PRECIS INC
Form 10-K
March 30, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2003

OR

o **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: 001-15667

PRECIS, INC.

(Exact name of business issuer as specified in its charter)

OKLAHOMA	**73-1494382**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2040 N. HWY 360
GRAND PRAIRIE, TEXAS 75050
(Address of principal executive offices)

(972) 522-2008
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.01 Par Value

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2003 (the last business day of our most recent second fiscal quarter), was $35,425,561 based on the closing sale price on that date.

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

As of March 15, 2004, 11,847,280 shares of the issuer's common stock, $.01 par value, were outstanding.

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FORM 10-K
For the Fiscal Year Ended December 31, 2003

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements under the captions "Item 1. Description of Business," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates," "believes," "expects," "may," "will," or "should" or other variations thereon, or by discussions of strategies that involve risks and uncertainties. Our actual results or industry results may be materially different from any future results expressed or implied by such forward-looking statements. Some of the factors that could cause actual results to differ materially are described under the heading "Additional Factors That May Affect Our Future Results" and include general economic and business conditions, our ability to implement our business strategies, competition, availability of key personnel, increasing operating costs, unsuccessful promotional efforts, changes in brand awareness, acceptance of new product offerings, retention of members and independent marketing representatives and changes in, or the failure to comply with government regulations.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Precis, Inc. ("Precis, we or the Company") primarily offers memberships in programs that offer savings on a wide range of healthcare services. Substantially all of our revenue is derived from our healthcare membership savings programs, which is our primary business segment. For the year ended December 31, 2003, 93.4% or $39.3 million of our consolidated revenue was from our healthcare membership savings programs. The remaining 6.6% or $2.8 million is derived from our wholesale club membership programs as well as ancillary revenue related to our healthcare membership savings programs.

Our programs offer savings on healthcare services to persons who are un-insured, under-insured, or who have elected to purchase only high deductible or limited benefit medical insurance policies, by providing access to the same preferred provider organizations (PPOs) that are utilized by many insurance companies and employers who self-fund at least a portion of their employees' healthcare risk. These programs are sold primarily through a network marketing strategy under the name Care Entrée , but are also offered through resellers who have privately labeled or co-branded the Care Entrée services and through employers as part of an employee benefit plan.

We design these programs to benefit healthcare providers as well as our program members. Providers commonly give reduced or preferred rates to PPO networks in exchange for steerage of patients. However, the providers must still file claim forms and wait 30 to 60 days to be paid for their services. Our programs utilize these same provider networks to obtain the same savings for the Care Entrée program members. However, the healthcare providers are paid much more promptly and without the oversight of the typical claims review processes of an insurance company. We provide transaction facilitation services to both the program member and the healthcare provider.

INDUSTRY OVERVIEWS

CONSUMER HEALTHCARE INDUSTRY. The healthcare industry remains in a state of turmoil and crisis. It is estimated that 15.2% of all Americans, or 43.6 million individuals, were without health insurance coverage in 2002, up from 14.6% in 2001, an increase of 2.4 million people. [Source: "U.S. Census Bureau Statistics" published by the U.S. Department of Commerce.] Additionally, it has been estimated that 74.7 million people under the age of 65 were without health insurance for part or all of 2001 and 2002, approximately one in three Americans. [Source: "Going Without Health Insurance" published by the Robert Wood Johnson Foundation.] The percentage of people working full-time without health insurance in 2002 was 16.8%, an increase from 16.0% in 2001. [Source: "U.S. Census Bureau Statistics" published by U.S. Department of Commerce] Nationally, healthcare expenditures topped $1.6 trillion in 2002, up from $1.2 trillion since 1999, [Source: Centers for Medicare and Medicaid Services.]

At the workplace, the trends are equally problematic. Between 2002 and 2003, monthly premiums for employer-sponsored health insurance rose 13.9%, the third consecutive year of double-digit premium increases. The increases are hitting small employers (under 200 workers) particularly hard. These small firms are more likely to have experienced an increase in premiums greater than 15%. These costs are not only being felt by the employer, but also by the employees. The average monthly worker contribution for single and family healthcare coverage rose from $8 and $52, respectively, in 1988 to $42 and $201 in 2003. All told, the average monthly premiums for single and family coverage (including worker and employer share of premium) are $282 and $756 respectively. The cost of family coverage is now nearly $9100 per year. Not surprisingly, employers are looking for alternatives. In 2003, 62% of employers reported that they shopped for a different healthcare arrangement. [Source: "Employer Health Benefits 2003", published by the Kaiser Family Foundation]

Over utilization of the healthcare system is one of the factors behind these trends. American citizens are utilizing healthcare services at an ever-increasing rate. Behind this phenomenon is the fact that insurance plans and healthcare management organizations are structured to encourage usage. Small co-payments, generally from $10 or $15 per office visit, encourage insured consumers to use the healthcare system more frequently because they do not perceive themselves ultimately as having to pay the full costs of the medical services received.

A number of insurers have pulled out of certain states, due to state regulations that no longer provide for a viable operating environment for many insurance companies. As a result of these health coverage cancellations, those formerly insured individuals and families are required to pay more for their insurance coverage, cannot obtain any coverage because of pre-existing conditions, or simply remain uninsured for healthcare.

Corporate America has been hit hard by escalating insurance costs and many companies are reacting by shifting the cost of insurance coverage to employees or cutting benefits. Seventy-nine percent (79%) of large companies (200 or more workers) report they are very or somewhat likely to increase their employee's share of the costs of healthcare in 2004. [Source: "Employer Health Benefits 2003 Summary of Findings," published by The Kaiser Family Foundation.] This creates a dilemma for the employer, it being difficult to attract and hire quality personnel without providing health benefits at a reasonable cost to the employee, while the cost of providing employee healthcare benefits may be prohibitive or unaffordable.

Tensions between medical providers and the payors are also escalating. The medical decision is often no longer in the hands of the doctor and the patient. Rather, administrators at healthcare management organizations and insurance companies determine the procedures to be performed. Doctors and hospitals, having experienced decreases in their income and profits, are demanding higher compensation, particularly from the healthcare management organizations.

As a result, more Americans are being forced to self-insure and pay a growing portion of the cost of their healthcare. Some are entirely uninsured. Others can only afford or choose only a high deductible or limited benefit health insurance policy. In either case, this patient population increasingly forgoes medical procedures or relies on emergency care for its healthcare needs and often incurs prohibitive expenses. Additionally, costs of healthcare (in doctors' offices and hospitals) for this patient population are often far higher than the amount an insured and the insurance company would pay for the same healthcare services for its insureds. The uninsured and underinsured patients have had no one to negotiate healthcare service costs on their behalf.

WHOLESALE MEMBERSHIP SERVICE PROGRAM INDUSTRY. Membership service programs offer selected products and services from a variety of vendors with the objective of enhancing the existing relationship between businesses and their customers. These programs are offered and sold in connection with point-of-sale transactions or by various methods of direct marketing. When designed, marketed, and managed effectively, membership service programs can be of significant value to:

- consumers, who become members of the membership program;
- vendors, through sales and marketing of their products and services; and
- wholesale clients, through which the program memberships are offered and sold in connection with other benefits or sales, including point-of-sale transactions, through sharing in the membership fees, or through receipt of royalties and fees when offered utilizing clients' customer lists.

Product vendors and service providers are seeking more cost-effective and efficient methods to expand their customer base and market share, other than through the traditional mass-marketing channels of distribution. In addition, vendors are seeking to reach new customers, strengthen relationships with existing customers and generate new, predictable recurring sources of revenues. We

believe membership service programs provide vendors a viable, cost-effective alternative to the traditional mass-marketing distribution channels.

Historically, issuers of credit cards have been the most prevalent users of membership service programs. However, in recent years there has been a significant increase in the use and offering of membership programs by other businesses, including healthcare services companies, rental-purchase companies, retailers and employers. In most cases, these businesses seek professional marketing assistance to successfully design, market, and manage the membership service programs they offer. These marketing firms, like ours, are able to:

- apply advanced database systems to capture, process and store consumer and market information;
- develop consumer profiles and purchasing trends, both in terms of products and services;
- use their experience to provide effective membership service programs; and
- realize economies of scale.

In addition, a general requirement of the designer and provider of membership service programs is that the provider has the expertise to continue to introduce unique new programs. In some cases, the businesses expect the provider of membership service programs to have such resources as extensive vendor networks and experienced management teams in order to not only design the program but also to market the programs quickly and successfully at the retail level.

OUR CONSUMER HEALTHCARE SAVINGS SOLUTION CARE ENTRÉE

Our consumer healthcare savings membership programs are offered under the trade name of Care Entrée and are designed in response to rising healthcare costs and the growing number of people that can no longer afford insurance coverage. Our healthcare savings programs are based upon and emphasize the following factors:

- responsibility for the use of healthcare must be put back in the hands of the patient. Insurance policies with low co-pays and deductibles have become very popular; however, these arrangements actually encourage the over-utilization that increases the costs of healthcare;
- the healthcare decision must be put back in the hands of the doctor and the patient; without undue oversight by parties with only economic interests in the decision; and
- healthcare must be affordable for the patient, while providing the medical providers with adequate payment on a timely basis for services provided.

For years, insurance companies have been reaping the benefits of managed care by obtaining healthcare for their insureds at much lower prices than that obtainable by the self-insured person. These benefits were provided through the use of preferred provider organizations (PPOs), where steerage of patients was promised in exchange for lower rates. We have contracted with some of these same PPOs to provide healthcare savings to our program members.

The elements discussed below are critical to the operation, further development, and offering of our managed healthcare programs.

- *A medical provider network that provides an effective and efficient means to deliver healthcare savings to the patient who is at least partially self-insured.* We have accomplished this through arrangements with reputable, high quality preferred provider organizations. Our PPO networks give our members access to 400,000 providers and 3,600 facilities throughout the U.S.
- *A computer system that can handle all the complexities of healthcare billing and fee schedules with speed and accuracy, enabling efficient re-pricing of medical bills, which is essential in our interaction*

with doctors' offices. Accordingly, we have acquired and developed in-house systems for immediate eligibility verification and re-pricing of medical bills.

A staff with managed care backgrounds that interacts with the healthcare providers. Managed healthcare is an art. Not everyone has the background to interact professionally and courteously with the thousands of people representing the providers in the network. Our staff is adequately trained to provide customer support and member steerage so that our members can achieve additional medical savings by obtaining the best rates even within the same medical provider network. The backgrounds of our staff include managing of claims offices, insurance sales, managing of physicians and physicians groups, hospital management, captive physician management, self-funding of healthcare, healthcare finance, sales and management of managed care software, and management of physician "front offices".

A commitment to "hands on" customer service for both the patient-member and the healthcare provider. Most physicians and hospitals are in multiple preferred provider organization networks and do not know the negotiated rates at the time and point of healthcare service. We believe it is important that our services allow these providers to contact us at the time and point of service for this information so that they can immediately collect the amounts due for the services provided; and

Credibility with providers who expect prompt payment in exchange for access to reduced rates. During the fourth quarter of 2002, we implemented escrow account requirements in response to the market changes in the healthcare savings industry. Members of our Care Entrée program are now required to establish and maintain escrow accounts to access and provide payment for hospital and physician healthcare services. We are then able to pre-certify the members' ability to pay based upon the available escrow account balances and to process the members' payments directly to the medical providers. This helps us assure that the payment to the provider is made promptly and efficiently. Foresight, Inc., a licensed third party administrator (TPA), administers the accounts. Effective October 1, 2003, these escrow accounts were made mandatory for access to all medical doctors and hospitals. By December 31, 2003, our cash-in-trust, which represents the aggregate amount that our members have on deposit in their escrow accounts was $2.8 million. Our private label partners are not required to offer these accounts to their members.

The combination of these elements has allowed us to become the "patient advocate." We routinely assist our program members in saving 15% to 50% on their medical bills, and frequently more, by steering them to the most cost effective healthcare providers in their area. We allow the patient and the healthcare provider to decide treatment protocols with no interference from any third party. We facilitate the financial transaction between the healthcare provider and patient-member to allow the provider to receive prompt payment. Finally, because the patient-member is directly responsible for a significant portion of his or her medical expenses, the patient has an incentive to minimize utilization to achieve cost savings, regardless of whether the patient has a high deductible insurance policy or is self-insured.

Our membership program encompasses all aspects of healthcare, including physicians, hospitals, ancillary services, dentists, prescription drugs, vision care, hearing aids, chiropractic and alternative care, air ambulance, 24-hour nurse hotline assistance, and long term care. Memberships in our Care Entrée programs range from $9.95 to $69.95 per month per family depending on the selected options and include a one-time enrollment fee of $20.00 to $30.00.

OUR WHOLESALE MEMBERSHIP SOLUTION FORESIGHT

We offer three wholesale membership service solutions through our subsidiary, Foresight, Inc. ("Foresight").

Private Label and Co-Brand Healthcare Programs

Through Foresight, we design and offer healthcare membership programs for employer groups, retailers and association-based organizations. These programs are marketed under our "For Your Good Health" label. Membership in these programs are offered and sold by direct sales or through marketing companies that ask prospective customers to call a customer service center for more information (in-bound direct marketing). As discussed above, we believe that our clients, their members, and the vendors of the products and services offered through the programs, all benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients' particular member base. Most of our memberships are sold by third-party organizations and are generally marketed using the third-party's name or brand. We refer to these programs and membership sales as wholesale programs or private label programs.

Repricing for Governments

For governments and other large, self-funded employers seeking to reduce the cost of offering healthcare benefits to their employees, we can also offer a more streamlined version of our product. In these cases, we offer access to healthcare through our network of providers and the efficient repricing of bills through our proprietary systems. We can offer these services on a price based on either the number of participants per month or as a percentage of savings on healthcare costs actually realized.

Non-healthcare Related Club Membership Programs

Through Foresight, we also design non-healthcare related membership programs for rental-purchase companies, financial organizations, employer groups, retailers and association-based organizations. Memberships in these programs are also offered and sold as part of a point-of-sale transaction or by direct marketing through direct mail or as an insert. Program members are offered and provided with our and third-party vendors' products and services. We believe that our clients, their customers and the vendors of the products and services offered through the programs all benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients' particular customer base. Among the products and services offered are (i) emergency roadside assistance, (ii) tire and wheel guarantee, (iii) auto deductible expense reimbursement, (iv) emergency travel and living expense reimbursement, (v) access to air ambulance evacuation services, (vi) identity theft protection, (vii) savings on veterinary care, (viii) retail and entertainment discounts, (ix) grocery coupons, and (x) a retail savings coupon book. Substantially all of our non-healthcare related membership service programs are offered and sold at retail by clients engaged in the rental-purchase industry.

Through the design of our programs, we seek to address our clients' desires to obtain another source of income from their customers through membership sales. Our clients collect the weekly or monthly membership fees and retain 40% to 80% of these fees depending on the products and services offered. The balance of these membership fees, 20% to 60%, is remitted to us. With respect to retail membership sales, clients providing the customer lists are entitled to royalties on sales to the clients' listed customers. The royalty payments range from 10% to 50% of the membership fees. The programs are designed and managed to strengthen the relationship between our clients and their customers. We believe that our programs offer members an economic, efficient and convenient method for the selection of products and services. Members are entitled to discounts for products and services, which may not otherwise be available to them. Vendors of products and services, offered and sold through the programs to members, are provided the opportunity to reach a large number of demographically targeted customers or consumers with minimal incremental marketing cost.

SALES AND MARKETING CHANNELS

Our Care Entrée healthcare programs are offered primarily through two channels: a network marketing organization (initially organized in August 1997) and by way of our private label agreements with direct marketing or other sales organizations, including insurance agencies.

NETWORK MARKETING. Our independent representatives become marketing representatives by paying an enrollment fee (currently $99.95) and signing a standard representative agreement, and an annual renewal fee (currently $49.95). Independent marketing representatives of Care Entrée are not required to be licensed insurance agents. Independent marketing representatives are paid a 20% commission on the membership fees of each member they enroll for the life of that member's enrollment with Care Entrée (assuming such representative continues to meet certain commission qualifications). Independent marketing representatives may also receive commissions equal to the membership fees if three or more program members are enrolled in a month. In the month of the membership sales, no override commissions are paid to the representative's upline. Independent marketing representatives may also recruit other representatives and earn override commissions on sales made by those representatives. We pay a total of 35% in override commissions down through seven levels of marketing representatives. In addition, we have established bonus pools that allow independent marketing representatives who have achieved certain levels to receive additional commissions measured by our revenues attributable to the Care Entrée programs. We are currently contributing 5% of Care Entrée incremental revenues to these pools.

The total regular or ongoing commissions payout, including overrides on second month membership sales and onward and the amount contributed by us to the bonus pools, remains unchanged at 60% of qualified membership sales.

WHOLESALE MEMBERSHIP OR PRIVATE LABEL CLIENTS AND DIRECT SALES. Primarily through our direct sales team we have also contracted with other companies under wholesale co-branded or private label arrangements. Under these agreements, we conduct all customer service and re-pricing operations and may also provide the fulfillment and collections services. The client performs all marketing functions. Wholesale and private label clients set their own retail prices for the product based on their commission and expense structure and income requirements. We intend to expand on our wholesale strategy by also targeting self-funded employers and organizations providing administrative services to employee benefit plans in order to have our healthcare products sold to groups of employees on a stand-alone basis or as part of an employee benefit plan.

BUSINESS OBJECTIVES AND PLANS

Our objective is to sustain and expand our leadership position as a provider of unique healthcare membership service programs and consumer driven healthcare plans. Key elements of our business plan are as follows:

CONTINUE TO DEVELOP UNIQUE HEALTHCARE SERVICE PROGRAMS FOR BROAD MARKETS. Our focus is on the continued development and introduction of unique programs that address the health and lifestyle needs of targeted consumer groups. We anticipate that this plan will allow us to obtain a larger share of the healthcare market through existing marketing channels and through establishment of new client relationships.

