets and assumed \$2,368,327 of liabilities, resulting in a deficiency on the fair value of the net assets acquired of \$1,249,760. During 2004, Patient Infosystems will complete an independent valuation of the identifiable intangible assets acquired and any changes to the estimated amounts will be offset by a corresponding change in goodwill.

Patient Infosystems currently has patients enrolled in more than 30 of its disease-specific, demand management or survey programs. Through January 2004, an aggregate of over 775,000 persons have been enrolled or participated in Patient Infosystems' programs. Patient Infosystems has never been able to enroll a sufficient number of patients to cover the administrative cost of the business. The enrollment of patients in Patient Infosystems' programs has been limited by several factors, including the limited ability of clients to provide Patient Infosystems with accurate information with respect to the specific patient populations and coding errors that necessitated extensive labor-intensive data processing prior to program implementation.

In response to these market dynamics, Patient Infosystems has taken several tactical and strategic steps including, formal designation of internal personnel at customer sites to assist clients with implementation; closer integration of Patient Infosystems' systems personnel with clients to facilitate accurate data transfers; promotion of a broader product line to enable clients to enter Patient Infosystems' disease management programs through a variety of channels; fully integrating demand, disease and case management services to facilitate internal mechanisms for patient referrals and providing the customers access and control over their patients' confidential information through targeted use of Internet technology. The clinical design of the programs has been refined to enable participation through mail only, retaining those patients who previously would have been unable to participate because of missing or inaccurate telephone contact information. Patient Infosystems' demand management services and surveys (general health and disease-specific), can also provide mechanisms for enrollment into Patient Infosystems' disease management programs. Patient Infosystems continues to develop capabilities or relationships that will enable its customers to more effectively leverage the data stored in their legacy systems. Nevertheless, no assurance can be given that Patient Infosystems' efforts will succeed in increasing patient enrollment in its programs.

Patient Infosystems has entered into service agreements to develop, implement and operate programs for: (i) patients who have recently experienced certain cardiovascular events; (ii) patients who have been diagnosed with primary congestive heart failure; (iii) patients suffering from asthma; (iv) patients suffering from diabetes, (v) patients who are suffering from hypertension, (vi) demand management, which provides access to nurses, (vii) case and utilization management services provided by a third party, (viii) various survey initiatives which assess, among other things, satisfaction, compliance of providers or payors to national standards, health status or risk

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of specific health related events and (ix) the performance of specific administrative and management functions on behalf of a customer. These contracts provide for fees paid by its customers based upon the number of patients participating in each of its programs, as well as initial program implementation and set-up fees from customers. To the extent that Patient Infosystems has had limited enrollment of patients in its programs, Patient Infosystems' operations revenue has been, and may continue to be, limited.

Patient Infosystems has completed the development of its primary disease management programs, it anticipates that development revenue will continue to be minimal unless and until Patient Infosystems enters into new development agreements. Substantially all of the development revenue recognized during the years ended December 31, 2003, 2002 and 2001 of \$51,110, \$36,239 and \$78,632 related to requested feature modification or customization. These revenues are recognized upon completion and delivery of the requested feature.

Patient Infosystems' contracts typically call for a fee to be paid by the customer for each patient enrolled for a series of program services, require payment for services incrementally as they are delivered or require payment of a fixed fee per patient or member each month for bundled program services. The timing of customer payments for the delivery of program services varies by contract. Revenues from program operations are recognized ratably as the program services are delivered. The amount of the per patient fee varies from program to program depending upon the number of patient contacts required, the complexity of the interventions, the cost of the resources used and the detail of the reports generated.

Patient Infosystems' administration and management services cover a predefined set of deliverables and responsibilities undertaken on behalf of the customer. The customer pays for these services on a monthly basis and Patient Infosystems recognizes revenue each month based upon the services provided. During the year ended December 31, 2003, revenues received for administrative and management services were the most significant source of revenue. The services included: assisting organizations with the development of clinical registries used to increase effective management of patients with chronic disease. Patient Infosystems is supporting the development, including project management and implementation, of a patient registry for federally qualified health centers, through a national initiative known as the Health Disparities Collaboratives. The contract for these services is renewed annually. No assurances can be given that Patient Infosystems will be able to retain his source of revenue at its current level if at all.

Revenues from operations of \$2,241,796 for the year ended December 31, 2003, which includes fees received by Patient Infosystems for operating its programs, is the most strategically important source of Patient Infosystems' revenues. Patient Infosystems is continuing to devote significant efforts to increasing the number of programs that are in operation, as well as developing resources to expand its products. The revenue from these services currently exceeds the cost to provide them, but the volume of patients must grow substantially in order to provide sufficient operating margin to cover the administrative overhead of Patient Infosystems.

During 2003, Patient Infosystems found new sources of revenue that increased its revenue from \$2.4 million for the fiscal year ended December 31, 2002 to \$5.7 million for the same period of 2003. Patient Infosystems maintained control on costs and reduced its operating loss from \$1.7 million for the fiscal year ended December 31, 2002 to \$0.6 million for the same period of 2003. The most significant new sources of revenue were (i) Provider Innovation and Improvement support services provided to the Institute for Healthcare Improvement which provided \$3.2 million of revenue in 2003 as compared to \$0.1 million in 2002, (ii) Care Team Connect service provided to Park Place Entertainment which provided \$0.6 million of new revenue in 2003 and (iii) the



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Care Team Connect smoking cessation program which provided \$0.5 million of new revenue in 2003. No assurances can be given that revenue from these sources will continue at their current level, if at all, in future periods.

One source of additional new revenue in 2004 is ACS. ACS recognizes revenues for ancillary services when services by providers have been authorized and performed and collections from payors are reasonably assured. Patient claims revenues are recognized by ACS as services are provided. Cost of revenues for ancillary services consist of expenses due to providers for providing employee (patient) services and ACS' related direct labor and overhead of processing invoices, collections and payments. ACS is not liable for costs incurred by independent contract service providers until payment is received by ACS from the payors. ACS recognizes actual or estimated liabilities to independent contract service providers as the related revenues are recognized. Patient claim costs of revenue consist of amounts due the providers as well as ACS' direct labor and overhead to administer the patient claims. ACS has never operated at a profit, and will require significant growth in either claims volume from existing contracts, new contracts or both in order to generate sufficient operational margin to become profitable. No assurances can be given that sufficient sources of new revenue will be identified and other sources of capital will have to be secured by Patient Infosystems to support these operations. If Patient Infosystems is unable to generate enough working capital either from its own operations or through the sale of its equity securities, ACS may be required to curtail or cease operations.

The sales cycle for Patient Infosystems may be extensive from initial contact to contract execution. During these periods, Patient Infosystems may expend substantial time, effort and funds to prepare a contract proposal and negotiate the contract. Patient Infosystems may be unable to consummate a commercial relationship after the expenditure of such time, effort and financial resources.

