

PATIENT INFOSYSTEMS INC  
Form 10KSB  
March 31, 2005

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-KSB**

(Mark One)

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

For the Fiscal Year Ended December 31, 2004

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

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

Commission File Number: 0-22319

**Patient Infosystems, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)  
46 Prince Street

16-1476509

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

Rochester, New York

(Address of principal executive offices)

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

14607

(Zip Code)

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

None.

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

Common Stock, par value \$.01 per share

(Title of Class)

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

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

Issuer's revenue for the year ended December 31, 2004: \$15.7 million.

As of March 30, 2005, the aggregate market value of the voting and nonvoting common stock held by nonaffiliates of the registrant was \$34 million and 6,328,019 shares of common stock were outstanding.

As of March 30, 2005, there were 9,743,600 shares of the issuer's common stock outstanding.



**PART I**

**Item 1. Description of Business.**

**General**

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

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

Patient Infosystems expects to distribute approximately 10,000,000 shares of ACS common stock and retain 1,000,000 shares. The distribution will occur as soon as practicable following the effectiveness of a registration statement and will be in the form of a dividend to the stockholders of Patient Infosystems. Patient Infosystems intends to distribute one share of common stock of ACS for every two shares of Patient Infosystems stock owned as of the record date. The record date for stockholders eligible to receive the distribution has not yet been established. Following the spin-off, ACS will be a new independent public company with its own management and board of directors.

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 ( IDNs ). 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, Patient Infosystems further expanded its product mix to include services that support providers' clinical improvement efforts. These services include support for development, training and maintenance of clinical registry software, consultative services in improvement methodologies and support of web-based informational and reporting resources. On December 31, 2003, Patient Infosystems acquired the assets of American Caresource Corporation and formed American Caresource Holdings, Inc. ( ACS ) to operate those assets. ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist our clients in controlling the cost of a range of ancillary medical services. On September 22, 2004, Patient Infosystems acquired 100% of CBCA Care Management, Inc. ("CMI"), a New York corporation. CMI provides utilization management and case management services which are part of the Care Team Connect for Health product.

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The Patient Infosystems and its subsidiaries (the "Company") operates in two segments. One segment includes the operating results of the ACS subsidiary (the "American Caresource Segment") and the other includes the operating results of Patient Infosystems and its CMI subsidiary (the "Patient Infosystems Segment"). Patient Infosystems expects to distribute to its shareholders approximately 10,000,000 shares of ACS common stock to Patient Infosystems shareholders and retain 1,000,000 shares. The distribution will occur as soon as practicable following the effectiveness of a registration statement filed by ACS with the Securities and Exchange Commission and will be in the form of a dividend to the stockholders of Patient Infosystems. Patient Infosystems intends to distribute one share of common stock of ACS for every two shares of Patient Infosystems common stock owned as of the record date and one share for every two shares of common stock issuable upon the conversion of the preferred stock owned as of the record date.. The record date for stockholders eligible to receive the distribution has not yet

been established. Following the spin-off, ACS will be a new independent public company with its own management and board of directors.

In the year ended December 31, 2004, the Care Team Connect portfolio represented 46% of the Patient Infosystems Segment's revenue; innovation and improvement services for providers represented 54% of the Patient Infosystems Segment's revenue. Primarily due to the addition of CMI, Care Team Connect portion of revenue increased to 68% of Patient Infosystems' revenue during the three month period ended December 31, 2004.

### **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 Patient Infosystems as stand alone products. During 2002, 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. During 2004, Patient Infosystems acquired CMI and now can provide utilization management and case management services without the need for a subcontractor. Care Team Connect includes the following:

- 1) 24-hour nurse help/triage line,
- 2) Population analysis and identification,
- 3) Disease management services,
- 4) Care management,
- 5) 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 problem 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:*

- Quality of life surveys
- Reminders
- Static educational mailings

*Moderate risk:*

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

*High risk:*

- 24-hour nurse help line
- Nurse engagement



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Quality of life surveys

Gold chronic condition management program

Telemonitoring signs and symptoms assessment

Reminders

Static educational mailings

24-hour nurse help line

*Critical risk:*

Dedicated registered nurse as disease care manager

Baseline clinical assessment and treatment action plan

Regularly scheduled on-going clinical patient assessments

Disease management program components

*Nurse engagement call*

Moderate, high and critical risk disease management programs generally 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:

Healthcare utilization.

Disease status.

Functional status.

Quality of care.

Treatment adherence and self-care practices.

Education/knowledge.

Motivation and program evaluation.

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

#### *Chronic condition management program*

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

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

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.

#### Disease care management for critical risk patients

Disease care management is a specialized clinical intervention. The highly specialized clinical support by a registered nurse may provide 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.

### *Care management services*

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

Care management services are to comply 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.

Provider innovation and improvement support

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

*Population Health Disease Management Systems and Strategies*

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

*Learning Organization Services*

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

*Technical assistance*

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

*Outcome Assessment, Data Collection and Reporting*

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

### Ancillary benefits management

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

Ancillary services include but are not limited to the following categories: Outpatient Therapy/Rehab

Home Health Services

Surgical Centers

Laboratory Services

Home Infusion therapy

Chiropractic Services

Diagnostic Imaging/Radiology

Dialysis Services

Orthotics and Prosthetics

Pain Management

Pharmacy

Physical Therapy

Respiratory Services

Sleep Studies

Sub-Acute and Skilled Nursing facilities

Hospice Services

Durable Medical Equipment

Bone Growth Stimulators

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

Through its contracts with over 3500 ancillary service providers (with over 17,500 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 for services performed for covered members. ACS re-prices these claims under the relevant payor fee schedules, performs electronic conversion and HIPAA formatting services, and submits the re-priced claims to the appropriate payors. After adjudication of the claims by the Payor, the Payor issues an Explanation of Benefits and check for each claim. In most cases, these checks are sent to ACS. ACS then pays the providers under the relevant provider fee schedules. The difference between the amounts received by ACS from its clients and the amounts paid by ACS to its contracted providers represents ACS gross margin on its benefits management services.

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

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

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

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

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

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*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:

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

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

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

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

## **Sales and Marketing**

Through 1997, Patient Infosystems' efforts focused primarily on the development of disease management programs. Beginning in 1998, Patient Infosystems began aggressively marketing the other services that its technology platform can provide, including demand management, patient surveys, pharmaceutical support programs and outcomes analysis. During 2003 and 2004, Patient Infosystems 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 (TPAs), health and welfare funds organized under the Taft-Hartley Labor Act, 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 TPA S, large self funded organizations and Taft-Hartley groups that self-administrate. ACS spent several years developing its business model, know-how, infrastructure, client base and provider base and until 2001, ACS focused on managing ancillary benefits in the Workers Compensation market. In early 2001, ACS expanded and refocused its business to address the management of ancillary benefits in the Group Health market. It launched its Group Health initiatives by marketing to healthcare networks such as TPAs and PPOs. As of the end of 2003, ACS began to focus its marketing efforts on the direct payor community. This is in alignment with the marketing focus for the Care Team Connect product line.

Patient Infosystems currently employs a sales and marketing staff of five 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 Loge Group, LLC, formerly CBCA, Gilsbar, CHA Health and POMCO. All of these organizations provide third-party administrator services. These agreements permit either company to co-market and sub-contract for the services of the other company.

## **Competition**

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

## **Research and Development**

Research and development expenses consist primarily of salaries, related benefits and administrative costs allocated to Patient Infosystems research and development personnel. These personnel are actively involved in the conversion of Patient Infosystems' technology platform to a fully web-enabled design. Patient Infosystems' research and development expenses were \$130,332 or 0.8% of total revenues for the fiscal year ended December 31, 2004, \$131,782, or 2.3% of total revenues and for the fiscal year ended December 31, 2003. 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 is subject to extensive regulation by both the Federal and state governments. A number of states have extensive licensing and other regulatory requirements applicable to companies that provide health care services. Additionally, services provided to health benefit plans in certain cases are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

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

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

## **Employees**

As of March 15, 2005, Patient Infosystems had 145 full time and 29 part-time employees.

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## **RISK FACTORS**

### *Forward-Looking Statements*

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

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

### **Risks Related to the Business of Patient Infosystems**

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

Patient Infosystems has never earned a profit and has depended upon the over \$30 million that Patient Infosystems 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 \$2.6 million with a net loss of approximately \$3.6 million for the year ended December 31, 2004 and had an approximate \$1.9 million deficit in working capital and shareholders' equity of approximately \$5.4 million at December 31, 2004. As of December 31, 2004, Patient Infosystems had total liabilities of \$11.5 million. Throughout 2004, Patient Infosystems has supported a wholly-owned subsidiary, American Caresource Holdings, Inc. ( "ACS" ) through the sale of Patient Infosystems' equity securities and debt. Existing working capital is expected to last at least through the end of 2005, and Patient Infosystems anticipates that it will be required to raise additional funds thereafter. 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. We plan to spin-off ACS to existing shareholders (see risk factor titled "The spin-off of ACS will result in reduced revenues and our share price may decline").

#### *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.

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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 February 2005, an aggregate of approximately 765,000 persons are enrolled in Patient Infosystems programs. While Patient

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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.

