PATIENT INFOSYSTEMS INC
Form 10QSB/A
November 12, 2003

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

FORM 10-QSB/A
(Amendment No. 1)

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

For the quarterly period ended: June 30, 2003

OR

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

For the transition period from to Commission file number: 0-22319

PATIENT INFOSYSTEMS, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	16-1476509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

46 Prince Street, Rochester, NY 14607
(Address of principal executive offices)

(585) 242-7200 (Issuer's telephone number, including area code)

As of November 3, 2003, 10,956,424 of the Company's common stock, par value $.01 per share, were outstanding.

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

Explanatory Note

This Form 10-QSB/A (Amendment No. 1) is filed to amend Patient Infosystems, Inc.'s Form 10-QSB for the quarter ended June 30, 2003 to include restated financial statements as discussed in NOTE 10 of the "Notes to Unaudited Consolidated Financial Statements", and to amend and restate each item of the Patient Infosystems, Inc.'s Quarterly Report on Form 10-QSB which has been affected by the financial statement restatement. The items of the Patient Infosystems, Inc.'s Form 10-QSB for the quarter ended June 30, 2003 which are amended and restated in their entireties herein are: Part I, Item1. - Financial Statements, Part I, Item 2. - Management's Discussion and Analysis of Financial

Condition and Results of Operations, Part I, Item 3 - Controls and Procedures, Part II, Item 2 - Changes in Securities and Use of Proceeds and Part II, Item 6(a) Exhibit 11. Except as described in this Explanatory Note, this Form 10-QSB/A (Amendment No. 1) does not otherwise modify the disclosures in the Patient Infosystems Inc.'s Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on August 14, 2003.

PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

PATIENT INFOSYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	June 30, 2003 (As restated, see Note 10)
CURRENT ASSETS:	
Cash and cash equivalents	$ 225,059
Accounts receivable	555,030
Notes receivable	2,250,000
Prepaid expenses and other current assets	121,907
Total current assets	3,151,996
Property and equipment, net	223,108
Intangible assets (net of accumulated amortization of $515,044 and $443,258)	107,679
TOTAL ASSETS	$ 3,482,783
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	$ 570,093
Accrued salaries and wages	225,921
Borrowings from directors	5,870,516
Borrowings from shareholders	1,143,138
Line of credit	3,000,000
Accrued expenses	383,351
Accrued interest	995,265
Deferred revenue	133,038
Total current liabilities	12,321,322
LINE OF CREDIT	-
STOCKHOLDERS' DEFICIT:	
Preferred stock - $.01 par value: shares authorized: 5,000,000	
Series C, 9% cumulative, convertible, issued and outstanding - 100,000	1,000
Series D, 9% cumulative, convertible, issued and outstanding - 198,128 as of June 30, 2003	1,981

Common stock - $.01 par value: shares authorized: 20,000,000 issued and outstanding - 10,956,024 as of December 31, 2002, 10,956,454 as of June 30, 2003	109,564
Additional paid-in capital	26,900,962
Accumulated deficit	(35,852,046)
Total stockholders' deficit	(8,838,539)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 3,482,783

See notes to unaudited consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months En[ded] June 30,	
	2003 (As Restated, see Note 10)	2002	2003 (As Restated, see Note 10)	
REVENUES				
Operations Fees	$ 650,303	$ 499,085	$ 1,226,106	$
Consulting Fees	927,854	30,000	1,297,850	
License Fees	1,880	13,630	3,760	
Total revenues	1,580,037	542,715	2,527,716	1
COSTS AND EXPENSES				
Cost of sales	1,184,855	461,726	1,946,457	
Sales and marketing	202,458	175,188	445,061	
General and administrative	296,842	306,498	572,311	
Research and development	33,470	23,786	65,228	
Total costs and expenses	1,717,625	967,198	3,029,057	2
OPERATING LOSS	(137,588)	(424,483)	(501,341)	(
OTHER EXPENSE				
Financing Costs	(713,846)	-	(713,846)	
Interest expense, net	(154,764)	(132,036)	(296,217)	(
NET LOSS	(1,006,198)	(556,519)	(1,511,404)	(1,
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(1,489,818)	(22,500)	(1,512,318)	
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(2,496,016)	$ (579,019)	$ (3,023,722)	$(1,
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.23)	$ (0.05)	$ (0.28)	

WEIGHTED AVERAGE COMMON SHARES	10,956,103	10,956,024	10,956,064	10

See notes to unaudited consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2003 (As Restated, see Note 10)	Si June
OPERATING ACTIVITIES:		
Net loss	$ (1,511,404)	$ (1
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	160,359	
Amortization of debt discount	713,846	
Gain on sale of property	-	
Increase in accounts receivable, net	(113,814)	
Increase in prepaid insurance, expenses and other current assets	(16,080)	
Increase in accounts payable	191,089	
Increase in accrued salaries and wages	17,169	
Increase in accrued expenses	228,815	
Decrease in deferred revenue	(24,036)	
Net cash used in operating activities	(354,056)	
INVESTING ACTIVITIES:		
Notes receivable	(2,050,000)	
Property and equipment additions	(25,932)	
Proceeds form the sale of property	-	
Net cash used in investing activities	(2,075,932)	
FINANCING ACTIVITIES:		
Borrowing from directors	1,050,000	
Borrowing from stockholders	1,600,000	
Excersize of incentive stock options	36	
Net cash provided by financing activities	2,650,036	
NET INCREASE IN CASH AND CASH EQUIVALENTS	220,048	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,011	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 225,059	