In the fourth quarter of 2001, we established a new subsidiary, Care Financial of Texas, L.L.C. "Care Financial". Care Financial operates, in many ways, like an insurance agency. Through Care Financial, we continue to offer high deductible and scheduled benefit insurance policies, but have also added a suite of products, including life insurance from Lion's Share (Allianz). The use of these policies in conjunction with the Care Entrée program can provide a very affordable solution to individuals and groups who previously could not afford fully inclusive medical plans and will allow us to

help assure payment to the healthcare providers. These insurance products are for sale only by our marketing representatives who are also licensed insurance agents.

In the fourth quarter of 2003, we established "Care125" as a division of Care Financial. Care125 provides the administration behind a variety of employee benefit programs that allow employers and employees to save money by paying for certain IRS-approved expenses on a pre-tax basis. Care125 can assist employers in the offering of Health Reimbursement Arrangements, Flexible Spending Accounts, and arrangements to help their employees pay for dependant care and transportation expenses. In the case of the Flexible Spending Accounts for dependant care, employers can offer these plans as an additional benefit to their employees at no additional cost to the employer because these fees are based on a percentage of the tax savings realized by the employer in redirecting salary costs for distribution on a pre-tax basis. The remaining fees for services provided by Care 125 are monthly fees based on the number of members enrolled.

CONTINUE TO DEVELOP A RECURRING REVENUE BASE. Growth in recurring revenue from the Care Entrée product is dependent on our independent marketing representatives continuing to market the Care Entrée program memberships and recruit new downline independent marketing representatives. We intend to continually increase our support for representatives to maximize the volume generated through this sales channel. Recurring revenue from wholesale and private label clients is dependent upon the client continuously marketing our products to their customer base. We intend to continue to focus our efforts on retaining our existing clients and obtaining new wholesale and private label clients through our direct sales team.

DEVELOP A CORPORATE LEVEL SALES TEAM. In the fourth quarter of 2003, we began to reorganize our corporate sales team. To complement the individual sales and group sales and lead generation accomplished through our network marketing strategy, we have undertaken a strategy to promote sales to groups and self-funded employers with a corporate level sales team having experience with the group insurance market and the operations of a third party administrator.

LEVERAGE AND DEVELOP MULTIPLE NETWORK PARTNERS. We currently have contract relationships with two preferred provider organization networks for access to savings on doctors, hospitals, and ancillary healthcare services. Development of this type of network takes a significant amount of time and effort as does maintaining the relationship to assure that it is working well for all parties involved. We may seek relationships with other preferred provider organization networks to further stabilize our business.

PROVIDE HIGH QUALITY CUSTOMER SERVICE. In order to achieve our anticipated growth and to ensure client, member and marketing representative loyalty, we continue to develop and invest significantly in our member service systems. We have developed a proprietary computer database system that provides customer service representatives immediate access to provider demographic data, re-pricing information and member information, including the components of each member program or plan and the details a member requires to properly utilize the program.

DEVELOP AND MARKET INNOVATIVE PRODUCT OFFERINGS. In December 2002, we began offering a medical savings program to help provide assurance that healthcare providers would be paid on a timely basis. Our members deposit money into their individual escrow accounts on a monthly basis from which healthcare services are paid in whole or in part. A member's ability to pay is then certified prior to treatment or hospitalization based in part on the balance of the member's escrow account. We hope to also offer our members access to a medical line of credit that can be accessed in addition to or in lieu of a funded escrow account. This line of credit would allow our members to have access to healthcare providers without an upfront cash outlay. This offering may be available by the third quarter of 2004.

CONSIDER EXPANDING OUR THIRD PARTY ADMINISTRATOR SERVICES. In response to the needs of our group customers, we will expand our third party administrator ("TPA") services. Our TPA function, provided by our subsidiary, Foresight, Inc., currently provides repricing services that help assure that our members pay the discounted fees offered by our network of providers. Our group customers may be better served by a full-service TPA function that would include full plan administration, claims adjudication and claims management services. This is particularly true when our medical savings program is sold in conjunction with a high deductible medical insurance product. To expand our TPA services, we intend to acquire an existing, full-service TPA.

MEMBERSHIP SERVICE PROGRAMS

CONSUMER HEALTHCARE SAVINGS PROGRAMS. As of December 31, 2003, we had five consumer healthcare savings programs:

TOTAL CARE PROGRAM $69.95 per family per month, includes access to savings on hospitals, doctors, ancillary services, dentists, vision care, LASIK-laser vision correction, Instacare emergency card, hearing aids, prescription medications, alternative care, chiropractors, 24-hour health hotline, $2,000 excess accident medical benefit and three month membership fee continuation for involuntary unemployment.

ESSENTIAL CARE PROGRAM $54.95 per family per month, includes access to savings on doctors, ancillary services, dentists, vision care, LASIK-laser vision correction, hearing aids, prescription medications, alternative care, chiropractors, 24-hour health hotline, $2,000 excess accident medical benefit and three month membership fee continuation for involuntary unemployment.

CHOICE CARD PROGRAM $24.95 per family per month, includes access to savings on 24-hour health hotline, Instacare emergency card, hearing aids, prescription medications, vision care, dentists and long term care services.

DENTAL PLUS PROGRAM $19.95 per family per month, includes access to savings on dentists, 24-hour hotline, hearing aids, prescription medications, vision care, alternative care and chiropractors.

PRESCRIPTION PLUS PROGRAM $9.95 per family per month, includes access to savings on prescription medications, vision care and hearing aids.

Members pay a one-time $30 or $20 (depending on the program) processing fee at the time of enrollment. Most members pay for the program on a monthly basis, either through automatic bank draft or credit card draft, although some elect to have their accounts drafted on a quarterly basis. Individuals who do not wish to have their accounts drafted are required to make a six-month or annual payment. Groups of five or more can also choose to be billed on a monthly basis.

Members may cancel their membership at any time by returning their identification cards, along with a written notice of cancellation. There is a 30-day money back guarantee so that if a member is not completely satisfied with the program, the member will be refunded the program fee upon the return of the identification cards. The processing fee is non-refundable.

Upon enrollment, new members receive a member kit that includes instructions on using the program, directories for their area and identification cards.

WHOLESALE MEMBERSHIP PROGRAMS. As of December 31, 2003, we had four wholesale membership programs:

FORESIGHT PREFERRED CUSTOMER CLUB(SM) We developed this program specifically for clients in the rental-purchase and retail furniture industry. The program consists of a basic package of consumer benefits, combined with insurance coverage selected by the client. Clients may choose the standard design with accompanying marketing materials, or customize their program using their own name, logo and corporate "look."

CHOICE$^{(SM)}$ CHECKING PLANS Faced with increasing competition from larger financial institutions as well as non-bank competitors, the importance of establishing proven, loyalty-building programs is a high priority in the banking industry. We developed several different programs consisting of various insurance, travel and discount benefits designed to appeal to specific segments within the financial institution customer base including students and middle income and age market, high-balance affluent and mature market customers. Each program is typically offered in conjunction with several financial services offered by the financial institution itself.

VIP CLUB We designed the VIP Club as a supplemental benefits program for employee groups. The program includes access to national discount networks for prescription drugs, dental services and vision products and other consumer-oriented benefits and services. We market the VIP Club on a retail basis to associations and employee groups.

SELECT CLUB We developed this program for clients of consumer finance companies. This program consists of accidental death and dismemberment coverage, travel and discount benefits, entertainment and other similar discount programs, as well as access to discounts for prescription drugs, dental services and vision products.

Foresight has marketed the Preferred Customer Club for over 10 years. The other wholesale membership programs listed above have been developed over the last several years and although we do receive revenue on each product listed, the revenue is insignificant in relation to the revenue attributable to Preferred Customer Club sales.

Those customers that become members of wholesale programs pay the membership fee as part of the weekly or monthly payments made to our clients in connection with the primary product or service purchased or rented.

Our wholesale membership programs are offered by our clients in connection with point-of-sale transactions and are presented to the customer as a value-added benefit of doing business with the client. The customer relationships with our clients are generally short term and typically on an infrequent basis; therefore, there is not an extended client- customer relationship. For offering and selling the memberships in a wholesale program, the clients retain 40% to 80% of the membership fee and remit the balance to us.

NETWORK CONTRACTS

We contract with numerous preferred provider organization and other medical networks for access to their negotiated rates. We do not contract directly with any medical providers. We only select and utilize those networks that we believe can deliver adequate savings to our members, while providing support for our program with the healthcare providers. We pay each network utilized a per member per month amount for use of the network. Each network is only paid for those members authorized to utilize the network. Most of our network contracts are generally for a one-year term, with subsequent one-year renewal terms at our or the network's option. Networks may cancel their contracts with us, but in most cases, subject to notice provisions to provide time to locate a substitute network. Most of our network contracts are not exclusive, but have requirements that the network and we maintain the confidentiality of the terms of the contract. Our principal preferred provider organization through which our members receive savings on healthcare services through our Care Entrée program is Private Healthcare Systems, Inc.

CUSTOMER SERVICE

We believe that a high level of customer service is critical to the success of its program. We provide customer service for three types of individuals or organizations:

Our marketing representatives, so that they can be more effective in selling the program;

Our members, in order to assure that they achieve the best available savings when utilizing the program; and

The providers, who require assistance in (a) understanding how the program works for them and (b) in verifying eligibility and identifying the amount to bill the patient for each procedure performed.

Toll free support is provided for the members and providers. We maintain our customer service center in Grand Prairie, Texas, with a total of 64 customer service representatives as of December 31, 2003. These employees provide support for our members, our independent marketing representatives, and for providers. Our member and provider service centers are available Monday through Thursday from 7:30 a.m. to 7:00 p.m. central time and 7:30 a.m. to 6:00 p.m. on Friday. Our marketing representative service center is available Monday through Friday from 7:30 a.m. to 6:00 p.m. central time and 7:30 a.m. to 6:00 p.m. on Friday. All new customer service representatives must have a medical background, either processing insurance claims or working in a medical office. Extensive on-the-job training is also provided to them. Utilizing our systems, the customer service representatives are able to provide friendly but efficient service to our members, marketing representatives, and network providers.

REPRESENTATIVE TRAINING

We provide extensive training to our marketing representatives to assure that they accurately represent our products and services. This training is available in a variety of forms, including a training manual, audio, and videotapes, local and regional training meetings and weekly conference calls. The training encompasses both product training as well as marketing training and sales techniques.

We have certain policies and procedures in place to control any advertising or promotions that are utilized by our marketing representatives. These policies and procedures are necessary to assure the proper representation of the program at all times and include the pre-approval of all advertising, anti-spamming and anti-fax blasting rules, and limits where representatives can advertise. A representative's failure to follow these rules can result in fines or termination.

TECHNOLOGY

We have made substantial investments in our proprietary technology and management information systems. These systems were designed in-house and are used in all aspects of our business, including:

maintaining member eligibility and demographic information;

maintaining representative information including genealogy reporting;

paying commissions;

maintaining a database of all providers and providing provider locator services;

re-pricing medical bills;

drafting members accounts on a monthly basis; and

tracking of cash receipts and revenues.

We are currently in the final stages of upgrading our technology and management information systems. These systems were designed with the assistance of an outside consultant group and are

expected to be fully functional by the end of the second quarter of 2004. These systems will allow for more-timely processing of business transactions and will contain e-commerce capabilities.

We have also established extensive web-sites for our programs that provide information about the program, allow for provider searches and allow new members and representatives to enroll on-line. The websites also allow representatives, through a password-protected area to access support and training files and to view their genealogy and commission information. The websites are set up as "self-replicating" websites to allow representatives a copy of the websites under a unique web address.

WHOLESALE PROGRAM CLIENT CONTRACTUAL ARRANGEMENTS

Our ability to market program memberships under our Foresight subsidiary is dependent upon continuing and establishing new client relations. The arrangements with our clients are pursuant to written agreements that set forth our and the client's responsibilities, obligations, and entitlements, including collection of membership fees and, as applicable, payment of royalties. Clients that sell wholesale memberships generally are required to collect the membership fee and remit 20% to 60% of the membership fee to us and are entitled to retain the balance. Our client contracts are generally for an initial term of one year that is automatically extended for an additional term of one year following the initial term or the previoiusly extended term. These contracts are subject to termination upon 90-days' written notice prior to expiration of the initial term or the extended term. Pursuant to these contracts, our clients are excluded from offering and selling similar membership service programs. Upon termination, we generally do not have any continuing relationship with the client's customers, although we are entitled to continue to receive our portion of the membership fees as collected by the retail client. Furthermore, for one year following termination of the contract, a retailer is not permitted to offer programs that are similar to our membership programs.

With respect to those memberships sold by Foresight, pursuant to direct marketing methods, we obtain substantially all customer marketing information from customer lists supplied by our clients. Clients provide these lists for use in marketing a single, specific program that has been pre-approved by the client. Pursuant to contractual arrangements with these clients, we are obligated to collect the membership fees and remit 10% to 50% of the membership fees to the client that provided the customer list used to solicit the membership sales. Under our contractual arrangements with these clients we typically have the right to continue providing membership services directly to the client's customers even if the client terminates the contract. Our ability to market new retail programs to an existing customer base or an existing retail program to a new customer base is dependent on first obtaining approval from a client.

Client relationships generally are developed over an extended period of six months or more. These relationships generally are based in part on professional relationships and the reputation of our management and marketing personnel. As a result, client relationships may be adversely affected by events beyond our control, including departures of key personnel and alterations in personal relationships. Consequently, because the relationships with our clients are pursuant to contractual arrangements that are subject to termination, we provide no assurance that:

- one or more of our key or other clients will not terminate its relationship with us;
- if applicable, that clients will provide additional customer lists for use in our further marketing of new or existing membership programs; or
- clients who terminate will be replaced on a timely basis, if at all.

Any one of the foregoing may adverse affect upon our business, financial condition and results of operations.

GOVERNMENTAL REGULATION

We are subject to federal, state and local laws, regulations, administrative determinations, court decisions and similar constraints (hereinafter "regulations"). Because the nature of our services is relatively new to the marketplace, we may not be able to accurately predict which regulations will be applied to our business and we may become subject to new or amended regulations. Some of the areas of our business that are or may be governed by current or future regulations are:

- our healthcare products, in that there is a possibility that our Care Entrée membership program will be regulated as an insurance company,

- our product claims and advertising (including direct claims and advertising as well as claims and advertising by independent marketing representatives, for which we may be held responsible), and

- our network marketing organization.

- our medical escrow accounts held on behalf of our members.

POSSIBLE INSURANCE COMPANY REGULATION

Our Care Entrée program is not an insurance program and we are not subject to regulation as an insurance company or a seller of insurance. However, regulations in certain states currently regulate or restrict the offering of our programs.

Infrequently, we receive inquires from insurance commissioners in various states that require us to supply information about our Care Entrée program, representatives, etc. to the insurance commissioner or other state regulatory agency. To date, these agencies have concurred with our view that these programs are not a form of insurance and are being sold in a proper manner. There is no assurance that this situation will not change in the future, and an insurance commissioner will successfully challenge our ability to offer our programs without compliance with state insurance regulation. Furthermore, there is the risk that a state will adopt regulations or enact legislation restricting the sale of our medical discount programs in the state.

Our Care Entrée program is also subject to the review of the attorney generals in each state, particularly as it relates to the network marketing aspect of the program. The Care Entrée commission plan was designed to meet the requirements of each state, and we have had no challenges of the plan from any state attorney general. However, the laws in any state or the interpretation of these laws could change at any time and we may be prevented from selling memberships in our Care Entrée programs as a result of the changes.

Compliance with federal and state regulations is generally our responsibility. The medical discount program industry is especially susceptible to charges by the media of regulatory noncompliance and unfair dealing. As is often the case, the media may publicize perceived non-compliance with consumer protection regulations and violations of notions of fair dealing with consumers. Our failure to comply with current, as well as newly enacted or adopted federal and state regulations, could have a material adverse effect upon our business, financial condition and results of operations in addition to the following:

- non-compliance may cause us to become the subject of a variety of enforcement or private actions;

- compliance with changes in applicable regulations could materially increase the associated operating costs;

- non-compliance with any rules and regulations enforced by a federal or state consumer protection authority may subject us or our management personnel to fines or various forms of civil or criminal prosecution; and

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- non-compliance or alleged non-compliance may result in negative publicity potentially damaging our reputation, network relationships, client relationships and the relationship with program members, representatives and consumers in general.

PRODUCT CLAIMS AND ADVERTISING. The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products. All advertising, promotional and solicitation materials used by marketing representatives require our approval prior to use. The Federal Trade Commission may institute enforcement actions against companies for false and misleading advertising of consumer products. In addition, the Federal Trade Commission has increased its scrutiny of the use of testimonials, including those used by us and our marketing representatives. We have not been the target of Federal Trade Commission enforcement action.

There is no assurance that:

the Federal Trade Commission will not question our advertising or other operations in the future;

a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations; or

future Federal Trade Commission regulations or decisions will not restrict the permissible scope of such claims.

We are also subject to the risk of claims by marketing representatives and their customers who may file actions on their own behalf, as a class or otherwise, and may file complaints with the Federal Trade Commission or state or local consumer affairs offices. These agencies may take action on their own initiative against us for alleged advertising or product claim violations, or on a referral from independent marketing representatives, customers or others. Remedies sought in these actions may include consent decrees and the refund of amounts paid by the complaining independent marketing representatives or consumer, refunds to an entire class of independent marketing representatives or customers, client refunds, or other damages, as well as changes in our method of doing business. A complaint based on the practice of one marketing representative, whether or not we authorized the practice, could result in an order affecting some or all of our marketing representatives in a particular state. Also, an order in one state could influence courts or government agencies in other states considering similar matters. Proceedings resulting from these complaints could result in significant defense costs, settlement payments or judgments and could have a material adverse effect on us.

NETWORK MARKETING ORGANIZATION. Our network marketing system is subject to a number of federal and state regulations administered by the Federal Trade Commission and various state agencies. These regulations are generally directed at ensuring that advancement, within a network marketing organization, is based on sales of the organization's products rather than investment in the organization or other non-sales related criteria. For instance, in certain markets there are limits on the extent that marketing representatives may earn royalties on sales generated by marketing representatives that were not directly sponsored by the marketing representative.