### Significant Customer Concentration; Expected loss of significant customer revenue

While at December 31, 2004 Patient Infosystems had more than twice as many customers as it had at December 31, 2003, there is still a significant concentration of Patient Infosystems' business in a small number of customers, with Patient Infosystems' most significant contract being with Institute for Healthcare Improvement ("IHI") and accounting for revenues of \$5.3 million. The contract with IHI has never had a term of more than twelve months. The contract with IHI is due to renew on April 1, 2005, at which time Patient Infosystems anticipates that the revenue from this customer may decrease by as much as 45%. Park Place Entertainment which accounted for revenue of \$622,067 in 2003 and \$438,705 in 2004 and a smoking cessation program which accounted for revenue of \$491,362 in 2003 and \$415,579 in 2004 terminated their service agreements with Patient Infosystems effective December 31, 2004. Patient Infosystems expects that its sale of services will continue to 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 91.4% of its revenues during 2004, (non-continuing customers amounted to 9.3%). In addition, ACS generally does not have long-term contracts with any of its customers. Significant declines in the level of use of ACS services by one or more of these 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.

### 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 required substantial and material charges to earnings which will impact the net loss attributable to the common shareholders. As a result, the value of outstanding shares of common stock could decline further.

### The spin-off of ACS will result in reduced revenues and our share price may decline

Patient Infosystems expects to distribute approximately 10,000,000 shares of ACS common stock to its stockholders in the form of a dividend and retain 1,000,000 shares. The distribution will occur as soon as practicable following the effectiveness of a registration statement that has been filed with the Securities and Exchange Commission on February 14, 2005. The record date for stockholders eligible to receive the distribution has not yet been established. Following the spin-off, ACS will be a new independent public company with its own management and board of directors. During the year ended December 31, 2004, ACS had revenue of approximately \$6 million out of the Company's total revenue of \$15.7 million. Although the business of ACS has operated at a loss, the spin-off of its operations will result in a reduction of business, revenue and diversity of operations to Patient Infosystems. As a result, it may be expected that, as a portion of the operations are spun-off to the stockholders of Patient Infosystems, there will be a reduction of the total value of and the share price of Patient Infosystems. In addition, to the extent that current stockholders of Patient Infosystems will become stockholders of ACS, no assurance can be given that, as it is operated independently, that its losses will not increase and that the relative value of its shares will not decline.

### Uncertainty of Market Acceptance; Resistance by Customers; Limitations of Commercialization Strategy

In connection with the commercialization of Patient Infosystems' health information system, Patient Infosystems is marketing 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

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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

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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.

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.

Terminability of Agreements

Patient Infosystems' current services agreements with its customers generally automatically renew but 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.

Unpredictability of Patient Behavior May Affect Success of Programs

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

Substantial Fluctuation in Quarterly Operating Results

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





Dependence on Data Processing and Telephone Equipment

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

Quality Control

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

Control of Patient Infosystems

The executive officers, directors and certain stockholders of Patient Infosystems who beneficially own in the aggregate approximately 62% of the outstanding common stock control Patient Infosystems. As a result of such ownership, these stockholders, in the event they act in concert, will have control over the management policies of Patient Infosystems and all matters requiring approval by the stockholders of Patient Infosystems, including the election of directors.

Potential Liability and Insurance

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

Intellectual Property

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

**Risks Related to the Business of American Caresource**

ACS History of Operating Losses

ACS has incurred losses since its inception. In addition, American CareSource Corporation, from whom Patient Infosystems purchased ACS assets, had not, since its inception, operated profitability.

In addition, during the end of 2003 and early 2004, Pinnacol Assurance and one of its other customers which in the aggregate accounted for over 51% of the revenues of American CareSource Corporation during the fiscal year ended December 31, 2003 terminated their relationships with ACS. Revenue from the terminated

relationships were approximately \$566,000 in 2004. The termination of these contracts resulted in a significant reduction of ACS revenues in 2004. 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. No assurance can be given that more customers will not terminate their relationships with ACS. 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.

ACS faces working capital shortfalls and has an urgent need for working capital

ACS and American CareSource Corporation have never earned profits. In addition, ACS operations have been supported substantially by the provision of working capital by Patient Infosystems. ACS will need continued funding in order to maintain its operations. After ACS becomes independent of Patient Infosystems there can be no assurance that ACS will be able to obtain additional sources of funds, or that such funds will be available on terms favorable to ACS. In addition, ACS must incur costs associated with capital expenditures to systemize operations. There can be no assurance that ACS will have sufficient funds for such capital expenditures.

ACS is dependent on payments from third party payors

The profitability of ACS will depend on payments provided by third-party payors. Competition for patients, efforts by traditional third-party payors to contain or reduce healthcare costs and the increasing influence of managed care payors such as health maintenance organizations in recent years have resulted in reduced rates of reimbursement. If these trends continue, they could adversely affect ACS results of operations unless ACS can implement measures to offset the loss of revenues and decreased profitability. In addition, changes in reimbursement policies of private and governmental third-party payors, including policies relating to the Medicare and Medicaid programs, could reduce the amounts reimbursed to these customers for ACS services and consequently, the amount these customers would be willing to pay for the services.

ACS is dependent upon discounted rates made available by ancillary service providers

ACS obtains revenue from cost savings that it is able to receive from the ancillary service providers and pass on to customers. Should the ancillary service providers not continue to provide a discount to ACS, ACS will be unable to recognize any gain from the sale of services to payors or networks. If ACS is unable to recognize these margins, it will be unable to continue its business as it is currently conducted.

The continued services and leadership of ACS senior management is critical to its ability to maintain growth and any loss of key personnel could adversely affect its business

The future of the business of ACS depends to a significant degree on the skills and efforts of its senior executives. If ACS loses the services of any of these senior executives, and especially if any of these executives joins a competitor or forms a competing company, ACS business and financial performance could be seriously harmed.

ACS future growth depends on successful hiring and retention of skilled personnel

The future growth of ACS business depends on successful hiring and retention of skilled personnel, including a Chief Financial Officer, and ACS may be unable to hire and retain the skilled personnel it needs to succeed. Qualified personnel are in great demand throughout the healthcare industry. The failure of ACS to attract and retain sufficient skilled personnel may limit the rate at which its business can grow, which will harm its financial performance.

ACS is dependent upon data processing capabilities and telecommunications

The business of ACS 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 its business.

Any inability to adequately protect its intellectual property could harm ACS' competitive position

ACS considers its methodologies, processes and know-how to be proprietary. ACS seeks to protect its proprietary information through confidentiality agreements with its employees. ACS' policy is to have employees enter into confidentiality agreements containing provisions prohibiting the disclosure of confidential information to anyone outside of ACS, requiring employees to acknowledge, and, if requested, assist in confirming ACS' ownership of new ideas, developments, discoveries or inventions conceived during employment, and requiring assignment to ACS of proprietary rights to such matters that are related to ACS' business. There can be no assurance that the steps taken by ACS to protect its intellectual property will be successful. If ACS does not adequately protect its intellectual property, competitors may be able to use its technologies and erode or negate its competitive advantage.

**Risks Related to Our Industry**

Changes in state and federal regulations could restrict ACS' ability to conduct its business

Numerous state and federal laws and regulations affect ACS' business and operations. These laws and regulations include, but are not necessarily limited to:

healthcare fraud and abuse laws and regulations, which prohibit illegal referral and other payments;

Employee Retirement Income Security Act of 1974 and related regulations, which regulate many healthcare plans;

mail pharmacy laws and regulations;

privacy and confidentiality laws and regulations;

consumer protection laws and regulations;

legislation imposing benefit plan design restrictions;

various licensure laws, such as managed care and third party administrator licensure laws;

drug pricing legislation; and

Medicare and Medicaid reimbursement regulations.

ACS believes it is operating its business in substantial compliance with all existing legal requirements material to the operation of its business. There are, however, significant uncertainties regarding the application of many of these legal requirements to its business, and there cannot be any assurance that a regulatory agency charged with enforcement of any of these laws or regulations will not interpret them differently or, if there is an enforcement action, that ACS' interpretation would prevail. In addition, there are numerous proposed healthcare laws and regulations at the federal and state levels, many of which could materially affect ACS' ability to conduct its business or adversely affect its results of operations.

For example, the State of Texas requires state funded workers compensation claims to be paid directly to the provider of services. This regulation may restrict the ability of ACS to perform and expand its services related to workers compensation claims in Texas. ACS' ability to perform and expand its services related to workers compensation claims may be further limited to the extent other states enact regulations similar to that of Texas.

Government Regulation

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

and could be required to restructure its contractual arrangements in that state. Such results or the inability to successfully restructure its contractual arrangements, could have a material adverse effect on Patient Infosystems.

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

In addition, on August 21, 1996 Congress passed the Health Insurance Portability and Accountability Act of 1996 ( HIPAA ), P.L. 104-191. This legislation required the Secretary of 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.

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.

### 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.



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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.

Competition in the pharmacy benefits management industry could reduce ACS' profit margins

Pharmacy benefit management companies ( PBMs ) are actual or potential competitors of ACS. These companies include well-established companies which may have greater financial, marketing and technological resources than ACS, such as Merck-Medco, Express Scripts, Advance PCS and Caremark Rx. Competition in the marketplace has caused many PBMs to reduce the prices charged to clients for core services and share a larger portion of the formulary fees and related revenues received from drug manufacturers with clients. Increased price competition could reduce ACS' profit margins and have a material adverse effect on its results of operations.

There are limited barriers to entry into the ancillary services market

Although ACS is not aware of any organization or company that currently provides similar ancillary services management, there are limited barriers to entry into the ancillary services management market. Major benefit management companies and healthcare companies not presently offering ancillary services management may decide to enter the market. These companies may have greater financial, marketing and other resources than ACS. Competition from other companies may have a material adverse effect on ACS' financial condition and results of operations.

