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PATIENT INFOSYSTEMS INC
Form 424B3
August 16, 2004

Filed Pursuant to Rule 424(b)(3), Registration Statement No. 333-117448

Dated August 13, 2004

PROSPECTUS

PATIENT INFOSYSTEMS, INC.

3,663,611 Shares of Common Stock

The stockholders named on page 54 are selling up to 3,663,611 shares of our common stock. 93,450 of the shares we are registering are issuable upon the exercise of outstanding common stock purchase warrants. The selling stockholders may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices. We will not receive any of the proceeds from the sale of shares by the selling stockholders, but we will receive funds from the exercise of their warrants.

Our common stock is currently listed on the OTC Bulletin Board under the symbol "PATY." On July 15, 2004, the last reported sale price of our common stock on the Nasdaq OTC Bulletin Board was \$3.05 per share.

Investing in our common stock involves risks. Please read the "Risk Factors" section beginning on page 6 to read about certain risks that you should consider before purchasing shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is August 13, 2004

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No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this prospectus, and if given or made, such information or representations must not be relied upon as having been authorized by us, the selling stockholders or any underwriter. You should rely only on the information contained in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any security other than the common stock offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any security by any person in any jurisdiction in which such offer or solicitation would be unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, imply that the information in this

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prospectus is correct as of any time subsequent to the date of this prospectus.

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SUMMARY

You should read this summary together with the more detailed information, including our financial statements and related notes, appearing elsewhere in this prospectus. Unless otherwise indicated, all share and per share information contained herein gives effect to a 1 for 12 reverse stock split effected at the close of business on January 9, 2004.

Our Company

We are a health management solutions company which primarily engages in integrating clinical expertise with advanced Internet, call center and data management capabilities. We have evolved to offer a comprehensive portfolio of products and services designed to improve patient clinical outcomes and quality of life, reduce healthcare costs and facilitate patient-provider-payor communication. These products are now marketed under the label Care Team Connect for Health. On December 31, 2003, we acquired the assets and assumed the liabilities of American Caresource Corporation.

Our principal executive offices are located at 46 Prince Street, Rochester, New York 14607 and our telephone number is (585) 242-7200. We are incorporated under the laws of Delaware. Our Internet address is www.ptisys.com. The information on our web site is not incorporated by reference into, and does not constitute part of, this prospectus.

Recent Developments

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On June 17, 2004, Patient Infosystems Inc. sold 3,365,000 shares of common stock to institutional and other accredited investors for an aggregate purchase price of \$5,653,200 in gross proceeds. C.E. Unterberg, Towbin acted as placement agent in the transaction. C.E. Unterberg, Towbin was paid \$360,158 in fees and expenses and received a warrant to purchase 93,450 shares of the Company's common stock. In addition, Lipman Capital Group received 50,000 shares of the Company's common stock in connection with consulting services relating to the transaction. Derace Shaffer, our Chairman, sold common stock in the private placement. We agreed to file a registration statement on Form SB-2 for these shares by July 19, 2004.

As a result of the transaction, we were obligated pursuant to the anti-dilution provisions in our agreements with the Selling Stockholders, to issue an additional 155,161 shares of common stock to such Selling Stockholders such that the effective price per share for the shares originally purchased by the Selling Stockholders would be \$1.68, being the price per share for the stock sold on June 17, 2004.

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The Offering

Shares of common stock offered	3,663,611
Use of Proceeds	We will not receive any proceeds from the sale of the common stock offered by the selling stockholders. However, we may receive an aggregate of \$156,996 upon the exercise of all the warrants held by selling stockholders, if such warrants are exercised for cash. We will use such funds, if any, for working capital and general corporate purposes.
OTC Bulletin Board Symbol	PATY

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Summary Financial Information

The summary financial data is derived from the historical financial statements of Patient Infosystems, Inc. This summary financial data should be read in conjunction with "Management's Discussion and Analysis or Plan of Operation" as well as our historical financial statements and the related notes thereto, included elsewhere in this prospectus.

Statement of operations data:

	Three months ended March 31			Year Ended Decem	
	2004	2003	2003	2002	2001
	----	----	----	----	----
Statement of Operations Data:					
Revenues	\$4,020,937	\$ 947,679	\$5,687,293	\$2,355,677	\$1,580,000

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Costs and expenses:					
Cost of sales	3,170,705	761,602	4,162,759	1,914,464	2,42
Sales and marketing	371,122	242,603	893,833	746,353	81
General and administrative	1,016,861	275,469	1,125,926	1,282,683	2,02
Research and development	32,607	31,758	131,782	105,614	19
Total costs and expenses	4,591,295	1,311,432	6,314,300	4,049,114	5,45
Operating loss	(570,358)	(363,753)	(627,007)	(1,693,437)	(3,867
Other income	(201,341)	(141,453)	(2,750,954)	(530,924)	(598
NET LOSS	\$ (771,699)	\$ (505,206)	\$ (3,377,960)	\$ (2,224,361)	\$ (4,465
Convertible preferred stock dividends	(287,217)	(22,500)	(7,671,557)	(90,000)	(90
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (1,058,916)	\$ (527,706)	\$ (11,049,517)	\$ (2,314,361)	\$ (4,555
Net loss per share - basic and diluted	\$ (0.20)	\$ (0.58)	\$ (3.25)	\$ (2.36)	\$ (
Weighted average common shares outstanding	5,348,800	913,002	3,399,616	979,668	880

