ANGLOGOLD ASHANTI LTD
Form 6-K
March 30, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated March 27, 2009
Commission File Number 1-14846
AngloGold Ashanti Limited
(Translation of registrant's name into English)
76 Jeppe Street
Newtown
Johannesburg, 2001
(P.O. Box 62117, Marshalltown, 2107)
South Africa
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):
Yes No X
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):
Yes No X
Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes No X

Enclosure: Press release ANGLOGOLD ASHANTI - 2008 MINERAL RESOURCES AND ORE RESERVES

Mineral Resource
and Ore Reserve Report 2008

Mineral Resources and Ore Reserves are reported in accordance with the minimum standards described by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2004 Edition), and also conform to the standards set out in the South African Code for the Reporting of Mineral Resources and Mineral Reserves (SAMREC 2000 Code). Mineral Resources are inclusive of the Ore Reserve component unless otherwise stated.

Information is presented both by country and by either operation or exploration project.

The country overviews include the following tables: Mineral Resource and Ore Reserve, gold price and exchange rates, details of average drill-hole spacing and type, Ore Reserve modifying factors, development sampling results, Mineral Resource and Ore Reserve comparison by operation and Mineral Resource and Ore Reserve by-products. Topics for discussion include Geology, Mineral Resource estimation, exclusive Mineral Resource, Ore Reserve estimation and Inferred Mineral Resource in business plan. All Mineral Resources and Ore Reserves listed in this document are attributable unless otherwise stated.

The operational reviews include the following: Geology, Mineral Resource, exclusive Mineral Resource, Mineral Resource and Ore Reserve reconciliation, Mineral Resource and Ore Reserve by-products, Ore Reserves, grade tonnage information and competent persons.

This document, the Mineral Resource and Ore Reserve Report 2008, is a key component of the AngloGold Ashanti suite of 2008 annual reports produced to record the company's performance regarding its finances, operations, and sustainable development for the 12 months ended 31 December 2008. Other major documents in this suite of reports are the Annual Financial Statements 2008 and the Report to Society 2008, all of which together with the Country Reports are available on the corporate website, *www.anglogoldashanti.com*

The Annual Financial Statements 2008 contains a summary extract of AngloGold Ashanti's Mineral Resources and Ore Reserves.

of report

Scope

Report to Society 2008

Annual Financial Statements 2008

Mineral Resource and Ore

Reserve Report 2008

Country Reports 2008

Online Report 2008

Note:

Rounding of figures in this document may result in minor computational discrepancies.

Throughout this report, dollar or $ represents US dollar unless otherwise stated.

Mineral Resource and Ore Reserve Report 2008
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Contents

ANGLOGOLD ASHANTI - A LEADING GLOBAL PRODUCER OF GOLD

Headquartered in Johannesburg, South Africa, the company has 21 operations and a number of exploration programmes in both the established and new gold-producing regions of the world.

In 2008, AngloGold Ashanti produced 4.98 million ounces of gold from its operations – an estimated 7% of global production – making it the third largest producer in the world. The bulk of its production came from deep-level underground operations (41%) and surface operations (2%) in South Africa. Contributions from other countries were Ghana (11%), Mali (8%), Australia (9%), Brazil (8%), Tanzania (5%), USA (5%), Guinea (7%), Argentina (3%) and Namibia (1%). In South Africa, ramping up of production at Moab Khotsong continued and is expected to increase significantly in 2009, and to be at full production levels in 2012.

During 2008, AngloGold Ashanti's global exploration programme continued to gain momentum, either directly or in collaboration with exploration partnerships and joint ventures, in Colombia and the Democratic Republic of Congo (DRC), Australia, Russia, China and the Philippines.

As at 31 December 2008, AngloGold Ashanti employed 62,895 people, including contractors, had Proved and Probable Ore Reserves of 74.9 million ounces of gold and had incurred capital expenditure of $1,201 million for the year.

In response to an ever-changing socio-economic environment, AngloGold Ashanti has announced its intention to review its current structure and asset base. It remains a values-driven company and these values, the foremost of which is safety, and the group's business principles continue to guide the company, its managers and employees, and form the basis of the company's contract with all of its business – shareholders, employees, communities, business partners, governments and civil society organisations.

STOCK EXCHANGE INFORMATION

AngloGold Ashanti's primary stock exchange listing is on the JSE Limited (Johannesburg). It is also listed on the exchanges in New York, London, Australia and Ghana as well as on Euronext Paris and Euronext Brussels.

AngloGold Ashanti had 353,483,410 ordinary shares in issue and a market capitalisation of $9.8 billion as at 31 December 2008 (31 December 2007: $11.9 billion).

AngloGold Ashanti global operations and exploration: 2008
Cripple
Creek
& Victor
(CC&V)
USA
Brazil
Argentina
Navachab
Geita
Namibia
Tanzania
Republic of
South Africa
SA operations
Great Noligwa
Mponeng
Savuka
Kopanang
Tau Lekoa**
Moab Khotsong
TauTona
Mali
Guinea
Morila
Sadiola and Yatela
Siguiri
Obuasi
Iduapriem
Ghana
Sunrise Dam
Boddington*
Australia
Serra
Grande
Cerro Vanguardia
Brasil
Mineração
N
Operations
Greenfields exploration
and alliance areas
DRC
China
Russia
Philippines
Tropicana
Gramalote
La Colosa

Jinchanggou
Yili Yunlong
Mongbwalu
Anenskoye
Veduga
Aprelkovskoye
Sovromennie
Mapawa Area
Quebradona
Colombia
* sold early 2009
** sale transaction
announced

Mineral Resources and Ore Reserves are reported in accordance with the minimum standards described by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2004 Edition), and also conform to the standards set out in the South African Code for the Reporting of Mineral Resources and Mineral Reserves (SAMREC 2000 Code). Mineral Resources are inclusive of the Ore Reserve component unless otherwise stated.

MINERAL RESOURCES

The 2008 Mineral Resource increased by 40.5 million ounces before the subtraction of depletion. After a depletion of 7.2 million ounces, the net increase is 33.4 million ounces to give a total Mineral Resource of 241.0 million ounces. Mineral Resources were estimated at a gold price of $1,000/oz (2007: $700/oz). The increased gold price resulted in 13.3 million ounces being added to the Mineral Resource while successful exploration and revised modelling resulted in a further increase of 27.5 million ounces. The remaining loss of 0.3 million ounces is the result of various other reasons.