Significant and Extensive Changes in the Health Care Industry

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

In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs, including potential national healthcare reform, trends toward managed care, cuts in Medicare reimbursements, and horizontal and vertical consolidation within the healthcare industry. ACS' inability to react effectively to these and other changes in the healthcare industry could adversely affect its operating results. ACS cannot predict whether any healthcare reform efforts will be enacted and what effect any such reforms may have on ACS or its customers. The inability of ACS to react effectively to changes in the healthcare industry may result in a material adverse effect on its business.

Efforts to reduce healthcare costs and alter healthcare financing practices could adversely affect ACS' business

ACS' business is designed to compete within the current structure of the U.S. healthcare system. Changing political, economic and regulatory influences may affect healthcare financing and reimbursement practices. If the current healthcare financing and reimbursement system changes significantly, ACS' business could be materially adversely affected. Proposed changes to the U.S. healthcare system may increase governmental

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involvement in healthcare and ancillary health services, and otherwise change the way payors, networks and providers do business. Healthcare organizations may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that ACS provides. Other legislative or market-driven changes in the healthcare system that ACS cannot anticipate could also materially adversely affect ACS business.

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## Risks Related to Our Securities

The market price of our common stock may be highly volatile.

The market price of our common stock has been and will likely continue to be highly volatile. From the date trading of our common stock commenced until March 22, 2005, the range of our stock price has been between \$114.00 and \$0.48, after giving effect to the 1 for 12 reverse stock split which became effective on January 9, 2004. Factors including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, government regulation, or developments or disputes relating to agreements or proprietary rights may have a significant impact on the market price of our stock. In addition, potential dilutive effects of future sales of shares of common stock by us, our stockholders, or the holders of warrants and options, could have an adverse effect on the price of our common stock.

A large number of shares of our common stock may be sold in the market, which may depress the market price of our common stock.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales might occur, could materially and adversely affect the market price of our common stock or our future ability to raise capital through an offering of our equity securities. As of March 22, 2005 we had an aggregate of 9,743,600 shares of our common stock outstanding. If all vested options and warrants currently outstanding to purchase shares of our common stock and conversion rights of the outstanding convertible preferred stock are exercised, there will be approximately 21,000,000 shares of common stock outstanding. Of the outstanding shares, up to 9,743,600 shares are freely tradable without restriction or further registration under the Securities Act, unless the shares are held by one of our "affiliates" as such term is defined in Rule 144 of the Securities Act. The remaining shares may be sold only pursuant to a registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act. The sale and distribution of these shares may cause a decline in the market price of our common stock.

Our common stock qualifies as a "penny stock" under SEC rules which may make it more difficult for our stockholders to resell their shares of our common stock.

Our common stock trades on the OTC Bulletin Board. As a result, the holders of our common stock may find it more difficult to obtain accurate quotations concerning the market value of the stock. Stockholders also may experience greater difficulties in attempting to sell the stock than if it were listed on a stock exchange or quoted on the Nasdaq National Market or the Nasdaq Small-Cap Market. Because our common stock does not trade on a stock exchange or on the Nasdaq National Market or the Nasdaq Small-Cap Market, and the market price of the common stock is less than \$5.00 per share, the common stock qualifies as a "penny stock." SEC Rule 15g-9 under the Securities Exchange Act of 1934 imposes additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an "established customer" or an "accredited investor." This includes the requirement that a broker-dealer must make a determination on the appropriateness of investments in penny stocks for the customer and must make special disclosures to the customer concerning the risks of penny stocks. Application of the penny stock rules to our common stock could adversely affect the market liquidity of the shares, which in turn may affect the ability of holders of our common stock to resell the stock.

**Item 2. Description of Properties.**

Patient Infosteams executive and corporate offices are located in Rochester, New York in approximately 6,500 square feet of leased office space. American Caresource Holdings, Inc., a subsidiary of Patient Infosteams, leases 10,000 square feet of office space in Irving, Texas and 7,500 square feet of office space in Pittsboro, Indiana. CBCA Care Management, Inc., as a subsidiary of the Patient Infosteams, leases 6,600 square feet of office space in Dallas, Texas and 6,400 square feet of office space in Las Vegas, Nevada. These operating leases expire at various times between June 30, 2005 and July 31, 2008. Patient Infosteams expects to either extend those leases that expire during 2005 for a minimum of 12 months or lease new facilities at the end of such expiring lease.

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

**Item 3. Legal Proceedings.**

A former employee of American Caresource Corporation filed a lawsuit on June 16, 2004 entitled Schrier v. American Caresource Corporation, (Ind. Superior Ct.), alleging that she was terminated on February 5, 2003 in retaliation for refusing to engage in illegal conduct. She alleges that American Caresource Corporation engaged in various activities that would have constituted violations of agreements with customers, various laws, rules and regulations and would have resulted in inaccurate financial information being provided to Patient Infosteams in connection with the acquisition transaction. The plaintiff has demanded damages of \$123,000. We have conducted a preliminary investigation into the allegations and ACS and Patient Infosteams intends to contest the plaintiff's claims vigorously.

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

On December 23, 2004, Patient Infosystems held an annual meeting of its stockholders to vote on the following proposals:

1. At the 2004 Annual Meeting, six directors were elected to hold office for a term expiring at the next Annual Meeting. Each director was elected to serve until a successor is elected and qualified or until the director's earlier resignation or removal. The Board nominated Edward B. Berger, Robert M. Kaufman, Donald R. Ryan, Derace L. Schaffer, Roger L. Chaufournier and John Pappajohn to fill these positions.

Vote results, Proposal 1:

For	Against	Abstain
14,340,928	-	60,834

This proposal was approved by the majority of shares voted.

2. Patient Infosystems' stockholders were asked to approve the Third Amended and Restated Stock Option Plan of Patient Infosystems which (i) expanded the class of eligible participants to include nominees to the Board of Directors of Patient Infosystems and consultants engaged by Patient Infosystems and (ii) increased from 36,000 to 50,000 the number of shares of Common Stock underlying the one-time grant of a Non-Qualified Option to which non-employee directors or non-employee nominees of the Board of Directors may be entitled.

Vote results, Proposal 2:

For	Against	Abstain
12,826,616	26,733	60,937

This proposal was approved by the majority of shares voted.

3. On April 28, 2004, the Board of Directors of Patient Infosystems appointed McGladrey & Pullen LLP as its independent certified public accountants for the fiscal year ending December 31, 2004. Although the appointment of auditors is not required to be submitted to a vote of stockholders, the Board of Directors believed that it was appropriate as a matter of policy to request that the stockholders ratify the appointment.

Vote results, Proposal 3:

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For	Against	Abstain
14,340,917	-	60,842

This proposal was ratified by the majority of shares voted.

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**PART II****Item 5. Market Price for Registrant's Common Equity and Related Stockholder Matters.***(a) Market Information*

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

	<b><u>High</u></b>	<b><u>Low</u></b>
<b><u>2003</u></b>		
First Quarter	\$3.12	\$1.68
Second Quarter	\$3.00	\$0.96
Third Quarter	\$3.00	\$0.96
Fourth Quarter	\$4.08	\$1.32
<b><u>2004</u></b>		
First Quarter	\$6.00	\$1.44
Second Quarter	\$5.50	\$2.00
Third Quarter	\$3.60	\$1.32
Fourth Quarter	\$3.94	\$1.66

*(b) Holders*

The approximate number of record holders of Patient Infosteams' common stock as of February 28, 2005 is 141. The approximate number of beneficial owners is in excess of 750.

*(c) Dividends*

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

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



*(d) Securities authorized for issuance under equity compensation plans*

Equity Compensation Plan Information

	Number of securities to be issued upon the exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(c))
Equity compensation plans approved by securities holders	1,832,644	\$2.68	1,645,350
Equity compensation plans not approved by securities holders	1,663,450	\$1.53	-
Total	3,496,094	\$2.13	1,645,350

*(e) Recent sales of unregistered securities*

During the year ended December 31, 2004, Patient Infosystems issued 4,427,713 shares of its common stock and 10,018 shares of its Series D Convertible Preferred Stock to certain investors for \$7,471,289, which consisted of \$7,263,200 of working capital, forgiveness of \$53,180 of accrued interest payable, forgiveness of \$26,659 of debt and payment of \$128,250 of services. Patient Infosystems incurred \$579,106 of costs directly attributable to the sale of its common stock.

During the year ended December 31, 2004, of the shares issued above, 72,125 shares were issued as payment of \$128,250 in expenses related to the sale of common stock and issued warrants to placement agents to purchase 118,450 shares of its common stock at exercise prices between \$1.68 and \$2.75 per share. These warrants were assigned an aggregate fair market value of \$311,663 using a Black-Scholes valuation method.

Of the warrants to purchase 118,450 shares of Patient Infosystems' common stock, the issuance of warrants to purchase 12,500 shares, assigned a value of \$22,750, resulted in 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.

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

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

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

Management's discussion and analysis provides a review of Patient Infosteams' operating results for the fiscal years ended December 31, 2004 and its financial condition at December 31, 2004. The focus of this review is on the underlying business reasons for significant changes and trends affecting the revenues, net losses and financial condition of Patient Infosteams. This review should be read in conjunction with the accompanying consolidated financial statements.