	As of March 31 2003		2003	As of December 2002	200
Balance Sheet Data:					
Cash and cash equivalents	\$ 703,527		\$ 397,851	\$ 5,011	\$ 2
Working capital	(1,785,484)		(2,808,649)	(6,135,451)	(4,686
Total assets	9,479,550		9,111,158	1,217,266	1,22
Long term obligations	3,034,098		3,040,295	3,000,000	2,50
Total liabilities	6,558,514		7,174,782	9,887,505	7,57
Total stockholders' (deficit) equity	2,921,036		1,936,376	(8,670,239)	(6,355

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RISK FACTORS

Prospective investors should carefully consider the following factors, in addition to the other information contained in this prospectus, in connection with an investment in our common stock. This prospectus contains certain forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including those set forth below and elsewhere in this prospectus. An investment in our common stock involves a high degree of risk and is suitable only for investors who can afford to lose their entire investment.

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

Patient Infosystems has never earned a profit and has depended upon the

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over \$30 million that the Company has raised to date through its initial public offering, private placements of its equity securities and debt, to fund its working capital requirements. Patient Infosystems incurred an operating loss of approximately \$0.6 million with a net loss of approximately \$3.4 million for the year ended December 31, 2003 and had an approximate \$2.8 million deficit in working capital and shareholders' equity of approximately \$2 million at December 31, 2003. As of December 31, 2003, Patient Infosystems had total liabilities of \$7,174,782 and a working capital deficit of \$2,808,649. Since May 2003, Patient Infosystems' operation has been supported substantially by its operational cash flow. On December 31, 2003, Patient Infosystems acquired the assets of and assumed the liabilities for American Caresource Corporation and placed the operational assets and liabilities into a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"). It is anticipated that ACS will require significant additional working capital until it can fund its operational needs from operational cash flow, if at all. Existing working capital will last no more than a few months, and the Company anticipates that it will be required to raise at least an additional \$2 million in 2004 to sustain the operation of ACS. As with any forward-looking projection, no assurances can be given concerning the outcome of Patient Infosystems' actual financial status given the substantial uncertainties that exist. There can be no assurances that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. If it is unable to identify additional sources of capital, Patient Infosystems will likely be forced to curtail its operations or the operations of ACS. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements appearing on page 66 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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ACS' History of Operating Losses

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

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

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History of Operating Losses; Continued Limited Patient Enrollment

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

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

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

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Significant Customer Concentration

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

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

Consequences of the Need to Raise Additional Working Capital

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

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Independent Director

The Board of Directors of Patient Infosystems now only consists of three persons. One director, Mr. Chaufournier, is also the Chief Executive Officer of Patient Infosystems. There are no independent directors. It is anticipated that it will be difficult to attract additional independent directors to join the Board of Directors. The Company is seeking to identify additional persons who can serve as independent members of the Board of Directors and who may serve as members of its Audit Committee.

Terminability of Agreements

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

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

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

Unpredictability of Patient Behavior May Affect Success of Programs

The ability of Patient Infosystems to monitor and modify patient behavior and to provide information to health care providers and payors, and consequently the success of Patient Infosystems' disease management system, is dependent upon the accuracy of information received from patients. Patient Infosystems has not taken and does not expect that it will take, specific measures to determine the accuracy of information provided to Patient Infosystems by patients regarding their medical histories. No assurance can be given that the information provided to Patient Infosystems by patients will be accurate. To the extent that patients have chosen not to comply with prescribed treatments, such patients might provide inaccurate information to avoid detection. Because of the subjective nature of medical treatment, it will be difficult for Patient Infosystems to validate or confirm any such information. In the event that patients enrolled in Patient Infosystems' programs provide inaccurate information to a significant

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degree, Patient Infosystems would be materially and adversely affected. Furthermore, there can be no assurance that patient interventions by Patient Infosystems will be successful in modifying patient behavior, improving patient health or reducing costs in any given case. Many potential customers may seek data from Patient Infosystems with respect to the results of its programs prior to retaining it to develop new disease management or other health information programs. Patient Infosystems' ability to market its system to new customers may be limited if it is unable to demonstrate successful results for its programs.

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Competition

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

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

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

Substantial Fluctuation in Quarterly Operating Results

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

Dependence on Data Processing and Telephone Equipment

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

Quality Control

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

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

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

Government Regulation

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

Patient Infosteams is subject to state laws governing the confidentiality of patient information. A variety of statutes and regulations exist to safeguard

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

In addition, on August 21, 1996 Congress passed the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), P.L. 104-191. This legislation required the Secretary of the Department of Health and Human Services to adopt national standards for electronic health transactions and the data elements used in such transactions. The Secretary is required to adopt safeguards to ensure the integrity and confidentiality of such health information. Violation of the standards is punishable by fines and, in the case of negligent or intentional disclosure of individually identifiable health information, imprisonment. The Secretary has promulgated final rules addressing the standards, however, the implementation time line extends into 2003 and beyond. Although Patient Infosystems intends to comply with all applicable laws and regulations regarding medical information privacy, failure to do so could have an adverse effect on Patient Infosystems' business.