During 2003, the pressure of working capital shortfalls eased for Patient Infosystems. Patient Infosystems' had \$123,998 of net cash provided by operating activities during 2003. During 2003, Patient Infosystems raised an additional \$3.5 million of working capital and an additional \$1.6 million as of March 31, 2004, through and the sale of its equity securities. These additional funds are being used to provide working capital for ACS. Patient Infosystems and ACS continue to incur losses and must identify substantial additional capital to sustain its operations. ACS' working capital shortfall is currently being funded by Patient Infosystems. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify any additional sources of capital, it will likely be forced to curtail or cease its operations or the operations of ACS. As a result of the above, the Independent Auditors' Report on Patient Infosystems' consolidated financial statements appearing at Item 15 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations, negative working capital and stockholders' deficit raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Results of Operations

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

#### Revenues

Revenues are comprised of revenues from operations fees, development fees and licensing fees. Revenues increased 141% to \$5,687,293 for the fiscal year

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ended December 31, 2003 from \$2,355,677 for the fiscal year ended December 31, 2002. A summary of these revenues by category is as follows for the fiscal years ended December 31:

Revenues	2003	2002
-----	-----	-----
Operations Fees	\$ 2,241,796	\$ 2,125,522
Consulting Fees	3,391,867	168,606
Development Fees	51,110	36,239
Licensing Fees	2,520	25,310
-----	-----	-----
Total	\$ 5,687,293	\$ 2,355,677
=====	=====	=====

Revenues from operations fees increased 5.5% from \$2,125,522 for the fiscal year ended December 31, 2002 to \$2,241,796 for the fiscal year ended December 31, 2003. Operations revenues are generated as Patient Infosystems provides services to its customers for their disease-specific programs, patient surveys, health risk assessments, patient satisfaction surveys, physician education programs and marketing support programs. Operations revenues increased in 2002 due to the growth of its disease and demand management business despite the loss of \$1,125,823 of revenue from a customer who terminated as of December 31, 2002. This growth is attributable primarily to Park Place Entertainment which added \$622,067 of new revenues and a new smoking cessation program which added \$491,362 of new revenues. Patient Infosystems has devoted the majority of its sales and marketing efforts toward increasing revenue from operations, and anticipates that it will retain most of its existing business and continue to add additional new clients. No assurances can be given that these revenues will increase, or that any change will be material to Patient Infosystems operating results.

Revenues from consulting increased 1,912% from \$168,606 for the fiscal year ended December 31, 2002 to \$3,391,867 for the fiscal year ended December 31, 2003. This increase is due to Patient Infosystems' expanded role in support of the Health Disparities Collaboratives funded by the Bureau of Primary Healthcare and administered by the Institute for Healthcare Improvement. Revenues from consulting may increase during 2004. No assurances can be given that these revenues will increase, or that any change will be material to Patient Infosystems operating results.

Revenues from development fees increased 41% from \$36,239 for the fiscal year ended December 31, 2002 to \$51,110 for the fiscal year ended December 31, 2003. In 2002 and 2003, Patient Infosystems received development revenues in connection with the enhancement of its existing programs. Development revenues include clinical, technical and operational design or modification of Patient Infosystems' primary disease management programs. Patient Infosystems anticipates that revenue from development fees will remain immaterial.

Revenues from licensing fees decreased 90% from \$25,310 for the fiscal year ended December 31, 2002 to \$2,520 for the fiscal year ended December 31, 2003. Licensing revenue represents amounts that Patient Infosystems charges its customers, either on a one-time only or continuing basis, for the right to enroll patients in, or the right to license other entities, certain of its programs, primarily Patient Infosystems' Internet-based Case Management Support System. Patient Infosystems anticipates that revenue from licensing will remain immaterial in future periods.

### Costs and Expenses

Cost of sales includes salaries and related benefits, services provided by third parties, and other expenses associated with the development of Patient Infosystems' customized disease state management programs, as well as the

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operation of each of its disease state management programs.

Cost of sales increased 117.4% from \$1,914,464 for the fiscal year ended December 31, 2002 to \$4,162,759 for the fiscal year ended December 31, 2003. The increase in these costs primarily reflects an \$1,187,960 increase in the use of outsourced services and addition of \$893,680 in staff costs related to the 141% increase in revenue.

Sales and marketing expenses increased 19.8% from \$746,353 for the fiscal year ended December 31, 2002 to \$893,833 for the fiscal year ended December 31, 2003. These costs consist primarily of salaries, related benefits and travel costs, sales materials and other marketing related expenses. Increased spending in this area is attributed primarily to an \$155,051 increase in staff related expenses. It is anticipated that Patient Infosystems will need to invest heavily in the sales and marketing process in future periods, and intends to do so as funds are available. To the extent that Patient Infosystems has limited funds available for sales and marketing, or cannot leverage its marketing partnerships adequately, it will likely be unable to invest in the necessary marketing activities to generate substantially greater sales.

General and administrative expenses include the costs of corporate operations, finance and accounting, human resources and other general operating expenses of Patient Infosystems. General and administrative expenses decreased 12.2% from \$1,282,683 for the fiscal year ended December 31, 2002 to \$1,125,926 for the fiscal year ended December 31, 2003. Patient Infosystems expects that general and administrative expenses will increase during 2004 due to the addition of the administrative costs of its new subsidiary, American Caresource Holdings, Inc. and then remain relatively constant in future periods, but may experience fluctuations due to uncertainties related to financing costs.

Research and development expenses consist primarily of salaries and related benefits and administrative costs allocated to Patient Infosystems' research and development personnel for development of certain components of its integrated information capture and delivery system, its Internet-based software products and its standardized disease state management programs. Research and development expenses decreased 24.8% from \$105,614 for the fiscal year ended December 31, 2002 to \$131,782 for the fiscal year ended December 31, 2003. The addition of American Caresource Holdings, Inc. is expected to increase overall research and development expenses during 2004. Patient Infosystems expects these costs to remain approximately at 15% of its total investment into information technology resources.

Financing costs were \$2,143,120 in 2003. This cost relates to the issuance of equity to, and incurrence of debt from, certain lenders pursuant to the Note and Stock Purchase Agreement dated April 10, 2003 and as amended on September 11, 2003, pursuant to which the lenders agreed to make short term loans to the Company. The total value received by the lenders from the Company under the Note and Stock Purchase Agreement as amended was \$8,852,458. In accordance with APB Opinion No. 14, a portion of the cash received totaling \$2,143,120 for year ended December 31, 2003 is allocable to equity resulting in a debt discount in that same amount, which was fully amortized as of December 31, 2003.

Other Income/Expense is comprised of interest expense and losses on investments. The totals are as follows for the fiscal years ended December 31:

	2003	2002
	-----	-----
Interest expense	\$ (753,685)	\$ (535,269)
Interest income	145,473	
Other income (expense)	376	4,345
	-----	-----
Total Expense	\$ (607,836)	\$ (530,924)

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Interest expense is due to debt. Interest expense increased to \$753,685 for the fiscal year ended December 31, 2003 from \$535,269 for the fiscal year ended December 31, 2002. The increase in interest expense reflects the increased debt required to fund operations and obtain capital which was loaned to American Caresource Corporation.

Interest income was realized from loans to American Caresource Corporation, which offset substantially all interest expense which Patient Infosystems incurred to obtain these funds.

Patient Infosystems had no tax benefit in 2003 due, in part, to recording a full valuation allowance to reduce its deferred tax assets. Patient Infosystems' deferred tax assets consist primarily of the tax benefit associated with its net operating loss carryforwards.

Management of Patient Infosystems has evaluated the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to zero, which represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

For the fiscal year ended December 31, 2003, Patient Infosystems recorded \$7,671,557 in dividends on convertible preferred stock as compared to \$90,000 for the year ended December 31, 2002. The increase was due to: (i) \$153,257 of dividends on 830,100 shares of Series D 9% Cumulative Convertible Preferred Stock ("Series D Preferred Stock") which was issued at various times between April and December 2003, (ii) a \$2,143,120 beneficial conversion feature related to shares of Series D Preferred Stock issued to certain lenders in connection with borrowings and (iii) \$5,285,180 beneficial conversion feature for the shares of Series D Preferred Stock issued on December 31, 2003 upon the exercise of the lender's option to convert their debt and accrued interest.

Patient Infosystems had a net loss attributable to common stockholders of \$11,049,518 for the fiscal year ended December 31, 2003, compared to \$2,314,361 for the fiscal year ended December 31, 2002. This represents a loss of \$3.25 per basic and diluted share for 2003 and \$2.36 for 2002, after giving effect to the 1 for 12 reverse stock split which was approved by the shareholders on December 31, 2003.