Mineral Resource		Million oz
Mineral Resource as at 31 December 2007		207.6
Reductions		
TauTona	Transfers to Mponeng	(1.9)
Great Noligwa	Transfer of SV4 to Moab Khotsong	(1.2)
Tau Lekoa	Significant structure and facies changes to the north of Tau Lekoa	(1.2)
Other	Total of non-significant changes	(1.4)
Additions		
La Colosa	Successful greenfields exploration	12.3
Mponeng	Granting of WUDL’s licence and transfers from TauTona	7.9
Moab Khotsong	Transfer of SV4 to Moab Khotsong	4.4
Obuasi	Exploration below 50 Level	3.9
Savuka	Improved economic outlook as a result of an increase in the gold price	1.8
Boddington	Growth in Mineral Resources: successful near-mine exploration drilling and higher gold price	1.6
Iduapriem	Due to increase in Mineral Resource gold price and remodelling of Block 7 & 8	

1.4
Cripple Creek & Victor
Successful exploration
1.2
Sadiola
Due to increase in Mineral Resource gold price, increase in deep sulphides project
1.2
Siguiri
Due to increase in Mineral Resource gold price and increases in the Mineral Resource at
Sintroko and Foulata
1.0
Other
Total of non-significant changes
2.4
Mineral Resource as at
31 December 2008
241.0
ORE RESERVES
The 2008 Ore Reserve increased by 7.7 million ounces before the subtraction of depletion. After a depletion of 5.9 million ounces, the net increase is 1.8 million ounces to give a total Ore Reserve of 74.9 million ounces. A gold price of $720/oz was used for Ore Reserve estimates (2007: $600/oz). The change in economic assumptions made from 2007 to 2008 resulted in the Ore Reserve increasing by 2.7 million ounces while exploration and modelling resulted in an additional increase of 5.0 million ounces.

Ore Reserve
Million oz
Ore Reserve as at
31 December 2007
73.1
Reductions
TauTona
Carbon Leader ground between 123-126 levels was transferred to Mponeng. With the change to scattered grid mining, lower value estimates resulting from increased sampling and drilling resulted in reductions. These were partially offset by a higher mine call factor and the inclusion the Carbon Leader eastern block.
(1.5)
Geita
Mineral Resource model changes and the application of grade factors to mitigate low model confidence; cost increases
(1.4)
Great Noligwa
Transfer of the SV4 section to Moab Khotsong
(1.3)
Other
Total of non-significant changes
(1.1)
Additions
Mponeng
Increased grades, the additional ground from TauTona 123-126 level and improved economics which allowed for the mining of Block 3 & 5
2.8
Obuasi
The increase is due to a revised mine design and schedule
1.3
Boddington
The growth in Ore Reserve is due to successful drilling and a higher gold price
1.1
Siguiri
The Seguelen NW and Sintroko deposits were upgraded from Inferred to Indicated and the mining efficiency increased
0.6
Other
Total of non-significant changes
1.3
Ore Reserve as at
31 December 2008
74.9

BY-PRODUCTS

Several by-products are recovered as a result of the processing of gold Ore Reserves.

These include 0.19 million tonnes of uranium from the South African operations, 0.29 million tonnes of copper from Australia, 0.44 million tonnes of sulphur from Brazil and 35.7 million ounces of silver from Argentina.

EXTERNAL AUDIT OF MINERAL RESOURCE AND ORE RESERVE STATEMENT

During the course of the year and as part of the rolling audit programme, the AngloGold Ashanti's 2008 Mineral Resources and Ore Reserves for the following operations were submitted for external audit:

- Mponeng
- TauTona
- Vaal River Surface Sources
- Iduapriem
- Navachab
- Sadiola
- Yatela

The company has been informed that the audit identified no material shortcomings in the process by which AngloGold Ashanti's Ore Reserves and Mineral Resources were evaluated. It is the company's intention to continue this process so that each of its operations will be audited every three years on average.

COMPETENT PERSONS

The information in this report that relates to Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by the competent person. These individuals are identified in the report. The competent person consent to the inclusion of Exploration Results, Mineral Resources and Ore Reserves information in this report, in the form and context in which it appears.

During the past decade, the company has developed and implemented a rigorous system of internal and external reviews of Exploration Results, Mineral Resources or Ore Reserves. A documented chain of responsibility exists from the competent person at the operations to the company's Mineral Resource and Ore Reserve Steering Committee. Accordingly, the Chairman of the Mineral Resource and Ore Reserve Steering Committee VA Chamberlain, MSc (Mining Engineering), BSc (Hons) (Geology), MAusIMM, assumes responsibility for the Mineral Resource and Ore Reserve processes for AngloGold Ashanti and is satisfied that the competent person have fulfilled their responsibilities.

Mineral Resource and Ore Reserve Report 2008

Mineral Resources by country (attributable) inclusive of Ore Reserves

as at 31 December 2008	Resource category	Tonnes million	Grade g/t	Contained gold tonnes	Contained gold Moz
South Africa	Measured	25.56	13.80	352.57	11.34
	Indicated	739.87	3.27	2,416.79	77.70
	Inferred	56.35	10.47	590.06	18.97
	Total	821.77	4.09	3,359.42	108.01
Argentina	Measured	11.01	1.73	19.04	0.61
	Indicated	22.00	3.48	76.49	2.46
	Inferred	4.97	4.11		

20.45
0.66
Total
37.99
3.05
115.98
3.73
Australia
Measured
101.25
1.19
120.77
3.88
Indicated
404.49
0.84
340.15
10.94
Inferred
154.79
0.89
138.43
4.45
Total
660.53
0.91
599.35
19.27
Brazil
Measured
11.11
7.01
77.80
2.50
Indicated
13.46
6.49
87.36
2.81
Inferred
28.51
6.76
192.59
6.19
Total
53.07
6.74
357.75
11.50
Colombia
Measured

–
–
–
–
Indicated
–
–
–
–
Inferred
409.77
1.01
415.45
13.36
Total
409.77
1.01
415.45
13.36
Democratic Republic
Measured
–
–
–
–
of Congo
Indicated
–
–
–
–
Inferred
29.25
2.69
78.53
2.52
Total
29.25
2.69
78.53
2.52
Ghana
Measured
94.21
5.21
490.68
15.78
Indicated
138.91
2.86
397.31

12.77
Inferred
100.10
4.25
425.27
13.67
Total
333.23
3.94
1,131.26
42.22
Guinea
Measured
33.53
0.63
21.25
0.68
Indicated
125.22
0.84
105.53
3.39
Inferred
64.08
0.90
57.85
1.86
Total
222.82
0.83
184.63
5.94
Mali
Measured
19.40
1.64
31.86
1.02
Indicated
26.39
2.48
65.32
2.10
Inferred
11.10
2.30
25.49
0.82
Total
56.89
2.16

122.68
3.94
Namibia
Measured
13.83
0.74
10.25
0.33
Indicated
61.94
1.26
78.05
2.51
Inferred
42.31
1.09
46.25
1.49
Total
118.08
1.14
134.55
4.33
Tanzania
Measured
–
–
–
–
Indicated
83.84
3.63
304.10
9.78
Inferred
25.12
3.81
95.77
3.08
Total
108.97
3.67
399.87
12.86
United States
Measured
255.90
0.87
223.31
7.18
Indicated

183.75
0.73
134.97
4.34
Inferred
83.61
0.66
55.60
1.79
Total
523.26
0.79
413.88
13.31
Total
Measured
565.80
2.38
1,347.53
43.32
Indicated
1,799.87
2.23
4,006.08
128.80
Inferred
1,009.96
2.12
2,141.75
68.86
Total
3,375.63
2.22
7,495.36
240.98