Supplemental disclosures of non-cash information

Dividend declared on Convertible Preferred Stock	$ 84,626
Beneficial conversion feature of Convertible Preferred Stock	$1,427,692
Debt discount associated with borrowing	$1,427,692

See notes to unaudited consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

Notes to Unaudited Consolidated Financial Statements for the period ended June 30, 2003

1. The accompanying consolidated financial statements for the three month periods ended June 30, 2003 and June 30, 2002 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Certain 2002 amounts have been reclassified to conform to 2003 presentations. The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results for the entire year ending December 31, 2003.

2. On March 28, 2003, the Company entered into an Amended and Restated Credit Agreement with Wells Fargo Bank Iowa, N.A., which extended the term of the $3,000,000 credit facility to January 2, 2004, under substantially the same terms. Certain directors of the Company guaranteed this extension.

3. The Company borrowed $1,050,000 for working capital from Mr. Pappajohn during the six month period ended June 30, 2003. On April 10, 2003, the Company replaced notes in the aggregate principal amount of $500,000 owed to Mr. Pappajohn with a new note for the principal amount of $900,000, representing the amount due under the original notes plus an additional $400,000 borrowed from Mr. Pappajohn for working capital. As of August 15, 2003, a total of $6,127,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer (both of whom are members of the Company's Board of Directors), inclusive of $256,985 unamortized debt discount, all of which is secured by the assets of the Company.

   On March 28, 2003, Mr. Pappajohn and Dr. Schaffer signed a letter to the Company in which they made a commitment to obtain the operating funds that the Company believes would be sufficient to fund its operations through December 31, 2003. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of the Company's securities or that the Company can borrow the additional amounts needed.

4. On September 23, 2002, the Company signed an agreement to acquire substantially all the assets of American Care Source (ACS), headquartered in Dallas, Texas. This Asset Purchase Agreement was amended and restated on April 10, 2003 and further amended on July 30, 2003 (hereinafter, the

amended and restated Asset Purchase Agreement, as amended, is referred to as the "Asset Purchase Agreement"). ACS is an ancillary healthcare benefits management company. It provides a bridge connecting healthcare payers and the providers of ancillary healthcare services. Ancillary healthcare services include a broad array of services that supplement or support the care provided by hospitals and physicians, including the non-physician services associated with outpatient surgery centers, free-standing diagnostic imaging centers, home infusion, durable medical equipment, orthotics and prosthetics, laboratory and many other services. These ancillary services are provided to patients as benefits under group health plans and workers' compensation plans. ACS manages the administration of these ancillary healthcare benefits.

5. On April 10, 2003, the Company entered into a Note and Stock Purchase Agreement, which the Company intends to amend (the "Note and Stock Purchase Agreement") with certain investors (the "Investors"), including Mr. Pappajohn, a member of the Board of Directors of the Company, pursuant to which the Investors agreed to loan to the Company an aggregate of up to $3.5 million, $500,000 of which replaces notes payable to Mr. Pappajohn, which were outstanding at March 31, 2003. In consideration for the loans, the Company signed a series of promissory notes and intends to issue a total of 286,182 shares of Series D 9% Cumulative Preferred Stock ("Series D Preferred Stock") to the Investors, 198,128 of such shares were issued and outstanding at June 30, 2003. During the quarter ended June 30, 2003, the Company borrowed $2.5 million under the Note and Stock Purchase Agreement. The notes bear interest at a rate equal to the prime rate plus 3% per annum and mature on September 30, 2003. The 286,182 shares of Series D Preferred Stock are convertible into up to 34,341,840 shares of common stock of the Company, subject to the approval by the stockholders of the Company of an amendment to the Certificate of Incorporation, authorizing an increase in the number of outstanding shares of common stock of the Company necessary to provide for the issuance of common stock upon conversion of such shares. The 198,128 shares of Series D Preferred Stock outstanding at June 30, 2003 are convertible into 23,775,360 shares of common stock valued at $3,328,550. The total value received by the lenders was $5,828,550 in the combined stock and notes (the "Consideration"). In accordance with APB Opinion No. 14, a portion of the cash received totaling $1,427,692, is allocable to equity resulting in a debt discount in the same amount, which is amortized over the life of the loan. Holders of the Series D Preferred Stock have the right to elect two members of the Company's Board of Directors. Upon closing of a private placement of a minimum of $4 million in value of additional shares of Series D Preferred Stock and after the closing of the proposed acquisition of ACS, as contemplated by the Asset Purchase Agreement, any notes issued pursuant to the Note and Stock Purchase Agreement are convertible into Series D Preferred Stock. The purpose of the loan from the Investors is to provide funds to the Company for it to loan to ACS in order to provide working capital for the operations of ACS.