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

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

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

Significant and Extensive Changes in the Health Care Industry

The health care industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of health care industry participants. Several lawmakers have announced that they intend to propose programs to reform the U.S. health care system. These programs may contain proposals to increase governmental involvement in health care, lower reimbursement rates and otherwise change the operating environment for Patient Infosystems and its targeted customers. Health care industry participants may

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react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring certain expenditures, including those for Patient Infosystems' programs. Patient Infosystems cannot predict what impact, if any, such changes in the health care industry might have on its business, financial condition and results of operations. In addition, many health care providers are consolidating to create larger health care delivery enterprises with greater regional market power. As a result, the remaining enterprises could have greater bargaining power, which may lead to price erosion of Patient Infosystems' programs. The failure of Patient Infosystems to maintain adequate price levels could have a material adverse effect on its business.

Dependence on Customers for Marketing and Patient Enrollment

Patient Infosystems has limited financial, personnel and other resources to undertake extensive marketing activities. One element of Patient Infosystems' marketing strategy involves marketing specialized disease management programs to pharmaceutical companies and managed care organizations, with the intent that those customers will market the program to parties responsible for the payment of health care costs, who will enroll patients in the programs. Accordingly, Patient Infosystems, will to a degree, be dependent upon its customers, over whom it has no control, for the marketing and implementation of its programs and for the receipt of valid patient information. The timing and extent of patient enrollment is completely within the control of Patient Infosystems' customers. Patient Infosystems has faced difficulty in receiving reliable patient information from certain customers, which has hampered its ability to complete certain of its projects. To the extent that an adequate number of patients are not enrolled in the program, or enrollment of initial patients by a customer is delayed for any reason, Patient Infosystems' revenue may be insufficient to support its activities.

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Control of Patient Infosystems

The executive officers, directors and certain stockholders of Patient Infosystems who beneficially own in the aggregate approximately 59.75% of the outstanding common stock control Patient Infosystems. As a result of such ownership, these stockholders, in the event they act in concert, will have control over the management policies of Patient Infosystems and all matters requiring approval by the stockholders of Patient Infosystems, including the election of directors.

Potential Liability and Insurance

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

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against Patient Infosystems.

Intellectual Property

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

SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains many forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," and "continue" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future operating results or of our financial condition or state other "forward-looking" information.

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We believe in the importance of communicating our future expectations to our investors. However, we may be unable to accurately predict or control events in the future. The factors listed in the sections captioned "Risk Factors" and "Management's Discussion and Analysis or Plan of Operation," as well as any other cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of common stock by the selling stockholders. We will receive proceeds upon the exercise of any warrants. If all of the selling stockholders exercise all of their warrants for cash, we will receive an aggregate of \$156,996. We will use such funds, if any, for working capital and general corporate purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

During the fiscal years ended December 31, 2002 and 2003 and through January 9, 2004, our common stock traded on the OTC Bulletin Board under the symbol PATI. From January 12, 2004, our common stock has traded on the OTC Bulletin Board under the symbol PATY. The closing price for our common stock on July 15, 2004 was \$3.05.

The following table sets forth, for the periods indicated, the range of high and low bid quotations for shares of our common stock as quoted on the OTC Bulletin Board. The reported bid quotations reflect inter-dealer prices, without retail markup, markdown or commissions, and may not necessarily represent actual transactions. Information contained herein gives effect to a 1 for 12 reverse stock split effected at the close of business on January 9, 2004.

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	High	Low
2002		
First Quarter	\$2.40	\$0.72
Second Quarter	\$2.40	\$1.44
Third Quarter	\$3.60	\$1.08
Fourth Quarter	\$6.12	\$0.96
2003		
First Quarter	\$3.12	\$1.68
Second Quarter	\$3.00	\$0.96
Third Quarter	\$3.00	\$0.96
Fourth Quarter	\$4.08	\$1.32
2004		
First Quarter	\$6.00	\$1.44
Second Quarter	\$5.50	\$2.00

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 Holders of common stock

As of May 28, 2004, there were approximately 95 holders of record of our common stock.

Dividends

We have never paid or declared a cash dividend on our common stock.

We are obligated to declare 9% cumulative dividends on our 75,000 shares of Series C Cumulative Convertible Preferred Stock that was issued on March 31, 2000 and our 840,118 shares of Series D Cumulative Convertible Preferred Stock that was issued between April 2003 and January 2004.