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

### Overview

Patient Infosteams was formed in 1995, and enrolled patients in its first disease management program and began substantial patient contacts during 1998. Also in 1998, Patient Infosteams expanded its offered products to include demand management and health related surveys.

On September 22, 2004, Patient Infosteams acquired all the outstanding equity of CBCA Care Management, Inc. ("CMI") for a total purchase price of \$7,293,959 which included (1) \$7,100,000 in cash and (2) direct expenses of \$193,959. In connection with this acquisition, Patient Infosteams increased its line of credit with Wells Fargo Bank, N.A. by \$4,000,000. CMI provides case and utilization management services primarily to self insured employers and health and well fare funds. Patient Infosteams has sold case and utilization management services since 2000 and until 2004 outsourced the operations to CMI. Patient Infosteams intends to continue to market case and utilization management services.

The results of operations for the year ended December 31, 2004 include the results of operations of CMI only for the period beginning September 22, 2004. Patient Infosteams acquired CMI assets of \$781,221 and assumed \$242,059 of liabilities. During 2005, Patient Infosteams 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.

On December 31, 2003, Patient Infosteams acquired substantially all the assets and liabilities of American Caresource Corporation in exchange for 1,100,000 shares of Patient Infosteams common stock. Patient Infosteams created a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"), a Delaware corporation, and assigned the acquired assets and liabilities to this subsidiary, net of certain amounts which represented borrowings between Patient Infosteams 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.

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Because the acquisition of assets and the operations of ACS occurred on December 31, 2003, the 2003 consolidated statement of operations of Patient Infosystems does not include any ACS operational results, the 2004 consolidated statement of operations of Patient Infosystems includes a full 12 months of ACS operations. Patient Infosystems acquired ACS assets of \$3,005,132 and assumed \$2,368,327 of liabilities. During 2004, Patient Infosystems received an independent valuation of the identifiable intangible assets acquired of \$2,348,565. The change in valuation was offset by a corresponding change in goodwill.

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

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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 working capital shortfall is currently being funded by Patient Infosystems. ACS has never operated at a profit, and will require significant growth in either claims volume from existing contracts, new contracts or both in order to generate sufficient operational margin to become profitable. No assurances can be given that sufficient sources of new revenue will be identified and other sources of capital may have to be secured by ACS to support these operations. If ACS 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.

In connection with the spin-off of ACS, Patient Infosystems expects to distribute to its shareholders approximately 10,000,000 shares of ACS common stock to Patient Infosystems shareholders and retain 1,000,000 shares. The distribution will occur as soon as practicable following the effectiveness of a registration statement filed by ACS with the Securities and Exchange Commission and will be in the form of a dividend to the stockholders of Patient Infosystems. Patient Infosystems intends to distribute one share of common stock of ACS for every two shares of Patient Infosystems common stock and one share for every two shares of common stock issuable upon the conversion of the preferred stock owned as of the record date. The record date for stockholders eligible to receive the distribution has not yet been established. Following the spin-off, ACS will be a new independent public company with its own management and board of directors.

Patient Infosystems currently has patients enrolled in more than 30 of its disease-specific, demand management or survey programs. As of February 2005, an aggregate of over 763,000 persons are 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.

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Patient Infosystems contracts typically call for a fee to be paid by the customer for each patient enrolled for a series of program services, require payment for services incrementally as they are delivered or require payment of a fixed fee per patient or member each month for bundled program services. The timing of customer payments for the delivery of program services varies by contract. Revenues from program operations are recognized ratably

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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, 2004, 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 this source of revenue at its current level if at all.

Patient Infosystems will recognize additional revenue during 2005 as a result of its acquisition of CMI. Patient Infosystems has resold CMI services since 2000, but with the acquisition of CMI, Patient Infosystems now has revenue from more than 100 clients of CMI which Patient Infosystems had previously not had any relationship. In addition, Patient Infosystems has developed reselling relationships with three other third party healthcare benefits administrators to widen our exposure to the self insured employer marketplace.

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 2004, the pressure of working capital shortfalls eased for Patient Infosystems. Patient Infosystems segment had an operating profit of approximately \$200,000 during 2004. During 2003 and 2004 Patient Infosystems raised an aggregate of \$5.1 million of working capital, through the sale of its equity securities. These additional funds, with our credit line, 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 operations. ACS' working capital shortfall is currently being funded by Patient Infosystems. There can be no assurances given that, during the next 12 months, 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.

### Results of Operations

#### *Year Ended December 31, 2004 Compared to Year Ended December 31, 2003*

To assist the reader's understanding of the results of operations, each of Patient Infosystems' segments, Patient Infosystems and American Caresource, will be presented separately using the segmented statement of operations provided below. Where indicated, the pro forma results of American Caresource Holdings, Inc. ("ACS") and CBCA Care Management, Inc. ("CMI") from the period prior to their acquisition are included for comparative purposes. The results of operation of CMI from September 22, 2004 through December 31, 2004, has been included with results of operations of the Patient Infosystems Segment and, on a pro forma basis, the full year of CMI operations have been included in the pro forma results of operations as if they had been acquired on January 1 of the relevant year.





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### *Patient Infosystems Segment Information*

Patient Infosystems segment consists of the operational results of Patient Infosystems' case, demand, disease and utilization management, along with the provider improvement services.

Patient Infosystems segment statement of operations for the years ended December 31,

	2004	2003	2004 pro forma	2003 pro forma
Revenue	\$ 9,699,325	\$ 5,687,293	\$ 15,135,334	\$ 12,525,267
Cost of goods	6,688,532	4,162,759	10,536,387	8,882,424
Selling, general and administrative	2,810,931	2,151,541	3,725,577	3,320,054
Operational profit (loss)	199,862	(627,007)	873,370	322,789
Other	934,932	2,750,954	1,472,232	3,035,602
Net loss	\$ (735,070)	\$ (3,377,961)	\$ (598,862)	\$ (2,712,813)

### *Revenues*

Revenues are comprised of revenues from disease and demand management fees, case and utilization management fees provider improvement fees and other fees. Revenues increased 71% to \$9,699,325 for the fiscal year ended December 31, 2004 from \$5,687,293 for the fiscal year ended December 31, 2003. On a pro forma basis giving effect to the acquisition of CMI as of January 1 of each respective year, revenue in 2004 would have increased 21% to \$15,135,334 for the fiscal year ended December 31, 2004 from \$12,525,267 for the fiscal year ended December 31, 2003. A summary of these revenues by category is as follows for the fiscal years ended December 31:

<b><u>Revenues</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b> Pro forma	<b><u>2003</u></b> Pro forma
Disease and demand management	\$ 2,345,848	\$ 2,241,796	\$ 2,206,121	\$ 2,241,796
Case and utilization management	2,075,181	-	7,650,553	6,837,974
Provider improvement	5,259,301	3,391,867	5,259,301	3,391,867
Other Fees	18,995	53,630	18,995	53,630
Total	\$ 9,699,325	\$ 5,687,293	\$ 15,135,334	\$ 12,525,267

Revenues from disease and demand management fees increased 4.6% from \$2,241,796 for the fiscal year ended December 31, 2003 to \$2,345,848 for the fiscal year ended December 31, 2004. Disease and demand management revenues are generated as Patient Infosystems provides these services to its customers for their disease-specific programs, patient surveys, health risk assessments, patient satisfaction surveys and nurse help line programs. Disease and demand management revenue remained relatively constant in 2004 due to the growth of the Patient Infosystems disease and demand management business. Park Place Entertainment which accounted for revenue of \$622,067 in 2003 and \$438,705 in 2004 and a smoking cessation program which accounted for revenue of \$491,362 in 2003 and \$415,579 in 2004 terminated their service agreements with Patient Infosystems effective December 31, 2004. Patient Infosystems has devoted the majority of its sales and marketing efforts toward increasing revenue from disease, demand, case and utilization management services, and, other than the loss of Park Place Entertainment and the smoking cessation program, anticipates that it will retain most of its existing business and continue to add additional new clients through direct sales and through reselling arrangements with third party administrators. 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 case and utilization management fees were \$2,075,181 for the fiscal year ended December 31, 2004. Case and utilization management revenues are generated as Patient Infosystems' wholly owned subsidiary, CMI provides these services to its customers in support of their medical management needs. On a pro forma basis, case and utilization management revenue increased 12% to \$7,650,553 for the fiscal year 2004 as compared to \$6,837,974 for the fiscal year 2003. Park Place Entertainment which accounted for pro forma revenue of approximately \$410,000 in 2004 terminated case and utilization management services as of December 31, 2004.

Revenues from provider improvement fee increased 55% from \$3,391,867 for the fiscal year ended

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December 31, 2003 to \$5,259,301 for the fiscal year ended December 31, 2004. This increase is due to Patient Infosystems' expanded role in support of the Health Disparities Collaboratives funded by the Bureau of Primary Healthcare ("BPHC") and administered by the Institute for Healthcare Improvement. Revenues from provider improvement services may decrease during 2005 by as much as 45%. Patient Infosystems is actively marketing its provider improvement services to other entities who have expressed interest in provider improvement services and is seeking opportunities to expand our roll in the programs funded by the BPHC. No assurances can be given that these marketing efforts will replace any revenues lost nor that any such change will be material to Patient Infosystems operating results.