Simultaneously with the closing of the Note and Stock Purchase Agreement, the Company and ACS entered into a Credit Agreement subsequently amended on July 30, 2003 (the "Credit Agreement") pursuant to which the Company agreed to loan to ACS up to an aggregate of $3.4 million secured by all of the assets of ACS. As of June 30, 2003, the Company had notes receivable of $2.25 million from ACS. Patient Infosystems received a warrant to purchase 18,050 shares of common stock of ACS, exercisable only if the Asset Purchase Agreement with ACS is terminated. Additional warrants to purchase ACS common stock may be issued depending on the total amount of funds it borrows from the Company under the Credit Agreement.

6. The calculations for the basic and diluted loss per share were based upon loss attributable to common stockholders of $2,496,016 and $3,023,722 and a weighted average number of common shares outstanding of 10,956,103 and 10,956,064 for the three and six month periods ended June 30, 2003 respectively. The calculations for the basic and diluted loss per share were based upon loss attributable to common stockholders of $579,019 and $1,263,040 and a weighted average number of common shares outstanding of 10,956,024 for both the three and six month periods ended June 30, 2002 respectively. Options totaling 1,114,040 and 1,115,740 to purchase shares of common stock were outstanding but not included in the computation of diluted loss per share for the three and six month periods ended June 30, 2003 and 2002, respectively, because the effect would have been antidilutive due to the net loss in those periods.

7. The accompanying unaudited consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited consolidated financial statements, the Company incurred a net loss for the six month period ended June 30, 2003 of $1,511,404 and had negative working capital of $9,169,326 and a stockholders' deficit of $8,838,539 at June 30, 2003. These factors, among others, may indicate that the Company will be unable to continue as a going concern.

   The unaudited consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's ability to continue as a going concern is dependant upon its ability to generate sufficient cash flow to meet its obligations. Management is currently assessing the Company's operating structure for the purpose of reducing ongoing expenses, increasing sources of revenue and is negotiating the terms of additional debt or equity financing.

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

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

	Three Months Ended	Six Months Ended

	June 30, 2003	2002	June 30, 2003	2002
Net loss attributable to common shareholders - as reported	($2,496,016)	($579,019)	($3,023,722)	($1,263,040)
Stock Compensation expense	(30,828)	(33,565)	(57,162)	(67,802)
Net loss - pro forma	($2,526,844)	($612,584)	($3,080,884)	($1,330,842)
Net loss per share - basic and diluted - as reported	($0.23)	($0.05)	($0.28)	($0.12)
Net loss per share - basic and diluted - pro forma	($0.23)	($0.06)	($0.28)	($0.12)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using an assumed risk-free interest rates of 3.45% as of June 30, 2003 and an expected life of 7 years. The assumed dividend yield was zero. The Company has used a volatility factor of 1.75 for the year ended June 30, 2003. For purposes of pro forma disclosure, the estimated fair value of each option is amortized to expense over that option's vesting period and only the compensation expense related to the three and six month periods ended June 30, 2002 and 2003 were used to adjust the net loss on a pro forma basis.

9. Changes in additional paid in capital for the six month period ended June 30, 2003 were as follows:

Balance as of December 31, 2002	$ 24,132,153
Series C dividends	(45,000)
Series D dividends	(39,626)
Value of 198,128 shares of Series D issued	
Portion of Debt Allocated to Stock	1,427,692
Beneficial Conversion Feature	1,427,692
Par value of Series D shares, par $0.01	(1,981)
Value of 400 shares common stock issued	36
Par value of common issued, par $0.01	(4)
	$ 26,900,962

10. Subsequent to the issuance of its financial statements for the quarter ended June 30, 2003, the Company determined that it accounted for the issuance of preferred stock incorrectly. The Company had accounted for the issuance of the preferred stock under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation", and incorrectly recorded an asset for debt issuance costs of $3,328,550 with a corresponding increase to equity. Since the preferred stock was issued in connection with borrowing by the Company, the Company should have accounted for the issuance of the preferred stock in accordance with Accounting Principles Board Option No. 14 ("APB No. 14"). Accordingly, a portion of the borrowing must be allocated to the preferred stock which gives rise to a debt discount associated with the borrowings. The total borrowings were $2,500,000 in the second quarter ended June 30, 2003 and the resulting debt discount and value assigned to the preferred stock totaled $1,427,692. The debt discount is amortized over the term of the borrowings, which is six months. Additionally, a beneficial conversion feature has arisen since the

value recorded for the preferred stock, which is convertible into common stock, totaling $1,427,692 is less than the fair value of the common stock totaling $3,328,550. While the resulting beneficial conversion feature totals $1,900,858, the Company can only record a beneficial conversion equal to the value of the preferred stock recorded, $1,427,692. Such amount is reflected in the net loss attributable to common stockholders for the three and six month periods ended June 30, 2003 because the preferred stock is immediately convertible into the Company's common stock.