Our network marketing organization and activities are subject to scrutiny by various state and federal governmental regulatory agencies to ensure compliance with various types of laws and regulations. These laws and regulations include securities, franchise investment, business opportunity, and criminal laws prohibiting the use of "pyramid" or "endless chain" types of selling organizations. The compensation structure of these selling organizations is very complex, and compliance with all of the applicable laws is uncertain in light of evolving interpretation of existing laws and the enactment of new laws and regulations pertaining to this type of product distribution. We are not aware of any legal actions pending or threatened by any governmental authority against us regarding the legality of our network marketing operations.

As of December 31, 2003, we had marketing representatives in 50 states and the District of Columbia. We review the requirements of various states, as well as seek legal advice, regarding the structure and operation of our network marketing ensure that it complies with all of the applicable laws and regulations pertaining to network sales organizations. Based on these efforts and the experience of our management, we believe that we are in compliance with all applicable federal and state regulatory requirements. We have not obtained no-action letters or advance rulings from any federal or state security regulator or other governmental agency concerning the legality of our network operations, nor are we relying on a formal opinion of counsel to that effect. We accordingly are subject to the risk that one or more of our network marketing organizations could be found to not comply with applicable laws and regulations. Our failure to comply with these regulations could have a material adverse effect on us in a particular market or in general.

We are subject to the risk of challenges to the legality of our network marketing organization, including claims by our marketing representatives, both individually and as a class. Most likely these claims would be based on the network marketing organization allegedly being operated as an illegal "pyramid scheme" in violation of federal securities laws, state unfair practice and fraud laws, and the Racketeer Influenced and Corrupt Organizations Act. In the event of challenges to the legality of our network marketing organization by distributors, we would be required to demonstrate that our network marketing organization complies with applicable regulatory laws. A final ruling against us could result in a material liability. Moreover, even if we were successful in defending against these challenges, the costs of such defense, both in dollars spent and in management time, could be material and adversely affect our operating results and financial condition. In addition, the negative publicity of these challenges could adversely affect our revenues and ability to attract and retain marketing representatives.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT COMPLIANCE. In December 2000, The Department of Health and Human Services issued final privacy regulations pursuant to the Health Insurance Portability and Accountability Act of 1996

("HIPAA") that became effective in April 2003. HIPAA and the applicable regulations impose extensive restrictions on the use and disclosure of individually identifiable health information by certain entities. Also as part of HIPAA, the Department of Health and Human Services has issued final regulations standardizing electronic transactions between health plans, providers and clearinghouses. Health plans, providers, and clearinghouses, are required to conform their electronic and data processing systems with HIPAA's electronic transaction requirements. We may be required to comply with certain aspects of these regulations pertaining to our business.

Our recently purchased re-pricing software systems are considered HIPAA compliant. We previously engaged a consulting firm to assist us in our efforts to continuously comply with all other HIPAA regulations. We believe that we are in compliance with these regulations. However, because these regulations are new, we do not know how the interpretation and enforcement of the regulations may affect us. We plan to continually audit our compliance, and accordingly cannot give assurance that our costs of continuing to comply with HIPAA will not be material to us. Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal penalties and civil sanctions.

COMPETITION

CONSUMER HEALTHCARE SAVINGS PROGRAMS. While the medical savings industry is still in its early stages, competition for members is becoming more intense. We offer membership programs that provide products and services similar to or directly in competition with products and services offered by our network-marketing competitors as well as the providers of the products and services through other channels of distribution. Although not permitted under the current agreements with our representatives and private label clients, in the future some of our clients may provide, either directly or through third parties, programs that directly compete with our programs. Competition for new

representatives is intense, as these individuals have a variety of products that they can choose to market, whether competing with us in the healthcare market or not.

Our principal competitors are U.S. Health Advisors (National Health), AmeriPlan, Family Care (NAPP), Full Access Medical, New Benefits, Inc. and Medical Health Ventures (IAB). We also compete with all types of network marketing companies throughout the U.S. for new representatives. Our other competitors include large retailers, financial institutions, insurance companies, preferred provider organization networks, and other organizations, which offer benefit programs to their customers. Many of our competitors have substantially larger customer bases and greater financial and other resources.

We distinguish ourselves from the competition through the offering of toll-free live customer service to the providers, as well as, the members. Our staff is adequately trained to provide not only customer support, but also member steerage so that our members are able to achieve additional medical savings by obtaining the best rates even within the same medical provider network. Additionally, through our subsidiary third-party administrator, Foresight, Inc., we offer an escrow account program that helps ensure payment to our medical providers. We are not aware of any other competitor that offers customer service to the medical providers and members in this manner.

WHOLESALE MEMBERSHIP PROGRAMS. The environment within which we operate is intensely competitive and subject to rapid change. To maintain or increase our market share position, we must continually enhance our current product offerings, introduce new product features and enhancements, and expand our client service capabilities. We currently compete principally on the basis of the specialized nature of our products and services.

Competition in the membership services market for clients is intense. We offer membership programs that provide products and services similar to or directly in competition with products and services offered by our competitors as well as the providers of such products and services through other channels of distribution. Through contractual arrangements with a competitor, potential clients may be prohibited from contracting with us to design a membership program if the services or products provided by our program are similar to, or merely overlap with, the services or products provided by an existing competitor program. Although not permitted under the current agreements with our clients, in the future some of our clients may provide, either directly or through third parties, programs that directly compete with our programs. Competition for new members is also intense, particularly as the market becomes saturated with customers who are already members of competing programs.

Our principal competitors are Cendant Corporation, Memberworks, Inc., Nationwide Club Administrators, Inc., Encore International, Inc. and Consumer Benefit Services, Inc. Our other competitors include large retailers, travel agencies, financial institutions, and other organizations which offer benefit programs to their customers. Many of our competitors have substantially larger customer bases and greater financial and other resources.

PRINCIPAL COMPETITIVE FACTORS

We believe that the principal competitive factors in the consumer healthcare and wholesale membership industries, some of which are not within our control, include:

- the ability to maintain contracts with reputable preferred provider organization networks that offer substantial healthcare savings;
- the ability to identify, develop and offer unique membership healthcare programs;
- the quality and breadth of the membership programs offered;
- the quality and extent of customer service;

- the ability to offer substantial savings on the major-medical costs such as hospital and surgical costs;
- the ability to combine the programs with affordable insurance plans that have high deductibles or set payment for hospitalization;
- prices of products and service offered;
- marketing expertise;
- compensation plans for representatives;
- the ability to hire and retain employees;
- the development by others of member programs that are competitive with Care Entrée 's programs;
- responsiveness to customer needs;
- the ability to satisfy investigations on the part of state attorney generals, insurance commissioners and other regulatory bodies;
- the ability to finance promotions for the recruiting of members and representatives; and
- the ability to effectively market the product on the World Wide Web.

To date we have effectively competed with our competitors and are considered a leader in the industry. However, there is no assurance that:

competitors will not develop their own software that re-prices medical bills, a full-service customer service function similar to ours, or a medical escrow concept similar to ours;

our competitors will not increase their emphasis on programs similar to our programs to more effectively compete with us;

our competitors will not recruit our independent marketing representatives by offering more attractive sales commissions;

our competitors will not provide programs comparable or superior to our programs at lower membership fees;

our competitors will not adapt more quickly to evolving industry trends or changing market requirements;

new competitors will not enter the market;

other businesses such as insurance companies or preferred provider organization networks will not themselves introduce competing programs; and

competitors may develop more effective marketing campaigns that more effectively utilize direct mail and television advertising.

This increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect our business, financial condition and results of operations.

EMPLOYEES

As of December 31, 2003, we had 133 full-time employees in the following departments:

Customer Services	64
Finance and Accounting	20
Executive and Administration	17
Data Entry	8
Marketing	6
Information Services	5
Care Financial	5
Provider Relations	4
Foresight Wholesale Memberships	4

Our future performance depends in significant part upon the continued service of our key technical and management personnel, and our continuing ability to attract and retain highly qualified and motivated personnel in all areas of our operations. Competition for qualified personnel is intense. We provide no assurance that we can retain key managerial and technical employees, or that we can attract, assimilate or retain other highly qualified personnel in the future. Our employees are not represented by a labor union. We have not experienced any work stoppages, and consider our employee relations to be good.

ADDITIONAL FACTORS THAT MAY AFFECT OUR FUTURE RESULTS

The matters discussed below and elsewhere in this report should be considered when evaluating our business operations and strategies. Additionally, there may be risks and uncertainties that we are not aware of or that we currently deem immaterial, which may become material factors affecting our operations and business success. Many of the factors are not within our control. We provide no assurance that one or more of these factors will not adversely affect:

the market price of our common stock;

our future operations;

our business;

our financial condition; or

our results of operations;

require significant reduction or discontinuance of our operations;

require us to seek a merger partner; or

require us to sell additional stock on terms that are highly dilutive to our shareholders.

THIS REPORT CONTAINS CAUTIONARY STATEMENTS RELATING TO FORWARD LOOKING INFORMATION.

We have included some forward-looking statements in this section and other places in this report regarding our expectations. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Some of these forward-looking statements can be identified by the use of forward-looking terminology including "believes," "expects," "may," "will," "should" or "anticipates" or the negative thereof or other

variations thereon or comparable terminology, or by discussions of strategies that involve risks and uncertainties. You should read statements that contain these words carefully because they:

discuss our future expectations;

contain projections of our future operating results or of our future financial condition; or

state other "forward-looking" information.

We believe it is important to discuss our expectations; however, it must be recognized that events may occur in the future over which we have no control and which we are not accurately able to predict.

OUR REVENUES ARE PRIMARILY DEPENDENT ON THE INDEPENDENT MARKETING REPRESENTATIVES, WHOSE REDUCED SALES EFFORTS OR TERMINATION MAY RESULT IN SIGNIFICANT LOSS OF REVENUES.

Our success and growth depend in large part upon our ability to attract, retain, and motivate the network of independent marketing representatives who principally market our Care Entrée medical savings program. Our independent marketing representatives typically offer and sell the Care Entrée program on a part-time basis, and may engage in other business activities. These marketing representatives may give higher priority to other products or services, reducing their efforts devoted to marketing our Care Entrée program. Also, our ability to attract and retain marketing representatives could be negatively affected by adverse publicity relating to our Care Entrée program and operations.

Under our network marketing system, the marketing representatives' downline organizations are headed by a relatively small number of key representatives who are responsible for a substantial percentage of our total revenues. The loss of a significant number of marketing representatives, including any key representatives, for any reason, could adversely affect our revenues and operating results, and could impair our ability to attract new distributors.

DEVELOPMENT AND MAINTENANCE OF COMMERCIAL RELATIONSHIPS WITH PREFERRED PROVIDER ORGANIZATIONS ARE CRITICAL AND THE LOSS OF SUCH RELATIONSHIPS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

As part of our business operations, we must develop and maintain relationships with preferred provider organizations within each market area that our services are offered. Development and maintenance of these relationships with healthcare providers within a preferred provider organization is in part based on professional relationships and the reputation of our management and marketing personnel. Because many members that receive healthcare services are self-insured and responsible for payment for healthcare services received, failure to pay or late payment by members may negatively affect our relationship with the preferred provider organizations. Consequently, preferred provider organization relationships may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships and members' failures to pay for services received. The loss of a preferred provider organization within a geographic market area may not be replaced on a timely basis, if at all. The loss of a preferred provider organization for any reason could have a material adverse effect on our business, financial condition, and results of operations.

WE CURRENTLY RELY HEAVILY ON ONE KEY PREFFERED PROVIDER ORGANIZATION AND THE LOSS OF OR A CHANGE IN OUR RELATIONSHIP WITH THIS PROVIDER COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

Private Healthcare Systems, Inc. is the principal preferred provider organization through which our members receive savings on healthcare services through our Care Entrée program. The loss of Private Healthcare Systems as a preferred provider organization or disruption of our members' access to this preferred provider organization could adversely affect our business. While we currently enjoy a good relationship with Private Healthcare Systems, there are no assurances that we will continue to have a

good relationship with this network in the future, or that the network may choose to partner with one of our competitors or compete directly with our Care Entrée program.

WE FACE COMPETITION FOR MARKETING REPRESENTATIVES AS WELL AS COMPETITIVE OFFERINGS OF HEALTHCARE PRODUCTS AND SERVICES.

Although the medical savings membership industry is in the early stages of its development, competition for members is becoming more intense. We offer membership programs that provide products and services similar to or directly in competition with products and services offered by our network-marketing competitors as well as the providers of such products and services through other channels of distribution. Although not permitted under the current agreements with our marketing representatives and private label clients, in the future some of our clients may provide, either directly or through third parties, programs that directly compete with our programs. Furthermore, marketing representatives have a variety of products that they can choose to market, whether competing with us in the healthcare market or not. Our business operations compete in two channels of competition. First, we compete based upon the healthcare products and services offered. These competitors include companies that offer healthcare products and services through membership programs much like our programs, as well as insurance companies, preferred provider organization networks and other organizations that offer benefit programs to their customers. Second, we compete with all types of network marketing companies throughout the U.S. for new marketing representatives. Many of our competitors have substantially larger customer bases and greater financial and other resources.

We provide no assurance that our competitors will not provide healthcare benefit programs comparable or superior to our programs at lower membership prices or adapt more quickly to evolving healthcare industry trends or changing industry requirements. Increased competition may result in price reductions, reduced gross margins, and loss of market share, any of which could adversely affect our business, financial condition and results of operations. There is no assurance that we will be able to compete effectively with current and future competitors.

WE MAY BECOME SUBJECT TO GOVERNMENT REGULATION MUCH LIKE AN INSURANCE COMPANY. SUCH REGULATORY OVERSIGHT MAY AFFECT OR LIMIT OUR OPERATIONS.

The membership and healthcare benefits we offer are sold without license by any federal, state, or local regulatory licensing agency or commission. In comparison, companies that provide insurance benefits and operate healthcare management organizations and preferred provider organizations are regulated by state licensing agencies and commissions. These regulations extensively cover operations, including scope of benefits, rate formula, delivery systems, utilization review procedures, quality assurance, enrollment requirements, claim payments, marketing and advertising. In the future, state insurance regulatory agencies and commissions may determine that our Care Entrée programs are subject to governmental regulation, which may adversely affect or limit our future operations.

WE HAVE A FIDUCIARY RESPONSIBILTY TO OUR MEMBERS THROUGH OUR TOTAL CARE AND ESSENTIAL CARE PROGRAM OFFERINGS. IN THIS CAPACITY, WE COULD BE LIABLE FOR THE LOSS OF FUNDS.

In the fourth quarter of 2002, we initiated a medical savings program through our Total Care and Essential Care programs that is processed through our subsidiary Foresight as a third-party administrator. Under this medical savings program, funds collected from members are held in escrow for the benefit of the member as a source of payment for healthcare services obtained through our Total Care and Essential Care programs. Under the medical savings program we have a fiduciary responsibility to our members for the funds held for their benefit much like a trustee. In the unforeseen event of a loss of these funds while being held by us or our failure to implement and maintain adequate internal controls, we will be responsible and liable to the affected members for any

such loss, including any consequential damages suffered by the members, which liability could be substantial.

THE FAILURE OF OUR NETWORK MARKETING ORGANIZATION TO COMPLY WITH FEDERAL AND STATE REGULATION COULD RESULT IN ENFORCEMENT ACTION AND IMPOSITION OF PENALTIES, MODIFICATION OF OUR NETWORK MARKETING SYSTEM, AND NEGATIVE PUBLICITY.

Our network marketing organization is subject to federal and state laws and regulations administered by the Federal Trade Commission and various state agencies. These laws and regulations include securities, franchise investment, business opportunity, and criminal laws prohibiting the use of "pyramid" or "endless chain" types of selling organizations. These regulations are generally directed at ensuring that product and service sales are ultimately made to consumers (as opposed to other marketing representatives) and that advancement within the network marketing organization is based on sales of products and services, rather than on investment in the company or other non-retail sales related criteria.

The compensation structure of a network marketing organization is very complex. Compliance with all of the applicable regulations and laws is uncertain because of:

- the evolving interpretations of existing laws and regulations; and
- the enactment of new laws and regulations pertaining in general to network marketing organizations and product and service distribution.

Accordingly, there is the risk that our network marketing system could be found to not comply with applicable laws and regulations, that could then:

- result in enforcement action and imposition of penalty;
- require modification of the marketing representative network system;
- result in negative publicity; or

have a negative effect on distributor morale and loyalty.

Any of these consequences could have a material adverse effect on our results of operations as well as our financial condition.

THE LEGALITY OF OUR NETWORK MARKETING ORGANIZATION IS SUBJECT TO CHALLENGE BY OUR MARKETING REPRESENTATIVES, WHICH COULD RESULT IN SIGNIFICANT DEFENSE COSTS, SETTLEMENT PAYMENTS OR JUDGMENTS, AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Our network marketing organization is subject to legality challenge by our marketing representatives, both individually and as a class. Generally, these challenges would be based on claims that our marketing network program was operated as an illegal "pyramid scheme" in violation of federal securities laws, state unfair practice and fraud laws and the Racketeer Influenced and Corrupt Organizations Act. Proceedings resulting from these claims could result in significant defense costs, settlement payments, or judgments, and could have a material adverse effect on us.

WE MAY BE SUBJECT TO CERTAIN PROVISIONS OF THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILTY ACT OF 1996 AND THE COST OF COMPLIANCE COULD BE MATERIAL.

In December 2000, The Department of Health and Human Services issued final privacy regulations pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") that became effective in April 2003. HIPAA imposes extensive restrictions on the use and disclosure of individually

identifiable health information by certain entities. Also as part of HIPAA, the Department of Health and Human Services has issued final regulations standardizing electronic transactions between health plans, providers and clearinghouses. Health plans, providers and clearinghouses, are required to conform their electronic and data processing systems with HIPAA's electronic transaction requirements. We may be required to comply with certain aspects of these regulations. While we believe that our operations are in compliance with HIPAA regulations, we cannot be certain of the extent to which the enforcement or interpretation of these regulations will affect our business. Our continuing compliance with these regulations, therefore, may have a significant impact on our business operations and may be at material cost in the event we are subject to these regulations. Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal penalties and civil sanctions.