Equity Compensation Plan Information

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

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Total	101,160	\$9.36	3,
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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion of our financial condition and plan of operation should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus. This prospectus contains certain statements of a forward-looking nature relating to future events or our future financial performance. We caution prospective investors that such statements involve risks and uncertainties, and that actual events or results may differ materially. In evaluating such statements, prospective investors should specifically consider the various factors identified in this prospectus, including the matters set forth under the caption "Risk Factors" which could cause actual results to differ materially from those indicated by such forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

Overview

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

On December 31, 2003, Patient Infosystems acquired substantially all the assets and liabilities of American Caresource Corporation in exchange for 1,100,000 shares of Patient Infosystems common stock. Patient Infosystems created a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"), a Delaware corporation, and assigned the acquired assets and liabilities into this subsidiary, net of certain amounts which represented borrowings between Patient Infosystems and American Caresource Corporation. ACS enters into agreements with the providers of ancillary services pursuant to which ACS provides administrative services for its contracted providers, including patient scheduling services, call center services, payor contracting services, and billing and collection services. ACS also enters into agreements with preferred provider organizations ("PPOs"), third party administrators ("TPAs"), workers compensation benefits administrators, utilization review companies, case management companies and other healthcare networks pursuant to which ACS provides ancillary benefits management services for these payor clients.

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

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Patient Infosystems currently has patients enrolled in more than 30 of its

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

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

Patient Infosystems has entered into service agreements to develop, implement and operate programs for: (i) patients who have recently experienced certain cardiovascular events; (ii) patients who have been diagnosed with primary congestive heart failure; (iii) patients suffering from asthma; (iv) patients suffering from diabetes, (v) patients who are suffering from hypertension, (vi) demand management, which provides access to nurses, (vii) case and utilization management services provided by a third party, (viii) various survey initiatives which assess, among other things, satisfaction, compliance of providers or payors to national standards, health status or risk of specific health related events and (ix) the performance of specific administrative and management functions on behalf of a customer. These contracts provide for fees paid by its customers based upon the number of patients participating in each of its programs, as well as initial program implementation and set-up fees from customers. To the extent that Patient Infosystems has had limited enrollment of patients in its programs, Patient Infosystems' operations revenue has been, and may continue to be, limited.

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

Patient Infosystems' contracts typically call for a fee to be paid by the customer for each patient enrolled for a series of program services, require payment for services incrementally as they are delivered or require payment of a fixed fee per patient or member each month for program services. The timing of

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customer payments for the delivery of program services varies by contract. Revenues from program operations are recognized ratably as the program services are delivered. The amount of the per patient fee varies from program to program depending upon the number of patient contacts required, the complexity of the interventions, the cost of the resources used and the detail of the reports generated.

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

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

During 2003, Patient Infosystems found new sources of revenue that increased its revenue from \$2.4 million for the fiscal year ended December 31, 2002 to \$5.7 million for the same period of 2003. Patient Infosystems maintained control on costs and reduced its operating loss from \$1.7 million for the fiscal year ended December 31, 2002 to \$0.6 million for the same period of 2003. The most significant new sources of revenue were (i) Provider Innovation and Improvement support services provided to the Institute for Healthcare Improvement which provided \$3.2 million of revenue in 2003 as compared to \$0.1 million in 2002, (ii) Care Team Connect service provided to Park Place Entertainment which provided \$0.6 million of new revenue in 2003 and (iii) the Care Team Connect smoking cessation program which provided \$0.5 million of new revenue in 2003. No assurances can be given that revenue from these sources will continue at their current level, if at all, in future periods.

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One source of additional new revenue in 2004 is ACS. ACS recognizes revenues for ancillary services when services by providers have been authorized and performed and collections from payors are reasonably assured. Patient claims revenues are recognized by ACS as services are provided. Cost of revenues for ancillary services consist of expenses due to providers for providing employee (patient) services and ACS' related direct labor and overhead of processing invoices, collections and payments. ACS is not liable for costs incurred by independent contract service providers until payment is received by ACS from the

payors. ACS recognizes actual or estimated liabilities to independent contract service providers as the related revenues are recognized. Patient claim costs of revenue consist of amounts due the providers as well as ACS' direct labor and overhead to administer the patient claims. ACS has never operated at a profit,

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and will require significant growth in either claims volume from existing contracts, new contracts or both in order to generate sufficient operational margin to become profitable. No assurances can be given that sufficient sources of new revenue will be identified and other sources of capital will have to be secured by Patient Infosystems to support these operations. If Patient Infosystems is unable to generate enough working capital either from its own operations or through the sale of its equity securities, ACS may be required to curtail or cease operations.