The principal effects of the restatement are summarized in the following table:

As of June 30, 2003:

	As Previously Reported	As Restated
Debt issuance costs	$ 1,664,275	$ -
Total assets	$ 5,147,058	$ 3,482,783
Borrowings from directors	$ 6,127,500	$ 5,870,516
Borrowings from shareholders	$ 1,600,000	$ 1,143,138
Total current liabilities	$ 13,035,168	$ 12,321,322
Additional paid-in capital	$ 27,374,128	$ 26,900,962
Accumulated deficit	$ (35,374,783)	$ (35,852,046)
Total stockholders' deficit	$ (7,888,110)	$ (8,838,539)
Total liabilities and stockholders' deficit	$ 5,147,058	$ 3,482,783

	Three Months Ended June 30, 2003		Six Months Ended June 30, 2003	
	As reported	As Restated	As reported	As Restated
Financing Costs	$(1,664,275)	$ (713,846)	$(1,664,275)	$ (713,846)
Net loss	$(1,956,627)	$(1,006,198)	$(2,461,833)	$(1,511,404)
Convertible preferred stock dividends	$ (62,126)	$(1,489,818)	$ (84,626)	$(1,512,318)
Net loss attributable to common stockholders	$(2,018,753)	$(2,496,016)	$(2,546,459)	$(3,023,722)
Net loss per share basic and diluted	$ (0.18)	$ (0.23)	$ (0.23)	$ (0.28)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis provides a review of the Company's operating results for the three and six month periods ended June 30, 2003 as compared to the three and six month periods ended June 30, 2002 and a review of the Company's financial condition at June 30, 2003 as compared to June 30, 2002 and December 31, 2002. The focus of this review is on the underlying business reasons for significant changes and trends affecting the revenues, net earnings and financial condition of the Company. This review should be read in conjunction with the accompanying unaudited consolidated financial statements.

In an effort to give investors a well-rounded view of the Company's current condition and future opportunities, this Quarterly Report on Form 10-QSB includes forecasts by the Company's management about future performance and results. Because they are forward-looking, these forecasts involve uncertainties. These uncertainties include the Company's ability to continue its operations as a result of, among other things, continuing losses, working capital short falls, uncertainties with respect to sources of capital, risks of

market acceptance of or preference for the Company's systems and services, competitive forces, the impact of changes in government regulations, general economic factors in the healthcare industry and other factors discussed in the Company's filings with the Securities and Exchange Commission including the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

On May 29, 2002, the Company entered into a Strategic Marketing Partnership Agreement with USI Administrators, Inc ("CBCA"). The Company and CBCA each gave the other the non-exclusive right to sell certain products and services. The supplier of the product or service is paid in accordance with the agreed fee schedule. The difference between the selling price and the fee schedule, if any, is the seller's fee entitlement. Either party may terminate the agreement at any time with 180 days notification.

On September 23, 2002, the Company signed an agreement to acquire substantially all the assets of American Care Source (ACS), headquartered in Dallas, Texas. This Asset Purchase Agreement was amended and restated on April 10, 2003 and then again on July 30, 2003 (hereinafter, the amended and restated Asset Purchase Agreement as amended, is referred to as the "Asset Purchase Agreement"). ACS is an ancillary healthcare benefits management company. It provides a bridge connecting healthcare payers and the providers of ancillary healthcare services. Ancillary healthcare services include a broad array of services that supplement or support the care provided by hospitals and physicians, including the non-physician services associated with outpatient surgery centers, free-standing diagnostic imaging centers, home infusion, durable medical equipment, orthotics and prosthetics, laboratory and many other services. These ancillary services are provided to patients as benefits under group health plans and workers' compensation plans. ACS manages the administration of these ancillary healthcare benefits.

Under the terms of the Asset Purchase Agreement, the Company will acquire the assets of ACS in exchange for shares of common stock of the Company equal to approximately twenty one percent (21%) of the fully diluted outstanding common stock of the Company, without giving effect to a private placement anticipated to be completed prior to the closing ot the acquisition in order to provide working capital. The ACS beneficial ownership of the Company will change depending of the terms and amount of equity sold in any private placement. The Asset Purchase Agreement provides for closing the anticipated transaction, subject to the satisfaction of certain conditions, no later than November 30, 2003. The agreement contains various conditions to closing, some of which may not be satisfied. Therefore completion of the transaction cannot be assured until closing. Among the conditions to closing are the following:

- the approval of the stockholders of the Company of certain amendments to its Certificate of Incorporation;
- the execution by certain shareholders of ACS and the Company of a Shareholders' Agreement providing for the voting of shares of the Company in favor of the election of certain individuals to the board of directors of the Company;
- the execution of agreements by John Pappajohn and Derace Schaffer to hold all indebtedness of the Company in abeyance until September 30, 2004;
- written documentation that the bank debt of the Company to Wells Fargo Bank has been renegotiated so as to provide a grace and forbearance period until December 31, 2003, before any principal payments are required and that John Pappajohn and Derace Schaffer will remain guarantors of such bank debt if required by Wells Fargo Bank;
- the private placement of additional equity securities of the Company;

- the execution of a Voting Agreement by each stockholder of the Company owning more than 10% of the outstanding shares of common stock of the Company; and

- fulfillment of customary contractual conditions set forth in the Asset Purchase Agreement.