### Liquidity and Capital Resources

At December 31, 2003, Patient Infosystems had a working capital deficit of \$2,808,649 as compared to a working capital deficit of \$6,135,451 at December 31, 2002. At December 31, 2003, Patient Infosystems had a stockholders' equity of \$1,936,376. Through December 31, 2003 these amounts reflect the effects of Patient Infosystems' continuing losses that have been funded, in part, by the issuance of equity and long term borrowings of \$3,000,000 against its line of credit. Patient Infosystems has never earned profits and, since its inception, Patient Infosystems has primarily funded its operations, working capital needs and capital expenditures from the sale of its equity securities. Patient Infosystems is currently maintaining its operations only through the receipt of proceeds from the sale of equity securities. If these additional funds were not available, Patient Infosystems would likely be required to reduce its operations, reduce or cease the operations of American Caresource Holdings, Inc. or take other measures to curtail its losses.

In December 1999, Patient Infosystems established a credit facility for \$1,500,000 guaranteed by Derace Schaffer and John Pappajohn, two directors of

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Patient Infosystems. In March 2000, the facility was increased by \$1,000,000 under substantially the same terms, also guaranteed by the same Board members.

On March 28, 2001, Patient Infosystems entered into an Amended and Restated Credit Agreement with Wells Fargo Bank Iowa, N.A. ("Wells Fargo"), which extended the term of Patient Infosystems' credit facility to March 31, 2002 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn guaranteed this extension.

On March 28, 2002, Wells Fargo extended the term of the credit facility to March 31, 2003 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension.

On June 28, 2002, Patient Infosystems and Wells Fargo agreed on an addendum to the Amended and Restated Credit Agreement which extends the credit facility by an additional \$500,000, increasing the total credit facility to \$3,000,000. Mr. Pappajohn and Dr. Schaffer also guaranteed this extended credit facility.

On March 28, 2003, Wells Fargo extended the term of the credit facility to January 2, 2004 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension.

On December 31, 2003, Patient Infosystems and Wells Fargo further amended the credit facility and is due and payable on June 30, 2005. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension. In consideration for their guarantees, in February 2004 the Company granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of the Company's common stock for \$10.00 per preferred share.

January 2004, Patient Infosystems borrowed \$200,000 from Mr. Pappajohn, a director of the Company, in exchange for an unsecured note that bore no interest if repaid on or before March 31, 2004. The note was repaid on March 29, 2004 and bore no interest as of that date.

On March 30, 2004, Mr. Pappajohn and Mr. Schaffer signed a letter to Patient Infosystems in which they committed to obtain the operating funds that Patient Infosystems believes would be sufficient to fund its operations through December 31, 2004. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of Patient Infosystems' securities or that Patient Infosystems can borrow the additional amounts needed.

Patient Infosystems has expended significant amounts to expand its operational capabilities including increasing its administrative and technical costs. While Patient Infosystems has both curtailed its spending levels and increased its revenue, to the extent that American Caresource Holdings, Inc. revenues do not increase substantially, Patient Infosystems' losses will continue and its available capital will diminish further. Patient Infosystems' operations are currently being funded by the sale of equity securities. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify additional sources of capital, it will likely be forced to curtail or cease operations. As a result of the above, the Independent Auditors' Report on Patient Infosystems' consolidated financial statements includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might

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result from the outcome of this uncertainty.

Capital expenditures during 2003 were \$34,185, as compared to expenditures of \$8,867 during 2002 and \$9,240 during 2001. The expenditures during these periods represented the purchase of technology platform components of the integrated information capture and delivery systems, as well as purchases required to maintain Patient Infosystems' technology infrastructure. On December 31, 2003, Patient Infosystems acquired substantially all the assets and assumed substantially all the liabilities of American Caresource Corporation. Included among the assets acquired was \$152,480 of capital assets, which consisted of computer hardware and software, furnishings, fixtures and leasehold improvements.

### Inflation

Inflation did not have a significant impact on Patient Infosystems' operations during 2003, 2002 or 2001. Patient Infosystems continues to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

### Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 requires disclosure about variable interest entities for which it is reasonably possible that the Company will be required to consolidate or disclose information when the Interpretation becomes effective. The Company has determined that it does not have any variable interest entities which would require consolidation in accordance with FIN 46.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The adoption of SFAS No. 150 in 2003 did not have an effect on the Company's consolidated financial statements.

### Critical Accounting Policies

The SEC recently issued disclosure guidance for critical accounting policies. The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Patient Infosystems significant accounting policies are described in Note 1 to the Consolidated Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following accounting policies could be deemed to be critical by the Securities and Exchange Commission.

**Use of Estimates.** In preparing the consolidated financial statements Patient Infosystems uses estimates in determining the economic useful lives of its assets, provisions for doubtful accounts, tax valuation allowances and various other recorded or disclosed amounts. Estimates require management to use its judgment. While Patient Infosystems believes that its estimates for these matters are reasonable, if the actual amount is significantly different than the estimated amount, its assets, liabilities or results of operations may be overstated or understated.

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Impairment of Long-Lived Assets. Patient Infosystems records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the actual value is significantly less than the estimated value, Patient Infosystems assets may be overstated.

### Item 7. Financial Statements and Supplemental Data.

The financial statements and supplementary data, together with the report thereon by Patient Infosystems independent auditor, are listed below in Item 13.

### Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

### Item 8A. Controls and Procedures.

#### (a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Vice President, Financial Planning, has evaluated the effectiveness of our disclosure controls and procedure as of December 31, 2003. Based upon this evaluation, our Chief Executive Officer and Vice President, Financial Planning concluded that our disclosure controls and procedures are effective for the recording, processing, summarizing and reporting the information that the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. Such evaluation did not identify any change in our internal control over financial reporting that occurred during the quarter ended September 30, 2003 that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

#### (b) Changes in Internal Controls.

There were no significant changes in Patient Infosystems' internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

## PART III

### Item 9. Directors and Executive Officers of the Registrant.

Incorporated by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2003.

### Item 10. Executive Compensation.

Incorporated by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2003.

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Item 11. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2003.

Item 12. Certain Relationships and Related Transactions.

Incorporated by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2003.

### PART IV

Item 13. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a) The following financial statements and schedules are filed at the end of this annual report, beginning on page F-1. Other schedules are omitted because they are not required or are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Index to Financial Statements	Page
Independent Auditors' Report	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statements of Stockholders' Equity (Deficit)	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6
Schedule II - Valuation and Qualifying Accounts	S-1

- (b) Reports on Form 8-K.

Patient Infosystems filed a current report on Form 8-K on December 9, 2003 announcing the adjournment of its special meeting until December 23, 2003.

Patient Infosystems filed a current report on Form 8-K on December 23, 2003 announcing the adjournment of its special meeting until December 31, 2003.

Patient Infosystems filed a current report on Form 8-K on December 31, 2003 filing a copy of a press release dated December 31, 2003 that announced the closing of the acquisition of American CareSource, reverse stock split and results of special meeting of stockholders.

Patient Infosystems filed a current report on Form 8-K on January 9, 2004 with a copy of a press release announcing the reverse stock split and the new ticker symbol PATY.

Patient Infosystems filed a current report on Form 8-K on January 15, 2004 reporting the acquisition and disposition of assets.

Patient Infosystems filed a current report on Form 8-K on February 13, 2004 filing a copy of a press release announcing that Patient Infosystems, Inc. would present at Roth Capital Partners 16th Annual Growth Stock Conference.

Patient Infosystems filed a current report on Form 8-K/A on March 15, 2004 updating the information provided in the report on Form 8-K dated January 15,



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2004, reporting the financial information required in Item 7 thereof.

(c) Exhibits.