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

During 2003, the pressure of working capital shortfalls eased for Patient Infosystems. Patient Infosystems' had \$123,998 of net cash provided by operating activities during 2003. During 2003, Patient Infosystems raised an additional \$3.5 million of working capital and an additional \$1.6 million as of March 31, 2004, through and the sale of its equity securities. These additional funds are being used to provide working capital for ACS. Patient Infosystems and ACS continue to incur losses and must identify substantial additional capital to sustain its operations. ACS' working capital shortfall is currently being funded by Patient Infosystems. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify any additional sources of capital, it will likely be forced to curtail or cease its operations or the operations of ACS. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements appearing at page 66 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations, negative working capital and stockholders' deficit raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Results of Operations

To assist the reader's understanding the results of operations, each of the Company's segments will be presented separately using the following segmented statement of operations, which includes pro forma results of American Caresource Holdings, Inc. for the three month period ended March 31, 2003 for comparative purposes:

	Patient Infosystems Three Months Ended March 31,		American Careso Three Months E March 31,	
	2004 ----	2003 ----	2004 ----	2003 ----
REVENUES	\$ 2,344,427	\$ 947,679	\$ 1,676,510	\$ 2,
COSTS AND EXPENSES				
Cost of sales	1,526,595	761,602	1,644,110	2,

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Sales and marketing	222,010	242,603	149,112	
General and administrative	347,175	275,469	669,686	
Research and development	32,607	31,758		
Total costs and expenses	2,128,387	1,311,432	2,462,908	3,
OPERATING PROFIT (LOSS)	216,040	(363,753)	(786,398)	(1,
OTHER EXPENSE	(196,772)	(141,453)	(4,569)	
NET PROFIT (LOSS)	19,268	(505,206)	(790,967)	(1,

For the Three Months Ended March 31, 2004, as compared to the Three Months Ended March 31, 2003

PATIENT INFOSYSTEMS

Revenues

Revenues consist of revenues from operations and other fees. Revenues increased to \$2,344,427 from \$947,679 during the three months ended March 31, 2004 and 2003, respectively, or 147%.

	Three Months Ended March 31,	
	2004	2003
	----	----
Revenues		

Operations fees		
Provider improvement	\$ 1,858,103	\$ 369,996
Disease and demand management	483,638	549,307
	-----	-----
Total operations fees	2,341,741	919,303
Other fees	2,686	28,376
	-----	-----
Total revenues	\$ 2,344,427	\$ 947,679
	-----	-----

Provider innovations and improvement fee revenues are primarily attributable to assistance provided to organizations for the effective management of patients with chronic disease, including information technology support, learning organization services, and data analysis and reporting. For a substantial part of its innovation and improvement work, Patient Infosystems participates in as a subcontractor to the Institute for Healthcare Improvement. Provider improvement fee revenues increased to \$1,858,103 for the three months ended March 31, 2004 as compared to \$369,996 for the three months ended March 31, 2003. No assurances can be given that Patient Infosystems will continue to provide these services at the current levels, or at all, and revenue recognized during the three month period ended March 31, 2004 is not necessarily indicative of the results to be expected for the entire year ending December 31, 2004. The contracts for substantially all the provider improvement services are annual in nature, the largest of which ended as of March 31, 2004. Patient Infosystems anticipates renewing this contract and is therefore continuing to provide these services during the renewal process. No assurance can be given that Patient

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Infosystems can successfully renew the contract.

Disease and demand management fee revenues are primarily attributable to the operation of Patient Infosystems' call center and the delivery of the Care Team Connect for Health directly to patients. Disease and demand management fee revenues decreased to \$483,638 from \$549,307 for the three month periods ended March 31, 2004 and 2003, respectively. The decrease in these fees is primarily attributable to the termination of one customer on July 1, 2003 for which Patient Infosystems had \$160,620 of revenue during the three month period ended March 31, 2003. Patient Infosystems is actively marketing its Disease and demand management services and anticipates continuing to sell its services. No assurances can be given that Patient Infosystems will sell its demand and disease management services, if at all, nor that any such sales will have a material effect on the financial status of Patient Infosystems.

Other fee revenues were \$2,686 and \$28,376 for the three month periods ended March 31, 2004 and 2003, respectively. Patient Infosystems received other revenues for (i) development fees from a variety of customers for creation of, or modification to, specific programs and (ii) license fees. Patient Infosystems has completed substantially all services under these agreements. Development fee revenues include clinical, technical and operational design or modification of Patient Infosystems' primary disease management programs. Patient Infosystems anticipates that revenue from development fees will continue to be low unless Patient Infosystems enters into new development agreements. Patient Infosystems has not entered into any new licensing agreements and the revenue for the current period reflects revenue generated exclusively from the existing agreements.

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Costs and Expenses

Cost of sales includes salaries and related benefits, services provided by third parties, and other expenses associated with the implementation and delivery of Patient Infosystems' provider improvement and demand and disease management programs. Cost of sales for the three months ended March 31, 2004 was \$1,526,595 as compared to \$761,602 for the three months ended March 31, 2003. The increase in these costs was primarily the result of increased operational activity. Patient Infosystems' gross margin, being total revenues over cost of sales, was positive for the three month periods ended March 31, 2004 and 2003. Patient Infosystems anticipates that revenue must increase for it to recognize economies of scale adequate to improve its margins. No assurance can be given that revenues will increase or that, if they do, they will continue to exceed costs and expenses.

Sales and marketing expenses consist primarily of salaries, related benefits, travel costs, sales materials and other marketing related expenses. Sales and marketing expenses for the three months ended March 31, 2004 were \$222,010 as compared to \$242,603 for the three months ended March 31, 2003. Patient Infosystems anticipates expansion of Patient Infosystems' sales and marketing staff and expects it will continue to invest in the sales and marketing process, and that such expenses related to sales and marketing may increase in future periods.