Mineral Resource and Ore Reserve Report 2008
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Mineral Resources
and Ore Reserves *cont.*
Mineral Resources by country (attributable) exclusive of Ore Reserves
Contained
Contained
as at 31 December 2008
Resource
Tonnes
Grade
gold
gold
category
million
g/t
tonnes
Moz
South Africa
Measured
14.62
14.08
205.80
6.62
Indicated
556.66
2.70
1,504.17
48.36
Inferred
56.35
10.47
590.06
18.97
Total
627.63
3.66
2,300.04
73.95
Argentina
Measured
–
–
–
–
Indicated
–
–
–
–
Inferred

–
–
–
–
Total
–
–
–
–
Australia
Measured
34.85
1.38
48.22
1.55
Indicated
189.99
0.78
147.58
4.74
Inferred
154.79
0.89
138.43
4.45
Total
379.63
0.88
334.22
10.75
Brazil
Measured
3.20
6.63
21.20
0.68
Indicated
6.63
6.29
41.74
1.34
Inferred
27.49
6.81
187.13
6.02
Total
37.32
6.70
250.06
8.04

Colombia
Measured
–
–
–
–
Indicated
–
–
–
–
Inferred
409.77
1.01
415.45
13.36
Total
409.77
1.01
415.45
13.36
Democratic Republic
Measured
–
–
–
–
of Congo
Indicated
–
–
–
–
Inferred
29.25
2.69
78.53
2.52
Total
29.25
2.69
78.53
2.52
Ghana
Measured
33.32
6.42
241.08
6.88
Indicated
73.90

2.48
183.06
5.89
Inferred
56.46
3.75
211.95
6.81
Total
163.69
3.72
609.09
19.58
Guinea
Measured
5.57
0.70
3.91
0.13
Indicated
37.13
0.79
29.51
0.95
Inferred
64.36
0.91
58.49
1.88
Total
107.06
0.86
91.91
2.95
Mali
Measured
4.34
0.81
3.50
0.11
Indicated
21.42
2.37
50.75
1.63
Inferred
11.10
2.30
25.49
0.82
Total

36.87
2.16
79.74
2.56
Namibia
Measured
6.63
0.56
3.71
0.12
Indicated
34.36
1.18
40.61
1.31
Inferred
42.31
1.09
46.25
1.49
Total
83.30
1.09
90.58
2.91
Tanzania
Measured
–
–
–
–
Indicated
35.95
3.32
119.38
3.84
Inferred
25.12
3.81
95.77
3.08
Total
61.07
3.52
215.15
6.92
United States
Measured
143.33
0.83
118.71

3.82
Indicated
128.04
0.67
86.38
2.78
Inferred
83.61
0.66
55.60
1.79
Total
354.99
0.73
260.69
8.38
Total
Measured
245.87
2.52
619.12
19.91
Indicated
1,084.10
2.03
2,203.18
70.83
Inferred
960.61
1.98
1,903.16
61.19
Total
2,290.58
2.06
4,725.46
151.93

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Ore Reserves by country (attributable)
Contained
Contained
as at 31 December 2008
Tonnes
Grade
gold
gold
Category
million
g/t
tonnes
Moz
South Africa
Proved
13.72
7.81
107.13
3.44
Probable
215.10
4.37
939.79
30.21
Total
228.82
4.58
1,046.92
33.66
Argentina
Proved
9.99
1.39
13.90
0.45
Probable
12.29
3.52
43.24
1.39
Total
22.27
2.56
57.13
1.84
Australia
Proved
67.82
1.10

74.54
2.40
Probable
214.50
0.90
192.57
6.19
Total
282.33
0.95
267.11
8.59
Brazil
Proved
7.77
6.44
50.06
1.61
Probable
7.02
5.82
40.87
1.31
Total
14.79
6.15
90.93
2.92
Ghana
Proved
56.85
4.24
240.89
7.74
Probable
36.43
3.82
139.10
4.47
Total
93.28
4.07
379.98
12.22
Guinea
Proved
56.13
0.56
31.48
1.01
Probable

67.11
1.04
69.64
2.24
Total
123.24
0.82
101.12
3.25
Mali
Proved
9.29
1.87
17.33
0.56
Probable
6.65
2.26
15.02
0.48
Total
15.94
2.03
32.35
1.04
Namibia
Proved
7.21
0.89
6.39
0.21
Probable
27.58
1.28
35.19
1.13
Total
34.78
1.20
41.58
1.34
Tanzania
Proved
–
–
–
–
Probable
54.30
2.93
159.06

5.11
Total
54.30
2.93
159.06
5.11
United States
Proved
122.57
0.93
104.60
3.36
Probable
55.70
0.87
48.59
1.56
Total
168.27
0.91
153.19
4.93
Total
Proved
341.35
1.89
646.31
20.78
Probable
696.67
2.42
1,683.07
54.11
Total
1,038.02
2.24
2,329.38
74.89

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and Ore Reserves - by operation
Mineral Resources

Regional overview

South Africa

The South African operations comprise seven underground mines located in two geographical regions on the Witwatersrand Basin called the Vaal River and West Wits operations.

The Vaal River operations consist of the Great Noligwa, Kopanang, Moab Khotsong and Tau Lekoa mines. The primary reefs mined in this region are the Vaal Reef (VR) and the Ventersdorp Contact Reef (VCR) and the secondary reef mined is the Crystalkop Reef (C Reef).

The West Wits operations are made up of Mponeng, Savuka and TauTona, which are situated near the town of Carletonville. The primary reefs mined are the Carbon Leader Reef (CLR) and the VCR.

All seven operations are 100% owned by AngloGold Ashanti. In addition, the Vaal River Surface and West Wits Surface operations mine the waste rock dumps and tailings dams which result from the mining and processing of the primary and secondary reef horizons.

The South African operations are all located in the rocks of the famous Witwatersrand Basin, which is regarded as the greatest gold-bearing repository on Earth.

GEOLOGY OF THE WITWATERSRAND BASIN

The Witwatersrand Supergroup (deposited in area often described as the Witwatersrand Basin) comprises a six-kilometre thick sequence of predominantly argillaceous and arenaceous sediments that extend laterally for some 300 kilometres north-east/south-west and 100 kilometres north-west/south-east on the Kaapvaal Craton. The upper portion of the sequence contains the laterally extensive, gold-bearing quartz pebble conglomerate horizons (commonly referred to as “reefs”).

Further west, south and east the basin is overlain by up to four kilometres of Archaean, Proterozoic and Mesozoic volcanic and sedimentary rocks. The Witwatersrand Basin is late Archaean in age and is considered to be around 2.7 to 2.8 billion years old.

Free State
North West
West Wits operations
Savuka
TauTona
Mponeng
Vaal River operations
Great Noligwa
Kopanang
Tau Lekoa
Klerksdorp
Carletonville
Pretoria
Johannesburg
Durban
Port Elizabeth
East London
Bloemfontein
Cape Town
SOUTH AFRICA
0
400km
Operations
N
Moab Khotsong

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The reefs, which are generally less than two metres thick, are widely considered to represent laterally extensive braided fluvial deposits. Separate fan systems were developed at different entry points and these are preserved as distinct goldfields with local geological variations. AngloGold Ashanti operates in two of these goldfields, known as the Carletonville (West Wits) and Klerksdorp (Vaal River) goldfields.
There is still much debate about the origin of the gold mineralisation in the Witwatersrand Basin. Gold was generally considered to have been deposited syngenetically with the conglomerates, but increasingly an epigenetic theory of origin is being supported. Nonetheless, the most fundamental determinant of gold distribution in the basin remains the sedimentary features, such as facies variations and channel directions.
Gold generally occurs in native form often associated with pyrite and carbon, with quartz being the main gangue mineral.