Exhibit #	Description of Exhibits
3.1	Certificate of Amendment to the Certificate of Incorporation
3.2 *	By-Laws
4.1	Patient Infosystems, Inc. Amended and Restated Stock Option Plan
4.2 ***	Certificate of Designations, Powers, Preferences and Relative, Participating, Optional or Other Special Rights, and the Qualifications, Limitations Thereof of the Series C Preferred Stock of Patient InfoSystems, Inc.
10.20 +	Lease Agreement dated as of February 22, 1995 between Patient Infosystems and Conifer Prince Street Associates.
10.21 +	First Addendum to Lease Agreement dated as of August 22, 1995 between Patient Infosystems and Conifer Prince Street Associates.
10.22 +	Second Addendum to Lease Agreement dated as of November 17, 1995 between Patient Infosystems and Conifer Prince Street Associates.
10.23 +	Third Addendum to Lease Agreement dated as of March 28, 1996 between Patient Infosystems and Conifer Prince Street Associates.
10.24 +	Fourth Addendum to Lease Agreement dated as of October 29, 1996 between Patient Infosystems and Conifer Prince Street Associates.
10.25 +	Fifth Addendum to Lease Agreement dated as of November 30, 1996 between Patient Infosystems and Conifer Prince Street Associates.
10.26 +	Sixth Addendum to Lease Agreement dated as of November 24, 1997 between Patient Infosystems and Conifer Prince Street Associates.
10.30 ++	Seventh Addendum to Lease Agreement dated as of June 16, 1999 between Patient Infosystems and Conifer Prince Street Associates.
10.33 ++	Revolving Note dated as of December 23, 1999 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.34 ++	Credit Agreement dated as of December 23, 1999 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.35 ++	Security Agreement dated as of December 23, 1999 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.36 ++	Arbitration Agreement dated as of December 23, 1999 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.37 ++	Financing Statement executed by Patient Infosystems and Norwest Bank Iowa, National Association.
10.38 ++	First Amendment to Credit Agreement dated as of March 21, 2000 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.39 ++	Note Modification Agreement dated as of March 21, 2000 between

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Patient Infosystems and Norwest Bank Iowa, National Association.

- 10.41 \*\*\* Form of Subscription Agreement dated on or about March 31, 2000 between Patient Infosystems and John Pappajohn, Derace Schaffer, Gerald Kirke and Michael Richards for Series C 9% Cumulative Convertible Preferred Stock.
- 10.42 \*\*\* Form of Registration Rights Agreement dated on or about March 31, 2000 between Patient Infosystems and John Pappajohn, Derace Schaffer, Gerald Kirke and Michael Richards for Series C 9% Cumulative Convertible Preferred Stock.
- 10.43 \*\*\* Eighth Addendum to Lease Agreement dated as of December 8, 2000 between Patient Infosystems and Conifer Prince Street Associates.
- 10.45 \*\*\* Amended and Restated Credit Agreement dated as of March 28, 2001 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
- 10.46 \*\*\* Revolving Note dated as of March 28, 2001 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
- 10.47 \*\*\* Form of Promissory Notes payable to Dr. Schaffer and Mr. Pappajohn.
- 10.48 \*\*\* Form of Security Agreements with Dr. Schaffer and Mr. Pappajohn.
- 10.49 \*\*\* Ninth Addendum to Lease Agreement dated as of January 7, 2002 between Patient Infosystems and Conifer Prince Street Associates.
- 10.50 # Letter of Agreement dated as of March 25, 2002 between Patient Infosystems, John Pappajohn and Derace Schaffer.
- 10.51 # Second Amended and Restated Credit Agreement dated as of March 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
- 10.52 # Revolving Note dated as of March 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
- 10.53 # Security Agreement dated as of March 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
- 10.54 ## Addendum to Amended and Restated Credit Agreement dated as of June 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
- 10.55 ## Agreement for Purchase and Sale of Assets dated as of September 23, 2002 between Patient Infosystems and American CareSource Corporation.
- 10.56 ### Tenth Addendum to Lease Agreement dated as of June 24, 2002 between Patient Infosystems and Conifer Prince Street Associates.
- 10.57 ### Eleventh Addendum to Lease Agreement dated as of December 30, 2002 between Patient Infosystems and Conifer Prince Street Associates.
- 10.58 ### Letter of Agreement dated as of March 28, 2003 between Patient Infosystems, John Pappajohn and Derace Schaffer.
- 10.59 ### Second Addendum to Second Amended and Restated Credit Agreement dated as of March 28, 2003 between Patient Infosystems and Wells Fargo Bank, National Association.

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- 10.60 ### Modification Agreement dated as of March 28, 2003 between Patient Infosystems and Wells Fargo Bank, National Association.
- 10.61 ^ Amended and Restated Agreement for the Purchase and Sale of Assets among Patient Infosystems, Inc., American Caresource Corporation, formerly known as Health Data Solutions, and the Stockholders Signatory hereto, dated April 10, 2003.
- 10.62 ^ Note and Stock Purchase Agreement between Patient Infosystems, Inc. and a group of investors, dated April 10, 2003.
- 10.63 ^ Patient Infosystems, Inc. Series D Convertible Preferred Stock Registration Right Agreement dated April 10, 2003.
- 10.64 ^ Credit Agreement between American Caresource Corporation and Patient Infosystems, Inc. dated April 10, 2003.
- 10.65 ^^ Twelfth Addendum to Lease Agreement dated as of April 28, 2003 between Patient Infosystems and Conifer Prince Street Associates.
- 10.66 ^^ Thirteenth Addendum to Lease Agreement dated as of June 27, 2003 between Patient Infosystems and Conifer Prince Street Associates.
- 10.67 ^^^ Amendment No. 1 to the Amended and Restated Agreement for the Purchase and Sale of Assets dated as of July 30, 2003 between Patient Infosystems and American Caresource Corporation.
- 10.68 ^^^ Amendment No. 1 to the Note and Stock Purchase Agreement dated as of September 11, 2003 between Patient Infosystems and a group of investors.
- 10.69 ^^^ Amendment No. 1 to the Credit Agreement dated as of July 30, 2003 between Patient Infosystems and American Caresource Corporation.
- 10.70 ^^^ Amendment No. 2 to the Amended and Restated Agreement for the Purchase and Sale of Assets dated as of October 8, 2003 between Patient Infosystems and American Caresource Corporation.
- 10.71 Third Addendum to Second Amended and Restated Credit Agreement dated as of December 31, 2003 between Patient Infosystems and Wells Fargo Bank, National Association.
- 10.72 Form of Securities Purchase Agreement.
- 11 Statements re: computation of Per Share Loss the year ended December 31, 2003 can be found in the Patient Infosystems, Inc. Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001 in Note 1, "Net loss pre share" on page F-9 of Form 10-KSB, and is incorporated herein by reference.
- 21.1 Subsidiaries.
- 23.1 Consent of Deloitte & Touche LLP.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- \* Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-1 filed on July 3, 1996 and incorporated herein by reference.
  - \*\* Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-8 filed on May 3, 2000 and incorporated herein by reference.
  - \*\*\* Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 2, 2001 and incorporated herein by reference.
  - + Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 13, 1999 and incorporated herein by reference.
  - ++ Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on March 30, 2000 and incorporated herein by reference.
  - # Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 10, 2002 and incorporated herein by reference.
  - ## Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-Q filed on November 14, 2002 and incorporated herein by reference.
  - ### Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on March 31, 2003 and incorporated herein by reference.
  - ^ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on May 15, 2003 and incorporated herein by reference.
  - ^^ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on August 15, 2003 and incorporated herein by reference.
  - ^^^ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on November 14, 2003 and incorporated herein by reference.

Item 14 Principal Accountant Fees and Services.

Incorporated by reference from the Item 9(e) of Schedule 14A to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2003.

SIGNATURE PAGE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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PATIENT INFOSYSTEMS, INC.