The Asset Purchase Agreement may be terminated and the acquisition abandoned at any time prior to the closing date of the transaction under the following conditions:

- by mutual agreement in writing by the Company and ACS;

- by either the Company or ACS if the other party materially breaches any of the representations, warranties, covenants or agreements set forth in the Asset Purchase Agreement at the time of its execution or on the closing date;

- by either the Company or ACS if the other party fails to perform timely, in all material aspects the covenants and obligations that it is required to perform under Asset Purchase Agreement and such party does not obtain in writing a waiver of such performances; or

- by either the Company or ACS if the closing of the acquisition does not occur prior to November 30, 2003.

The Company has filed a preliminary proxy statement with the Securities and Exchange Commission with respect to a meeting of stockholders to obtain approval of certain amendments to the Company's certificate of incorporation, as well as approval of an amendment to the Company's stock option plan necessary to consummate the proposed transaction with ACS.

Results of Operations

Revenues

Revenues consist of revenues from operations, development fees and licensing fees. Revenues increased to $1,580,037 from $542,715 during the three months ended June 30, 2003 and 2002, respectively, or 191%. Revenues increased to $2,527,716 from $1,042,043 during the six months ended June 30, 2003 and 2002, respectively, or 143%.

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenues	2003	2002	2003	20
Operations Fees				
Consulting	$ 927,854	$ 30,000	$ 1,297,850	$ 59,5
Disease and Demand Management	615,842	436,294	1,133,004	832,1
Surveys	27,231	56,341	59,376	104,8
Total Operations Fees	1,570,927	522,635	2,490,230	996,4
Development Fees	7,230	6,450	33,726	21,5
Licensing Fees	1,880	13,630	3,760	24,0
Total Revenues	$ 1,580,037	$ 542,715	$ 2,527,716	$ 1,042,0

Operations fee revenues are the primary source of revenue for the Company and are generated as the Company provides services to its customers. Operations fee revenues increased to $1,570,927 for the three months ended June 30, 2003 as compared to $522,635 for the three months ended June 30, 2002. Operations fee revenues increased to $2,490,230 for the six months ended June 30, 2003 as compared to $996,455 for the six months ended June 30, 2002.

The Company's consulting revenue was primarily attributable to assistance provided to organizations for the development of clinical registries used to increase effective management of patients with chronic disease. The Company is supporting the development, including project management and implementation, of a patient registry for federally qualified health centers, through a national initiative known as the Health Disparities Collaboratives. The Company participates in this project as a subcontractor of the Institute for Healthcare Improvement. While the Company anticipates that it will continue to provide these and other consulting services, no assurances can be given that the Company will continue to provide these services at the current levels, or at all, and revenue recognized during the three and six month periods ended June 30, 2003 is not necessarily indicative of the results for the entire year ending December 31, 2003.

The increase in the Company's disease and demand management revenue was primarily attributable to new customers and a joint marketing relationship that has contributed new sources of revenue net of revenue lost due to the termination of one customer effective December 31, 2002. The new customers accounted for increased revenue of $132,485 and $261,445 for the three and six month periods ended June 30, 2003. Revenues from the joint marketing relationship increased from $20,893 and $42,100 for the three and six month periods ended June 30, 2002, respectively, to $238,378 and $344,689 for the same respective periods of 2003. The Company received revenue of $155,666 and $213,039 for the three and six month periods ended June 30, 2003, respectively, from the customer that terminated in 2002 and from which the Company received no revenue during 2003. In addition, a customer who provided revenue of $129,270 and $316,553 during the three and six month periods ended June 30, 2003, respectively, elected to terminated services effective June 30, 2003, citing no disputes with the Company. The Company has identified other possible new customers, but there can be no assurance that such prospects will contribute revenue in the near term, or at all.

Development fee revenues were $7,230 and $6,450 for the three month periods ended June 30, 2003 and 2002, respectively and $33,726 and $21,538 for the six month periods ended June 30, 2003 and 2002, respectively. The Company received development revenues from a variety of customers for modification of specific programs. The Company has completed substantially all services under these agreements and anticipates primarily receiving development fee revenues in connection with the enhancement of its existing programs. Development fee revenues include clinical, technical and operational design and modification of the Company's programs. The Company anticipates that revenue from development fees will continue to be low unless the Company enters into new development agreements.