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

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)
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			
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

	For the Year Ended December 31,		
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.

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(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

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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.

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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**	**Less Than 1 Year**	**1-3 Years**	**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
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

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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

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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.

Long-Term Compensation Awards

Name Principal Position	Year	Annual Compensation(1) 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.

Potential Realizable Value at Assumed

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.

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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

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- 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

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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**

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*

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EXHIBIT INDEX

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.

EXHIBIT NO.	DESCRIPTION
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.
10.2	Precis, Inc. 2002 Non-Employee Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002.
10.3	Precis, Inc. 2002 IMR Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002.
10.1	The Agreement and Plan of Merger, dated March 21, 2000, amongst Registrant, Precis-Foresight Acquisition, Inc., Foresight, Inc., Paul A. Kruger and Mark R. Kidd, incorporated by reference to the Schedule 14A filed with the Commission on October 13, 2000.
10.2	The First Amendment to Agreement and Plan of Merger, dated June 22, 2000, amongst Registrant, Precis-Foresight Acquisition, Inc., Foresight, Inc., Paul A. Kruger and Mark R. Kidd, incorporated by reference to the Schedule 14A filed with the Commission on October 13, 2000.
10.3	The Second Amendment to Agreement and Plan of Merger, dated August 23, 2000, amongst Registrant, Precis-Foresight Acquisition, Inc., Foresight, Inc., Paul A. Kruger and Mark R. Kidd, incorporated by reference to the Schedule 14A filed with the Commission on October 13, 2000.
10.4	Form of Indemnity and Contribution Agreement between Registrant and each of its executive officers and directors, incorporated by reference to Exhibit 10.10 of Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2003.

10.5	The Commercial Lease Agreement, dated November 8, 2001, between The Capella Group, Inc. and Assem Family Limited Partnership (Appendices and Exhibits will be provided Registrant upon request), incorporated by reference to the Schedule 14A filed with the Commission on June 6, 2002.
10.6	Employment Agreements dated August 1, 2003 between registrant and Judith Henkels, Dino Eliopoulos, and Bobby Rhodes, incorporated by reference to Exhibits 10.2, 10.3, and 10.4 at registrant's Form 10-Q filed with the Commission on November 13, 2003.
23.1	Consent of Independent Accountants Murrell, Hall, McIntosh & Company, PLLP.
23.2	Consent of Independent Accountants BDO Seidman.
31.1	Rule 13a-14(a) Certification of Judith H. Henkels as Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Dino Eliopoulos as Chief Financial Officer.
32.1	Section 1350 Certification of Judith H. Henkels as Chief Executive Officer.

32.2 Section 1350 Certification of Dino Eliopoulos as Chief Financial Officer.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRECIS, INC.
(Registrant)

By: /s/ JUDITH H. HENKELS

Judith H. Henkels
Chief Executive Officer

Date: March 30, 2004

By: /s/ DINO ELIOPOULOS

Dino Eliopoulos
Chief Financial Officer

Date: March 30, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JUDITH H. HENKELS Judith H. Henkels	Chief Executive Officer and President	March 30, 2004
/s/ EUGENE E. BECKER Eugene E. Becker	Director	March 30, 2004
/s/ J. FRENCH HILL J. French Hill	Director	March 30, 2004
/s/ DINO ELIOPOULOS Dino Eliopoulos	Director	March 30, 2004
/s/ KENT H. WEBB Kent H. Webb	Director	March 30, 2004
/s/ NICHOLAS J. ZAFFIRIS Nicholas J. Zaffiris	Director	March 30, 2004
/s/ KENNETH S. GEORGE	Director	March 30, 2004

Signature	Title	Date
Kenneth S. George		

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders
of Precis, Inc.

We have audited the accompanying consolidated balance sheet of Precis, Inc. (an Oklahoma Corporation) and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2003. We have also audited the schedule listed in Item 15(a)(2) of this Form 10-K. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Precis, Inc. and subsidiaries as of December 31, 2003, and the consolidated results of their operations, and cash flows for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

Dallas, Texas
January 30, 2004

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders
of Precis, Inc.

We have audited the accompanying consolidated balance sheet of Precis, Inc. (an Oklahoma Corporation) and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Precis, Inc. and subsidiaries as of December 31, 2002, and the consolidated results of their operations, and cash flows for the years ended December 31, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ MURRELL, HALL, MCINTOSH & CO., PLLP

Norman, Oklahoma
January 31, 2003

PRECIS, INC.
CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS		
Current assets:		
Cash-in-trust	$ 2,768,447	$ 108,152
Cash and cash equivalents	11,087,920	5,611,803
Accounts receivable, net	620,026	1,602,368
Income taxes receivable	120,642	1,095,887
Notes receivable	467,904	200,835
Inventory	175,735	236,549
Prepaid expenses	377,015	325,701
Other current assets		25,000
Total current assets	15,617,689	9,206,295
Fixed assets, net	3,324,410	3,913,382
Goodwill	21,077,284	21,077,284
Deferred tax asset	760,681	827,900
Other assets	33,600	30,825
Total assets	$ 40,813,664	$ 35,055,686

	2003	2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 387,824	$ 136,898
Accrued liabilities	1,848,407	1,872,245
Income taxes payable	236,022	69,437
Members' liabilities	2,768,447	108,152
Deferred fees	171,156	738,314
Current portion of capital leases	1,387,010	1,304,140
Total current liabilities	6,798,866	4,229,186
Capital lease obligations, net of current portion	275,422	1,259,228
Deferred income taxes	137,272	85,600
Total liabilities	7,211,560	5,574,014
Stockholders' equity:		
Preferred stock, $1 par value, 2,000,000 shares authorized; 0 shares issued and outstanding (0 shares issued and outstanding as of December 31, 2002)		
Common stock, $.01 par value, 100,000,000 shares authorized; 11,872,147 issued and outstanding (11,851,547 issued as of December 31, 2002)	118,722	118,516
Additional paid-in capital	25,820,895	25,789,995
Accumulated earnings	7,662,487	3,573,161
Total stockholders' equity	33,602,104	29,481,672
Total liabilities and stockholders' equity	$ 40,813,664	$ 35,055,686

See Accompanying Notes to Consolidated Financial Statements

PRECIS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 and 2001

	2003	2002	2001
Product and service revenues	$ 42,087,671	$ 43,115,666	$ 21,056,164
Operating expenses:			
Cost of operations	13,125,851	11,543,406	7,399,283
Sales and marketing	15,572,188	17,059,248	7,164,323
General and administrative	6,739,271	6,095,360	3,218,261