By: /s/Roger L. Chaufournier March 30, 2004  
-----  
Roger L. Chaufournier Date  
Director, President, and Chief Executive Officer

Pursuant to the requirements the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Roger L. Chaufournier March 30, 2004  
-----  
Roger L. Chaufournier Date  
Director, President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/Kent A. Tapper March 30, 2004  
-----  
Kent A. Tapper Date  
Vice President Financial Planning  
(Principal Financial and Accounting Officer)

By: /s/Derace L. Schaffer, M.D. March 30, 2004  
-----  
Derace L. Schaffer, M.D. Date  
Chairman of the Board

By: /s/John Pappajohn March 30, 2004  
-----  
John Pappajohn Date  
Director

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
of Patient InfoSystems, Inc.  
Rochester, New York

We have audited the accompanying consolidated balance sheets of Patient Infosystems, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 13. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

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financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Patient Infosystems, Inc. and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Deloitte & Touche LLP

Deloitte & Touche LLP  
Rochester, New York  
March 30, 2004

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PATIENT INFOSYSTEMS, INC.

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2003 AND 2002

ASSETS	2003
CURRENT ASSETS:	
Cash and cash equivalents	\$ 397,851
Accounts receivable (net of doubtful accounts allowance of \$52,141 and \$55,000)	771,258
Prepaid expenses and other current assets	156,729
Notes receivable	-
Total current assets	1,325,838
PROPERTY AND EQUIPMENT, net	305,551
OTHER ASSETS:	
Intangible assets (net of accumulated amortization of \$586,830 and \$443,258)	497,893
Goodwill	6,981,876
TOTAL ASSETS	\$ 9,111,158
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	

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CURRENT LIABILITIES:		
Bank overdraft		\$ 189,608
Accounts payable		1,337,862
Accrued salaries and wages		442,299
Accrued expenses		1,472,445
Accrued interest		61,558
Current maturities of long-term debt		294,117
Borrowings from directors		-
Deferred revenue		336,598
		-----
Total current liabilities		4,134,487
LINE OF CREDIT		3,000,000
LONG-TERM DEBT		40,295
COMMITMENTS (Note 7)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock - \$.01 par value: shares authorized: 20,000,000		
Series C, 9% cumulative, convertible		
issued and outstanding: 2003 & 2002 - 100,000		1,000
Series D, 9% cumulative, convertible		
issued and outstanding: 2003 - 830,100		8,301
Common stock - \$.01 par value:		
authorized: 80,000,000; issued and outstanding: 2003 - 4,960,354		
authorized: 20,000,000; issued and outstanding: 2002 - 10,956,024		49,604
Additional paid-in capital		45,596,684
Accumulated deficit		(43,719,213)
		-----
Total stockholders' equity (deficit)		1,936,376
		-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		\$ 9,111,158
		-----

See notes to consolidated financial statements.

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PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
REVENUES	\$ 5,687,293	\$ 2,355,677	\$ 1,586,443
	-----	-----	-----
COSTS AND EXPENSES:			
Cost of revenue	4,162,759	1,914,464	2,420,151
Sales and marketing	893,833	746,353	813,975
General and administrative	1,125,926	1,282,683	2,028,804
Research and development	131,782	105,614	190,731
	-----	-----	-----
Total costs and expenses	6,314,300	4,049,114	5,453,661

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OPERATING LOSS	(627,007)	(1,693,437)	(3,867,218)
Amortization of debt discount	(2,143,120)	-	-
Other expense, net	(607,834)	(530,924)	(598,087)
NET LOSS	(3,377,961)	(2,224,361)	(4,465,305)
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(7,671,557)	(90,000)	(90,000)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (11,049,518)	\$ (2,314,361)	\$ (4,555,305)
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (3.25)	\$ (2.36)	\$ (5.17)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	3,399,616	979,668	880,875

See notes to consolidated financial statements.

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PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital
Balance at December 31, 2000	8,220,202	\$ 82,202	100,000	\$ 1,000	\$23,951,103
Compensation expense related to issuance of stock	2,319,156	23,191	-	-	329,482
Debt issuance costs in the form stock warrants	-	-	-	-	35,735
Immaculate exercise of stock warrants	416,666	4,167	-	-	(4,167)
Dividends on Series C Convertible Preferred Stock	-	-	-	-	(90,000)
Net loss for the year ended December 31, 2001	-	-	-	-	-
Balance at December 31, 2001	10,956,024	109,560	100,000	1,000	24,222,153
Dividends on Series C Convertible Preferred Stock	-	-	-	-	(90,000)



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Net loss for the year ended December 31, 2002	-	-	-	-	-
Balance at December 31, 2002	10,956,024	109,560	100,000	1,000	24,132,153
Exercise of stock options	400	4	-	-	32
Give effect to 1 for 12 reverse split of common stock	(10,043,389)	(100,434)	-	-	100,434
Issuance of common stock	4,047,319	40,474	-	-	6,759,023
Issuance of Series D Preferred	-	-	830,100	8,301	7,419,999
Beneficial Conversion on Series D issuance	-	-	-	-	7,428,300
Dividends on Series C Convertible Preferred Stock	-	-	-	-	(90,000)
Series D Convertible Preferred Stock	-	-	-	-	(153,257)
Net loss for the year ended December 31, 2003	-	-	-	-	-
Balance at December 31, 2003	4,960,354	\$ 49,604	930,100	\$ 9,301	\$45,596,684

See notes to consolidated financial statements.

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PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	
	----	
OPERATING :		
Net loss	\$ (3,377,961)	\$ (2,
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	310,433	
Amortization of debt discount	2,143,120	
Gain on sale of property	-	
Noncash interest income	(129,499)	
Loss on investments	-	
Compensation expense related to issuance of stock warrants and options	-	
Decrease (increase) in accounts receivable	156,393	
(Increase) decrease in prepaid expenses and other current assets	(34,960)	
Increase (decrease) in accounts payable	172,084	
Increase in accrued salaries and wages	40,025	
Increase (decrease) in accrued expenses	19,007	
Increase in accrued interest	645,832	

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Increase (decrease) in deferred revenue	179,524	
	123,998	(1
Net cash provided by (used in) operating activities		
<b>INVESTING:</b>		
Property and equipment additions	(34,185)	
Proceeds from sale of property and equipment	-	
Increase in notes receivable	-	
Acquisition of American Caresource, net of cash acquired of \$1,710	(3,348,290)	
Acquisition expenses	(173,719)	
	(3,556,194)	
Net cash used in investing activities		
<b>FINANCING:</b>		
Exercise of stock options	36	
Borrowings from directors	150,000	1
Borrowings from shareholders	3,675,000	
Proceeds from line of credit	-	
	3,825,036	1
Net cash provided by financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>392,840</b>	
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>5,011</b>	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 397,851</b>	
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest expense	\$ 97,559	\$

See notes to consolidated financial statements.

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PATIENT INFOSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Patient Infosystems, Inc. (the "Company") designs and develops health care information systems and services to manage, collect and analyze patient-related information to improve patient compliance with prescribed treatment protocols. Through its various patient compliance programs for disease state management, the Company provides important benefits for the patient, the health care provider and the payor.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Patient Infosystems Canada, Inc., which ceased operations in January 2001 and American Caresource Holdings, Inc. which was created in December 2003. Significant intercompany transactions and balances have been eliminated in consolidation.

Acquisition - On December 31, 2003, the Company acquired substantially all the assets and liabilities of American Caresource Corporation for a total

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purchase price of \$5,732,116. The purchase consideration included (a) 1,100,000 shares of common stock valued at \$1,848,000; (b) \$3,679,499 of notes and accrued interest owed the Company by American Caresource Corporation that was extinguished by the business combination and (c) \$204,617 of direct expenses associated with the acquisition. The common stock issued in the transaction was valued at \$1.68 per share based upon the measurement date for this transaction of April 14, 2003, which is the date the terms of the proposed transaction were agreed upon and announced to the public.