License fee revenues recognized from the Case Management Support System were $1,880 and $13,630 for the three month periods ended June 30, 2003 and 2002, respectively and $3,760 and $24,050 for the six month periods ended June 30, 2003 and 2002, respectively. The Company has not entered into any new licensing agreements for its Case Management Support System and the revenue for the current period reflects revenue generated exclusively from the existing agreement.

Costs and Expenses

Cost of sales includes salaries and related benefits, services provided by third parties, and other expenses associated with the implementation and delivery of the Company's consulting services, standard and customized population, demand and disease management programs. Cost of sales for the three and six month periods ended June 30, 2003 was $1,184,855 and $1,946,457, respectively, as compared to $461,726 and $949,579 for the three and six month periods ended June 30, 2002. The increase in these costs was primarily the result of increased operational activity. The Company's gross margin, being the percentage of revenues available to offset other costs and expenses after subtracting the cost of sales was 25% and 23% for the three and six month periods ended June 30, 2003, respectively, as compared to 15% and 9% for the same respective periods of 2002. The Company anticipates that revenue must increase for it to recognize economies of scale adequate to improve its margins. No assurance can be given that revenues will increase or that, if they do, they will continue to exceed costs and expenses.

Sales and marketing expenses consist primarily of salaries, related benefits, travel costs, sales materials and other marketing related expenses. Sales and marketing expenses for the three and six month periods ended June 30, 2003 were $202,458 and $445,061, respectively, as compared to $175,188 and $353,563 for the same respective periods of 2002. Spending in this area has increased due to an increase in sales activity. The Company anticipates expansion of the Company's sales and marketing staff and expects it will continue to invest in the sales and marketing process, and that such expenses related to sales and marketing might increase in future periods.

General and administrative expenses include the costs of corporate operations, finance and accounting, human resources and other general operating expenses of the Company. General and administrative expenses for the three and six month periods ended June 30, 2003 were $296,842 and $572,311, as compared to $306,498 and $656,634 for the same respective periods of 2002. These expenditures have been incurred to maintain the corporate infrastructure necessary to support anticipated program operations. The decrease in these costs during the three and six month periods ended June 30, 2003 was primarily due to the allocation of a portion of staff costs to cost of sales related to consulting revenue.

Research and development expenses consist primarily of salaries and related benefits and administrative costs associated with the development of certain components of the Company's integrated information capture and delivery system, as well as development of the Company's standardized disease management programs and the Company's Internet based technology products. Research and development expenses for the three and six month periods ended June 30, 2003 were $33,470 and $65,228, respectively, as compared to $23,786 and $47,636 for the same respective periods of 2002.

Financing costs were $713,846 for the three and six month period ended June 30, 2003. This cost relates to the issuance of debt and equity to certain lenders based on the Note and Stock Purchase Agreement dated April 10, 2003, pursuant to which the investors agreed to make short term loans to the Company. The total value received by the lenders was $5,828,550 in the combined stock and notes (the "Consideration"). In accordance with APB Opinion No. 14, a portion of the cash received totaling $1,427,692, is allocable to equity resulting in a debt discount in the same amount, which is amortized over the life of the loan. Because the term of the Note and Stock Purchase Agreement is approximately six months ending September 30, 2003, $713,846 was amortized during the three month period ended June 30, 2003, which represents 50% of the $1,427,692. The remaining $713,846 will be amortized during the 3 month period ending September 30, 2003. If additional amounts must be borrowed, there may be additional consideration to the lenders and additional financing costs associated with such loans.

The Company recorded net interest expense of $154,764 and $296,217 for the three and six month periods ended June 30, 2003, respectively, as compared to $132,036 and $252,671 for the same respective periods of 2002, principally due to the net increase of interest expense on debt.

Income (loss)

The Company had a net loss attributable to the common stockholders after preferred stock dividends and a beneficial conversion feature associated with the Series D Preferred Stock issued, of $2,496,016 and $3,023,722 for the three and six month periods ended June 30, 2003, respectively, with a net loss per share of $0.23 and $0.28 per share for the same respective periods. The loss includes $713,846 in financing cost and $1,427,692 for the beneficial conversion feature. Without these costs, the Company had a net loss attributable to the common shareholders after preferred stock dividends, of $354,478 and $882,184 for the three and six month periods ended June 30, 2003, respectively, as compared to $579,019 and $1,263,040 for the three and six month periods ended June 30, 2002. This represents a net loss per common share of $0.03 and $0.08 for the three and six month periods ended June 30, 2003, which is comparable to the net loss of $0.05 and $0.12 per common share shown for the same respective periods of 2002.

Liquidity and Capital Resources

At June 30, 2003, the Company had a working capital deficit of $9,169,326 as compared to $6,135,451 at December 31, 2002. Through June 30, 2003, these amounts reflect the effects of the Company's continuing losses as well as increased borrowings, $3,000,000 of which was classified as a long-term liability at December 31, 2002 but is classified as a current liability at June 30, 2003. Since its inception, the Company has primarily funded its operations, working capital needs and capital expenditures from the sale of equity securities or the incurrence of debt.