General and administrative expenses include the costs of corporate operations, finance and accounting, human resources and other general operating expenses of Patient Infosystems. General and administrative expenses for the three months ended March 31, 2004 were \$347,175, as compared to \$275,469 for the three months ended March 31, 2003. These expenditures have been incurred to maintain the corporate infrastructure necessary to support anticipated program operations. General and administrative expenses are expected to remain

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relatively constant in future periods..

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Research and development expenses consist primarily of salaries and related benefits and administrative costs associated with the development of certain components of Patient Infosystems' integrated information capture and delivery system, as well as development of Patient Infosystems' standardized disease management programs and Patient Infosystems's Internet based technology products. Research and development expenses for the three months ended March 31, 2004 were \$32,607, as compared to \$31,758 for the three months ended March 31, 2003.

Patient Infosystems recorded other expenses of \$196,772 for the three month period ended March 31, 2004 as compared to \$141,453 for the three month period ended March 31, 2003, principally due to the interest expense and other related financing cost on debt.

Patient Infosystems had a net profit of \$19,268 as compared to a loss of \$505,206 for the 3 month periods ended March 31, 2004 and 2003, respectively.

AMERICAN CARESOURCE

Revenues

Revenues of American Caresource Holdings, Inc. ("ACS") are comprised of revenues from ancillary service claims and processing of patient claims. Revenues decreased to \$1.7 million from \$2.6 million during the three months ended March 31, 2004 and 2003, respectively, or 35.0%.

	Three Months Ended March 31	
Revenues	2004	2003
-----	----	----
		Pro forma
Ancillary Health	\$1,544,848	\$ 2,476,944
Patient Claims	131,662	104,673
Total Revenues	----- \$1,676,510	----- \$ 2,581,61

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Ancillary health claims revenue decreased to \$1.5 million for the three months ended March 31, 2004 as compared to \$2.5 million for the three months ended March 31, 2003. This decrease is attributable to the cancellation of contracts by major clients and to the reduction of revenue from a provider in ACS' ancillary health provider network. Pinnacol Assurance ("Pinnacol") notified ACS on December 19, 2003 of its intent to terminate its contract with ACS effective March 18, 2004, and was winding down throughout the first quarter of 2004. Revenue for Pinnacol decreased 45.4% from \$981,269 for the three months ended March 31, 2003 to \$536,035 for the three months ended March 31, 2004. A provider for which ACS had \$314,421 of revenue for the three months ended March 31, 2003, notified ACS of its intent to terminate its contract effective October 13, 2004 and did not generate any revenue for ACS during the three month period ended March 31 2004. ACS expects relations with providers in its network to

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improve as a result of the acquisition by Patient Infosystems. ACS also expects to expand its provider network by seeking to restore relationships with providers previously in the network and add new providers as ACS adds new client payor contracts. No assurances can be given that ACS will be able to expand its provider or payor relationships, nor that any such expansion will result in an improvement in the results of operations of ACS.

The processing of patient claims revenues increased 25.8% to \$131,662 for the three months ended March 31, 2004 as compared to \$104,673 for the three months ended March 31, 2003. The Company does not expect to increase its revenues from claims processing in future periods.

Costs and Expenses

Cost of revenues includes provider payments, direct expenses incurred for providing services and the related direct labor and overhead of providing such services. ACS is not liable for costs incurred by its contracted providers unless and until these providers obtain approval from the appropriate payors and provide the contracted services and ACS receives payment from the payors. Costs of revenues also include direct expenses to administer claims, including direct labor associated with recruitment and contracting with providers, database maintenance, data entry of claims, claims repricing, fulfillment and overhead costs. Costs of revenues decreased to \$1,644,110 for the three month period ended March 31, 2004 as compared to \$2,999,403 for the three month period ended March 31, 2003. This decrease was due to a decrease in provider payments, renegotiation of management fees payable to one client, and to a reduction in direct expenses and overhead associated with the decrease in claims volume related to revenue. Provider payments decreased \$815,653 in relation to decreasing revenues. Management fees for client ppoNEXT decreased \$127,173 as contract changes negotiated in July 2003 took effect upon the acquisition of ACS by Patient Infosystems. Direct expenses and overhead associated with ACS service provision decreased \$342,266 as reductions were made to personnel and other costs to align ACS' cost structure with its claims volume.

Sales and marketing expenses include the salaries and related benefits of ACS' account development employees, travel and other costs for those employees, and sales materials and other marketing or sales expenses of ACS. Commissions paid to independent outside salespeople are based directly on net margin per client. Payments to providers and all billing and processing of claims expenses are included in cost of revenues. Sales and marketing expenses increased to \$149,112 for the three months ended March 31, 2004, as compared to \$68,228 for the three months ended March 31, 2003. The increase was attributable primarily to a \$59,480 salary accrual related to the termination on one employee.