Information related to the acquisition is as follows:

Purchase price	\$	5,732,116
		=====
Purchase allocation:		
Current assets	\$	504,087
Property and equipment		152,480
Identifiable intangible assets		462,000
Current liabilities, excluding current portion of long-term debt		(2,033,915)
Long-term debt		(334,412)
Goodwill		6,981,876
		-----
	\$	5,732,116

This acquisition has been accounted for using the purchase method of accounting and accordingly, the results of the operations of this acquisition have been included in the consolidated financial statements from the date of the acquisition. Since the acquisition occurred at the close of business on December 31, 2003, there are no operating results reflected in the accompanying 2003 consolidated statement of operations.

The allocation of the purchase price to identifiable intangible assets and goodwill has not been finalized, and any required adjustments will be recorded as necessary in 2004.

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The following unaudited pro forma summary presents the Company's consolidated results of operations for 2003 and 2002 as if the acquisition had been consummated at January 1, 2002. The pro forma consolidated results of operations include certain pro forma adjustments, including the amortization of identifiable intangible assets and interest on certain debt.

	December 31,	
	2003	2002
Revenue	\$ 14,851,682	\$ 11,996,811
Operational costs	(18,882,522)	(17,936,490)
Other costs	(2,490,533)	(166,707)
Net loss	(6,521,373)	(6,106,380)
Dividends and beneficial conversions	(837,090)	(8,265,390)

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Net loss attributable to common shareholders	\$ (7,358,463)	\$ (14,371,770)
<hr/>		
Net loss per share (using 3,399,616 weighted average shares outstanding at December 31, 2003.	\$ (2.16)	\$ (4.23)
<hr/>		

The pro forma results are not necessarily indicative of those that would have occurred had the acquisition taken place at the beginning of the periods presented.

Going Concern - The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company incurred a net loss for 2003 of \$3,377,961 and had negative working capital of \$2,808,649 at December 31, 2003. These factors, among others, may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependant upon its ability to generate sufficient cash flow to meet its obligations, to obtain additional financing and, ultimately, to attain successful operations.

Management is currently assessing the Company's operating structure for the purpose of reducing ongoing expenses, increasing sources of revenue and is negotiating the terms of additional debt or equity financing. The recently completed acquisition of American Caresource Corporation is being integrated into the operation of the Company. Opportunities to expand the existing customer relationships of both organizations to include the services of both organizations are being assessed by management. Management believes that the access to capital will provide the newly acquired entity the stability needed to begin a period of growth. In addition, successes in outcomes from disease management programs are being leveraged in an attempt to increase revenues from sales.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Fair Value of Financial Instruments - The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, borrowings from directors, a line of credit and long-term debt. The fair value of instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair value of short-term financial instruments approximates their recorded values due to the short-term nature of the instruments. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying value.

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Revenue Recognition and Deferred Revenue - The Company's principal source of revenue to date has been from contracts with various pharmaceutical companies and managed care organizations for the development and operation of disease management programs for chronic diseases, disease management programs and other health care information system applications. Deferred revenue represents amounts billed in advance of delivery under these contracts.

Development Contracts - The Company's program enhancements consist of specific changes or modifications to existing products requested by customers and are short-term in nature. Therefore, revenue is recognized upon delivery of the enhancement.

Program Operations - The Company's program operation contracts call for a per-enrolled patient fee to be paid by the customer for a series of program services as defined in the contract. The timing of customer payments varies by contract, but typically occurs in advance of the associated services being provided. Revenues from program operations are recognized ratably as the program services are delivered.

Licenses - Revenue derived from software license fees is recognized when the criteria established by Statement of Position 97-2, Software Revenue Recognition, is satisfied. License fees associated with hosting arrangements (e.g., arrangements that include the right of the customer to use the software stored on the Company's hardware), are recognized ratably over the hosting period when such fees are fixed and determinable. Hosting fees with payment terms extending past one year are recognized as payments become due.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Concentrations of Credit Risk - Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high credit quality institutions.

The Company's current contracts are concentrated in a small number of customers, consequently, the loss of any one of its customers could have a material adverse effect on the Company and its operations. During the years ended December 31, 2003, 2002 and 2001, approximately \$3,635,661 (64%), \$1,680,475 (71%), and \$1,027,931 (65%), respectively, of the Company's revenues arose from contracts with three customers. At December 31, 2003 and 2002, accounts receivable included balances of \$151,688 and \$317,046, respectively, from contracts with these customers.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Asset Impairment - The Company regularly assesses all of its long lived assets for impairment and recognizes a loss when the carrying value of an asset exceeds its fair value. The Company determined that no impairment loss of long lived assets need be recognized for applicable assets in 2003, 2002 and 2001.

Intangible Assets - Intangible assets at December 31, 2002 represent a purchased software asset of the Company's web based services that is being

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amortized over 4 years using the straight-line method. This asset balance at December 31, 2003 totaled \$35,893. At December 31, 2003, intangible assets also includes, among other things, a customer list and relationships acquired from American Caresource Corporation on December 31, 2003 totaling \$462,000.

Research and Development - Research and development costs are expensed as incurred.

Income Taxes - Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards.

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Net Loss Per Share - The calculations for the basic and diluted loss per share were based on net loss attributable to common stockholders of \$11,049,518, \$2,314,361 and \$4,555,305 and a weighted average number of common shares outstanding, including convertible preferred shares, of 3,399,616, 979,668 and 880,875 for the years ended December 31, 2003, 2002 and 2001 after giving effect to the 1 for 12 reverse stock split approved by the Company's stockholders on December 31, 2003, respectively. All per share information included in the consolidated financial statements and the footnotes thereto have been restated for effect of the 1 for 12 reverse stock split. The computation of fully diluted loss per share for 2003, 2002 and 2001 did not include 101,160, 92,928 and 103,128 shares of common stock, respectively, which consist of outstanding convertible preferred shares, options and warrants because the effect would be antidilutive due to the net loss in those years.

The calculation of the Company's net loss per share for the years ended December 31, 2003, 2002 and 2001 is as follows:

	2003 ----	2002 ----
Net loss per share - basic and diluted		
Net loss attributable to common stockholders	\$(11,049,518)	\$(2,314,361)
Actual weighted average common shares outstanding	924,109	913,002
Weighted average preferred shares outstanding convertible into common shares	2,475,507	66,666
Total weighted average common shares outstanding	3,399,616	979,668
Net loss per share - basic and diluted	\$ (3.25)	\$ (2.36)

Retirement Plan - The Company has a retirement plan that qualifies under Section 401(k) of the Internal Revenue Code. This retirement plan allows eligible employees to contribute a portion of their income on a pretax basis to the plan, subject to the limitations specified under the Internal Revenue Code. The Company's annual contribution to the plan is at the discretion of the Board of Directors. The Company made no contributions to this plan in 2003, 2002 and 2001.

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New Accounting Pronouncements - In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 requires disclosure about variable interest entities for which it is reasonably possible that the Company will be required to consolidate or disclose information when the Interpretation becomes effective. The Company has determined that it does not have any variable interest entities which would require consolidation in accordance with FIN 46.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The adoption of SFAS No. 150 in 2003 did not have an effect on the Company's consolidated financial statements.

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Stock-Based Compensation - In 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." This standard provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. Additionally, the standard also requires prominent disclosures in the Company's financial statements about the method of accounting used for stock-based employee compensation, and the effect of the method used when reporting financial statements.