On March 28, 2003, the Company entered into an Amended and Restated Credit Agreement with Wells Fargo Bank Iowa, N.A., which extended the term of the Company's $3,000,000 credit facility to January 2, 2004, under substantially the same terms. Certain directors of the Company guaranteed this extension.

The Company borrowed $1,050,000 for working capital from Mr. Pappajohn during the six month period ended June 30, 2003. On April 10, 2003, the Company replaced notes in the aggregate principal amount of $500,000 owed to Mr. Pappajohn with a new note for the principal amount of $900,000, representing the amount due under the original notes plus an additional $400,000 borrowed from Mr. Pappajohn for working capital. As of August 15, 2003, a total of $6,127,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer (both of whom are members of the Company's Board of Directors), all of which is secured by the assets of the Company.

On March 28, 2003, Mr. Pappajohn and Dr. Schaffer signed a letter to the Company in which they made a commitment to obtain the operating funds that the Company believes would be sufficient to fund its operations through December 31, 2003. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of the Company's securities or that the Company can borrow the additional amounts needed.

On April 10, 2003, the Company entered into a Note and Stock Purchase Agreement, which the Company intends to amend (the "Note and Stock Purchase Agreement") with certain investors (the "Investors"), including Mr. Pappajohn, a member of the Board of Directors of the Company, pursuant to which the Investors agreed to loan to the Company an aggregate of up to $3.5 million, $500,000 of which replaces notes payable to Mr. Pappajohn, which were outstanding at March 31, 2003. In consideration for the loans, the Company signed a series of promissory notes and intends to issue a total of 286,182 shares of Series D 9% Cumulative Preferred Stock ("Series D Preferred Stock") to the Investors, 198,128 of such shares were issued and outstanding at June 30, 2003. During the quarter ended June 30, 2003, the Company borrowed $2.5 million under the Note and Stock Purchase Agreement. The notes bear interest at a rate equal to the prime rate plus 3% per annum and mature on September 30, 2003. The 286,182 shares of Series D Preferred Stock are convertible into up to 34,341,840 shares of common stock of the Company, subject to the approval by the stockholders of the Company of an amendment to the Certificate of Incorporation, authorizing an increase in the number of outstanding shares of common stock of the Company necessary to provide for the issuance of common stock upon conversion of such shares. The 198,128 shares of Series D Preferred Stock outstanding at June 30, 2003 are convertible into 23,775,360 shares of common stock valued at $3,328,550. The total value received by the lenders was $5,828,550 in the combined stock and notes (the "Consideration"). In accordance with APB Opinion No. 14, a portion of the cash received totaling $1,427,692, is allocable to equity resulting in a debt discount in the same amount, which is amortized over the life of the loan. Holders of the Series D Preferred Stock have the right to elect two members of the Company's Board of Directors. Upon closing of a private placement of a minimum of $4 million in value of additional shares of Series D Preferred Stock and after the closing of the proposed acquisition of ACS, as contemplated by the Asset Purchase Agreement, any notes issued pursuant to the Note and Stock Purchase Agreement are convertible into Series D Preferred Stock. The purpose of the loan from the Investors is to provide funds to the Company for it to loan to ACS in order to provide working capital for the operations of ACS.

Simultaneously with the closing of the Note and Stock Purchase Agreement, the Company and ACS entered into a Credit Agreement subsequently amended on July 30, 2003 (the "Credit Agreement") pursuant to which the Company agreed to loan to ACS up to an aggregate of $3.4 million secured by all of the assets of ACS. As of June 30, 2003, the Company had notes receivable of $2.25 million from ACS. Patient Infosystems received a warrant to purchase 18,050 shares of common stock of ACS, exercisable only if the Asset Purchase Agreement with ACS is terminated. Additional warrants to purchase ACS common stock may be issued depending on the total amount of funds it borrows from the Company under the Credit Agreement.

The Company has expended substantial funds to establish its operational capabilities and infrastructure. The Company's cash has been steadily depleted as a result of operating losses. The Company anticipates that its losses will continue and, but for the continuing loans from Mr. Pappajohn, the Company has no available cash to continue operations. Accordingly, the Company has been required to seek cash to maintain its operations. The Company is continuing its efforts to raise additional funds privately, which may involve the sale of convertible preferred stock or further debt securities. No assurance can be given that the Company will successfully raise the necessary funds. Any additional financing, which includes the issuance of additional securities of the Company, may be dilutive to the Company's existing stockholders. If the Company is unable to raise additional funds, it will be required to cease operations.