Revenues from other fees decreased 65% from \$53,630 for the fiscal year ended December 31, 2003 to \$18,995 for the fiscal year ended December 31, 2004. Other revenue represents amounts that Patient Infosystems charges its customers for custom information technology services and right to use fees for Patient Infosystems' Internet-based Case Management Support System. Patient Infosystems anticipates that other fee revenue 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. Cost of sales increased 61% from \$4,162,759 for the fiscal year ended December 31, 2003 to \$6,688,532 for the fiscal year ended December 31, 2004. The increase in these costs primarily reflects operational costs required in support of increased revenues.

Selling, general and administrative and marketing expenses increased 31% from \$2,151,541 for the fiscal year ended December 31, 2003 to \$2,810,931 for the fiscal year ended December 31, 2004. These costs consist primarily of salaries, related benefits and travel costs, sales materials, other marketing related expenses, costs of corporate operations, finance and accounting, human resources and other general operating expenses of Patient Infosystems. In 2004 there was an additional \$178,000 of selling, general and administrative expenses directly attributable to the newly acquired CMI subsidiary and bonuses of \$185,000 for which there was no comparable expense in 2003. 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.

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

	<b>2004</b>	<b>2003</b>
Financing costs	\$ (812,630)	\$(2,143,120)
Interest expense	(126,828)	(753,685)
Interest income	5,419	145,473
Other (expense) income	(893)	376
Total Expense	\$ (934,931)	\$ (2,750,956)

Financing costs decreased to \$813,360 for the fiscal year 2004 as compared to \$2,143,120 for the fiscal year ended December 31, 2003. Financing cost in 2003 related 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 Patient Infosystems. The total value received by the lenders from Patient Infosystems 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

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is allocable to equity resulting in a debt discount in that same amount, which was fully amortized as of December 31, 2003. In 2004 Patient Infosystems issued warrants as compensation to guarantors of up to \$7,000,000 of debt. The \$812,630 of financing costs represents the 2004 amortization of these warrants valued at \$2,501,875 using the Black Scholes method.

Interest expense is due to debt. Interest expense decreased to \$126,828 for the fiscal year ended December 31, 2004 from \$753,685 for the fiscal year ended December 31, 2003. The decrease in interest expense reflects the decreased debt after completing the acquisition of assets from American Caresource Corporation on December 31, 2003 and the conversion of \$8,902,500 of debt into equity.

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Interest income was realized from insured money market investments which consisted of certain working capital amounts not immediately needed to fund operations.

Patient Infosystems had no tax benefit in 2004 or 2003 due, in part, to the recognition of 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.

### *American Caresource Segment Information*

American Caresource segment consists of the operating results of Patient Infosystems' ancillary benefits management services. On December 31, 2003, the Patient Infosystems acquired substantially all the assets and liabilities of American Caresource Corporation and formed a wholly owned subsidiary, ACS, to hold and operate those assets and liabilities. The pro forma information below presents the operating results of ACS' predecessor, American Caresource Corporation, giving effect the acquisition as though it had occurred on January 1, 2003.

American Caresource segment statement of operations for the years ended December 31,

	2004	2003	2003 Pro Forma
Revenues	\$ 6,037,324	-	\$ 9,164,389
Cost of sales	5,840,589	-	10,289,128
Selling, general and administrative	2,209,778	-	2,279,094
Impairment of goodwill	802,105	-	-
Operational loss	(2,815,148)	-	(3,403,833)
Other	16,091	-	171,331
Net loss	\$ (2,831,238)	-	\$ (3,575,164)

Revenues of American CareSource Holdings, Inc. ( ACS ) are comprised of revenues from ancillary service claims and processing of patient claims. Revenues decreased to \$6 million from \$9.2 million during the fiscal year ended December 31, 2004 and 2003, respectively, or 34%.

	<b>Fiscal year ended December 31</b>	
<b><u>Revenues</u></b>	<b><u>2004</u></b>	<b><u>2003 Pro forma</u></b>
Ancillary health	\$ 5,512,927	\$ 8,706,471
Patient claims	524,397	457,918
Total revenues	\$ 6,037,324	\$ 9,164,389

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Ancillary health claims revenue for the fiscal year ended December 31, 2004 decreased to \$5,512,927 as compared to \$8,706,471 for the fiscal year ended December 31, 2003. This decrease is attributable to the cancellation of contracts by major clients and to the reduction of revenue from certain providers in ACS ancillary health provider network, partially offset by the addition of new clients. 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 through the first quarter and into the second quarter of 2004. Revenue from Pinnacol decreased 86.4% from \$4,132,862 for 2003 to \$563,042 for 2004. Plan Vista, from which ACS received \$557,246 of revenue for 2003, notified ACS of its intent to terminate its contract effective October 13, 2004 and did not generate any revenue for ACS during 2004. The decreased revenue due to the termination of clients was partially offset by \$448,799 of new business from three new clients in 2004. ACS has experienced improved relations with providers in its network as a result of the acquisition by Patient Infosystems, due to better funding. ACS also has been able to expand its provider network by seeking to restore relationships with providers previously in the network and adding new providers as ACS obtained new client payor contracts. ACS expects to see growth in the number of client and payor relationships due to increased emphasis on sales. No assurances can be given that ACS can continue to

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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 for the fiscal year ended December 31, 2004 increased 15% to \$524,397 as compared to \$457,918 for the fiscal year ended December 31, 2003. Patient Infosystems does not expect to increase its revenues from claims processing 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 American Caresource ancillary health programs. Cost of sales decreased 43% from \$10,289,128 for the fiscal year ended December 31, 2003 to \$5,840,589 for the fiscal year ended December 31, 2004. The decrease in these costs primarily reflects operational cost savings due to the decreased support required for decreased revenues.

Selling, general and administrative and marketing expenses remained relatively constant at \$2,279,094 for the fiscal year ended December 31, 2003 as compared to \$2,209,778 for the fiscal year ended December 31, 2004. These costs consist primarily of salaries, related benefits and travel costs, sales materials, other marketing related expenses, costs of corporate operations, finance and accounting, human resources and other general operating expenses of American Caresource. It is anticipated that American Caresource 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 American Caresource 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. Additionally, American Caresource' parent company, Patient Infosystems has announced its intent to distribute American Caresource to its shareholders as a separate public company. Therefore, American Caresource anticipates that its general and administrative costs will increase as it loses some of the administrative synergy it now has with Patient Infosystems. No assurance can be given that the intended distribution of American Caresource to the shareholders of Patient Infosystems will happen at any given time, if ever.

In conjunction with Patient Infosystems' annual goodwill impairment testing, an independent valuation of Patient Infosystems' assets was completed as of December 31, 2004, which resulted in a \$802,105 impairment charge.

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

	<b>2004</b>	<b>2003</b>
Interest expense	(12,349)	(162,176)
Other (expense) income	(3,742)	(9,155)
Total Expense	\$ (16,091)	\$ (171,331)

Interest expense is primarily due to interest expense contained in certain capitalized equipment leases. Interest expense decreased to \$12,349 for the fiscal year ended December 31, 2004 from \$162,176 for the fiscal year ended December 31, 2003. The decrease in interest expense reflects the decreased debt after completing the acquisition of assets from American Caresource Corporation on December 31, 2003.

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

Management of American Caresource 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.

*Non operating expenses*

For the fiscal year ended December 31, 2004, Patient Infosystems recorded \$826,738 in dividends on convertible preferred stock as compared to \$7,671,557, 7,428,300 of which was related to a beneficial conversion



feature of the Series D Preferred Stock, for the year ended December 31, 2004. The decrease was due to: (i) a \$2,143,120 beneficial conversion feature related to shares of Series D Preferred Stock issued to certain lenders in connection with borrowings and (ii) \$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 \$4,393,046 for the fiscal year ended December 31, 2004, compared to \$11,049,518 for the fiscal year ended December 31, 2003. This represents a loss of \$0.56 per basic and diluted share for 2004 and \$11.96 for 2003, after giving effect to the 1 for 12 reverse stock split which was approved by the shareholders on December 31, 2003.

### Liquidity and Capital Resources

At December 31, 2004, Patient Infosystems had a working capital deficit of \$1,868,268 as compared to a working capital deficit of \$2,808,649 at December 31, 2003. At December 31, 2004, Patient Infosystems had stockholders' equity of \$5,399,381. Through December 31, 2004 these amounts reflect the effects of Patient Infosystems' continuing losses that have been funded, in part, by the issuance of equity and long term borrowings of \$7,000,000 against its line of credit. Patient Infosystems has never earned profits and, since its inception, Patient Infosystems has primarily funded its operations, working capital needs and capital expenditures from the sale of its equity securities. Patient Infosystems is currently maintaining its operations only through the receipt of proceeds from the sale of equity securities. If these additional funds were not available, Patient Infosystems would likely be required to reduce its operations, reduce or cease the operations of ACS or take other measures to curtail its losses.

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

On December 31, 2003, Patient Infosystems 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 for their guarantees, in February 2004 Patient Infosystems granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, which are convertible into 475,000 shares of Patient Infosystems' common stock for \$10.00 per preferred share. Patient Infosystems 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 are being amortized as financing costs over the nineteen month period of the loan guarantee.

In January 2004, Patient Infosystems borrowed \$200,000 for working capital from Mr. Pappajohn which was repaid in March 2004 using the proceeds of the sale of Patient Infosystems' common stock. During the three month period ended September 30, 2004, Patient Infosystems borrowed \$570,000 of working capital from Mr. Pappajohn which was repaid in September 2004 using the proceeds the increased Wells Fargo line of credit, guaranteed by Mr. Pappajohn.