	2003	2002	2001
Total operating expenses	35,437,310	34,698,014	17,781,867
Operating income	6,650,361	8,417,652	3,274,297
Other expense:			
Interest expense (income)	149,969	64,437	(81,278)
Amortization of goodwill			578,651
Total other expense	149,969	64,437	497,373
Net earnings before taxes	6,500,392	8,353,215	2,776,924
Provision for income taxes	2,411,066	2,874,852	175,846
Net earnings	4,089,326	5,478,363	2,601,078
Preferred stock dividends		14,137	236,000
Net earnings applicable to common stockholders	$ 4,089,326	$ 5,464,226	$ 2,365,078
Earnings per share:			
Basic	$ 0.35	$ 0.46	$ 0.30
Diluted	$ 0.34	$ 0.46	$ 0.29
Weighted average number of common shares outstanding:			
Basic	11,848,789	11,790,650	8,000,042
Diluted	11,924,214	11,996,222	8,051,607

See Accompanying Notes to Consolidated Financial Statements

PRECIS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

PREFERRED STOCK		COMMON STOCK			
SHARES	AMOUNT	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED EARNINGS (DEFICIT)

	PREFERRED STOCK		COMMON STOCK			
Balance, December 31, 2000		$ 2,000,000		$ 28,500	$ 9,103,274	$ (4,256,143)
Issuance of stock in business combinations	166,667		8,827,287 2,850,000	88,273	16,065,663	
Stock options exercised			19,000	190	12,360	
Redemption of preferred stock	(83,334)	(1,000,000)				
Preferred stock dividends						(236,000)
Net earnings						2,601,078
Balance, December 31, 2001	83,333	1,000,000	11,696,287	116,963	$ 25,181,297	$ (1,891,065)
Stock options and warrants exercised			155,260	1553	608,698	
Redemption of preferred stock	(83,333)	(1,000,000)				
Preferred stock dividends						(14,137)
Net earnings						5,478,363
Balance, December 31, 2002			11,851,547	$ 118,516	$ 25,789,995	$ 3,573,161
Stock option and warrants exercised			20,600	206	30,900	
Net earnings						4,089,326
Balance, December 31, 2003		$	11,872,147	$ 118,722	$ 25,820,895	$ 7,662,487

See Accompanying Notes to Consolidated Financial Statements

PRECIS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
Operating activities:			
Net earnings	$ 4,089,326	$ 5,478,363	$ 2,601,078
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	2,061,910	940,116	235,163
Change in allowance for doubtful accounts	(204,786)		
Amortization of goodwill			578,651
Deferred income taxes	118,891	(7,000)	(735,300)
Changes in assets and liabilities:			
Accounts receivable, net	1,187,128	(686,402)	(198,296)
Income taxes receivable	975,245	(15,645)	(98,006)
Notes receivable	(267,069)	(200,835)	
Inventory	60,814	(62,515)	(107,703)
Prepaid expenses	(51,314)	(179,474)	(95,233)
Other current assets	25,000	(25,000)	
Other assets	(2,775)	115,419	21,191
Accounts payable	250,926	(194,432)	(15,634)
Accrued liabilities	(23,838)	(203,074)	80,803
Deferred fees	(567,158)	(83,762)	
Income taxes payable	166,585	(886,213)	812,782
Net cash provided by operating activities	7,818,885	3,989,546	3,079,496

	2003	2002	2001
Investing activities:			
Cash acquired in business combination, net of acquisition costs			(1,233,141)
Purchase of fixed assets	(945,344)	(920,408)	(469,471)
Net cash used in investing activities	(945,344)	(920,408)	(1,702,612)
Financing activities:			
Issuance (payments) of capital leases	(1,428,530)	(809,091)	57,385
Redemption of preferred stock		(1,000,000)	(1,000,000)
Repayments on short-term debt			(1,000,000)
Payment of preferred stock dividends		(14,137)	(220,000)
Exercise of stock options and warrants	31,106	610,251	
Net cash used in financing activities	(1,397,424)	(1,212,977)	(2,162,615)
Net increase (decrease) in cash and cash equivalents	5,476,117	1,856,161	(785,731)
Cash and cash equivalents at beginning of year	5,611,803	3,755,642	4,541,373
Cash and cash equivalents at end of year	$ 11,087,920	$ 5,611,803	$ 3,755,642
Supplemental disclosure:			
Income taxes paid	$ 2,277,005	$ 2,852,252	$ 175,846
Interest paid	$ 149,969	$ 63,416	$ 61,518
Non-cash investing and financing activities:			
Business combination purchase price adjustment due to income tax benefit on stock issuance		$ 982,236	$
Acquisition of fixed assets through issuance of capital leases, net of retirements	$ (504,152)	$ 2,760,638	$ 236,159
Issuance of stock in business combination	$	$	$ 16,153,936
Issuance of note payable in business combination	$	$	$ 1,000,000
Cash-in-trust collected	$ 2,768,447	$ 108,152	$

See Accompanying Notes to Consolidated Financial Statements

PRECIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Business

Precis, Inc. (the "Company") is a provider of innovative healthcare and other membership service programs. The Company offers 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 . The Company also addresses the needs of organizations seeking to leverage the expertise of an outside provider in offering membership service programs. Membership service programs offer selected products and services from a variety of vendors intended to enhance the existing relationships between businesses and consumers.

Note 2 Summary of Significant Accounting Policies

BASIS OF PRESENTATION The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company's wholly-owned subsidiaries, The Capella Group, Inc., Foresight, Inc. and Care Financial, LLC (formerly Smart Care Insurance Agency LLC). All significant inter-company accounts and transactions have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current presentation of the financial statements.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

Healthcare Membership Revenues. The Company recognizes 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.

Membership and Independent Marketing Representatives Enrollment Fees. Member enrollment, 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 the Company's products and services have been delivered to its clients. The Company sells rental purchase and club membership programs on a wholesale basis to its clients. The wholesale client remits a portion of the rental purchase and club membership revenues to the Company and retains the balance as compensation for having made the sale. The Company provides an allowance for those accounts which are considered to be uncollectible.

COMMISSION EXPENSE Commissions are paid to the Company's independent marketing representatives in the month following the month in which a member has enrolled in the Care Entrée program. Commissions are only paid in the following month when the related membership fees have been received by the Company. The Company does not pay advanced commissions on membership sales.

CASH-IN-TRUST Cash-in-trust consists of cash held on behalf of members who have escrowed funds with the Company. These funds are owned by the members and are presented in the Company's balance sheet as an asset under the description "cash-in-trust" and as a liability under the description "members' liabilities". These two balance sheet accounts offset one another.

CASH AND CASH EQUIVALENTS Cash and cash equivalents consist primarily of cash on deposit or cash investments purchased with original maturities of three months or less.

TRADE ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE Accounts receivable and notes receivable are each recorded at the lower of cost and fair value. A provision for uncollectible accounts and notes receivable are reviewed and estimated on a periodic basis.

The Company reviews accounts receivable and notes receivable on a monthly basis to determine if any receivables will potentially be uncollectible. The Company includes any accounts receivable and notes receivable balances that are determined to be uncollectible, along with a general reserve, in our overall allowance for doubtful accounts and notes receivable. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to the Company, the Company believes both its allowance for doubtful accounts and notes receivable as of December 31, 2003 are adequate. However, actual write-offs might exceed the recorded allowance.