OUR PROGRAM MARKETING ACTIVITIES THAT ARE CONDUCTED BY OUR SUBSIDIARY FORESIGHT ARE DEPENDENT UPON OUR CLIENTS.

In carrying out our program marketing activities through our subsidiary Foresight, Inc., we are dependant on our clients utilizing our services to design membership programs for their customers. The client approves each marketing program prior to presentation to the client's customers.

Our client relationships are pursuant to written agreements that typically may be terminated pursuant to 90-day written notice prior to end to the term of the agreement without cause and without penalty. Generally, upon termination, the client may not offer similar products or services for a one-year period; however, we are not prohibited from continuing to offer or provide membership services and products directly or indirectly to the client's individual customers. If the agreement is terminated due to our default, we are prohibited from renewing memberships and the client has the right to cause us to terminate our relationship with existing program members. Many of the events that constitute default are not within our control, including acts and omissions by our third-party product and service vendors or providers. There is no assurance that our clients will not terminate their relationships with us or cease to provide additional customer lists for our use in further marketing of new or existing membership programs.

WE ARE CURRENTLY IMPLEMENTING A NEW MANAGEMENT INFORMATION SYSTEM. DISRUPTION IN OUR OPERATION RESULTING FROM SUCH IMPLEMENTATION COULD AFFECT OUR CLIENT RELATIONSHIPS.

We are currently transitioning to our new management information system. There is no assurance that we will be able to continue operating without experiencing any disruptions in our operations or that our relationships with our members, marketing representatives or providers will not be adversely affected.

WE ASSUMED A CONTINGENT TAX LIABILITY IN CONNECTION WITH OUR MERGER-ACQUISITION OF FORESIGHT.

In January 1999, Universal Marketing Services, Inc., the former parent of our wholly-owned subsidiary, Foresight, Inc., purchased the outstanding common stock of Foresight for $4,540,000. Universal Marketing Services agreed to indemnify the shareholders of Foresight for the increase in federal income taxes, and any applicable penalties to the extent that the reported $4,540,000 of the purchase price does not qualify for long-term capital gain treatment. In connection with our merger-acquisition of Foresight, we assumed the indemnification obligation of Universal Marketing Services.

Upon examination, the Internal Revenue Service may take the position that all or a portion of the $4,540,000 should be classified as ordinary income taxable at the maximum federal income tax rate of 39.6% rather than the long-term capital gain 20% rate. In the event the Internal Revenue Service successfully asserts that long- term capital gain classification was improper, we will be required to indemnify the former shareholders.

WE HAVE MANY COMPETITORS AND MAY NOT BE ABLE TO COMPETE EFFECTIVELY WHICH MAY LEAD TO A LACK OF REVENUES AND DISCONTINUANCE OF OUR OPERATIONS.

We compete with numerous well-established companies that design and implement membership programs. Some of our competitors may be companies that have programs that are functionally similar or superior to our membership programs. Most of our competitors possess substantially greater financial, marketing, personnel and other resources than us. They may also have established reputations relating to membership programs.

Due to competitive market forces, we may experience price reductions, reduced gross margins and loss of market share in the future, any of which would result in decreases in sales and revenues. These decreases in revenues would adversely affect our business and results of operations and could lead to discontinuance of operations. There can be no assurance that:

- we will be able to compete successfully;
- our competitors will not develop membership programs that render our programs less marketable or even obsolete; or
- we will be able to successfully enhance our programs when necessary.

THE GOODWILL ACQUIRED PURSUANT TO OUR ACQUISITIONS OF THE CAPELLA GROUP AND FORESIGHT MAY BECOME IMPAIRED AND REQUIRE A WRITE-DOWN AND THE RECOGNITION OF AN IMPAIRMENT EXPENSE WHICH MAY BE SUBSTANTIAL.

In connection with our acquisitions of The Capella Group and Foresight, we recorded goodwill that, at December 31, 2003, had an aggregate asset value of $21,077,284. In the event that the goodwill is determined to be impaired for any reason, we will be required to write-down or reduce the value of the goodwill and recognize an impairment expense. The impairment expense may be substantial in amount and, in such case, adversely affect the results of our operations for the applicable period and may negatively affect the market value of our common stock.

ITEM 2. DESCRIPTION OF PROPERTY

Our corporate offices, operations, and insurance agency are located in 25,000 square feet at 2040 N. Highway 360, Grand Prairie, Texas 75050. The offices are occupied under a lease agreement with Assem Family Limited Partnership, that expires December 15, 2006.

We consider the space in which our offices are occupied to be adequate for our needs. In the event we are required to relocate our office upon termination of the existing leases, we believe other office space is available under comparable lease terms.

Our financial commitment on this lease runs through December 15, 2006.

Description	Payments Due by Period

Contractual Obligation	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating Leases	$ 1,060,300	$ 456,290	$ 604,010		

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, we may become involved in litigation or in settlement proceedings relating to claims arising out of our operations. Except as described below, we are not a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Kirk, et al v, Precis, Inc. and David May

On September 8, 2003, the case styled "*Robert Kirk, Individually and D/B/A US Asian Advisors, LLC, Eugene M. Kennedy, P.A., Stewart & Associates, CPA's, P.A. and Kimberly Decamp, Plaintiffs vs. Precis, Inc. and David May, Defendants*" was initiated in the District Court of Tarrant County, Texas, Case No. 236 201 468 03. The plaintiffs Robert Kirk (doing business as US Asian Advisors, LLC or U.S. Asian Capital Investors, LLC and recently convicted of securities fraud and related crimes), Kimberly Decamp and Stewart & Associates, CPA's, P.A. hold warrants exercisable for the purchase of 9,000, 48,000 and 4,000 shares, respectively, of our common stock for $9.00 per share on or before February 8, 2005. The plaintiffs Eugene M. Kennedy, P.A. and Kimberly Decamp hold stock options that expired on June 30, 2003, and that were exercisable for 15,000 and 170,000 shares, respectively, of our common stock for $9.37 per share. David May was our Secretary and Vice President and General Counsel through January 5, 2004.

Plaintiffs Eugene M. Kennedy, P.A. (Eugene M. Kennedy is a member of the Florida bar association and a practicing attorney) and Ms. Decamp (the sister of Mr. Kirk) at no time presented the stock option agreements evidencing the stock options and payment of the exercise price of the stock options, $140,550 and $1,592,900, respectively, as required pursuant to the terms of the stock option agreements for exercise. Furthermore, Plaintiffs Robert Kirk, Kimberly Decamp and Stewart & Associates, CPA's, P.A. at no time tendered the certificates evidencing the warrants and the completed and executed Form of Subscription (Cashless Exercise) required for exercise of the warrants without payment of the exercise price of those warrants.

The plaintiffs allege that they were not allowed to exercise their stock options and warrants in May of 2003 due to actions and inactions of Mr. May and that these actions and inactions constitute fraud, misrepresentation, negligence and legal malpractice. All communications with Mr. May were through the plaintiffs' broker, Burt Martin Arnold Securities, Inc. Plaintiffs are seeking damages equal to the difference between the exercise price of the stock options or warrants and the market value of our common stock on May 7, 2002 (presumably the closing sale price of $15.75) or an aggregate sum of $1,592,050, plus exemplary damages and costs.

An answer has been filed indicating the plaintiffs' failure to follow the procedures required by the warrant and stock option agreements for effective exercise. Although we believe the plaintiffs' claims are without merit, this case is still in discovery, and, as of the date of this report, we cannot provide any assurance regarding the outcome or results of this litigation.

Zermeno v. Precis

The case styled *"Manuela Zermeno, individually and on behalf of the general public; and Juan A. Zermeno, individually and on behalf of the general public vs. Precis, Inc., an Oklahoma corporation and Does 1 through 100, inclusive"* was filed on August 14, 2003 in the Superior Court of the State of California for the county of Los Angeles.

A second case styled *"California Foundation for Business Ethics, Inc., a California non-profit corporation, v Precis, Inc., and Does 1 through 100, inclusive"* was filed on September 9, 2003, in the Superior Court of the State of California for the county of Los Angeles.

The two above cases were removed to the United States District Court for the Central District of California and consolidated, by order of the court, on December 4, 2003. The cases currently are pending in such court under Case No. CV 03-6974 SJO (MANx).

Plaintiffs are former members of the Care Entrée discount health care program who allege that they (for themselves and for the general public) are entitled to injunctive, declaratory, and equitable relief. Plaintiffs' First Amended Complaint sets forth three distinct claims under California law. Plaintiffs' first cause of action alleges that the operation of the Care Entrée program by Defendants

Precis, Inc. and The Capella Group, Inc. violates Health and Safety Code § 445 ("Section 445"), which governs medical referral services. Next, Plaintiffs allege that they are entitled to damages under Civil Code §§ 1812.119 and 1812.123, which are part of the broader statutory scheme governing the operation of discount buying organizations, Civil Code 1812. 100 *et. seq.* ("Section 1812.100"). Plaintiffs' third cause of action seeks relief under Business and Professions Code § 17200, California's Unfair Competition Law.

The Plaintiffs are seeking damages for the amounts the Zermenos may have lost as a result of the alleged failure of our service to deliver savings as promised, as well as the retrospective refund of fees paid by California consumers to us for the past four years and injunctive relief that could affect our ability to do business in California. A negative result in this case would have a material affect on our financial condition.

We believe that we have complied with all applicable statues and regulations in the state of California and are defending the consolidated case. Although we believe the Plaintiffs' claims are without merit, this case is in the initial stages of discovery, and, as of the date of this report, we cannot provide any assurance regarding the outcome or results of this litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to vote of our security holders during the three months ended December 31, 2003.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded in the over-the-counter market and is quoted on the Nasdaq SmallCap Market System under the symbol PCIS. Prior to February 9, 2000, there was no public trading market for our common stock. The closing sale prices reflect inter-dealer prices without adjustment for retail markups, markdowns or commissions, and may not reflect actual transactions. The following table sets forth the high and low closing sale prices of our common stock during the calendar quarters presented, as reported by the Nasdaq SmallCap Market System.

For more information on us, please refer to our website at www.precis-pcis.com.

	CLOSING SALE PRICE	
	COMMON STOCK	
QUARTER ENDED	HIGH	LOW
March 31, 2003	$ 5.55	$ 2.80
June 30, 2003	$ 5.50	$ 3.30
September 30, 2003	$ 5.69	$ 3.39
December 31, 2003	$ 4.45	$ 3.18
March 31, 2002	$ 15.14	$ 10.10
June 30, 2002	$ 15.95	$ 8.51
September 30, 2002	$ 11.00	$ 5.60
December 31, 2002	$ 7.40	$ 3.82

On March 15, 2003, the closing sale price of the common stock as quoted on the Nasdaq SmallCap Market was $3.70. On March 15, 2003, there were approximately 11,847,280 holders of our common stock.

The market price of our common stock is subject to significant fluctuations in response to, and may be adversely affected by:

- variations in quarterly operating results;
- changes in earnings estimates by analysts;
- adverse earnings or other financial announcements of our customers or clients;
- announcements and introductions of product or service innovations or new contracts by us or our competitors; and
- general stock market conditions.

In order to continue inclusion of our common stock on the Nasdaq SmallCap Market the minimum listing requirements must be met. If we fail to meet the minimum requirements, our common stock will be de-listed by Nasdaq and will become tradable on the over-the-counter market, which will adversely affect the sale price of our common stock. In this event, our common stock will then be traded in the over-the-counter market and may become subject to the "penny stock" trading rules.

The over-the-counter market is volatile and characterized as follows:

- the over-the-counter securities are subject to substantial and sudden price increases and decreases;
- at times the price (bid and ask) information for the securities may not be available;
- if there are only one or two market makers, there is a risk that the dealers or group of dealers may control the market in our common stock and set prices that are not based on competitive forces; and
- the actual sale price ultimately obtained for a block of stock may be substantially below the quoted bid price.

Consequently, the market price of our common stock will be adversely affected if our common stock ceases to be included on the Nasdaq SmallCap Market.

DIVIDEND POLICY

Our dividend policy is to retain our earnings, if any, to support the expansion of our operations. Our board of directors does not intend to pay cash dividends on our common stock in the foreseeable future. Any future cash dividends will depend on future earnings, capital requirements, our financial condition and other factors deemed relevant by our board of directors.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS. The following table sets forth as of December 31, 2003, information related to each category of equity compensation plan approved or not approved by our shareholders, including individual compensation arrangements with our non-employee directors. The equity compensation plans approved by our shareholders are our 1999 Stock Option Plan, 2002 Stock Option Plan, 2002 IMR Stock Option Plan and the stock option agreement entered into with Barron Chase Securities, Inc. in connection with our merger-acquisition of Foresight, Inc. All stock options, warrants and rights to acquire our equity securities are exercisable for or represent the right to purchase our common stock.

Plan Category	Number of Shares Underlying Unexercised Options and Warrants	Weighted-Average Exercise Price of Outstanding Options and Warrants	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans(1)
Equity compensation plans approved by our shareholders:			
2002 Non employee stock option plan	214,000	$ 6.21	286,000
2002 IMR stock option plan	116,354	$ 4.66	383,646
1999 stock option plan	368,250	$ 4.84	984,750
Barron Chase Securities stock option agreement(2)	183,000	$ 9.37	
	881,604	$ 6.28	1,654,396
Equity compensation plans not approved by our shareholders:			
Stock option grants to non-employee directors in 2000 and 2001(3)	102,000	$ 2.65	
Stock options granted to employees in 1997 and 1998(4)	7,410	$ 4.87	
Warrants issued to Barron Chase Securities and its assigns in 2000 related to our initial public offering(5)	83,500	$ 9.00	
	192,910	$ 5.48	
Total	1,074,514	$ 6.76	1,654,396

(1) The number of shares of our common stock remaining available for issuance under equity compensation plans is after excluding the number of securities to be issued upon exercise of outstanding options and warrants

(2) The stock option agreement was entered into with Barron Chase Securities, Inc. in connection with our merger-acquisition of Foresight, Inc. that was approved by our shareholders in November 2000.

(3) The stock options were granted in lieu of cash compensation for the services of our non-employee directors. The purchase price of the shares was equal to or in excess of the closing sale price of our common stock on the grant date of the stock option grants.

(4) The stock options were granted to employees during 1997 and 1998 as part of their compensation for services provided.

(5) The warrants were issued to Barron Chase Securities and its assigns as compensation for the underwriting services of Barron Chase Securities associated with our initial public offering that was completed in February 2000.

UNREGISTERED SECURITIES SOLD DURING PRECEDING THREE YEARS

FORESIGHT, INC. MERGER-ACQUISITION. On December 7, 2000, we completed the merger-acquisition of Foresight, Inc.. In completion of this merger-acquisition, we issued 500,000 shares of our common stock and 166,667 shares of our Series A convertible preferred stock to Paul A. Kruger and Mark R. Kidd in exchange for the outstanding capital stock of Foresight, Inc. Mr. Kruger is our former C.E.O. Mr. Kidd is our former C.F.O. Further, at closing of the merger-acquisition of Capella Group, we issued and delivered 1,250,000 shares of our common stock to Messrs. Kruger and Kidd and agreed to issue one share of our common stock for each $1.00 that our consolidated income before tax

expense (as adjusted) for 2001 exceeds $1,750,000, assuming the merger-acquisition of Capella Group was completed on January 1, 2001. Messrs. Kruger and Kidd were issued 2,065,202 shares of our common stock on February 7, 2002. In addition, we granted Barron Chase Securities, Inc. stock options exercisable for the purchase on or before June 30, 2003 of 200,000 shares of our common stock for $9.37 per share. These options were granted for the investment banking financial services and consulting advice provided by Barron Chase Securities in valuing and structuring the merger. These offerings were made pursuant to the applicable registration exemptions of Rule 506 of Regulation D of the Securities and Exchange Commission, Section 4(2) of the Securities Act of 1933, and applicable state securities laws. There were no sales commissions or other fees paid in connection with the merger-acquisition, other than granting of the stock options.

THE CAPELLA GROUP, INC. MERGER-ACQUISITION. On June 8, 2001, we completed the merger-acquisition of The Capella Group, Inc. In completion of this merger-acquisition, we issued 2,775,000 shares of our common stock to the shareholders of The Capella Group, Inc. in exchange for the outstanding capital stock of The Capella Group, Inc. In addition, we agreed to issue and deliver to the former of shareholders of Capella Group one share of our common stock for each dollar of Capella Group's income before tax expense (increased by certain adjustments) during 2001, assuming the merger-acquisition was completed on January 1, 2001, in excess of $1,275,000. The former shareholders of The Capella Group were issued 2,735,085 shares of common stock on February 7, 2002. This offering was made pursuant to the applicable registration exemptions of Rule 506 of Regulation D of the Securities and Exchange Commission, Section 4(2) of the Securities Act of 1933, and applicable state securities laws. As part of the merger-acquisition of The Capella Group, Inc., two of our directors, Messrs. John Simonelli and Larry E. Howell were paid consulting fees of $190,335 each for their assistance and consulting services. There were no sales commissions or other fees paid in connection with the merger-acquisition.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for each of the three years ended on December 31, 2003, 2002 and 2001 and as of December 31, 2003 and 2002 have been derived from our consolidated financial statements included elsewhere in this report.