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General and administrative expenses include the salaries and related benefits of ACS' executive employees, systems development and finance and accounting employees, travel and other costs for those employees. General and administrative expenses increased to \$669,686 for the three months ended March 31, 2004, as compared to \$589,163 for the three months ended March 31, 2003. The increase was attributable primarily to a one time warrant compensation expense of \$211,900, offset by a reduction in legal costs of \$62,971 and \$60,710 from reductions in personnel costs related to the consolidation of the human resources function with Patient Infosystems as well as efficiencies and reductions in payment processing volume.

The Company recorded net interest expense of \$4,569 for the three month period ended March 31, 2004, as compared to \$5,458 for the same period of 2003. Any new financing arrangements will be made by Patient Infosystems. Consequently, ACS' interest expense is expected to be minimal in future periods.

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ACS had a net loss of \$790,967 for the three month periods ended March 31, 2004 compared to \$1,080,635 for the same period of 2003.

Income (loss)

The Company reported a net loss attributable to common shareholders of \$1,058,913 as compared to \$527,706 for the three month periods ended March 31, 2004 and 2003, respectively. This represents a loss per share of \$0.20 and \$0.58 for the same respective periods. The Company's loss per share for the three month period ended March 31, 2003, on a pro forma basis, assuming that the acquisition of substantially all the assets and liabilities of American Caresource Corporation had occurred on January 1, 2003 is \$1.92, as compared to \$0.20 loss per share for the same period of 2004. During the 3 months ended March 31, 2004, the company recorded \$78,180 beneficial conversion feature related to the issuance of 10,018 shares of the Company's Series D Preferred Stock, which was recorded as a dividend, and declared \$209,034 of dividends on the outstanding preferred stock.

Liquidity and Capital Resources

At March 31, 2004, the Company had a working capital deficit of \$1,785,484 as compared to \$2,808,649 at December 31, 2003. Through March 31, 2004, these amounts reflect the effects of the Company's continuing losses and borrowings. Since its inception, the Company has primarily funded its operations, working capital needs and capital expenditures from the sale of equity securities or the incurrence of debt.

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

On December 31, 2003, the Company entered into the Third Addendum to the Second Amended and Restated Credit Agreement with Well Fargo Bank Iowa, N.A., which extended the term of the \$3,000,000 credit facility to July 31, 2005. Mr. Pappajohn and Dr. Schaffer guaranteed this extension. In consideration of their guarantees, In February 2004 the Company granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of the Company's common Stock for \$10.00 per preferred share. The Company valued these warrants at \$1,085,375 using the Black-Scholes method. The value of these warrants was recorded as unearned debt issuance cost and will be amortized as financing costs over the nineteen month period of the loan guarantee. During the 3 months ended March 31, 2004, the company recorded a financing cost of \$171,375.

In January 2004, the Company borrowed \$200,000 for working capital from Mr. Pappajohn which was repaid in March 2004 using the proceeds of the sale of the Company's common stock.

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On March 28, 2004, Mr. Pappajohn and Dr. Schaffer signed a letter to the Company in which they made a commitment to obtain the operating funds that the Company believes would be sufficient to fund its operations through January 1, 2005. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of the Company's securities or that the Company can borrow the additional amounts needed.

During the three month period ended March 31, 2004, the Company issued 814,625 shares of its Common Stock and 4,700 shares of its Series D Convertible

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Preferred Stock to certain investors in exchange for \$1,663,180 which consisted of \$1,610,000 of working capital, \$53,180 of accrued interest payable and \$44,250 of services. The Company incurred \$205,875 of costs directly attributable to the sale of its common stock.

During the three month period ended March 31, 2003, the Company paid \$113,625 of expenses by issuing shares of its Common Stock and warrants to purchase shares of its Common Stock. The Company issued 22,125 shares of its Common Stock as payment of \$44,250 in consulting expenses and issued 25,000 warrants to purchase shares of its Common stock which was assigned a fair market value of \$69,375 using a Black-Scholes valuation method.

Of the warrants to purchase 25,000 shares of the Company's Common Stock, warrants to purchase 12,500 shares assigned a value of \$22,750 were an additional expense related to the purchase of substantially all the assets of and assumption of liabilities from American Caresource Corporation on December 31, 2003. Accordingly, goodwill related to this acquisition was increased by \$22,750.

The Company has expended significant amounts to expand its operational capabilities including increasing its administrative and technical costs. While Patient Infosystems has both curtailed its spending levels and increased its revenue, to the extent that American Caresource Holdings, Inc. revenues do not increase substantially, the Company's losses will continue and its available capital will diminish further. The Company's operations are currently being funded by the sale of equity securities. There can be no assurances given that the Company can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify additional sources of capital, it will likely be forced to curtail or cease operations. As a result of the above, the Independent Auditors' Report on Patient Infosystems' consolidated financial statements for the year ended December 31, 2003 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Inflation

Inflation did not have a significant impact on the Company's costs during the three month periods ended March 31, 2004 and March 31, 2003 or the years ended December 31, 2003, 2002 and 2001. The Company continues to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