As of December 31, 2003, the Company's allowance for doubtful accounts was $204,786 (2002 $0).

FIXED ASSETS Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and principally on accelerated methods for tax purposes. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Ordinary maintenance and repairs are charged to expense as incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized. The estimated useful lives of property and equipment are as follows:

Furniture and Fixtures	7 years
Leasehold Improvements	Over the term of the lease
Computers and Office Equipment	3-5 years
Automobiles	5 years

The Company periodically reviews property and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. When any such impairment exists, the related assets will be written down to their fair value.

The Company capitalizes both internal and external costs of developing or obtaining computer software for internal use. Costs incurred to develop internal-use software during the application development stage are capitalized, while data conversion, training and maintenance costs associated with internal-use software are expensed as incurred. As of December 31, 2003 and 2002, the net book value of capitalized software costs was $661,655 and $234,144, respectively. Amortization expense related to capitalized software was $143,038, $28,489, and $0 in fiscal years 2003, 2002 and 2001, respectively.

GOODWILL Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized, but it is reviewed on an annual basis in order to determine if impairment exists. As of December 31, 2003, no impairment has been indicated. During the year ended December 31, 2002, the Company's goodwill was decreased to reflect the recognition of an income tax benefit of $982,236 which relates to the Company's 2001 merger-acquisition of The Capella Group, Inc. During the year ended December 31, 2001 the Company's goodwill was increased by $822,076 to adjust for deferred fees pertaining to the merger-acquisition of The Capella Group, Inc.

INCOME TAXES Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

NET EARNINGS PER SHARE Basic net earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding for the year without consideration for common stock equivalents. Diluted net earnings per share gives effect to all dilutive potential common shares outstanding for the year.

CONCENTRATION OF CREDIT RISK The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

The Company's customers are not concentrated in any specific geographic region or industry. No single customer accounted for a significant amount of the Company's sales and there were no significant accounts receivable from a single customer. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

FAIR VALUE OF FINANCIAL INSTRUMENTS The recorded amounts of cash, short-term investments, accounts receivable, income taxes receivable, notes receivable, accounts payable, accrued liabilities, income taxes payable approximate fair value because of the short-term maturity of these items.

STOCK-BASED COMPENSATION The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees ("APB25") and its related interpretations in accounting for its plan. Compensation for services that a corporation receives under APB 25 through stock-based compensation plans should be measured by the quoted market price of the stock at the measurement date less the amount, if any, that the individual is required to pay. No compensation expense was recorded during the years ended December 31, 2003, 2002 and 2001 related to its stock option plans under APB 25. If the Company had elected to recognize compensation based on the fair value of the options granted at the grant date as prescribed by "Statement of Financial Accounting Standards No. 123, ("SFAS 123") Accounting for Stock-Based Compensation", net earnings and net

earnings per share would have decreased the pro forma amounts shown below for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Net earnings applicable to common stockholders	$ 4,089,326	$ 5,464,226	$ 2,365,078
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(226,393)	(334,078)	
Pro forma net earnings	$ 3,862,933	$ 5,130,148	$ 2,365,078

	2003	2002	2001
Earnings per share:			
Basic as reported	$ 0.35	$ 0.46	$ 0.30
Basic pro forma	$ 0.33	$ 0.43	$ 0.30
Diluted as reported	$ 0.34	$ 0.46	$ 0.29
Diluted pro forma	$ 0.32	$ 0.43	$ 0.29

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: weighted average risk free interest rate of 4.90%; no dividend yield; volatility of 40%; and expected life less than five years. The fair values of the options were based on the difference between the present value of the exercise price of the option and the estimated fair value price of the common share.

The intent of the Black-Scholes option valuation model is to provide estimates of fair values of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the use of highly subjective assumptions including expected stock price volatility. The Company has utilized the Black-Scholes method to produce the pro forma disclosures required under SFAS 123. In management's opinion, existing valuation models do not necessarily provide a reliable single measure of the fair value of its employee stock options because the Company's employee stock options have significantly different characteristics from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate. The effects of applying SFAS 123 in this pro forma are not indicative of future amounts.

Note 3 Business Combination

On June 8, 2001, the Company acquired The Capella Group, Inc. ("Capella") for $2,271,609 in cash, $1,000,000 in notes payable and 2,775,000 shares of common stock with an approximate market value of $5,078,250 as of the closing date. In addition, the Company 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. Capella is a provider of innovative consumer healthcare savings membership programs. The acquisition was accounted for as a purchase, with the purchase price allocated to the assets acquired and liabilities assumed based upon their respective estimated fair values at the date of acquisition. The results of Capella's operations are included in the consolidated financial statements from the date of acquisition.

The following unaudited pro forma results of operations for 2001 have been prepared assuming the Capella acquisition had occurred as of January 1, 2001. The pro forma results are positively impacted by the weighted-average number of shares outstanding as of December 31, 2001 and 2000 which amounted to 8,000,042 and 2,296,000, respectively.

These pro forma results are not necessarily indicative of the results of future operations or of results that would have occurred had the acquisition been consummated as of that date (in rounded thousands, except per share data).

		2001
Revenues	$	27,998,000
Net earnings	$	3,963,000
Basic earnings per share	$	0.66
Diluted earnings per share	$	0.65

Note 4 Notes Receivable

During 2002 and 2003, the Company entered into several notes receivable with certain private label clients. The notes receivable earn an annual rate of interest, based on the prime lending rate plus 100 basis points, as adjusted on a quarterly basis and are estimated to be repaid by the latter part of 2004.

Note 5 Fixed Assets

Fixed assets are comprised of the following at December 31,

		2003		2002
Furniture and fixtures	$	329,660	$	314,130
Leasehold improvements		193,530		207,302
Computer and office equipment		5,446,645		5,119,628
Automobiles		120,805		50,725
		6,090,640		5,691,785
Accumulated depreciation and amortization		(2,766,230)		(1,778,403)
Fixed assets, net	$	3,324,410	$	3,913,382

Note 6 Goodwill

The change in the carrying amount of the Company's goodwill for the year ended December 31, 2003 is as follows:

Goodwill, balance as of January 1, 2003	$	21,077,284
Goodwill, acquired during the year		
Goodwill, balance as of December 31, 2003	$	21,077,284

The Company performs the required impairment tests of goodwill on an annual basis, and has determined that there are no impairment charges that impact the Company's goodwill, and therefore its net earnings and financial position for the year ended December 31, 2003. The Company may incur impairment charges for goodwill in the future, which could adversely impact its net earnings and financial position.