	For the Year Ended December 31,		
	2001	**2002**	**2003**
Statement of Operations Data:(1)			
Product and service revenues (2)	$ 21,056,164	$ 43,115,666	$ 42,087,671
Operating expenses			
Cost of operations (2)	7,399,283	11,543,406	13,125,851
Sales and marketing	7,164,323	17,059,248	15,572,188
General and administrative	3,218,261	6,095,360	6,739,271
Total operating expenses (2)	17,781,867	34,698,014	35,437,310
Operating income	3,274,297	8,417,652	6,650,361
Other expense			

	For the Year Ended December 31,		
Interest income and expense, net	(81,278)	64,437	149,969
Amortization of goodwill	578,651		
Total other expense	497,373	64,437	149,969
Earnings before income taxes	2,776,924	8,353,215	6,500,392
Provision for income taxes	175,846	2,874,852	2,411,066
Net earnings	2,601,078	5,478,363	4,089,326
Preferred stock	236,000	14,137	
Net earnings applicable to common stockholders	$ 2,365,078	$ 5,464,226	$ 4,089,326
Earnings per share:			
Basic	$ 0.30	$ 0.46	$ 0.35
Diluted	$ 0.29	$ 0.46	$ 0.34
Weighted average number of common shares outstanding:			
Basic	8,000,042	11,790,650	11,848,789
Diluted	8,051,607	11,996,222	11,924,214
Cash Flows Data:			
Net cash provided by operating activities	$ 3,079,496	$ 3,989,546	$ 7,818,885
Net cash provided by (used in) investing activities	$ (1,702,612)	$ (920,408)	$ (945,344)
Net cash provided by (used in) financing activities	$ (2,162,615)	$ (1,212,977)	$ (1,397,424)

	December 31,	
	2002	**2003**
Balance Sheet Data:		
Cash and cash equivalents	$ 5,611,803	$ 11,087,920
Current assets	$ 9,206,295	$ 15,617,689
Working capital	$ 4,977,109	$ 8,818,823
Total assets (2)	$ 35,055,686	$ 40,813,664
Current liabilities (2)	$ 4,229,186	$ 6,798,866
Total liabilities	$ 5,574,014	$ 7,211,560
Stockholders' equity	$ 29,481,672	$ 33,602,104

(1) The results of our operations and other selected financial data for the years ended December 31, 2000 and 1999 have not been included in this presentation as they are not considered comparable to our results of operations and other selected financial data for the years ended December 31, 2003, 2002 and 2001. Substantially all of our revenue for the years ended December 31, 2003, 2002 and 2001 is derived from our healthcare membership savings business. We began selling healthcare membership savings programs immediately following our acquisition of The Capella Group Inc. in June 2001.

(2) Certain reclassifications have been made to prior period financial information to conform to the current presentation of the financial information.

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

BACKGROUND

On June 8, 2001, pursuant to a merger-acquisition transaction The Capella Group, Inc. became our wholly-owned subsidiary and allowed us to further diversify our membership programs offered through our other subsidiary, Foresight, Inc. In connection with this acquisition, we paid $2,271,609 in immediately available funds, issued promissory notes in the aggregate amount of $1,000,000 and issued and delivered 2,775,000 shares of our common stock with an approximate market value of $5,078,250 as of the closing date. In addition, we agreed to issue and deliver to the former of shareholders of Capella Group one share of our common stock for each dollar of Capella Group's income before tax expense (increased by certain adjustments) during 2001, assuming the merger-acquisition was completed on January 1, 2001, in excess of $1,275,000. The total additional earnout amounted to 4,800,287 shares that were issued on February 7, 2002. The Capella Group is primarily engaged in marketing memberships that offer savings on a wide range of healthcare services.

On December 7, 2000, pursuant to a merger-acquisition Foresight, Inc. became our wholly-owned subsidiary. In connection with this acquisition, we issued and delivered 166,667 shares of our series A preferred stock and 500,000 shares of our common stock. As a condition of the Capella Group acquisition, Paul A. Kruger and Mark R. Kidd, the former shareholders of Foresight, agreed to waive their rights to receive additional shares of our common stock based upon our consolidated net income before tax expense (as adjusted) for the years 2002 and 2003. In consideration for this waiver and agreement, at closing of the merger-acquisition of Capella Group, we issued and delivered 1,250,000 shares of our common stock to Messrs. Kruger and Kidd and agreed to issue one share of our common stock for each $1.00 that our consolidated income before tax expense (as adjusted) for 2001 exceeds $1,750,000, assuming merger-acquisition of Capella Group was completed on January 1, 2001. The total additional earnout amounted to 4,800,287 shares that were issued on February 7, 2002.

Prior to these merger-acquisitions, we designed, marketed, implemented and serviced smart card products. As a result of these acquisitions, our business focus and product offerings became those of Capella and Foresight and our smart card technology and products began to be offered primarily in conjunction with and as enhancements of The Capella Group's and Foresight's products and services. Consequently, our operations and the results of operations since June 8, 2001 and December 7, 2000, respectively, are not comparable to the operations conducted and results of operations obtained prior to these dates.

OVERVIEW

CONSUMER HEALTHCARE SAVINGS SOLUTIONS. We offer savings on healthcare services throughout the United States to persons who are under-insured. These savings are offered by accessing the same preferred provider organizations (PPOs) that are utilized by many insurance companies. These programs are sold primarily through a network marketing strategy under the name Care Entrée . We design these programs to benefit healthcare providers as well as the network members. Providers commonly give reduced or preferred rates to PPO networks in exchange for steerage of patients. However, the providers must still file claim forms and wait 30 to 60 days to be paid for their services. Our programs utilize these same networks to obtain the same savings for the Care Entrée program members. However, the healthcare providers are paid immediately for their services and are not required to file claim forms. We provide transaction facilitation services to both the program member and the healthcare provider.

Independent Marketing Representatives (IMRs) may enroll as representatives by paying an enrollment fee and signing a standard representative agreement. We pay independent marketing representatives commissions equal to 20% of the membership fees of members they enroll for the life of that members' enrollment. Independent marketing representatives can also recruit other representatives and earn override commissions on sales made by those recruited representatives. We pay a total of 35% in override commissions down through seven levels. We have also established bonus pools that allow independent marketing representatives who have achieved certain levels to receive bonuses of up to 5% of our incremental revenues in these programs. Independent marketing representatives can also earn a commission equal to the membership fees if three or more program members are enrolled in a month. In the month of membership sales, no override commissions are paid to the representatives upline. The total regular or ongoing commissions payout, including overrides, on second month membership sales and onward and our contribution to the bonus pools, is 60% of qualified membership sales.

AFFORDABLE HEALTHCARE INSURANCE

In September 2003, we organized a new subsidiary under the name Care Financial of Texas, L.L.C. Through Care Financial, we offer our high deductible and scheduled benefit insurance policies. In addition, we have recently added a suite of products including life insurance from Lion's Share (Allianz), along with Healthcare Reimbursement Arrangements (HRAs) and medical and dependent care Flexible Spending Accounts (FSAs) offered through Case 125, a division of Care Financial. The high deductible and scheduled benefit insurance policies, HRAs and medical and dependent care FSAs, when combined with the Care Entrée program, offer affordable, well-rounded solutions for individuals and employers who are no longer able to afford or obtain traditional health insurance policies. The HRAs and medical and dependent care FSAs are also sold by our independent marketing representatives who, from a regulatory standpoint, are not required to be licensed to sell these products. The life insurance products serve to complement our healthcare product offerings by addressing our members' overall financial condition. The insurance policies are sold through our independent marketing representatives who are licensed insurance agents.

WHOLESALE MEMBERSHIP SOLUTION

Healthcare Membership Programs

We also design healthcare membership programs for employer groups, retailers and association-based organization. Memberships in these programs are offered and sold by direct marketing through direct sales or in-bound direct marketing. We believe that our clients, their members, and the vendors of the products and services offered through the programs, all benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients' particular member base. Most of our memberships are sold by third-party organizations and are generally marketed using the third-party's name or brand. We refer to these programs and membership sales as wholesale programs or private label programs. While the services offered to consumers by these private label programs are generally similar to the services we offer through Care Entrée , each of the private label programs can bundle our services to fit the needs of their consumers. For instance, some of our private label programs do not offer a self-funded escrow program to their members.

Rental Purchase and Club Membership Programs

We also design club membership programs for rental-purchase companies, financial organizations, employer groups, retailers and association-based organizations. Memberships in these programs are offered and sold as part of a point-of-sale transaction or by direct marketing through direct mail or as inserts. Program members are offered and provided our third-party vendors' products and services. We

believe that our clients, their customers, and the vendors of the products and services offered through the programs, all benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients' particular customer base. Most of our club membership programs are sold by third-party organizations, generally in connection with a point-of-sale transaction. We refer to these programs and membership sales as wholesale programs.

Repricing for Governments

For governments and other large, self-funded employers seeking to reduce the cost of offering healthcare benefits to their employees, we can also offer a more streamlined version of our product. In these cases, we offer access to healthcare through our network of providers and the efficient repricing of bills through our proprietary systems. We can offer these services on a price based on either the number of participants per month or as a percentage of savings on healthcare costs actually realized.

BENEFITS TO MEMBERS OF OUR PROGRAMS

We believe that our programs offer members an economic, efficient and convenient method for the selection of products and services. Members are entitled to savings for products and services that may not otherwise be available to them. Vendors of products and services offered and sold through the programs to members are benefited. Vendors are provided the opportunity to reach a large number of demographically targeted customers with minimal incremental marketing cost.

OPERATIONAL REVIEW FOR THE YEAR ENDED DECEMBER 31, 2003

The year ended December 31, 2003 was very much a transitional year for us. We implemented member escrow accounts during the fourth quarter of 2002 in response to the market changes in the healthcare savings industry, and on October 1, 2003, we expanded the escrow requirements to all programs offering access to medical doctors and physicians. As a result of this change, we now require all of our members to escrow funds with us prior to utilizing any physician, hospital or ancillary services. As of December 31, 2003, the percentage of our individual members who have escrowed funds with us was approximately 13,000 or 25% of the total individual healthcare membership base. This excludes our private label programs, where the escrow requirements have not been mandated.

Our healthcare membership base was approximately 81,000 members as of December 31, 2003 as compared to 92,000 members as of December 31, 2002, a decrease of approximately 11,000 members or 12.0%. The reduction was most noticeable in the fourth quarter of 2003 where our membership decreased by approximately 4,000, or 4.7% during this period. The reduction in our healthcare membership base was primarily due to the implementation of the escrow account requirements for hospitalized care in the fourth quarter of 2002, and expansion to physicians and doctors commencing on October 1, 2003.

As a result of some of healthcare program changes introduced during 2003 and 2002, our independent marketing representative base experienced a significant reduction in 2003. We, however, continue to maintain the majority of our core business leaders whose downline organizations generate a substantial portion of our revenues.

Although these escrow requirements negatively impacted our membership base and consequently our revenues and net earnings in 2003, these changes were required to help provide assurance of payment to the healthcare providers and accordingly, their continued willingness to provide healthcare services to our members. This strategic move was critical to our long-term operational and financial viability in the health card savings market as many healthcare providers throughout the United States will no longer accept a "health discount" card. The success of our new healthcare product offering has

not been fully determined. Therefore, its long-term impact on both revenues and net earnings is currently unknown and may not be known until the third quarter of 2004 or later. The growth of our members escrow or cash-in-trust from $108,152 as of December 31, 2002 to $2,768,447 as of December 31, 2003 provides preliminary although not conclusive evidence of the acceptance of this form of medical savings product offering.

In the fourth quarter of 2003, we began reorganizing and rebuilding our corporate sales team to be better positioned to enter into the large self-insured employer group and medical benefits market. We restructured our in-house sales team and in January 2004 hired a Senior Executive, Vice President of Sales and Marketing to lead this area, both from a strategy and execution standpoint. Our medical savings product offering in conjunction with our Care125 medical savings account provide an alternative healthcare product offering for a growing number of companies that have chosen to move towards the self-funded and/or high deductible insurance route. This, along with the individual healthcare market, is a substantial portion of our overall business focus in 2004.

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION

Healthcare Membership Revenues

We recognize membership revenues in the month the member joins the program. Membership revenues are reduced by the amount of refunds estimated to be incurred. Subsequent to the initial membership month, membership revenues are recognized on each monthly anniversary date.

Member enrollment fees, net of direct costs, are deferred and amortized over the estimated membership period, that averages eight to ten months. Independent marketing representative fees, net of direct costs, are deferred and amortized over the term of the contract.

Rental Purchase and Club Membership Revenues

Rental purchase and club membership revenues are recognized in the month that our products and services have been delivered to our clients. We sell rental purchase and club membership programs on a wholesale basis to our clients. The wholesale client remits a portion of the rental purchase and club membership revenues to us and retains the balance as compensation for having made the sale. We provide an allowance for those accounts that we consider to be uncollectible.

COMMISSION EXPENSE

Commissions are paid to our independent marketing representatives in the month following the month in which a member has enrolled in our Care Entrée program. Commissions are only paid in the following month when the related monthly membership fees have been received. We do not pay advanced commissions on membership sales.

GOODWILL VALUATION

Our goodwill of $21,077,284 as of December 31, 2003, represented the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized. As of December 31, 2003, no impairment has been indicated. During the year ended December 31, 2002, our goodwill was decreased to reflect the recognition of an income tax benefit of $982,236 which relates to our 2001 merger-acquisition of The Capella Group, Inc. During the year ended December 31, 2001, our goodwill was increased by $822,076 to adjust for deferred fees pertaining to the merger-acquisition of The Capella Group, Inc.

As of December 31, 2003, our goodwill represented approximately 52% of our total assets. The goodwill balance of $21,077,284 as of December 31, 2003 consisted of $19,077,284 which arose from the merger-acquisition of The Capella Group, Inc. and $2,000,000 from the acquisition of Foresight, Inc. Our goodwill valuation is dependent primarily on the projected revenue and net earnings of our Care Entrée healthcare and Foresight, Inc. club membership business. The procedures surrounding goodwill valuation can at times be very subjective and difficult to quantify given that the projected revenue and net earnings associated with our Care Entrée healthcare membership business is based on a business strategy that is fairly new, innovative and evolutionary in nature. In the case of our club membership business, this business is considered fairly mature, with generally a lower expected growth rate than our Care Entrée business.

RESULTS OF OPERATIONS

The following table sets forth selected results of our operations from our consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 as a percent of total revenue for the years presented.

	For the Year Ended December 31,		
	2001	**2002**	**2003**
Product and service revenues	100%	100%	100%
Operating expenses:			
Cost of operations	35	27	31
Sales and marketing	34	40	37
General and administrative	15	14	16
Total operating expenses	84	81	84
Operating income	16	19	16
Other expense:			
Amortization of goodwill	3		
Other expense	3		
Net earnings before taxes	13	19	16
Provision for income taxes		7	6
Net earnings	13%	12%	10%

COMPARISON OF 2003 AND 2002

PRODUCT AND SERVICE REVENUES. During the year ended December 31, 2003, revenues were $42,087,671, a decrease of $1,027,995, or 2.4% from $43,115,666 during 2002. The reduction in actual revenues for the year ended December 31, 2003 was primarily due to reductions in (i) the members in our Care Entrée program as a result of our implementation of member escrow account requirements for hospitalized care commencing in the fourth quarter of 2002 of $1,028,775 offset in part by escrow maintenance fees of $442,930 and (ii) our wholesale club membership programs of $790,399. The requirement of member escrow deposits was in response to the market changes in the healthcare savings industry. In addition, effective October 1, 2003, the escrow account requirements for hospitalized care was expanded to include all medical doctors and physicians. Under the escrow arrangement, we now pre-certify members' ability to pay based on available escrow account balances and process the members' payments directly to the medical providers to help assure the payment of the healthcare providers. As a result of these changes, we believe an enhanced healthcare product offering has been created for members and the healthcare providers. The overall success and impact of

revenues and net earnings of this newly restructured product offering will not be known until the third quarter of 2004 or later. The escrowed funds referred to as cash-in-trust on our balance sheet was $2,768, 447 as of December 31, 2003. The reduction in revenue in our wholesale club membership programs was due to the maturity and competitive nature of this business as compared to our healthcare membership savings business which operates in a growth market.

For the year ended December 31, 2003, more than 90% of our revenues were attributable to our healthcare membership program.

The reduction in revenue in our Care Entrée program and wholesale club membership programs during 2003 was offset in part by increased revenue of $255,765 in our Care Financial division.

Operating Metrics

Our healthcare membership base was approximately 81,000 members as of December 31, 2003 as compared to 92,000 members as of December 31, 2002, a decrease of approximately 11,000 members or 12.0%. The reduction was most noticeable in the fourth quarter of 2003 where our membership decreased by approximately 4,000, or 4.7% during this period. The reduction in our healthcare membership base was due to the implementation of the escrow account requirements for hospitalized care in the fourth quarter of 2002, and expansion to physicians and doctors commencing on October 1, 2003.

As a result of some of healthcare program changes introduced during 2003 and 2002, our independent marketing representative base experienced a significant reduction in 2003. We, however, continue to maintain the majority of our core business leaders whose downline organizations generate a substantial portion of our revenues.

COST OF OPERATIONS. Cost of operations for the year ended December 31, 2003 increased $1,582,445 or 13.7% to $13,125,851 from $11,543,406 during 2002. The increase in cost of operations primarily arose from our increased member service staff and other personnel of $479,929 necessary to support our operations, particularly our Foresight, Inc. division which acts as a third party administrator for claims review and payment processing from member escrow accounts, the increase in preferred provider network costs of $833,794 as a result of several ancillary products introduced in 2003, and the additional full year depreciation expense associated with capital leases acquired for printing purposes of $442,814 in the fourth quarter of 2002 net of outsourced printing costs.

Cost of operations, as a percentage of revenues, were 31.2% of revenues during the year ended December 31, 2003, while in 2002 cost of operations were 26.7% of revenues. This increase was for the reasons described above.

SALES AND MARKETING EXPENSES. Sales and marketing expenses decreased $1,487,060 or a decrease of 8.7%, to $15,572,188 during the year ended December 31, 2003 from $17,059,248 during 2002. Sales and marketing expenses represented 37.0% and 39.6% of the revenues during the year ended December 31, 2003 and 2002, respectively. The decrease as a percentage of revenues was primarily due to certain threshold sales qualification requirements not being attained by our independent marketing representatives as well as a mix between private label and healthcare membership business.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $643,911 or 10.6% to $6,739,271 during the year ended December 31, 2003 from $6,095,360 during 2002. The increase in general and administrative expenses for the year ended December 31, 2003 was primarily due to additional salaries and other administrative costs of $360,699 necessary to support both our information systems and financial capabilities and administrative operations as well as the recruitment of a Chief Information Officer and a more experienced information systems staff. In addition, the Company has incurred additional public company costs of $233,694 which includes the effects of Sarbanes-Oxley. General and administrative expenses represented 16.0% and 14.1% of revenues for the years ended December 31, 2003 and 2002, respectively.