The Company accounts for stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS No. 123, the Company continues to measure compensation for such plans using the intrinsic value based method of accounting, prescribed by Accounting Principles Board ("APB"), Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the date of grant for awards consistent with the provisions of SFAS No. 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below:

	2003 ----	2002 ----	2001 ----
Net loss attributable to common			
shareholders - as reported	\$ (11,049,518)	\$ (2,314,361)	\$ (4,555,305)
Stock compensation expense	(118,257)	(136,306)	(210,471)
Net loss - pro forma	\$ (11,167,775)	\$ (2,450,667)	\$ (4,765,776)
Net loss per share - basic and diluted - as reported	\$ (3.25)	\$ (2.36)	\$ (5.17)

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Net loss per share - basic and diluted - pro forma	\$ (3.29)	\$ (2.50)	\$ (5.41)
	=====	=====	=====

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using assumed risk-free interest rates of 3.79% for the year ended December 31, 2003, 3.63% for the year ended December 31, 2002 and 4.86% for the year ended December 31, 2001 and an expected life of 7 years. The assumed dividend yield was zero. The Company has used a volatility factor of .98 for the year ended December 31, 2003, 1.78 for the year ended December 31, 2002 and 1.24 for the year ended December 31, 2001. For purposes of pro forma disclosure, the estimated fair value of each option is amortized to expense over that option's vesting period.

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Consolidated Statements of Cash Flows - Supplemental noncash investing and financing activities for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Common stock activities:			
Borrowings from directors converted into			
common stock	\$4,482,500	\$ -	\$ -
Accrued interest converted into common stock	438,099	-	-
Common stock issued in acquisition	1,848,000	-	-
Common stock issued for acquisition expenses	30,898	-	-
	-----	-----	-----
Total of noncash common stock activities	\$6,799,497	\$ -	\$ -
	=====	=====	=====
Preferred stock activities:			
Borrowings from directors converted to			
preferred stock	\$ 745,000	\$ -	\$ -
Borrowings from shareholders converted into			
preferred stock	3,675,000	-	-
Accrued interest converted into preferred			
stock	865,180	-	-
Issuance of preferred stock in connection			
with issuance of debt	2,143,120	-	-
	-----	-----	-----
Total noncash preferred stock activities	\$7,428,300	\$ -	\$ -
	=====	=====	=====
Dividends declared on Series C & D Convertible Preferred Stock	\$ 243,257	\$ 90,000	\$ 90,000
	=====	=====	=====
Value of beneficial conversion feature on Series D Convertible Preferred Stock recognized as a dividend	\$7,428,300	\$ -	\$ -
	=====	=====	=====

Segments - Prior to the American Caresource Corporation acquisition, the Company operated in one segment. As a result of the acquisition, the Company anticipates that it will operate in two segments. Accordingly, the



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required segment information will be disclosed commencing in 2004.

### 2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2003	2002
Computer software	\$ 686,792	\$ 665,286
Computer equipment	1,514,547	1,168,445
Telephone equipment	365,204	362,887
Leasehold improvements	64,897	41,504
Office furniture and equipment	395,720	354,329
	3,027,160	2,592,451
Less accumulated depreciation	2,721,609	2,306,705
Property and equipment, net	\$ 305,551	\$ 285,746

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### 3. Debt

Line of Credit - At December 31, 2003, the Company has borrowings outstanding totaling \$3,000,000 under a line of credit, which is the maximum amount available under the line of credit. The amount borrowed is due and payable on July 31, 2005. Interest is due and payable at maturity at a floating rate based upon LIBOR plus 1.75% (effective LIBOR rate at December 23, 2003 was 1.2%). There is a commitment fee of 0.25% per annum on the average daily unused amount of the line of credit to be paid quarterly in arrears. The line of credit is secured by substantially all of the Company's assets and is guaranteed by Dr. Schaffer and Mr. Pappajohn, directors of the Company. In consideration for their guarantees, in February 2004, the Company granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of the Company's common stock for \$10.00 per preferred share.

At December 31, 2002, the Company's borrowings outstanding under the line of credit totaled \$3,000,000. This line of credit was amended during 2003, the amended terms of which are described in the preceding paragraph.

Borrowings from directors - Prior to December 31, 2003, the Company had borrowings from Mr. Pappajohn and Dr. Schaffer. At December 31, 2002, such borrowings totaled \$5,077,500. The Company borrowed an additional \$150,000 from these directors during 2003.

On December 31, 2003, the Company converted \$4,482,500 in debt and \$438,099 of accrued interest owed to Mr. Pappajohn and Dr. Schaffer into common stock by issuing 2,928,986 shares of the Company's common stock using a value of \$1.68 per common share. Additionally on December 31, 2003, Mr. Pappajohn agreed to convert his remaining debt of \$745,000 and accrued interest of \$711,110 into 145,611 shares of the Company's Series D Convertible Preferred Stock at a price of \$10.00 per preferred share. See Note 5.

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Long-Term Debt - Long-term debt, which was acquired from American Caresource Corporation, consists of the following at December 31, 2003:

Unsecured non-interest bearing note to a stockholder, payable in monthly installments of \$10,127, matured in December 2003	\$ 40,507
Unsecured non-interest bearing obligation to a stockholder, payable in monthly installments of \$5,000, maturing in April 2004	15,732
Unsecured loan at index rate plus 2.5% (6.5%) to a stockholder, due on demand	30,478
19% obligation assumed and due an individual in connection with the purchase of certain assets, payable in monthly installments of \$2,000, matured in December 2003	11,577
5% unsecured note payable to a client, with principal and interest maturing in March 2004	165,000
Other	7,610
Capital lease obligations (see Note 7)	63,508
Total debt	----- 334,412
Less current portion	(294,117)
Total long-term debt	----- \$ 40,295 =====

Scheduled payments in each of the next four years are as follows:

Year ended December 31,	
2004	\$ 294,117
2005	21,360
2006	12,748
2007	6,187
Total	\$ 334,412 =====

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#### 4. INCOME TAXES

There was no income tax expense for the years ended December 31, 2003, 2002 and 2001.

Income tax expense for the years ended December 31 differed from the U.S. federal income tax rate of 34% as a result of the following:

2003	2002	2001
------	------	------

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Computed "expected" tax benefit	\$ (1,148,507)	\$ (756,283)	\$ (1,518,203)
Change in the valuation allowance for deferred tax assets	487,000	885,000	1,795,000
Amortization of debt discount is not deductible	728,660	-	
State and local income taxes at statutory rates, net of federal income tax benefit	(73,350)	(133,462)	(267,918)
Other, net	6,197	4,745	(8,879)
	-----	-----	-----
	\$ -	\$ -	\$ -
	-----	-----	-----

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, are presented below.

Deferred income tax assets:	2003	2002
Accounts receivable, principally due to allowance for doubtful accounts	\$ 21,000	\$ 22,000
Deferred revenue	135,000	63,000
Compensation	53,000	40,000
Net operating loss carryforwards	13,053,000	12,698,000
Tax credit carryforwards	75,000	75,000
Amortization of intangibles	153,000	112,000
Other	36,000	36,000
	-----	-----
Total gross deferred income tax assets	13,526,000	13,046,000
Less valuation allowance	(13,461,000)	(12,974,000)
	-----	-----
Net deferred income tax assets	65,000	72,000
	-----	-----

Deferred income tax liabilities:

Property and equipment, principally due to differences in depreciation and amortization	(9,000)	(30,000)
Other	(56,000)	(42,000)
	-----	-----
Total gross deferred income tax liability	(65,000)	(72,000)
	-----	-----
Net deferred income taxes	\$ -	\$ -
	-----	-----

Management of the Company has evaluated the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to zero, which represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

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At December 31, 2003 the Company has net operating loss carryforwards of approximately \$32,684,000, which are available to offset future taxable income, if any, which begin to expire in 2010. The Company also has investment tax credit carryforwards for federal income tax purposes of approximately \$75,000, which are available to reduce future federal income taxes, if any, which begin to expire in 2010. These loss and tax credit carryforwards may be subject to limitation by certain sections of the Internal Revenue Code relating to ownership changes.