As a result of the Company's adoption of "Statement of Financial Accounting Standards No. 142 ("SFAS 142") Goodwill and Other Intangible Assets", net earnings and earnings per share for the years ended December 31, 2003, 2002 and 2001 related to the Company's goodwill that is no longer being amortized (including any related income tax effects) are as follows:

For the years ended December 31,

	2003	2002	2001
Reported net earnings applicable to common shareholders	$ 4,089,326	$ 5,464,226	$ 2,365,078
Addback: Goodwill amortization applicable to common shareholders			376,124
Adjusted net earnings applicable to common shareholders	$ 4,089,326	$ 5,464,226	$ 2,741,202
Basic earnings per share applicable to common shareholders			
Reported basic net earnings per share applicable to common shareholders	$ 0.35	$ 0.46	$ 0.30
Addback: Goodwill amortization per share applicable to common shareholders			0.05
Adjusted basic net earnings per share applicable to common shareholders	$ 0.35	$ 0.46	$ 0.35
Diluted earnings per share applicable to common shareholders			
Reported diluted net earnings per share applicable to common shareholders	$ 0.34	$ 0.46	$ 0.29
Addback: Goodwill amortization per share applicable to common shareholders			0.05
Adjusted diluted net earnings per share applicable to common shareholders	$ 0.34	$ 0.46	$ 0.34

Note 7 Capital Leases

The Company has several capital leases for office equipment with a net book value of $1,747,683 and $2,753,442 as of December 31, 2003 and 2002, respectively. These lease purchases have been capitalized at the present value of fair market value using an interest rate of 8.5% to 9.5% and are being depreciated over their estimated useful lives. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net lease payments as of December 31, 2003:

2004	$ 1,602,707
2005	301,566
2006	12,578
2007	
2008	
Thereafter	
Total minimum lease payments	$ 1,916,851
Less: Amount representing executory costs	(164,286)
Less: Amount representing interest	(90,133)
Present value of minimum lease payments	$ 1,662,432

Note 8 Stockholders' Equity

Pursuant to its Certificate of Incorporation, the Company is authorized to issue up to 102,000,000 shares of capital stock, consisting of 100,000,000 shares of Common Stock, $0.01 par value per share (the "Common Stock"), and 2,000,000 shares of preferred stock, $1.00 par value per share (the "Preferred Stock").

Common Stock During 2001, in conjunction with the merger-acquisitions of Capella and Foresight, the Company issued 8,827,287 shares of common stock valued at $16,153,936. During 2000, in conjunction with the merger-acquisition of Foresight, the Company issued 500,000 shares of common stock valued at $742,200.

Preferred Stock In conjunction with the merger-acquisition of Foresight, the Company issued 166,667 shares of preferred stock with a face value of $2,000,000. During the years ended December 31, 2002 and 2001, the Company redeemed 83,334 and 83,333, respectively, shares of preferred stock for $1,000,000 in each year.

Note 9 Common Stock Options

As of December 31, 2003, the Company has three stock-based compensation plans as described below.

In November 1999, our Board of Directors restated and adopted our 1999 Stock Option Plan with an effective date of November 30, 1999. The Company has reserved 700,000 shares of our common stock for issuance upon the exercise of options granted under this plan. Under the 1999 Stock Option Plan, the Board can determine the date on which options can vest and become exercisable as well as the term of the options granted.

In July 2002, our shareholders adopted our 2002 Non Employee Stock Option Plan with an effective date of July 29, 2002. The Company has reserved 500,000 shares of our common stock for issuance upon the exercise of options granted under this plan. Under the 2002 Non Employee Stock Option Plan, the Board can determine the date on which options can vest and become exercisable as well as the term of the options granted. As of December 31, 2003, the number of shares remaining available for future issuance under the 2002 Non Employee Stock Option Plan is 286,000.

In July 2002, our shareholders adopted our 2002 IMR Stock Option Plan with an effective date of July 29 2002. The Company has reserved 500,000 shares of our common stock for issuance upon the exercise of options granted under this plan. Under the 2002 IMR Stock Option Plan, the Board can determine the date on which options can vest and become exercisable as well as the term of the options granted. On January 29, 2003, the Board approved a motion effective June 1, 2003 for the discontinuance of any further stock option grants under the 2002 IMR Stock Option Plan. As of December 31, 2003, the number of shares remaining available for future issuance under the 2002 IMR Stock Option Plan is 383,646.

On June 29, 2003, the Company's shareholders approved an amendment to increase the number of shares reserved under our 1999 Stock Option Plan from 700,000 to 1,400,000 shares of common stock for issuance upon the exercise of options under this plan. Under the 1999 Stock Option Plan, the Board can determine the date on which options can vest and become exercisable as well as the term of the option granted. As of December 31, 2003, the number of shares remaining available for future issuance under the 1999 Stock Option Plan is 984,750.

Information with respect to stock options and warrants outstanding to certain employees, directors and service providers are as follows:

	2003	
	Shares	**Weighted Average Exercise Price**
Outstanding at beginning of year	768,073	$ 6.84
Granted	479,000	$ 4.49
Exercised	(20,600)	$ 3.83
Forfeited	(235,459)	$ 6.84

	2003	
Outstanding at end of year	991,014	$ 5.73

	Options Outstanding			Options Exercisable	
	Shares Outstanding At 12/31/03	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares Outstanding 12/31/03	Weighted Average Exercise Price
$1.00 to $3.00	85,066	5.7	$ 2.07	85,066	$ 2.07
$3.00 to $5.00	343,050	4.0	$ 3.99	136,925	$ 3.70
$5.00 to $7.00	224,660	4.7	$ 5.26	131,410	$ 5.24
$7.00 to $8.00	100,000	3.6	$ 7.65	100,000	$ 7.65
$8.00 to $9.00	23,738	8.2	$ 8.51	23,738	$ 8.51
$9.00 to $10.00	214,500	3.2	$ 9.39	190,875	$ 9.38
	991,014	4.1	$ 5.73	668,014	$ 6.18

The weighted average fair value stock price of stock options granted for the year ended December 31, 2003 was $1.88.

During the year ended December 31, 2003, 102,000 stock options were granted to the Company's directors. These stock options had a weighted average exercise price of $4.94 and are immediately exercisable. The total stock options granted to Directors as of December 31, 2003 was 266,000 with a weighted average exercise price of $5.52. The Company's directors did not exercise and/or forfeit any stock options for the year ended December 31, 2003. The life of the stock options granted to directors is generally 5 years.

	2002	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	530,397	$ 5.76
Granted at market value	488,788	$ 8.02
Exercised	(124,612)	$ 5.44
Forfeited	(126,500)	$ 8.25
Outstanding at end of year	768,073	$ 6.84

	Options Outstanding			Options Exercisable	
	Shares Outstanding At 12/31/02	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares Outstanding 12/31/02	Weighted Average Exercise Price
$1.00 to $2.00	30,000	3.0	$ 1.25	30,000	$ 1.25
$3.00 to $4.00	189,175	3.7	$ 3.60	37,840	$ 3.58
$5.00 to $6.00	93,160	3.3	$ 5.18	93,160	$ 3.60
$7.00 to $8.00	125,000	3.3	$ 7.65	100,000	$ 7.65
$8.00 to $9.00	23,738	4.0	$ 8.51	23,738	$ 8.51
$9.00 to $10.00	307,000	2.7	$ 9.45	150,000	$ 9.34

	Options Outstanding				Options Exercisable		
	768,073	3.2	$	6.85	434,738	$	6.62

The weighted average fair value stock price of stock options granted for the year ended December 31, 2002 was $3.27.