On March 30, 2005, Mr. Pappajohn and Dr. Schaffer signed a letter to Patient Infosystems in which they made a commitment to obtain the operating funds that Patient Infosystems believes would be sufficient to fund its operations through January 1, 2006. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of Patient Infosystems' securities or that Patient Infosystems can borrow the additional amounts needed.

On September 21, 2004, Patient Infosystems entered into the Fourth Addendum to the Second Amended and Restated Credit Agreement with Well Fargo Bank Iowa, N.A., which increased the amount of the credit facility to \$7,000,000 and extended the term to July 31, 2006. Dr. Schaffer and Mr. Pappajohn, directors of Patient Infosystems, guaranteed these extensions. In consideration of their guarantees, in September 2004 Patient Infosystems granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 1,000,000 shares of Patient Infosystems' common stock for \$1.68 per share. Patient Infosystems valued these warrants at \$1,416,500 using the Black-Scholes method. The value of these warrants was recorded as unearned debt issuance costs and will be amortized as financing costs over the 23 month period of the

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loan guarantee. During 2004, Patient Infosystems recorded a financing cost of \$812,630 related to these warrants.

On December 1, 2004, American Caresource Holdings, Inc. entered into a Credit Agreement with Well Fargo Bank Iowa, N.A., which created a secured credit facility of \$300,000 until July 31, 2006. Mr. Pappajohn, a director of the both Patient Infosystems and American Caresource Holdings, Inc., guaranteed this credit facility.

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There was no compensation to Mr. Pappajohn related to this guarantee.

On February 2, 2005, ACS entered into the First Addendum to the Credit Agreement with Wells Fargo Bank Iowa, N.A., which increased the amount of that credit facility to \$3,000,000. Dr. Schaffer and Mr. Pappajohn, directors of the both Patient Infosystems and ACS, guaranteed this extension. Also on February 2, 2005, Patient Infosystems entered into the Fifth Addendum to the Second Amended and Restated Credit Agreement with Well Fargo Bank Iowa, N.A., which decreased the amount of this credit facility to \$6,000,000. ACS repaid \$1,000,000 of debt to Patient Infosystems debt using its credit facility, which Patient Infosystems used to retire \$1,000,000 of its credit facility. In consideration of the guarantees, ACS is obligated to issue warrants to purchase 974,950 shares of ACS common stock at the fair market value per share to be established by the ACS Board of Directors based upon an independent appraisal.

During 2004, Patient Infosystems issued 4,427,713 shares of its common stock and 10,018 shares of its Series D Convertible Preferred Stock to certain investors for an aggregate of \$7,471,289 which consisted of \$7,263,200 of working capital, forgiveness of \$53,180 of accrued interest payable, forgiveness of \$26,659 of debt and payment of \$128,250 of services. Patient Infosystems incurred \$533,658 of costs directly attributable to the sale of its common stock.

During 2004, of the shares issued above, 72,125 shares were issued as payment of \$128,250 in expenses related to the sale of common stock and issued warrants to placement agents to purchase 118,450 shares of its common stock at exercise prices between \$1.68 and \$2.75 per share. These warrants were assigned an aggregate fair market value of \$311,663 using a Black-Scholes valuation method.

Of the warrants to purchase 118,450 shares of Patient Infosystems' common stock, the issuance of warrants to purchase 12,500 shares, assigned a value of \$22,750, resulted in an additional expense related to the purchase of substantially all of the assets and assumption of liabilities from American Caresource Corporation on December 31, 2003. Accordingly, goodwill related to this acquisition was increased by \$22,750.

Patient Infosystems has expended significant amounts to expand its operational capabilities, including increasing its administrative and technical costs. While Patient Infosystems has both curtailed its spending levels and increased its revenue, to the extent that ACS revenues do not increase substantially, Patient Infosystems' losses will continue and its available capital will diminish further. Patient Infosystems' operations are currently being funded by borrowings and the sale of equity securities. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify additional sources of capital, it will likely be forced to curtail or cease operations.

Capital expenditures during 2004 were \$585,855, as compared to expenditures of \$34,185 during 2003. The expenditures during these periods represented the purchase of technology platform components of the integrated information capture and delivery systems, as well as purchases required to maintain Patient Infosystems' technology infrastructure. On December 31, 2003, Patient Infosystems acquired substantially all the assets and assumed substantially all the liabilities of American Caresource Corporation. Included among the assets acquired was \$152,480 of capital assets, which consisted of computer hardware and software, furnishings, fixtures and leasehold improvements. On September 22, 2004, Patient Infosystems acquired 100% of the outstanding stock of CBCA Care Management, Inc. Included among the assets acquired was \$181,852 of capital assets, which consisted of computer hardware and software, furnishings, fixtures and leasehold improvements.

### *Inflation*

Inflation did not have a significant impact on Patient Infosystems' operations during 2004 and 2003. Patient Infosystems continues to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

### *Recent Accounting Pronouncements*

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In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(Revised), "Share-Based Payment" ("SFAS No.123(R)), establishing accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments, or that may be settled by the issuance of those equity instruments. SFAS N. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based stock awards, stock appreciation rights, and employee stock

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purchase plans. SFAS No. 123(R) replaces existing requirements under SFAS No. 123, "Accounting for Stock-Based Compensation," and eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25. The provisions of SFAS No. 123(R) are effective for Patient Infosystems on July 1, 2005. Patient Infosystems is currently assessing the financial statement impact of adopting SFAS No. 123(R). (see note 1 "stock based compensation" to the Patient Infosystems' consolidated financial statements appearing at Item 13)

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29" ("SFAS No. 153"), addressing the measurement of exchanges of nonmonetary assets. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar production assets in APB Opinion No. 29 "Accounting for Nonmonetary Exchanges," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 with earlier application permitted. Patient Infosystems does not expect adoption of the provisions of SFAS No. 153 to have a material impact on the consolidated financial statement, results of operations or liquidity of Patient Infosystems.

#### **Critical Accounting Policies**

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

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

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

**Impairment of Long-Lived Assets.** Long-lived assets consist primarily of intangible assets which includes goodwill and identifiable intangible assets acquired in business acquisitions. Goodwill is tested at least annually for impairment. Other intangible assets are reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable. The recoverability of these assets is measured by a comparison of the carrying amounts of the assets to future net cash flows expected to be generated by the asset. If the asset is impaired, the impairment is measured by the amount by which the carrying amount exceeds the fair value of the asset.

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

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

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

On April 28, 2004, Patient Infosystems filed a Form 8-K announcing a change in its certifying accountant. The information disclosed on Form 8-K is as follows:

- a) Deloitte & Touche LLP resigned as the Registrant's independent accountants on April 21, 2004.
- b) The Audit Committee of the Board of Directors of the Registrant approved on April 28, 2004 the engagement of the accounting firm of McGladrey & Pullen, LLP as independent accountants for the Registrant for the year ending December 31, 2004 subject to their normal client acceptance procedures.
- c) Deloitte & Touche LLP's reports on the financial statements for the past two years ended December 31, 2003 and 2002 contained no adverse opinion or disclaimer of opinion. Deloitte & Touche LLP's reports on the financial statements contained an explanatory paragraph expressing substantial doubt about the Registrant's ability to continue as a going concern.
- d) In connection with its audits for the two most recent fiscal years ended December 31, 2003 and 2002 and through April 21, 2004, there have been no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Deloitte & Touche LLP would have caused them to make reference thereto in their report on the financial statements for such years.

**Item 8A. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Vice President, Financial Planning, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2004. Based upon this evaluation, our Chief Executive Officer and Vice President, Financial Planning concluded that our disclosure controls and procedures (as defined in Rules 130-15(e) and 15(d)-15(e) under the Securities and Exchange Act of 1934) are effective for the recording, processing, summarizing and reporting the information that Patient Infosystems is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls.

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



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

The names, ages and positions of our current directors and executive officers are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Roger Louis Chaufourmier	47	Chairman and Chief Executive Officer
Christine St. Andre	54	President and Chief Operating Officer
Kent A. Tapper	48	Vice President Financial Planning, Acting Chief Financial Officer
Derace L. Schaffer, MD	57	Director
John Pappajohn	76	Director
Edward B. Berger	76	Director
Robert M. Kaufman	56	Director
Donald R. Ryan	58	Director

There are no familial relationships among our directors and/or officers. Directors hold office until the next annual meeting of our stockholders or until their respective successors have been elected and qualified.

**Roger Louis Chaufourmier, 47** Mr. Chaufourmier has been the President and Chief Executive Officer of Patient Infosystems since April 1, 2000 and served as Chairman of the Board of Directors since November 2004. Prior to joining Patient Infosystems, Mr. Chaufourmier was President of the STAR Advisory Group, a healthcare consulting firm he founded in 1998. From August 1996 to July 1999, Mr. Chaufourmier was the Chief Operating Officer of the Managed Care Assistance Company, a company that developed and operated Medicaid health plans. Managed Care Assistance Company filed for protection under the federal bankruptcy laws in June 2000. From 1993 to 1996, Mr. Chaufourmier was Assistant Dean for Strategic Planning for the Johns Hopkins University School of Medicine. In addition, Mr. Chaufourmier spent twelve years in progressive leadership positions with the George Washington University Medical Center from 1981 to 1993.

**Christine St. Andre, 54.** Ms. St. Andre has been the Executive Vice President and Chief Operating Officer of Patient Infosystems since June 5, 2000. Ms. St. Andre has more than 20 years experience managing complex healthcare organizations. From 1994 to 2000, Ms. St. Andre was Chief Executive Officer for the University of Utah Hospitals and Clinics. Prior to 1994, Ms. St. Andre served as Chief Executive Officer of George Washington University Medical Center. Ms. St. Andre's career in healthcare began in the area of information technology at the Thomas Jefferson University.