TOTAL OPERATING EXPENSES. During the year ended December 31, 2003, total operating expenses (consisting of costs of operations, sales and marketing expenses, and general and administrative expenses) increased $739,296 or 2.1%, to $35,437,310 from $34,698,014 during 2002. Total operating expenses represented 84.2% and 80.5% of revenues for the years ended December 31, 2003 and 2002, respectively. The decrease in operating margins was due to the reasons described above.

OPERATING INCOME AND NET EARNINGS. During the year ended December 31, 2003, operating income was $6,650,361, a decrease of $1,767,291, or 21.0% from $8,417,652 during 2002. Net earnings were $4,089,326, or 9.7% of revenues, net of provision for income taxes of $2,411,066. During the year ended December 31, 2003, we incurred additional tax costs of approximately $184,000 with respect to state taxes. In comparison, during 2002 net earnings were $5,478,363, or 12.7% of revenues net of provision for income taxes of $2,874,852. During the years ended December 31, 2003 and 2002, net earnings per common share, calculated on a fully diluted basis, was $0.34 and $0.46, respectively.

COMPARISON OF 2002 AND 2001

PRODUCT AND SERVICE REVENUES. During the year ended December 31, 2002, revenues were $43,115,666, an increase of $22,059,502 or in excess of 100%, from $21,056,164 during 2001. The increase was attributable to the full year of combined operations of The Capella Group, Inc., during 2002 compared to the seven months of combined operations during 2001, and the continuing membership growth in our Care Entrée healthcare savings membership program. For the year ended December 31, 2002, approximately 90% of revenues were attributable to this membership program.

Operating Metrics

Our healthcare membership was approximately 92,000 members as of December 31, 2002 as compared to 72,000 members as of December 31, 2001, an increase of approximately 20,000 members or 27.8%. The increased healthcare membership base was due to the growth in our Care Entrée healthcare savings membership program.

Our independent marketing representatives experienced a reduction throughout the year ended December 31, 2002. The decrease in independent marketing representatives was primarily attributable to increased cancellations and for the non-renewal of independent marketing representative fee.

COST OF OPERATIONS. Cost of operations for the year ended December 31, 2002 increased $4,144,123 or 56.0% to $11,543,406 from $7,399,283 during 2001. The increase was attributable to the operations of The Capella Group, Inc., that were acquired in June 2001, as well as the costs associated to support the growth in our operations. Cost of operations represented 26.8% of revenues during the year ended December 31, 2002, while in 2001 cost of operations represented 35.1% of revenues. This decrease was attributable to a higher utilization of our customer service staff and other personnel in support of the increase in our healthcare savings membership base.

SALES AND MARKETING EXPENSES. Sales and marketing expenses increased $9,894,925 or in excess of 100%, to $17,059,248 during the year ended December 31, 2002 from $7,164,323 during 2001. Sales and marketing expenses represented 39.6% and 34.0% of the revenues during the years ended December 31, 2002 and 2001, respectively. This increase was attributable to a full year of combined operations of The Capella Group, Inc., during 2002 compared to the seven months of combined operations during 2001 and the substantial increase in our commissions paid to our network of independent marketing representatives. Because of the manner in which the membership service programs, (other than the Care Entrée membership program) are marketed, the associated sales and

marketing expenses are significantly less as a percent of revenues compared to the sales and marketing expenses associated with the Care Entrée membership program, that is marketed through our independent marketing representatives.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $2,877,099 or 89.4% to $6,095,360 during the year ended December 31, 2002 from $3,218,261 during 2001. This increase was attributable to an increase of costs associated with the acquired operations of The Capella Group, Inc., as well as the increased costs to support the growth in our operations. General and administrative expenses represented 14.1% and 15.3% of revenues for the year ended December 31, 2002 and 2001, respectively. The marginal improvement in general and administrative expenses as a percentage of revenues was primarily due to the additional revenue, resulting from the significant membership growth in our healthcare savings program.

TOTAL OPERATING EXPENSES. During the year ended December 31, 2002, total operating expenses (consisting of costs of operations, sales and marketing expenses, and general and administrative expenses) increased $16,916,147 or 95.1%, to $34,698,014 from $17,781,867 during 2001. Total operating expenses represented 80.5% and 84.4% of revenues for the year ended December 31, 2002 and 2001, respectively. Our Care Entrée membership program provides greater operating margins on revenues compared to our membership service programs sold principally due to the lower cost of operations, offset in part by increased sales and marketing expenses.

OTHER EXPENSE. During the year ended December 31, 2002, our other expense was $64,437, while during 2001, other expense totaled $497,373. The decrease in other expense is attributable to the non-amortization of goodwill. In accordance with financial reporting requirements, beginning on January 1, 2002, we ceased amortizing goodwill that was attributable and recorded in conjunction with our merger-acquisition of Foresight, Inc. in December 2000 and The Capella Group, Inc., in June 2001.

OPERATING INCOME AND NET EARNINGS. During the year ended December 31, 2002, operating income was $8,417,652, an increase of $5,143,355, or in excess of 100% from $3,274,297 during 2001. Net earnings were $5,478,363, or 12.7% of revenues, net of provision for income taxes of $2,874,852. In comparison, during 2001 net earnings were $2,601,078, or 12.4% of revenues net of provision for income taxes of $175,846. During the year ended December 31, 2002 and 2001, net earnings per common share, calculated on a fully diluted basis, was $0.46 and $0.29, respectively. Excluding the income tax benefit of $735,000, offset in part by the non-amortization of goodwill of $578,651, fully diluted earnings per share for the year ended December 31, 2001 was $0.25 per share.

PRO FORMA EFFECT OF STOCK-BASED COMPENSATION

We have historically used stock options to retain and compensate our officers, directors, employees and others. During 2003, 2002 and 2001, we granted stock options for the purchase of our common stock to our officers, directors, employees and others. In accordance with Accounting Principles Board Opinion ("APB") No. 25, the compensation cost of these stock options is not recognized in our financial statements. The outstanding stock options granted in 2003, 2002 and 2001 had an estimated fair value at the date of grant of the options of $728,892, $1,038,133 and $749,050, respectively, utilizing the methodology prescribed under Statement of Financial Accounting Standard ("SFAS") No. 123, *Accounting for Stock-Based Compensations*. After giving effect to the estimated fair value of these options, our pro forma net earnings were $3,862,933 ($0.33 basic earnings per common share) and $5,130,148 ($0.43 basic earnings per common share) for the years ended December 31, 2003 and 2002, respectively. During 2001, after giving effect to the estimated fair value of these options, there would have been no increase or decrease in net earnings.

INCOME TAX PROVISION

SFAS 109, *Accounting for Income Taxes*, requires the separate recognition, measured at currently enacted tax rates, of deferred tax assets and deferred tax liabilities for the tax effect of temporary differences between the financial reporting and tax reporting bases of assets and liabilities, and net operating loss carryforwards for tax purposes. A valuation allowance must be established for deferred tax assets if it is "more likely than not" that all or a portion will not be realized. At December 31, 2003, 2002 and 2001, we had deferred tax benefits of net consisting primarily of net operating loss carryforwards of $760,681, $827,900 and $895,100, respectively. The tax benefit was attributable to net operating loss carryforwards of approximately $2,174,000, as of December 31, 2003, which, if not utilized, will expire at various dates through 2020. The cumulative net deferred tax asset as of December 31, 2003 and 2002 was $623,409 and $742,300, respectively.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. Net cash provided by operating activities for the years ended December 31, 2003 and 2002 was $7,818,885 and $3,989,546, respectively, an increase of $3,829,339. The increase in net cash from operating activities was positively impacted primarily due to an increase in depreciation expense of $1,121,794 (a non-cash activity), an improvement in accounts receivable collection of $1,668,744 and an additional income tax payment of $791,040 that was made during the three months ended June 30, 2002.

Net cash provided by operating activities for the years ended December 31, 2002 and 2001, was $3,989,546 and $3,079,496, respectively, an increase of $910,050. This increase was attributable to the full year of combined operations of The Capella Group, Inc. during 2002, compared to the seven months of combined operations during 2001 and the continuing membership growth in our Care Entrée healthcare savings membership program, offset in part by increased working capital requirements necessary to support this growth.

INVESTING ACTIVITIES. Net cash used in investing activities for the years ended December 31, 2003 and 2002 consisted of $945,344 and $920,408, respectively, and was used to purchase fixed assets necessary to accommodate and support our operations. The majority of our fixed asset purchases for the years ended December 31, 2003 and 2002 were in respect of recently developed computer software and some hardware purchases.

During the years ended December 31, 2003 and 2002, we entered into capital lease obligations net of settlements of $(504,152) and $2,760,638. The net settlements of capital lease obligations in 2003 of ($504,152), represented the excess of capital lease retirements over obligations. These leases were not included in our net cash used in investing activities because they are considered non-cash in nature. Our capital lease obligations are primarily related to the copiers and other machinery used to develop and produce member and independent marketing representatives directories, training videos as well as sales aids materials.

Net cash used in investing activities for the years ended December 31, 2002 and 2001, were $920,408 and $1,702,612, respectively. During the year ended December 31, 2002, net cash of $920,408 was used to purchase fixed assets, primarily computer software and hardware purchases, necessary to support the growth in our operations. During the year ended December 31, 2001, net cash of $1,233,141 was used for the acquisition of The Capella Group, Inc., and $469,471 to purchase fixed assets.

FINANCING ACTIVITIES. Net cash used in financing activities for the years ended December 31, 2003 and 2002 were $1,397,424 and $1,212, 977, respectively. During the year ended December 31, 2003, net cash of $1,428,530 was used for repayments on capital leases. During the year ended December 31, 2002, net cash of $1,212,977 was used to redeem preferred stock of $1,000,000

and payments on capital leases of $809,091, offset in part by proceeds of $610,251 from exercise of stock options and warrants.

Net cash used in financing activities for the years ended December 31, 2002 and 2001, was $1,212,977 and $2,162,615, respectively. During the year ended December 31, 2002, net cash of $1,212,977 was used to redeem preferred stock of $1,000,000 and payments on capital leases of $809,091, offset in part by proceeds of $610,251 from exercise of stock options and warrants. During the year ended December 31, 2001, net cash of $2,162,615 was used to redeem preferred stock of $1,000,000, payment of preferred stock dividends of $220,000, repayments of short-term debt of $1,000,000 and issuance of capital leases of $57,385.

As described above, during the years ended December 31, 2003 and 2002, we entered into capital lease obligations net of settlements of ($504,152) and $2,760,638. These leases were not included in our net cash used in investing activities because they are considered non-cash in nature.

At December 31, 2003 and 2002, we have working capital of $8,818,823 and $4,977,109, respectively. Other than our capital lease obligations of $1,662,432, we do not have any capital commitments. We do not anticipate that our capital expenditures for the year ending December 31, 2004 will exceed the amount incurred for the year ended December 31, 2003. We believe that our existing cash and cash equivalents, and cash provided by operations will be sufficient to fund our normal operations and capital expenditures for the next 12 months.

Because our capital requirements cannot be predicted with certainty, including any proposed business acquisitions for the year ending December 31, 2004, there is no assurance that we will not require any additional financing before the expiration of the 12-month period. There is no assurance that any additional financing will be available on terms satisfactory to us or advantageous to our shareholders.

CONTRACTUAL OBLIGATIONS

OPERATING LEASES

We lease various office spaces and certain machinery and equipment. These leases are classified as operating leases within the meaning of SFAS No. 13, *Accounting for Leases*. Our financial commitment under these leases continue through December 15, 2006.

CAPITAL LEASES

We have several capital leases for office equipment. These leases are classified as capital leases within the meaning of SFAS No. 13, *Accounting for Leases*. Our financial commitments under these leases ends in early 2006.

Description	**Payments Due by Period**	
Contractual Obligations	**Total**	**1-3 Years**

Description	Payments Due by Period					
		Less Than 1 Year		3-5 Years	More than 5 Years
Operating Leases	$ 1,623,300	$ 936,290	$ 687,010		
Capital Leases	$ 1,662,432	$ 1,387,010	$ 275,422		
Total	$ 3,285,732	$ 2,323,300	$ 962,432		

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any investments in market risk sensitive investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

QUARTERLY RESULTS OF OPERATIONS AND SEASONALITY

The following table presents our unaudited quarterly results of operations data for each of the eight quarters in 2003 and 2002. The quarterly information is unaudited but, in the opinion of management, reflects all adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The results of operations for any quarter are not necessarily indicative of results for any future period.

Our consolidated financial statements begin on page F1.

	QUARTER ENDED (UNAUDITED)			
	March 31	June 30	September 30	December 31
2003				
Product and service revenues(1)	$ 10,762,309	$ 10,963,994	$ 10,268,629	$ 10,092,739
Total operating expenses(1)	$ 8,975,850	$ 8,971,402	$ 8,735,312	$ 8,754,747
Operating income	$ 1,786,459	$ 1,992,592	$ 1,533,317	$ 1,337,992
Earnings before income taxes	$ 1,757,479	$ 1,947,665	$ 1,493,709	$ 1,301,538
Provision for income taxes(2)	$ 570,719	$ 681,285	$ 522,739	$ 636,321
Net earnings applicable to common stockholders	$ 1,186,760	$ 1,266,380	$ 970,970	$ 665,217
Earnings per share				
Basic	$ 0.10	$ 0.11	$ 0.08	$ 0.06
Diluted	$ 0.10	$ 0.11	$ 0.08	$ 0.05
2002				
Product and service revenues(1)	$ 9,572,799	$ 10,708,920	$ 11,445,761	$ 11,388,186
Total operating expenses(1)	$ 7,695,227	$ 8,413,184	$ 9,024,196	$ 9,565,404
Operating income	$ 1,877,572	$ 2,295,736	$ 2,421,565	$ 1,822,782
Earnings before income taxes	$ 1,876,619	$ 2,279,260	$ 2,394,223	$ 1,803,115
Provision for income taxes	$ 656,817	$ 839,669	$ 852,080	$ 526,286
Net earnings applicable to common stockholders	$ 1,205,665	$ 1,439,591	$ 1,542,143	$ 1,276,829

	QUARTER ENDED (UNAUDITED)			
Earnings per share				
Basic	$ 0.10	$ 0.12	$ 0.13	$ 0.11
Diluted	$ 0.10	$ 0.12	$ 0.13	$ 0.11

(1) Certain reclassifications have been made to prior quarterly financial information to conform to the current presentation of the quarterly financial information.

(2) Included in the income tax provision for the fourth quarter of 2003, is an additional amount for state income taxes of approximately $184,000.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE

There have been no disagreements concerning matters of accounting principle or financial statement disclosure between us and our independent accountants of the type requiring disclosure hereunder.

ITEM 9A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer are responsible primarily for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in

the rules and forms of the U.S. Securities and Exchange Commission. These controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Furthermore, our Chief Executive Officer and Chief Financial Officer are responsible for the design and supervision of our internal controls over financial reporting that are then effected by and through our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These policies and procedures

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management, including our Chief Executive Officer and Chief Financial Officer, based upon their evaluation of the effectiveness of design and operation of our disclosure controls and procedures and the internal controls over financial reporting as of December 31, 2003, concluded that our disclosure controls and procedures and internal controls over financial reporting were fully effective during and as of the last day of the year ended December 31, 2003 and reported to our auditors and the audit committee of our board of directors that no change in our disclosure controls and procedures and internal control over financial reporting occurred during the fourth quarter of 2003 that would materially affected or was reasonably likely to materially affect our disclosure controls and procedures or internal control over financial reporting. In conducting their evaluation of our disclosure controls and procedures and internal controls over financial reporting, our management, including our Chief Executive Officer and Chief Financial Officer, did not discover any fraud that involved management or other employees who have a significant role in our disclosure controls and procedures and internal controls over financial reporting. Furthermore, there were no significant changes in our disclosure controls and procedures, internal controls over financial reporting, or other factors that could significantly affect our disclosure controls and procedures or internal controls over financial reporting subsequent to the date of their evaluation. Because no significant deficiencies or material weaknesses were discovered, no corrective actions were necessary or taken to correct significant deficiencies and material weaknesses in our internal controls and disclosure controls and procedures.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

OUR DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information with respect to each of our executive officers and directors. Our directors are generally elected at the annual shareholders' meeting and hold office until the next annual shareholders' meeting or until their successors are elected and qualified. Our executive officers are elected by our board of directors and serve at its discretion. Our bylaws authorize the

board of directors to be constituted of not less than one and the number as our board of directors may determine by resolution or election. Our board of directors currently consists of seven members.

Name	Age	Position
Judith H. Henkels(1)(5)	49	Chief Executive Officer, President and Director
Dino Eliopoulos(1)	41	Chief Financial Officer and Director
Bobby Rhodes(4)	37	Executive Vice President for Provider Relations
Terry Brewster	58	Executive Vice President for Sales and Marketing
Kenneth S. George(1)(4)	55	Director
Kent H. Webb, M.D.(2)(4)	46	Director
Eugene E. Becker(1)(2)(3)(5)	54	Director
J. French Hill(2)(3)	47	Director
Nicholas J. Zaffiris(4)	40	Director

(1)

Member of the Compensation Committee.

(2)
Member of the Audit Committee.

(3)
Member of the Corporate Governance Committee.

(4)
Member of the Medical Committee.

(5)
Member of the Nominating Committee

The following is a brief description of the business background of our executive officers and directors:

Judith H. Henkels serves as our Chief Executive Officer and President and Chairman of the Board of Directors. Ms. Henkels is the founder of Capella Group and has over 26 years of business experience, with a concentration in accounting, finance and healthcare. She has over 16 years of experience in the healthcare industry. Prior to founding Capella Group she was the Executive Vice President and CFO for Linnaeus, Inc. during the period 1994 through 1997. Linnaeus is a managed care systems company and owned a Third Party Administrator (TPA). While at Linnaeus, Ms. Henkels was instrumental in selling the TPA and finding new venture capital to support the ongoing operations of the systems company. From 1991 through 1994, Ms. Henkels was CFO and Executive Vice President for Premier BioResources, Inc., a company that owned and operated plasma centers throughout the U.S. From 1985 through 1991 Ms. Henkels worked for The BOC Group (a British Conglomerate) in their healthcare segment. She held various controllership roles in the anesthesia, critical care and home health care divisions and was the first woman to hold the role of Vice President in BOC throughout the world. Prior to BOC, Ms. Henkels also held financial positions in the Worthington Division of Dresser Industries (formerly McGraw Edison) and the accounting firm Ernst & Whinney, now Ernst & Young. Ms. Henkels is a Certified Public Accountant, and holds an MBA degree from Rutgers University where she graduated first in her class, and a B.A. degree from Iowa State University.