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

Revenues

Revenues are comprised of revenues from operations fees, development fees and licensing fees. Revenues increased 141% to \$5,687,293 for the fiscal year ended December 31, 2003 from \$2,355,677 for the fiscal year ended December 31, 2002. A summary of these revenues by category is as follows for the fiscal years ended December 31:

Revenues	2003	2002
-----	----	----

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Operations Fees	\$ 2,241,796	\$ 2,125,522
Consulting Fees	3,391,867	168,606
Development Fees	51,110	36,239
Licensing Fees	2,520	25,310

Total	\$ 5,687,293	\$ 2,355,677
=====		

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

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

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

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

Costs and Expenses

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

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

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

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

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

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

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

	2003	2002
	-----	-----
Interest expense	\$ (753,685)	\$ (535,269)
Interest income	145,473	
Other income (expense)	376	4,345
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Total Expense	\$ (607,836)	\$ (530,924)
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Interest expense is due to debt. Interest expense increased to \$753,685 for the fiscal year ended December 31, 2003 from \$535,269 for the fiscal year ended December 31, 2002. The increase in interest expense reflects the increased debt required to fund operations and obtain capital which was loaned to American Caresource Corporation.

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

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

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

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

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

Critical Accounting Policies

Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

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

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

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

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Description of Business

General

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

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

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

During its first two years of operations, Patient Infosystems emphasized the development of pure disease management programs, which accounted for a substantial portion of its revenue through 1997. However, beginning in 1998, Patient Infosystems devoted resources to the development of broader applications of its technology platform, and its additional products grew to account for nearly 45% of the total revenue of Patient Infosystems during the fiscal year ended December 31, 2002. During 2003, the Company further expanded its product mix to include services in support of providers and their clinical improvement efforts. These services include support for development, training and

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maintenance of clinical registry software, consultative services in improvement methodologies and support of web-based informational and reporting resources. On December 31, 2003, Patient Infosystems acquired the assets of American Caresource Corporation and placed these assets into its wholly owned subsidiary, American Caresource Holdings, Inc. ("ACS"). ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist our clients control the cost of a range of ancillary medical services.

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

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Products and Capabilities

Care Team Connect for Health

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

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

Nurse help line

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

Population analysis and identification

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

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

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

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

Disease management services

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

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

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

-
- Low risk: o Quality of life surveys
 - o Reminders
 - o Static educational mailings
 - o 24-hour nurse help line
-

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- Moderate risk:
 - o Nurse engagement
 - o Quality of life surveys
 - o Chronic condition management program
 - o Reminders
 - o Static educational mailings
 - o 24-hour nurse help line

- High risk:
 - o Nurse engagement
 - o Quality of life surveys
 - o "Gold" chronic condition management program
 - o Telemonitoring signs and symptoms assessment
 - o Reminders
 - o Static educational mailings
 - o 24-hour nurse help line

- Critical risk:
 - o Dedicated registered nurse as disease care manager
 - o Baseline clinical assessment and treatment action plan
 - o Regularly scheduled on-going clinical patient assessments

Disease management program components

Nurse engagement call

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

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

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

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

Chronic condition management program

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

By providing unique, individually tailored intervention strategies,

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

"Gold" chronic condition management program

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

Quality of life re-assessment and on-going monitoring

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

Educational mailings

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

Reminders

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

Disease care management for critical risk patients

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

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The program's key functions are the following:

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

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

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

Care management services

Care management programs include the components of utilization management and case management and ensure that participants receive quality

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medical care at the best possible price, while maximizing plan benefits. The programs assist in avoiding unnecessary expenditures with an objective, information-intensive approach that combines clinical judgment with accepted practice patterns.

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

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

Smoking Cessation Services

During 2003, Patient Infosystems began providing the call center operations for a smoking cessation program which is owned by and marketed by Behavioral Solutions. Patient Infosystems has the right to independently market this program for direct sales.

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Provider innovation and improvement support

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

Population Health Disease Management Systems and Strategies

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

Learning Organization Services

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

Technical assistance

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

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Outcome Assessment, Data Collection and Reporting

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

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Ancillary benefits management

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

- o Home Health Services
- o Surgical Centers
- o Laboratory Services
- o Home Infusion therapy
- o Chiropractic Services
- o Diagnostic Imaging/Radiology
- o Dialysis Services
- o Durable Medical Equipment
- o Orthotics and Prosthetics/Rehab
- o Pain Management
- o Pharmacy
- o Respiratory Services
- o Sleep Studies
- o Sub-Acute and Skilled Nursing facilities
- o Hospice Services
- o Bone Growth Stimulators

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

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

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

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

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

capture rates.

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

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

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

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

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

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

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

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

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

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

Sales and Marketing

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

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

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

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

Competition

The market for health care information products and services is intensely

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

Research and Development

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

Government Regulation

The health care industry, including the current business of Patient Infosystems and the expanded operations of Patient Infosystems, including the business of ACS, following the closing of the acquisition described in the Asset Purchase Agreement, is subject to extensive regulation by both the Federal and state governments. A number of states have extensive licensing and other regulatory requirements