During the year ended December 31, 2002, 112,000 stock options were granted to the Company's directors. These stock options had a weighted average exercise price of $7.37 and are immediately exercisable. The total stock options granted to Directors as of December 31, 2002 was 164,000 with a weighted average exercise price of $5.88. The Company's directors did not exercise and/or forfeit any stock options for the year ended December 31, 2002. The life of the stock options granted to directors is generally 5 years.

In connection with the Company's initial public offering, the Company agreed to sell to the underwriter warrants exercisable for the purchase of 100,000 shares of common stock for $9.00 per share during a five-year period. The holders of these warrants will have the right through February 10, 2007, to include such warrants and the shares of common stock issuable upon their exercise in any registration statement or amendment to a registration statement of the Company at no expense to such holders. As of December 31, 2003, 16,500 of these warrants had been exercised at a per share price of $9.00.

In November 2000, 200,000 stock options were provided to the Company's underwriter exercisable for the purchase of 200,000 shares of common stock for $9.37 per share. 17,000 of these stock options were exercised during 2003 before their expiration on June 30, 2003. Those options have been included in the above table.

Note 10 Income Taxes

The income tax provision for the years ended December 31, 2003, 2002 and 2001 consists of:

	2003	2002	2001
Current provision	$ 2,292,125	$ 2,881,852	$ 911,146
Deferred provision	118,891	(7,000)	519,700
Change in beginning of the year valuation allowance			(1,255,000)
Provision for income taxes	$ 2,411,066	$ 2,874,852	$ 175,846

Deferred income tax assets and liabilities as of December 31, 2003 and 2002 are comprised of:

	2003	2002
Deferred income tax assets:		
Net operating loss carryforwards	$ 760,681	$ 827,900
Total deferred tax assets	760,681	827,900
Deferred income tax liabilities:		
Depreciation	13,220	12,000
Goodwill basis differences	124,052	73,600
Total deferred tax liabilities	137,272	85,600
Deferred tax asset, net	$ 623,409	$ 742,300

At December 31, 2003 and 2002, the Company had federal and state net operating loss carryforwards of approximately $2,174,000 and $2,366,000, respectively, expiring at various dates through 2020. The Company's ability to use these losses to offset future taxable income is subject to an annual limitation of approximately $192,000 under the Internal Revenue Code.

The Company's effective income tax rate for continuing operations differs from the U.S. federal statutory rate as follows:

	2003	2002	2001
Federal statutory rate	35.0%	35.0%	35.0%
State tax	2.9%		
Amortization of deductible goodwill			(0.7)%
Net operating loss carryforwards			(3.3)%
Other	(0.8)%	(0.6)%	2.0%
	37.1%	34.4%	33.0%

Note 11 Earnings Per Share

The Company's earnings per share data was computed as follows:

	2003	2002	2001
For the years ended December 31,			
Basic earnings per share			
Net earnings	$ 4,089,326	$ 5,478,363	$ 2,601,078
Less: Preferred stock dividends	( )	$ (14,137)	$ (236,000)
Net earnings applicable to common shareholders	$ 4,089,326	$ 5,464,226	$ 2,365,078
Weighted average number of common shares outstanding during the year	11,848,789	11,790,650	8,000,042
Basic earnings per share	$ 0.35	$ 0.46	$ 0.30
Diluted earnings per share			
Net earnings	$ 4,089,326	$ 5,478,363	$ 2,601,078
Less: Preferred stock dividends	( )	$ (14,137)	$ (236,000)
Net earnings applicable to common shareholders	$ 4,089,326	$ 5,464,226	$ 2,365,078
Weighted average number of common shares outstanding during the year	11,848,789	11,790,650	8,000,042
Stock options	75,425	205,572	51,565
Weighted average number of shares outstanding during the year assumed conversion	11,924,214	11,996,222	8,051,607
Diluted earnings per share	$ 0.34	$ 0.46	$ 0.29

The number of stock options and warrants that were considered out-of-the-money for purposes of the diluted earnings per share calculation for the years ended December 31, 2003, and 2002 was 555,898 and 491,500, respectively.

Note 12 Contingencies

In September 2003, the Company was served with a lawsuit. The plaintiffs of this lawsuit have alleged that in May 2002 they were not allowed to exercise stock options and warrants issued by the Company. The plaintiffs are claiming damages based on the difference of the fair market value of the stock price of $15.75 and their exercise prices of $9.00 per share of common stock for each of the 61,000 warrants and $9.37 per share of common stock for each of the 185,000 stock options of the Company for potential damages of approximately $1.6 million. Although the lawsuit is in the very early stages, the Company believes that there are no merits to the plaintiffs' arguments, as the plaintiffs never rendered their stock option and warrant exercise documents to the Company, nor did they comply with their terms of agreement regarding the manner in which the stock options and warrants should be exercised.

In August and September 2003, the Company was served with two lawsuits arising out of the same set of facts. The two lawsuits were consolidated into one case now pending in the United States District Court for the Central District of California. The principal plaintiffs were members of our Care Entrée program. They allege that a provider listed as participating in our program refused to honor their membership card. The plaintiffs, in addition to seeking damages for the alleged failure of our services, also seek damages under various consumer protection statutes in the State of California and for injunctive relief that may affect our ability to do business in California. These damages may include all fees we have received from members in California for the past four (4) years. The case is in discovery. We believe that we have complied with all applicable regulations.

In January 1999, the former parent of Foresight, Inc., Universal Marketing Services, Inc., purchased the outstanding common stock of Foresight, Inc. for $4,540,000. Universal Marketing Services agreed to indemnify the former owners of the common stock of Foresight, Inc. for the increase in federal income taxes and any applicable penalties to the extent that $4,540,000 of the purchase price does not qualify for long-term capital gain treatment. These former shareholders reported $4,540,000 of the purchase price as long-term capital gain. In connection with the Company's merger-acquisition of Foresight, Inc., the Company assumed the indemnification obligation of Universal Marketing Services. Upon examination, the Internal Revenue Service may take the position that 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, the Company will be required to indemnify the former shareholders.

Note 13 Operating Leases

The Company has leased various office spaces and certain machinery and equipment through December 15, 2006. Future lease commitments on this space, and machinery and equipment are as follows:

2004	$	936,290
2005		382,005
2006		305,005
2007		
And thereafter		
Total	$	1,623,300

Management expects that leases currently in effect will be renewed or replaced with other leases of a similar nature and term.

Note 14 Employee Benefit Plan

The Company has adopted a retirement plan which includes a 401(k) deferred compensation feature. All employees who have completed at least six months of service and are 21 years of age or older may participate in the plan. The Company makes matching contributions of up to 50% of a participant's contributions limited to 3% of the participant's annual compensation. The Company matching contributions vest 20% per year and become fully vested after the participant has 6 or more years of service. During 2003, 2002 and 2001, the Company made $43,026, $33,346 and $30,526, respectively, in matching contributions to the Plan. All contributions by participants are fully vested.

Note 15 Segmented Information

The Company operates substantially in one business segment, the provision of healthcare membership savings programs. For the year ended December 31, 2003, 93.4% or $39,297,723 of the Company's consolidated revenue was derived from this business segment. The remaining 6.6% or $2,789,948 is derived from the Company's club membership programs as well as ancillary revenue related to its healthcare membership savings programs.