Dino Eliopoulos serves as our Chief Financial Officer and Director and has been with us since January 2003. Until December 2002, Mr. Eliopoulos was the Vice President, Chief Accountant and Corporate Controller of Dynacare, Inc., a publicly-held company and a leading provider of clinical laboratory testing in the United States and Canada. Between September 1989 to October 1998, Eliopoulos was a Principal in the business assurance group of PricewaterhouseCoopers, based in Toronto. He is a Chartered Accountant (Canada), and has a bachelor's degree in business

administration, finance and accounting from Ryerson Polytechnical University (Canada). Mr. Eliopoulos is also a Certified Public Accountant (Illinois).

Bobby R. Rhodes serves as our Executive Vice President of Provider Relations. Mr. Rhodes joined us in 1998. He has experience in the medical provider side of the healthcare business, having worked as business office manager for Cardiovascular Provider Resources, an MSO group of 58 cardiologists, from 1997 through 1998, claims manager/operations manager for Baylor-Health Texas, a physician organization with 135 family practice doctors, from 1996 through 1997, and as claims manager for Heritage Southwest Medical Group and Metropolitan Life from 1989 to 1996. Mr. Rhodes, an ex-pro football player, attended the University of Texas at Austin from 1985 through 1989.

Terry Brewster serves as our Executive Vice President of Marketing and Sales. He has been with us since January 2004. From 2001 to 2003, Mr. Brewster was Senior Vice President over the southwest region for Aetna. Prior to Aetna, Mr. Brewster was Chief Marketing Officer for Qualchoice Health Plan, an HMO affiliated with the Lake Forest University Baptist Medical Center. Mr. Brewster holds a B.A. from California State University at Long Beach and an MBA in marketing from Pepperdine University.

Kent H. Webb, M.D., a founder of Precis, has served as one of our Directors since June 1996 (and Medical Director since August 2001). He served as Chairman of our Board of Directors until December 2000 and was a member or general partner of our predecessors Advantage Data Systems, Ltd. and Medicard Plus ADS Limited Partnership. Dr. Webb is a general and vascular surgeon and is the cofounder and a director of Surgical Hospital of Oklahoma. He is a Fellow of the American College of Surgeons and serves as a Clinical Professor for the University of Oklahoma. Dr. Webb is a past director of the Smart Card Industry Association, a nonprofit association. He is a surgical consultant for the Ethicon Division of Johnson & Johnson Company, a publicly-held pharmaceutical and consumer products company. Dr. Webb graduated from the University of Oklahoma College of Medicine and completed his residency in General and Vascular Surgery at the University of Oklahoma

Health Services Center.

Eugene E. Becker became one of our directors in August 2002. He is President of Eugene Becker & Associates, Inc., a privately-held marketing and consulting company. Mr. Becker served as the Chief Executive Officer of Aon Financial Partnerships during May to September 2000. During 1983 to 1999, Mr. Becker served as Chief Marketing Officer of American Bankers Insurance Group (during 1991 to 1999), Chief Executive Officer, and President and Chairman of the Board of American Bankers Insurance Company, American Bankers Life Assurance Company, Voyager Insurance Group, American Reliable Insurance Company and Banker American Life Assurance Company (during 1988 to 1999). Mr. Becker currently serves as a member of the board of directors for two companies: Signal Holdings Inc. and Pacific Specialty Insurance Company. Mr. Becker received a B.A. from Biscayne College (St. Thomas University, and a M.B.A. from the University of Miami.

J. French Hill joined the board of directors in January 2003. In 1999, Mr. Hill founded Delta Trust & Banking Corp., a privately held banking, trust and investment brokerage company headquartered in Little Rock, AR, following a six year career with Arkansas' largest publicly traded holding company, First Commercial Corp. First Commercial was sold in 1998 to Regions Financial Corp. (RF). As an executive officer of First Commercial, Mr. Hill was chairman of the bank holding company's trust division and its investment brokerage dealer subsidiary from 1995 until 1998. He also oversaw a number of other staff functions in the company from 1993-1998 including human resources, executive compensation, bank compliance, credit review and strategic planning. During the last five years he has served as a member of the board of directors of these companies: Delta Trust & Banking Corp. and its affiliates (1999-present); Research Solutions LLC, a privately held company in the clinical trials business (1999-present), a privately held company in the aircraft lighting systems business; and Syair Designs LLC (2000-2003). From May 1989-January 1993, Mr. Hill was a senior economic policy

official in the Bush Administration on the staff of the White House and as deputy assistant secretary of the U.S. Treasury. Mr. Hill graduated magna cum laude in economics from Vanderbilt University.

Nicholas J. Zaffiris became one of our directors in August 2002. He is currently the Vice President of Sales and Account Management, West, at Private Healthcare Systems (PHCS), a privately-held preferred provider organization, and is responsible for new sales and existing customer retention and grants for the Western region of the country. Mr. Zaffiris joined PHCS in early 1998, and has more than 10 years of healthcare experience, including client management, sales, marketing and customer service. Before joining PHCS, he worked for the National Account Service Company, Blue Cross Blue Shield of Florida, and served as a Lieutenant in the United States Navy. Mr. Zaffiris received a B.S. in Political Science from the United States Naval Academy.

Kenneth S. George became one of our directors in June 2003. Mr. George recently finished two terms as a State Representative in the Texas House of Representatives. From 1996 until 2001, he was General Partner of Riverside Acquisitions L.L.C. and was active in commercial real estate, financial and land transactions. From 1994 through 1995, Mr. George was Chairman and Chief Executive Officer of Ameristat, Inc., the largest private ambulance provider in the state of Texas. From 1988 until 1994, he was Chairman and Chief Executive Officer of EPIC Healthcare Group, an owner of 36 suburban/rural acute care hospitals with 15,000 employees and $1.4 billion in revenues. Mr. George currently serves on the Board of Directors of Sonny Bryan's Smokehouse, Inc., a chain of barbecue restaurants. Mr. George has an M.B.A. from the University of Texas at Austin and a B.A. from Washington and Lee University.

BOARD COMMITTEES

Our Board of Directors has an Audit Committee, a Compensation Committee, a Corporate Governance Committee, and a Nominating Committee. The Audit Committee is responsible for the selection and retention of our independent auditors, reviews the scope of the audit function of the independent auditors, and reviews audit reports rendered by the independent auditors. The members of the Audit Committee are all "independent directors" as defined in Rule 4200 of the Nasdaq Stock Market, Inc. marketplace rules (the "Nasdaq rules"), and one member serves as the Audit Committee's financial expert.

The Compensation Committee reviews our compensation philosophy and programs, and exercises authority with respect to payment of direct salaries and incentive compensation to our officers. A discussion of the Compensation Committee interlocks and insider participation is provided below under the section heading "Compensation Committee Interlocks and Insider Participation".

Our Board intends to adopt a written charter for the Corporate Governance Committee and the Nominating Committee. The Corporate Governance Committee oversees our corporate governance policies and principles. The Nominating Committee will be responsible for the nomination of candidates for election to our Board, including identification of the Board's nominees. The charter of the Nominating Committee will comply with the requirements of the Nasdaq marketplace rules.

AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that J. French Hill, one of our independent directors and member of our audit committee, qualifies as a "financial expert." This determination was based upon Mr. Hill's

- understanding of generally accepted accounting principles and financial statements;

- ability to assess the general application of generally accepted accounting principles in connection with the accounting for estimates, accruals and reserves;

- experience preparing, auditing, analyzing or evaluating financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities;

- understanding of internal controls and procedures for financial reporting; and

- understanding of audit committee functions.

Mr. Hill's experience and qualification as a financial expert were acquired through his extensive background in financial analysis, investment banking, finance and commercial banking. He has also participated in the preparation of financial statements and registration statements filed with the Securities and Exchange Commission. Mr. Hill also currently serves on two other audit committees where he has oversight responsibility of the financial statements and works with the internal accountants and external auditors on audit and/or accounting matters.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, officers, and persons who own more than 10% of our common stock or other registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of the forms we received covering purchase and sale transactions in our common stock during 2003, Kent H. Webb failed to timely report two sale transactions and David P. May, formerly one of our executive officers and directors, failed to report a purchase transaction. Otherwise, we believe that each person who, at any time during 2003, was a director, executive officer, or beneficial owner of more than 10% of our common stock complied with all Section 16(a) filing requirements during 2003.

CODE OF ETHICS

On January 29, 2003, our board of directors adopted our code of ethics that applies to all of our employees and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the portion of this code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions may be obtained by written request addressed to Eliseo Ruiz, III, Corporate Secretary, Precis, Inc., 2040 North Highway 360, Grand Prairie, Texas 75050.

Our code of ethics may be found on our website at *www.precis-pcis.com*. We will describe the nature of amendments to the code of ethics on our website, except that we may not describe amendments that are purely a technical, administrative, or otherwise non-substantive. We will also disclose on our website any waivers from any provision of the code of ethics that we may grant. Information about amendments and waivers to our code of ethics will be available on our website for at least twelve months, and thereafter, the information will be available upon request for five years.

The adoption of our code of ethics is consistent with the requirements of the Sarbanes-Oxley Act of 2002.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation during 2003, 2002 and 2001, paid or accrued, of our Chief Executive Officer, and four other most highly compensated executive officers, including the executive officers of our subsidiaries.

		Annual Compensation(1)			Long-Term Compensation Awards
Name Principal Position	**Year**	**Salary(2)**	**Bonus(3)**	**Other(4)**	**Shares of Common Stock Underlying Options Granted**
Judith H. Henkels	2003	$ 174,065	$ 5,000	$ 10,497	10,000
Chairman, Chief Executive Officer and President(5)	2002	$ 160,000	$ 50,000		
	2001	$ 150,000	$ 80,000		10,000
Dino Eliopoulos	2003	$ 141,029	$ 5,000	$ 3,000	110,00
Chief Financial Officer	2002				
	2001				
David P. May(6)	2003	$ 116,442	$ 5,000		
Vice President and General Counsel and President of Foresight	2002	$ 91,042	$ 50,000		125,000
	2001				
Bobby R. Rhodes	2003	$ 112,156	$ 37,790	$ 2,000	10,000
Vice President of Provider Relations	2002	$ 95,000	$ 50,000		
	2001	$ 85,000	$ 80,000		10,000
David Higgs(6)	2003	$ 101,214	$ 5,000		25,000
Vice President of Sales and Marketing	2002	$ 58,419	$ 16,700		25,000
	2001				

(1) The named executive officer received additional non-cash compensation, perquisites and other personal benefits; however, the aggregate amount and value thereof did not exceed 10% of the total annual salary and bonus paid to and accrued for the named executive officer during the year.

(2) Dollar value of base salary (both cash and non-cash) earned during the year.

(3) Dollar value of bonus (both cash and non-cash) earned during the year.

(4) Includes amounts paid to or on behalf or the named executive as a car allowance.

(5) In February 2002, Ms. Henkels was appointed to serve as our Chief Executive Officer and President. Ms. Henkels has served as our President since June 8, 2001.

(6)
The duties of Messrs. May and Higgs as officers of the Company or officers of its subsidiaries ended on January 5, 2004.

OPTION GRANTS LAST YEAR

The following table sets forth certain information relating to options granted in 2003 to named executive officers to purchase shares of our common stock.

Name	No. of Securities Underlying Options/SARs Granted(#)	% of Total Options Granted to Employees In Fiscal Year(1)	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%($)	10%($)
Judith Henkels	10,000	2.6%	$ 5.78	7/30/08	$ 73,769	$ 93,087
Dino Eliopoulos	100,000	26.5%	$ 3.97	1/27/08	$ 506,684	$ 639,372
Dino Eliopoulos	10,000	2.6%	$ 5.25	7/30/08	$ 67,005	$ 84,552
David May						
Bobby Rhodes	10,000	2.6%	$ 5.25	7/30/08	$ 67,005	$ 84,552
David Higgs	25,000	6.6%	$ 3.97	1/27/08	$ 126,671	$ 159,843
Terry Brewster						

(1)
Options for the issuance of a total of 377,000 shares of common stock were issued to employees in 2003.

OPTION EXERCISES IN LAST FISCAL YEAR

No executive officer exercised options in 2003.

AGGREGATE STOCK OPTION EXERCISE AND YEAR-END OPTION VALUES. The following table sets forth information related to the number and value of options held by the named executive officer at December 31, 2003. During 2003, no options to purchase our common stock were exercised by the named executive officers.

Name	Number of Unexercised Options As Of December 31, 2003		Value of Unexercised In-The-Money Options As Of December 31, 2003(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Judith H. Henkels	10,000	10,000		
Dino Eliopoulos		110,000		
Bobby Rhodes	10,000	10,000	$ 3,300	
David May	31,250	93,750		
David Higgs	6,250	43,750		
Terry Brewster				

(1)
The closing sale price of our common stock as reported on the Nasdaq SmallCap Market on December 31, 2003 was $3.88. The per-share value is calculated based on the applicable closing sale price per share, minus the exercise price, multiplied by the number of shares of common stock underlying the options.

EQUITY COMPENSATION PLANS

1999 STOCK OPTION PLAN. For the benefit of our employees, directors and consultants, we have adopted the Precis Smart Card Systems, Inc. 1999 Stock Option Plan (the "stock option plan" or the "plan"). The plan provides for the issuance of options intended to qualify as incentive stock options for federal income tax purposes to our employees and non-employees, including employees who also serve as our directors. Qualification of the grant of options under the plan as incentive stock options for federal income tax purposes is not a condition of the grant and failure to so qualify does not affect

the ability to exercise the stock options. The number of shares of common stock authorized and reserved for issuance under the plan is 1,400,000.

Our board of directors administers and interprets the plan (unless delegated to a committee) and has authority to grant options to all eligible participants and determine the types of options granted, the terms, restrictions and conditions of the options at the time of grant.

The exercise price of options may not be less than 85% of the fair market value of our common stock on the date of grant of the option and to qualify as an incentive stock option may not be less than the fair market value of common stock on the date of the grant of the incentive stock option. Upon the exercise of an option, the exercise price must be paid in full, in cash, in our common stock (at the fair market value thereof) or a combination thereof.

Options qualifying as incentive stock options are exercisable only by an optionee during the period ending three months after the optionee ceases to be our employee, a director, or non-employee service provider. However, in the event of death or disability of the optionee, the incentive stock options are exercisable for one year following death or disability. In any event options may not be exercised beyond the expiration date of the options. Options may be granted to our key management employees, directors, key professional employees or key professional non-employee service providers, although options granted non-employee directors do not qualify as incentive stock options. No option may be granted after December 31, 2008. Options are not transferable except by will or by the laws of descent and distribution.

All outstanding options granted under the plan will become fully vested and immediately exercisable if (i) within any 12-month period, we sell an amount of common stock that exceeds 50% of the number of shares of common stock outstanding immediately before the 12-month period or (ii) a "change of control" occurs. For purposes of the plan, a "change of control" is defined as the acquisition in a transaction or series of transactions by any person, entity or group (two or more persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring our securities) of beneficial ownership of 50% or more (or less than 50% as determined by a majority of our directors) of either the then outstanding shares of our common stock or the combined voting power of our then outstanding voting securities.

2002 NON-EMPLOYEE STOCK OPTION PLAN. Effective May 31, 2002 our board of directors approved the Precis, Inc. 2002 Non-Employee Stock Option Plan (the "2002 Stock Option Plan") which was approved by our shareholders on July 29, 2002. Our employees who also serve as our directors are not eligible to receive stock option under this plan. The purpose of the 2002 Stock Option Plan is to strengthen our ability to attract and retain the services of individuals that serve as our non-employee directors, consultants and other advisors that are essential to our long-term growth and financial success and thereby to enhance shareholder value through the grant of stock options. The total number of shares of common stock authorized and reserved for issuance upon exercise of options granted under the 2002 Stock Option Plan is 500,000.

Our Board of Directors administers and interprets the 2002 Stock Option Plan and has authority to grant options to eligible recipients and determine the basis upon which the options are to be granted and the terms, restrictions and conditions of the options at the time of grant. Options granted are exercisable in such amounts, at such intervals and upon such terms as the option grant provides. The per share purchase price of the common stock under the options is determined by our board of directors; however, the purchase price may not be less than the closing sale price of our common stock on the date of grant of the option. Upon the exercise of an option, the stock purchase price must be paid in full, in cash by check or in our common stock held by the option holder for more than six months or a combination of cash and common stock.

Options granted under the 2002 Stock Option Plan may not under any circumstance be exercised after 10 years from the date of grant and no option may be granted after March 31, 2007. Options are not transferable except by will, by the laws of descent and distribution, by gift or a domestic relations order to a "family member." Family member transfers include transfers to parents (and in-laws) to nieces and nephews (adopted or otherwise) as well as trusts, foundations and other entities principally for their benefit.

2002 IMR STOCK OPTION PLAN. Effective March 15, 2002 our board of directors approved the Precis, Inc. 2002 IMR Stock Option Plan (the "IMR Plan") which was approved by our shareholders on July 29, 2002. The purpose of the IMR Plan is to strengthen our ability to attract and retain independent marketing representatives, to furnish additional incentive to our independent marketing representatives who are significantly responsible for our success, and thereby to enhance shareholder value. The IMR Plan provides for the grant of stock options to our independent marketing representatives. Our employees and directors are not eligible to participate in the IMR Plan. The total number of shares of common stock authorized and reserved for issuance upon exercise of options granted under the IMR Plan is 500,000.