**Kent Tapper, 48.** Mr. Tapper has been the Vice President, Financial Planning of Patient Infosystems since April 1999. Mr. Tapper has served as Chief Information Officer and Vice President, Systems Engineering and has been with Patient Infosystems since July 1995. Mr. Tapper became the acting Chief Financial Officer of Patient Infosystems in April 2000. From 1992 to 1995, Mr. Tapper served as Product Manager, Audio Response and Call Center Platforms for Northern Telecom, Inc. From 1983 to 1992, Mr. Tapper held Product Manager, Systems Engineering Manager and various engineering management positions with Northern Telecom.



**Derace L. Schaffer, M.D., 57.** Dr. Schaffer has been a Director of Patient Infosystems since its inception in February 1995 and served as Chairman of the Board of Directors until November 2004. Dr. Schaffer is the founder and CEO of the Lan Group, a venture capital firm specializing in healthcare and high technology investments which position he has held for more than the last five years. He serves as a director of Allion Healthcare, Inc., a public company. He received his postgraduate radiology training at Harvard Medical School and Massachusetts General Hospital, where he served as Chief Resident. Dr. Schaffer is Clinical Professor of Radiology at the Cornell Medical School.

**John Pappajohn, 76.** Mr. Pappajohn has been a Director of Patient Infosystems since its inception in February 1995, and served as its Secretary and Treasurer from inception through May 1995. Since 1969, Mr. Pappajohn has been the sole owner of Pappajohn Capital Resources, a venture capital firm and President of Equity Dynamics, Inc., a financial consulting firm, both located in Des Moines, Iowa. He serves as a director for the following public companies: Allion Healthcare, Inc., MC Informatics, Inc. and Pace Health Management Systems, Inc.

**Edward B. Berger, 76.** Mr. Berger is currently Chairman and Chief Executive Officer of Equity Acquisitions Incorporated, a position he has held since January 2004, Chairman of the Board of Directors of Southwest Business Systems, Director and Chairman of the Audit Committee of CardSystems Solutions and Director of Compass Bank of Tucson, AZ. Mr. Berger has been admitted to practice law by the U.S. Supreme Court, New York Bar, Arizona Bar, District of Columbia Bar, U.S. District Court-Arizona and the U.S. Court of Appeals 9th Circuit. Mr. Berger is currently an Adjunct Professor in Political Science at Pima Community College and is the Chairman of the MBA Advisory Council at the University of Arizona. Mr. Berger received a Juris Doctor in Law from New York Law School and a Masters Degree in Education as well as a B.A. in History and English from the University of Arizona.

**Robert M. Kaufman, 56.** Mr. Kaufman is currently President and Chief Executive Officer of Oakley Investments, a position he held since November 2002, and Director and Chairman of the Audit Committee of Berkshire Income Realty. From January 2000 through November 2002, Mr. Kaufman was the Chief Executive Officer of MedEView, Inc., from June 1996 through April 1999 he was President and then Chief Executive Officer of CareMatrix Corporation and from April 1999 through December 1999 he was a consultant to CareMatrix Corporation. Prior to 1996, Mr. Kaufman spent 24 years at PriceWaterhouseCoopers, the last 15 years as a Partner in the firm. Mr. Kaufman received a Masters in Business Administration from Cornell University and a Bachelor of Arts from Colby College.

**Donald R. Ryan, 58.** Mr. Ryan is currently President and Chief Executive Officer of CareCore National, LLC, a position he held since September 2000. Until August 2000, Mr. Ryan was President of Practice Management Associates, Inc. Mr. Ryan received a Masters Degree in Hospital Administration from St. Louis University and a Bachelors of Arts Degree in Political Science with a minor in Economics from Providence College.

## **AUDIT COMMITTEE**

The Audit Committee, which held five meetings during fiscal year 2004, periodically reviews Patient Infosystems' auditing practices and procedures, makes recommendations to management or to the Board of Directors as to any changes to such practices and procedures deemed necessary from time to time to comply with applicable auditing rules, regulations and practices, reviews all Form 10-KSB Annual and 10-QSB interim reports and recommends independent auditors for Patient Infosystems to be elected by the stockholders.

The Audit Committee consists of Robert Kaufman, Edward Berger and Donald Ryan. The Audit Committee has one audit committee financial expert as defined by Item 401(e) of Regulation S-B under the Securities Exchange Act of 1934, Robert Kaufman who is independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934.

The Audit Committee meets with Patient Infosystems' independent auditors quarterly and reviews the scope of the audit performed by Patient Infosystems' independent auditors. The Audit Committee and Patient Infosystems' independent auditors review Patient Infosystems' accounting principles and internal accounting controls.

## **COMPLIANCE WITH SECTION 16(a)**

### **OF THE SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Patient Infosystems' executive officers and directors, and persons who own more than 10% of a registered class of Patient Infosystems' equity securities (who are referred to as Reporting Persons), to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based on a review of the copies of reports furnished to Patient Infosystems, Patient Infosystems believes that during the year ended December 31, 2004 all filing requirements applicable to its officers, directors and ten percent beneficial owners were met.

## **CODE OF ETHICS**

The Board of Directors of Patient Infosystems has adopted a code of ethics (attached hereto as Exhibit 14.1) which defines the ethical principles which govern the conduct of all senior officers. Such senior officers include the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Principal Accounting Officer.

**Item 10. Executive Compensation.**

The following table sets forth information concerning the annual and long-term compensation for services in all capacities to Patient Infosystems and its subsidiary for each of the fiscal years ended December 31, 2004, 2003 and 2002 for those persons who were at December 31, 2004, (i) the Chief Executive Officer and (ii) the other executive officers of Patient Infosystems who received compensation in excess of \$100,000 during the fiscal year ended December 31, 2004 (the named executive officers):

**Summary Compensation Table**

<u>Name and Principal Position</u>	<u>Annual Compensation</u>			<u>Long-Term Compensation</u>
	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Awards Securities</u>
				<u>Underlying Options (#)</u>
Roger L. Chaufournier, President and Chief Executive Officer	2004	\$250,007	\$50,000	400,000
	2003	219,611	25,385	0
	2002	180,841	0	0
Christine St. Andre, Vice President, Chief Operating Officer	2004	\$200,016	\$40,000	200,000
	2003	184,050	22,212	0
	2002	157,512	0	0
Kent A. Tapper, Vice President, Financial Planning	2004	\$127,934	\$30,000	125,000
	2003	124,154	14,913	0
	2002	107,942	0	0

No stock options were exercised by the Chief Executive Officer or the named executive officers of Patient Infosystems during 2004.

The following table sets forth certain information regarding unexercised options held by the Chief Executive Officer and the named executive officers of Patient Infosystems at December 31, 2004. The table does not give effect to grants of options that occurred after December 31, 2004. For additional information with respect to these grants, see Stock Option Plan .

**Aggregated Option Exercises during 2004****and Option Values on December 31, 2004**

<b>Number of Securities Underlying Unexercised Options at <u>December 31, 2004(#)</u></b>	<b>Value of Unexercised In-the-Money Options at <u>December 31, 2004(\$)(1)</u></b>
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<b><u>Name</u></b>	<b><u>Exercisable</u></b>	<b><u>Unexercisable</u></b>	<b><u>Exercisable</u></b>	<b><u>Unexercisable</u></b>
Roger L. Chaufournier	263,415	169,917	\$ 380,298	\$ 253,534
Christine St. Andre	137,499	87,501	\$ 194,025	\$ 129,350
Kent A. Tapper	84,582	51,751	\$ 130,602	\$ 78,714

(1) Calculated based upon \$3.80 market value of the underlying securities as of December 31, 2004.

**Options/SAR Grants in Last Fiscal Year**

Name	Number of Securities	% of Total	Exercise or Base Price (\$/Sh)	Expiration Date
	Underlying Options/SARs Granted (#)	Options/SARs Granted to Employees in Fiscal Year		
Roger L. Chaufourmier	400,000	22.9%	\$ 2.28	1/9/2014
Christine St. Andre	200,000	11.4%	\$ 2.28	1/9/2014
Kent A. Tapper	125,000	7.1%	\$ 2.28	1/9/2014

**Stock Option Plan**

Patient Infosystems' Amended and Restated Stock Option Plan (the "Plan") was adopted by the Board of Directors and stockholders in 1995 and amended as of December 2004. As of December 2004, up to 3,500,000 shares of Common Stock are authorized and reserved for issuance under the Plan. Under the Plan, options may be granted in the form of incentive stock options ("ISOs") or non-qualified stock options ("NQOs") from time to time to salaried employees, officers, directors, director nominees and consultants of Patient Infosystems, as determined by the Compensation Committee of the Board of Directors. The Compensation Committee determines the terms and conditions of options granted under the Plan, including the exercise price. The Plan provides that the Committee must establish an exercise price for ISOs that is not less than the fair market value per share at the date of the grant. However, if ISOs are granted to persons owning more than 10% of the voting stock of Patient Infosystems, the Plan provides that the exercise price must not be less than 110% of the fair market value per share at the date of the grant. The Plan also provides for a non-employee director or non-employee director nominee to be entitled to receive a one-time grant of a NQO to purchase 50,000 shares at an exercise price equal to fair market value per share on the date of their initial election to Patient Infosystems' Board of Directors. Such NQO is exercisable only during the non-employee director's term and automatically expires on the date such director's service terminates. Each option, whether an ISO or NQO, must expire within ten years of the date of the grant. No additional options may be granted under the plan after June 1, 2005.