### 5. PREFERRED STOCK

On March 31, 2000, the Company completed a private placement of 100,000 shares of newly issued Series C 9% Cumulative Convertible Preferred Stock ("Series C Preferred Stock"), raising \$1,000,000 in total proceeds. These shares can be converted at any time by the holder into common stock at a rate of 8 shares of common stock to 1 share of Series C Preferred Stock. In 2003, this rate changed to 10 shares of common stock to 1 share of Series C Preferred Stock. Each share of Series C Preferred Stock has voting rights equivalent to 10 shares of common stock. As of December 31, 2003, the Company has accrued \$337,500 in dividends since inception, which was payable to the Series C stockholders.

During 2003 the Company issued a total of 301,582 shares of Series D 9% Cumulative Convertible Preferred Stock ("Series D Preferred Stock") in connection with certain borrowings during 2003. In accordance with APB Opinion No. 14, a portion of the cash received totaling \$2,143,120 was allocated to the preferred stock resulting in a debt discount in the same amount, which was fully amortized by December 31, 2003. Additionally, a beneficial conversion feature has arisen since the value recorded for the preferred stock, which is convertible into common stock, is less than the fair market value of the common stock totaling \$5,177,458. While the resulting beneficial conversion feature totals \$3,034,338, the Company can only record a beneficial conversion equal to the value of the preferred stock recorded, \$2,143,120. Such amount is reflected in the net loss attributable to the common stockholders for the year ended December 31, 2003 because the preferred stock is immediately convertible into the Company's common stock. As of December 31, 2003, the Company has accrued \$153,257 in dividends since inception, which was payable to the Series D stockholders.

On December 31, 2003, \$5,285,180 of debt and accrued interest was converted into 528,518 shares of Series D Preferred Stock at a price of \$10.00 per share. Because the effective purchase price per common share was \$1.00 per share while the fair market value on December 31, 2003 was \$2.40 per share, there is a beneficial conversion feature of these Series D Convertible Preferred shares totaling \$7,399,252. While the resulting beneficial conversion feature totals \$7,399,252, the Company can only record a beneficial conversion equal to the value of the preferred stock recorded, \$5,285,180. Such amount is reflected in the net loss attributable to the common stockholders for the year ended December 31, 2003 because the preferred stock is immediately convertible into the Company's common stock.

### 6. STOCK OPTIONS AND WARRANTS

The Company has an Employee Stock Option Plan (the "Stock Option Plan") for the benefit of certain employees, non-employee directors, and key advisors. On December 31, 2003, the stockholders approved an amendment to the Stock Option Plan that increased its authorized shares from 1,680,000 shares on a pre-split basis to 3,500,000 shares after giving effect to the 1 for 12 reverse stock split and increase in the Company's overall authorized

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capital. On May 2, 2000, the Company filed a Form S-8 registering 1,680,000 of the Stock Option Plan shares, the Company plans to file an amended Form S-8 which will register the full 3,500,000 shares now authorized. Stock options granted under the Stock Option Plan may be of two types: (1) incentive stock options and (2) nonqualified stock options. The option price of such grants shall be determined by a Committee of the Board of Directors (the "Committee"), but shall not be less than the estimated fair market value of the common stock at the date the option is granted. The Committee shall fix the terms of the grants with no option term lasting longer than ten years. The ability to exercise such options shall be determined by the Committee when the options are granted. Generally, outstanding options vest at the rate of 20% per year. During 2001, some grants had a portion of the options vest immediately with the balance of the options vesting at a rate of 20% per year.

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A summary of stock option activity follows:

	Outstanding Options	Weighted-Average Exercise Price
Options outstanding at December 31, 2000	701,880	\$ 1.28
Options granted during the year ended December 31, 2001 (weighted average fair value of \$0.18)	536,500	\$ 0.19
Options forfeited by holders during the year ended December 31, 2001	(40,840)	\$ 1.83
Options outstanding at December 31, 2001	1,197,540	\$ 0.77
Options forfeited by holders during the year ended December 31, 2002	(82,400)	\$ 0.86
Options outstanding at December 31, 2002	1,115,140	\$ 0.76
Options granted during the year ended December 31, 2003 (weighted average fair value of \$0.20)	100,000	\$ 0.20
Options forfeited by holders during the year ended December 31, 2003	(700)	\$ 0.09
Options exercised during the year ended December 31, 2003	(400)	\$ 0.09
Options outstanding at December 31, 2003 before giving effect to the 1 for 12 reverse stock split	1,214,040	\$ 0.78
Options outstanding at December 31, 2003 after giving effect to the 1 for 12 reverse stock split	101,160	\$ 9.36
Options exercisable at December 31, 2003	70,565	\$ 8.54
Options available for grant at December 31, 2003	3,376,917	

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The following table summarizes information concerning outstanding and exercisable options at December 31, 2003, after giving effect to the 1 for 12 reverse stock split:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.08 - \$11.99	65,747	5.73	\$ 3.48	51,449	\$ 3.47
\$12.00 - \$23.99	17,250	4.88	\$15.20	7,917	\$ 17.65
\$22.00 - \$33.00	18,163	5.55	\$25.24	11,199	\$ 25.40
	-----			-----	
	101,160			70,565	
	=====			=====	

7. COMMITMENTS

The Company leases an automobile, certain equipment and other office space under non-cancelable lease agreements, which expire at various dates through April 2008.

Rent expense for office space for the years ended December 31, 2003, 2002 and 2001 was \$139,256, \$95,508 and \$136,045, respectively.

At December 31, 2003 minimum annual lease payments for operating and capital leases are as follows:

Years ending December 31,	Leases	
	Capital	Operating
2004	\$ 28,467	\$ 386,839
2005	24,362	324,993
2006	14,036	308,783
2007	7,040	304,951
2008	-	110,888
Less amount representing interest	(10,397)	
Net present value of minimum lease payments	\$ 63,508	\$1,436,454

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8. QUARTERLY RESULTS (UNAUDITED)

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The following is a summary of the unaudited interim results of operations by quarter:

	First	Second	Third	Fourth
-----				
Year ended December 31, 2003:				
Revenues	\$ 947,679	\$ 1,580,037	\$ 1,429,692	\$ 1,729,885
Gross margin	186,077	395,182	321,916	621,359
Net loss	(505,206)	(1,006,198)	(1,190,639)	(675,918)
Net loss attributable to common shareholders	(527,706)	(2,496,016)	(1,858,563)	(6,167,233)
Net loss per common share	(0.54)	(0.70)	(0.45)	(1.26)
Year ended December 31, 2002:				
Revenues	\$ 499,328	\$ 542,716	\$ 586,100	\$ 727,533
Gross margin	11,475	80,990	118,938	229,810
Net loss	(661,521)	(556,519)	(474,147)	(532,174)
Net loss attributable to common shareholders	(684,021)	(579,019)	(496,647)	(554,674)
Net loss per common share	(0.70)	(0.59)	(0.51)	(0.57)

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### Schedule II

Patient InfoSystems, Inc.  
Valuation and Qualifying Accounts  
For the Years Ended December 31, 2003, 2002 and 2001

		Balance at Beginning of Year	Additions	Deductions	
Allowance for Doubtful Accounts:					
	2003	\$ 55,000	\$ 92	\$ 2,951	\$
	2002	\$ 37,217	\$ 59,117	\$ 41,334	\$
	2001	\$ 48,122	\$ 15,447	\$ 26,352	\$
Deferred Tax Assets Valuation Allowance:					
	2003	\$ 12,974,000	\$ 487,000	-	\$
	2002	\$ 12,089,000	\$ 885,000	-	\$
	2001	\$ 10,294,000	\$ 1,795,000	-	\$

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