Our board of directors administers and interprets the IMR Plan and has the authority to grant options to all eligible independent marketing representatives, and determine the basis upon which the options are to be granted and the terms, restrictions and conditions of the options at the time of grant. Options granted under the IMR Plan are exercisable in such amounts, at such intervals and upon such terms as the option grant provides. The purchase price of the common stock under the option is determined by our board of directors; however, the purchase price may not be less than the lowest closing sale price of the common stock on the date of grant of the option or during a period of up to three months following grant of the option. Upon the exercise of an option, the stock purchase price must be paid in full.

Options granted under the IMR Plan may not under any circumstance be exercised after five years from the date of grant. Subject to the foregoing, options are exercisable only by independent marketing representatives who are in "good standing" at the time of exercise. To be in good standing, an independent marketing representative must

- be in active status at the time of grant and exercise of the option,
- maintain his or her membership in Care Entrée program and
- comply with our the policies and procedures and the terms and conditions of the independent marketing representative's agreement with us.

Options are not transferable except by will or by the laws of descent and distribution.

On January 29, 2003, our Board voted to discontinue, effective June 1, 2003, any futures stock option grants under the 2002 IMR Stock Option Plan.

DIRECTOR LIABILITY AND INDEMNIFICATION

As permitted by the provisions of the Oklahoma General Corporation Act, our Certificate of Incorporation eliminates the monetary liability of our directors for a breach of their fiduciary duty as directors. However, these provisions do not eliminate our director's liability

- for a breach of the director's duty of loyalty to us or our shareholders,
- for acts or omissions by a director not in good faith or which involve intentional misconduct or a knowing violation of law,
- arising under Section 1053 of the Oklahoma General Corporation Act relating to the declaration of dividends and purchase or redemption of shares in violation of the Oklahoma General Corporation Act, or
- for any transaction from which the director derived an improper personal benefit.

In addition, these provisions do not eliminate liability of a director for violations of federal securities laws, nor do they limit our rights or our shareholders rights, in appropriate circumstances, to seek equitable remedies including injunctive or other forms of non-monetary relief. These remedies may not be effective in all cases.

Our bylaws require us to indemnify all of our directors and officers. Under these provisions, when an individual in his or her capacity as an officer or a director is made or threatened to be made a party to any suit or proceeding, the individual may be indemnified if he or she acted in good faith and in a manner reasonably believed to be in or not opposed to our best interest. Our bylaws further provide that this indemnification is not exclusive of any other rights to which the individual may be entitled. Insofar as indemnification for liabilities arising under our bylaws or otherwise may be permitted to our directors and officers, we have been advised that in the opinion of the Securities and Exchange Commission the indemnification is against public policy and is, therefore, unenforceable.

We enter into indemnity and contribution agreements with each of our directors and executive officers. Under these indemnification agreements we have agreed to pay on behalf of the indemnitee, and his or her executors, administrators and heirs, any amount that he or she is or becomes legally obligated to pay because the

- indemnitee served as one of our directors or officers, or served as a director, officer, employee or agent of a corporation, partnership, joint venture, trust or other enterprise at our request or

- indemnitee was involved in any threatened, pending or completed action, suit or proceeding by us or in our right to procure a judgment in our favor by reason that the indemnitee served as one of our directors or officers, or served as a director, officer, employee or agent of a corporation, partnership, joint venture, trust or other enterprise at our request.

To be entitled to indemnification, indemnitee must have acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to our best interests. In addition, no indemnification is required if the indemnitee is determined to be liable to us unless the court in which the legal proceeding was brought determines that the indemnitee was entitled to indemnification. The costs and expenses covered by these agreements include expenses of investigations, judicial or administrative proceedings or appeals, amounts paid in settlement, attorneys' fees and disbursements, judgments, fines, penalties and expenses of enforcement of the indemnification rights.

We maintain insurance to protect our directors and officers against liability asserted against them in their official capacities for events occurring after June 7, 2001. This insurance protection covers claims and any related defense costs of up to $5,000,000 with an additional excess of loss of $10,000,000 based on alleged or actual securities law violations, other than intentional dishonest or fraudulent acts or omissions, or any willful violation of any statute, rule or law, or claims arising out of any improper profit, remuneration or advantage derived by an insured director or officer.

EMPLOYMENT ARRANGEMENTS AND LACK OF KEYMAN INSURANCE

As of December 31, 2003, we had entered into employment agreements with each of Judith H. Henkels, Dino Eliopoulos and Bobby Rhodes. Each agreement is for a three-year term beginning on August 1, 2003; however, the term is automatically extended for additional one-year terms, unless the employee or we give 30 days' advance notice of termination. These agreements provide, among other things,

- an annual base salary of $180,000 in 2003 for Ms. Henkels, $140,000 in 2003 for Mr. Eliopoulos, and $112,000 in 2003 for Mr. Rhodes;

- entitlement to fringe benefits including medical and insurance benefits and participation in our 401(k) plan and MSA plan and any other benefit plan we establish; and

- limited salary continuation during any period of temporary or permanent disability, illness or incapacity to substantially perform the services required under the agreement or in the event of employee's death.

These agreements require the employee to devote the required time and attention to our business and affairs necessary to carry out her or his responsibilities and duties. The employee may not hold executive positions with other entities or own interests in, manage or otherwise operate other businesses.

Under all of these agreements, "good cause" includes commitment of a felony (excepting any felony traffic offense) or any crime directly related to the employment which causes a substantial detriment to us, actions contrary to our best interest, willful failure to take actions permitted by law and necessary to implement our written policies, continued failure or refusal to attend to duties, or willful misconduct materially injurious to the Company or its subsidiaries.

In entering the employment agreements referenced above, Ms. Henkels and Mr. Rhodes agreed to terminate their prior employment agreements with the Company. In so doing, Ms. Henkels and Mr. Rhodes waived certain rights they may have had, under the prior agreements, to a portion of the Company's earnings before interest and taxes.

As of the date of this report, we do not maintain any keyman insurance on the life or disability of our executive officers. We will consider on a periodic basis whether we will be required to maintain keyman insurance.

COMPENSATION OF DIRECTORS

We compensate our directors as follows:

- Each non-employee member of the board receives a quarterly payment of $4,000.

- In addition, each non-employee member of the board received $500 per quarter for each committee on which he or she serves and an additional $500 per quarter for each committee for which he or she serves as chairperson.

- We reimburse or directors for travel and out of pocket expenses in connection with their attendance at meetings of the board.

- We may occasionally grant stock options to our board members.

The quarterly payments referenced above began in the third quarter of 2003. In October 2003, such third quarter payments were actually made, as follows: Mr. Gene Becker and Mr. Kent Webb each received $5,500. Mr. Kenn George and Mr. French Hill each received $5,000. Mr. Nick Zaffiris received $4,500. The quarterly payments for the fourth quarter of 2003, in the same amounts, was made in January 2004.

In 2003, the following board members received grants of stock options to purchase shares of our common stock. Except as indicated, all the stock options were exercisable on the date granted.

- On August 25, 2003, Judith H. Henkels was granted stock options exercisable for the purchase of 10,000 shares at $5.78 per share. These options became exercisable on February 24, 2004.

- On January 29, 2003, J. French Hill was granted stock options exercisable for the purchase of 25,000 shares at $3.97 per share and on August 25, 2003 was granted stock options exercisable for the purchase of 10,000 shares at $5.25 per share.

- On January 29, 2003, Dino Eliopoulos was granted stock options exercisable for the purchase of 100,000 shares at $3.96 per share in connection with his employment by the Company and on August 25, 2003 was granted stock options exercisable for the purchase of 10,000 shares at $5.25 per share in connection with his duties as a member of the Board. Of such options, 35,000 are

exercisable as of March 15, 2004. The remaining 75,000 become exercisable in increments of 25,000 on January 29, 2005, January 29, 2006, and January 29, 2007.

On August 25, 2003, Kenneth S. George was granted stock options exercisable for the purchase of 25,000 shares at $5.25 per share.

On August 25, 2003, each of Eugene E. Becker and Nicholas J. Zaffiris was granted stock options exercisable for the purchase of 10,000 shares at $5.25 per share..

On August 25, 2003, Kent Webb was granted stock options exercisable for the purchase of 22,000 shares at $5.25 per share.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Judith Henkels and Dino Eliopoulos serve as our President and CEO and our Chief Financial Officer, respectively. Each also serves on the Board of Directors and on the Compensation Committee of the Board of Directors. Except for Ms. Henkels and Mr. Eliopoulos, none of our officers or employees participate in deliberations of the Compensation Committee. Neither Ms. Henkels nor Mr. Eliopoulos participate in deliberations or on votes regarding their own compensation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table presents, as of March 15, 2004, information related to the beneficial ownership of our common stock of (i) each person who is known to us to be the beneficial owner of more than 5% of our common stock, (ii) each of our directors and executive officers, and (iii) all of our executive officers and directors as a group, together with their percentage holdings of the outstanding shares. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated, and there are no family relationships amongst our executive officers and directors. For purposes of the following table, the number of shares and percent of ownership of our outstanding common stock that the named person beneficially owns includes shares of our common stock that the person has the right to acquire within 60 days of the above-mentioned date pursuant to the exercise of stock options and warrants, and are deemed to be outstanding, but are not deemed to be outstanding for the purposes of computing the number of shares beneficially owned and percent of outstanding common stock of any other named person.

	As of March 15, 2004	
Name of Beneficial Owner	**Shares Beneficially Owned(1)**	**Percent of Outstanding Shares(1)(2)**
Judith H. Henkels and Leland S. Chaffin, Jr.(3)	3,417,052	28.8%
Kent H. Webb, M.D.(4)	178,019	1.5%
Kenneth S. George(5)	35,000	*
Eugene E. Becker(6)	35,000	*
Nicklas J. Zaffiris(6)	35,000	*
J. French Hill(6)	37,000	*
Dino Eliopoulos(7)	25,000	*
Bobby Rhodes(8)	244,000	2.1%
Terry Brewster(9)		
Executive Officers and Directors as a Group (nine persons)(10)	$ 4,006,071	32.4%

* Less than 1%.

(1) Shares not outstanding but deemed beneficially owned by virtue of the right of the named person to acquire the shares within 60 days of March 15, 2004 are treated as outstanding for determining

the amount and percentage of common stock owned by the person. Based upon our knowledge, each named person has sole voting and sole investment power with respect to the shares shown except as noted, subject to community property laws, where applicable. Except as noted, all options are exercisable as of March 15, 2004.

(2) The percentage shown was rounded to the nearest one-tenth of one percent, based upon 11,847,280 shares of common stock being outstanding.

(3) Judith H. Henkels and Leland S. Chaffin, Jr. are married and reside in Texas, a community property state. Ms. Henkels is our Chief Executive Officer and President and Chairman of the Board of Directors. Ms. Henkels and Mr. Chaffin are deemed to beneficially own the same number of beneficially owned shares. The beneficially owned shares and percentage of outstanding shares include (i) 3,026,043 shares of common stock owned by Ms. Henkels, (ii) 371,009 shares of common stock owned by Mr. Chaffin, (iii) 20,000 shares issuable upon exercise of stock options held by Ms. Henkels.

(4) Dr. Webb is one of our directors. The beneficially owned shares and the percentage of outstanding shares include 91,000 shares of common stock issuable upon exercise of stock options.

(5) Mr. George is one of our Directors. The beneficially owned shares and the percentage of outstanding shares include 25,000 shares of common stock issuable upon exercise of stock options.

(6) The named person is one of our directors. The beneficially owned shares and percentage of outstanding shares include 35,000 shares issuable upon exercise of stock options held by the named person.

(7) Mr. Eliopoulos is our Chief Financial Officer and is one of our Directors. The beneficially owned shares and percentage of outstanding shares include 25,000 shares of common stock issuable upon exercise of stock options.

(8) Mr. Rhodes is our Executive Vice President for Provider Relations. The beneficially owned shares and percentage of outstanding shares include 244,000 shares of our common stock.

(9) Mr. Brewster is our Executive Vice President for Sales and Marketing. He joined us on January 5, 2004.

(10) The beneficially owned shares and the percentage of outstanding shares include the shares beneficially owned by each of our executive officers and directors as described in footnotes (3) through (9).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Contained below is a description of transactions and proposed transactions we entered into with our officers, directors and shareholders that beneficially own more than 5% of our common stock during 2003 and 2002. These transactions will continue in effect and may result in conflicts of interest between us and these individuals. Although our officers and directors have fiduciary duties to us and our shareholders, there can be no assurance that conflicts of interest will always be resolved in favor of us and our shareholders.

FORESIGHT, INC. MERGER-ACQUISITION. On December 7, 2000, we completed the merger-acquisition of Foresight, Inc.. In completion of this merger-acquisition, we issued 500,000 shares of our common stock and 166,667 shares of our Series A convertible preferred stock to Paul A. Kruger and Mark R. Kidd in exchange for the outstanding capital stock of Foresight, Inc. Mr. Kruger is our former C.E.O. and Mr. Kidd is our former C.F.O. Further, at closing of the merger-acquisition of Capella Group, we issued and delivered 1,250,000 shares of our common stock to Messrs. Kruger and Kidd and agreed to issue one share of our common stock for each $1.00 that our consolidated income before tax expense (as adjusted) for 2001 exceeds $1,750,000, assuming the merger-acquisition of Capella Group was completed on January 1, 2001. Messrs. Kruger and Kidd were issued 2,065,202 shares of our common stock on February 7, 2002. In addition, we granted Barron Chase Securities, Inc. stock options exercisable for the purchase on or before June 30, 2003 of 200,000 shares of our common stock for $9.37 per share. These options were granted for the investment banking financial services and consulting advice provided by Barron Chase Securities in valuing and structuring the merger. These offerings were made pursuant to the applicable registration exemptions of Rule 506 of Regulation D of the Securities and Exchange Commission, Section 4(2) of the Securities Act of 1933, and applicable state securities laws. There were no sales commissions or other fees paid in connection with the merger-acquisition, other than granting of the stock options.

THE CAPELLA GROUP, INC. MERGER-ACQUISITION. On June 8, 2001, we completed the merger-acquisition of The Capella Group, Inc. In completion of this merger-acquisition, we issued 2,775,000 shares of our common stock to the shareholders of The Capella Group, Inc. in exchange for the outstanding capital stock of The Capella Group, Inc. In addition, we agreed to issue and deliver to the former of shareholders of Capella Group one share of our common stock for each dollar of Capella Group's income before tax expense (increased by certain adjustments) during 2001, assuming the merger-acquisition was completed on January 1, 2001, in excess of $1,275,000. The former shareholders of The Capella Group were issued 2,735,085 shares of common stock on February 7, 2002. This offering was made pursuant to the applicable registration exemptions of Rule 506 of Regulation D of the Securities and Exchange Commission, Section 4(2) of the Securities Act of 1933, and applicable state securities laws. As part of the merger-acquisition of The Capella Group, Inc., two of our directors, Messrs. John Simonelli and Larry E. Howell were paid consulting fees of $190,335 each for their assistance and consulting services. There were no sales commissions or other fees paid in connection with the merger-acquisition.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees for professional services rendered to us for the years ended December 31, 2003 and 2002 were as follows:

Audit Fees. During the years ended December 31, 2003 and 2002, we incurred or expect to incur $107,500 and $68,000 to BDO Seidman, LLP and Murrell, Hall, Mcintosh & Company, PLLP, respectively, for audit services.

Tax Fees. During the years ended December 31, 2003, and 2002 we incurred or expect to incur $36,950 and $27,675 to BDO Seidman, LLP and Murrell, Hall Mcintosh & Company, PLLP, respectively, for tax services. During the years ended December 31, 2003 and 2002, tax services included fees for tax compliance and consulting services related to our annual federal and state tax returns. During the year ended December 31, 2002, tax services included tax consulting services related to the common stock issued to our independent marketing representatives during 2002.

In accordance with our Audit Committee Charter, the Audit Committee approves in advance any and all audit services, including audit engagement fees and terms, and non-audit services provided to us by our independent auditors (subject to the de minimus exception for non-audit services contained in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended), all as required by applicable

law or listing standards. The independent auditors and our management are required to periodically report to the Audit Committee the extent of services provided by the independent auditors and the fees associated with these services.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Form 10-K

(1) *Index and Consolidated Financial Statements*

(2) *Financial Statement Schedules required to be filed by Item 8 of this form*

The following financial statement schedule for the years ended December 31, 2003, 2002, and 2001 is filed as part of this report on Form 10-K and should be read in conjunction with our Consolidated Financial Statements appearing elsewhere in this Form 10-K:

Schedule II
Valuation and Qualifying Accounts
Precis, Inc. and Subsidiaries
31-Dec-03

Col. A	Col. B	Col. C	Col. D	Col. E
Description	**Balance at Beginning of Period**	**Additions Charged to Costs and Expenses**	**Deductions- Describe**	**Balance at End of Period**
Year Ended December 31, 2003:				
Deducted from assets accounts:				
Allowance for doubtful accounts		211,635	6,849(1)	204,786
Total	$	$ 211,635	$ 6,849	$ 204,786
Year Ended December 31, 2002:				
Deducted from assets accounts:				
Allowance for doubtful accounts				
Total	$	$	$	$
Year Ended December 31, 2001:				
Deducted from assets accounts:				
Allowance for doubtful accounts				
Total	$	$	$	$

(1) Uncollectible accounts written off

All other schedules are omitted because they are not applicable

(b) *Reports on Form 8-K*

None

(c) *Exhibits*

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION

EXHIBIT NO.	DESCRIPTION
3.1	Registrant's Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K/A filed with the Commission on July 31, 2001.
3.2	Registrant's Bylaws, incorporated by reference to Exhibit 3.2 of Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 14, 2003.
4.1	Form of certificate of the common stock of Registrant is incorporated by reference to Exhibit 1.1 of Amendment to Registration Statement on Form 8-A, as filed with the Commission on July 31, 2001.
4.2	Form of Underwriter's Warrant and Warrant Certificate, incorporated by reference to Exhibit 4.2 of Registrant's Form SB-2 Registration Statement (No. 333-86643).
10.1	Precis, Inc. 1999 Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on June 23, 2003.