Inflation

Inflation did not have a significant impact on the Company's costs during the three and six month periods ended June 30, 2003 and 2002. The Company continues to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

Forward Looking Statements

When used in this and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "will likely result," "expects," "plans," "will continue," "is anticipated," "estimated," "project," or "outlook" or similar expressions (including confirmations by an authorized executive officer of the Company of any such expressions made by a third party with respect to the Company) are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. These uncertainties include the Company's ability to continue its operations as a result of, among other things, continuing losses, working capital short falls, uncertainties with respect to sources of capital, risks of market acceptance of or preference for the Company's systems and services, competitive forces, the impact of, changes in government regulations, general economic factors in the healthcare industry and other factors discussed in the Company's filings with the Securities and Exchange Commission including the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The Company has no obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

Item 3. Controls and Procedures.

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

In light of our determination in November 2003 that it was necessary to restate our previously released consolidated financial statements for the three and six month periods ended June 30, 2003, our management directed that steps be taken to enhance the operation and effectiveness of our internal controls and procedures to ensure that we apply the proper accounting treatment to our lending transactions.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Borrowing from directors

On April 10, 2003, the Company entered into a Note and Stock Purchase Agreement, which the Company intends to amend (the "Note and Stock Purchase Agreement") with certain investors (the "Investors"), including Mr. Pappajohn, a member of the Board of Directors of the Company, pursuant to which the Investors agreed to loan to the Company an aggregate of up to $3.5 million, $500,000 of which replaces notes payable to Mr. Pappajohn, which were outstanding at March 31, 2003. In consideration for the loans, the Company signed a series of promissory notes and intends to issue a total of 286,182 shares of Series D 9% Cumulative Preferred Stock ("Series D Preferred Stock") to the Investors, 198,128 of such shares were issued and outstanding at June 30, 2003. During the quarter ended June 30, 2003, the Company borrowed $2.5 million under the Note and Stock Purchase Agreement. The notes bear interest at a rate equal to the prime rate plus 3% per annum and mature on September 30, 2003. The 286,182 shares of Series D Preferred Stock are convertible into up to 34,341,840 shares of common stock of the Company, subject to the approval by the stockholders of the Company of an amendment to the Certificate of Incorporation, authorizing an increase in the number of outstanding shares of common stock of the Company necessary to provide for the issuance of common stock upon conversion of such shares. The 198,128 shares of Series D Preferred Stock outstanding at June 30, 2003 are convertible into 23,775,360 shares of common stock valued at $3,328,550. The total value received by the lenders was $5,828,550 in the combined stock and notes (the "Consideration"). In accordance with APB Opinion No. 14, a portion of the cash received totaling $1,427,692, is allocable to equity resulting in a debt discount in the same amount, which is amortized over the life of the loan. Holders of the Series D Preferred Stock have the right to elect two members of the Company's Board of Directors. Upon closing of a private placement of a minimum of $4 million in value of additional shares of Series D Preferred Stock and after the closing of the proposed acquisition of ACS, as contemplated by the Asset Purchase Agreement, any notes issued pursuant to the Note and Stock Purchase Agreement are convertible into Series D Preferred Stock. The purpose of the loan from the Investors is to provide funds to the Company for it to loan to ACS in order to provide working capital for the operations of ACS. See "Liquidity and Capital Resources".

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index.

(b) Reports on Form 8-K:

On April 17, 2003, the Company filed a current report on Form 8-K reporting that the Company issued a press release announcing the financial results for the fiscal year ended December 31, 2002.

On April 23, 2003, the Company filed a current report on Form 8-K reporting that the Company issued a press release announcing that the Company entered into an Amended and Restated Agreement for the Purchase and Sale of Assets among Patient Infosystems, Inc. and American Caresource Corporation.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PATIENT INFOSYSTEMS, INC.

Date: November 4, 2003

/s/Roger L. Chaufournier

Roger L. Chaufournier
Director, President and
Chief Executive Officer
(authorized officer)

Date: November 4, 2003

/s/Kent A. Tapper

Kent A. Tapper
Vice President, Financial Planning
(principal accounting officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
11	Statements of Computation of Per Share Earnings.
99.1	Exhibit 31.1 -- Certification of Roger Chaufournier required by Rule 13a-14(a) or Rule 15d-14(a)
99.2	Exhibit 31.2 -- Certification of Kent Tapper required by Rule 13a-14(a) or Rule 15d-14(a)
99.3	Exhibit 32.1 -- Certification of Roger Chaufournier and Kent Tapper required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

Exhibit 11.

Statement of Computation of Per Share Earnings

PATIENT INFOSYSTEMS, INC.

	Three Months Ended June 30,		Six Months En[ded] June 30,
	2003	2002	2003
	(As restated, see Note 10)		(As restated, see Note 10)

Net loss	$ (1,006,198)	$ (556,519)	$ (1,511,404)	$ (1
Convertible preferred Stock dividends	(1,489,818)	(22,500)	(1,512,318)	
Net loss attributable to Common Stockholders	$ (2,496,016)	$ (579,019)	$ (3,023,722)	$ (1
Weighted average common shares	10,956,103	10,956,024	10,956,064	10
Net loss per share - Basic and diluted	$ (0.23)	$ (0.05)	$ (0.28)	