As of December 31, 2004, options to acquire 1,832,644 shares of Common Stock are outstanding to employees and directors of Patient Infosystems. The following table sets forth information regarding the number of options outstanding and the exercise price of these options.

**Number of Options Outstanding**

at

**December 31, 2004**

	<b>Exercise Price</b>
416	\$1.08
3,000	1.67
150,000	1.80
43,748	2.25
1,311,900	2.28
228,000	2.80
50,000	3.08

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12,500	6.00
6,000	8.33
6,417	16.50
2,500	22.56
16,666	24.72
789	29.26
708	33.00

Of these options, 92,744 of the options granted before December 31, 2003 were fully vested, 1,320,500 were granted on January 9, 2004, 449,000 of which vested immediately. 250,000 granted to directors in consideration for their service vest as to 33% on the first anniversary and 33% on each

subsequent anniversary. The remaining options and all other options granted under the Plan vest as to 20% of the option grant on the first anniversary of the grant, and 20% on each subsequent anniversary.

**Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth certain information regarding the beneficial ownership of the shares of Patient Infosystems' Common Stock as of March 30, 2005, (i) by each person Patient Infosystems knows to be the beneficial owner of 5% or more of the outstanding shares of Common Stock, (ii) the Chief Executive Officer and each named executive officer listed in the Summary Compensation Table below, (iii) each director and nominee for director of Patient Infosystems and (iv) all executive officers and directors of Patient Infosystems as a group. As of March 30, 2005, there were outstanding 9,752,600 shares of Common Stock, 75,000 shares of Series C Convertible Preferred Stock, convertible into 750,000 shares of Common Stock, and 840,118 shares of Series D Convertible Preferred Stock, convertible into 8,401,180 shares of Common Stock.

	<b>Shares Beneficially Owned</b>	<b>Percentage Beneficially Owned</b>
<b>Beneficial Owner(1)</b>		
John Pappajohn(2)	8,306,757	54.63%
Principal Life Insurance(3)	3,551,490	26.69%
801 Grand Ave.		
Des Moines, IA 50392		
Derace L. Schaffer(4)	1,185,803	11.36%
Roger Louis Chauffournier(5)	273,332	2.73%
Edward Berger(6)	154,583	1.57%
Christine St. Andre(7)	145,000	1.47%
Kent A. Tapper(8)	86,341	*
Robert Kaufman(9)	0	*
Donald Ryan(10)	0	*
All directors and executive officers as a group (8 persons)	10,151,816	61.58%
Total Shares Outstanding as of March 30, 2005	9,752,600	
* - <1%		

(1) Unless otherwise noted, the address of each of the listed persons is c/o Patient Infosystems at 46 Prince Street, Rochester, New York 14607.

(2) Includes 30,000 shares held by Halkis, Ltd., a sole proprietorship owned by Mr. Pappajohn, 30,000 shares held by Thebes, Ltd., a sole proprietorship owned by Mr. Pappajohn's spouse and 30,000 shares held directly by Mr. Pappajohn's spouse. Mr. Pappajohn disclaims beneficial ownership of the shares owned by Thebes, Ltd. and by his spouse. Includes an option to purchase 3,000 shares of Common Stock, a warrant to purchase 816,667 shares of Common Stock and a warrant to purchase 28,220 shares of Series D Convertible Preferred Stock which is convertible into 282,200 shares of Common Stock which are either currently exercisable or which become exercisable within 60 days of March 30, 2005. Also included are 110,000 shares of Common Stock issuable upon the conversion of 11,000 shares of Series C Convertible Preferred Stock and 4,352,330 shares of Common Stock issuable upon the conversion of 435,233 shares of Series D Convertible Preferred Stock beneficially owned as of March 30, 2005. Does not include 50,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(3) Includes 3,551,490 shares of Common Stock issuable upon the conversion of 355,149 shares of Series D Convertible Preferred Stock beneficially owned as of March 30, 2005.



(4) Includes 12,000 shares held by Dr. Schaffer's children. Also includes 3,000 shares which are issuable upon the exercise of options, 183,333 shares which are issuable upon the exercise of warrants to purchase Common Stock and 192,800 shares of Common Stock issuable upon the exercise of a warrant to purchase 19,280 shares of Series D Convertible Preferred Stock that are either currently exercisable or which become exercisable within 60 days of March 30, 2005, 250,000 shares of Common Stock issuable upon the conversion of 25,000 shares of Series C Convertible Preferred Stock and 53,180 shares of Common Stock issuable upon the conversion of 5,318 shares of Series D Convertible Preferred Stock beneficially owned as of March 30, 2005. . Does not include 50,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(5) Includes options to purchase 273,332 shares which are either currently exercisable or which become exercisable within 60 days of the date of March 30, 2005. Does not include 160,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(6) Includes 59,523 shares of Common Stock held by Tucson Traditions LLC. Mr. Berger is an affiliate of Tucson Traditions LLC and disclaims beneficial ownership of its shares. Also includes 95,060 shares of Common Stock issuable upon the conversion of 9,506 shares of Series D Convertible Preferred Stock beneficially owned as of March 30, 2005. Does not include 50,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(7) Includes options to purchase 145,000 shares which are either currently exercisable or which become exercisable within 60 days of the date of March 30, 2005. Does not include 80,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(8) Includes options to purchase 83,333 shares which are either currently exercisable or which become exercisable within 60 days of March 30, 2005. Does not include 50,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(9) Does not include 50,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

(10) Does not include 50,000 shares subject to outstanding options that are not exercisable within 60 days of March 30, 2005.

## **Item 12. Certain Relationships and Related Transactions.**

In December 1999, Patient Infosystems established a credit facility for \$1,500,000 guaranteed by Derace Schaffer and John Pappajohn, two directors of Patient Infosystems. In March 2000, the facility was increased by \$1,000,000 under substantially the same terms, also guaranteed by the same Board members.

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

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

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

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

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

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

Between April 2003 and January 2004, Patient Infossystems issued 840,118 shares of Series D 9% Cumulative Convertible Preferred Stock ( Series D Preferred Stock ) under the terms of the Note and Stock Purchase Agreement dated April 11, 2003 and amended on September 10, 2003. These shares can be converted into common stock at a rate of 10 shares of common stock to 1 share of Series D Preferred Stock. Each share of Series D Preferred Stock has voting rights equivalent to 10 shares of common stock. John Pappajohn and Derace Schaffer, members of the Board of Directors of Patient Infossystems, hold 435,233 and 5,318 shares of Series D Preferred Stock respectively.

In January 2004, Patient Infossystems borrowed \$200,000 for working capital from Mr. Pappajohn which was repaid in March 2004 using the proceeds of the sale of Patient Infossystems' common stock. During the three month period ended September 30, 2004, Patient Infossystems borrowed \$570,000 of working capital from Mr. Pappajohn which was repaid in September 2004 using the proceeds the increased Wells Fargo line of credit, guaranteed by Mr. Pappajohn.

On December 31, 2003, Patient Infossystems 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. Dr. Schaffer and Mr. Pappajohn, directors of Patient Infossystems, guaranteed this extension. In consideration of their guarantees, in February 2004, Patient Infossystems granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, which are convertible into an aggregate of 475,000 shares of Patient Infossystems' common stock for \$10.00 per preferred share. Patient Infossystems valued these warrants at \$1,085,375 using the Black-Scholes method. The value of these warrants was recorded as unearned debt issuance costs and will be amortized as financing costs over the nineteen month period of the loan guarantee.

On September 21, 2004, Patient Infossystems entered into the Fourth Addendum to the Second Amended and Restated Credit Agreement with Well Fargo Bank Iowa, N.A., which increased the amount of the credit facility to \$7,000,000 and extended the term to July 31, 2006. Dr. Schaffer and Mr. Pappajohn, directors of Patient Infossystems, guaranteed these extensions. In consideration of their guarantees, in September 2004 Patient Infossystems granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 1,000,000 shares of Patient Infossystems' common stock for \$1.68 per share. Patient Infossystems valued these warrants at \$1,416,500 using the Black-Scholes method. The value of these warrants was recorded as unearned debt issuance costs and will be amortized as financing costs over the 23 month period of the loan guarantee. During the year ended December 31, 2004, Patient Infossystems recorded a financing cost of \$812,630.

On December 1, 2004, American Caresource Holdings, Inc. entered into a Credit Agreement with Well Fargo Bank Iowa, N.A., which created a secured credit facility of \$300,000 until July 31, 2006. Mr. Pappajohn, a director of the both Patient Infossystems and American Caresource

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Holdings, Inc., guaranteed this credit facility. There was no compensation to Mr. Pappajohn related to this guarantee.

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On February 2, 2005, ACS entered into the First Addendum to the Credit Agreement with Wells Fargo Bank Iowa, N.A., which increased the amount of that credit facility to \$3,000,000. Dr. Schaffer and Mr. Pappajohn, directors of the both Patient Infosystems and ACS, guaranteed this extension. Also on February 2, 2005, Patient Infosystems entered into the Fifth Addendum to the Second Amended and Restated Credit Agreement with Well Fargo Bank Iowa, N.A., which decreased the amount of this credit facility to \$6,000,000. ACS repaid \$1,000,000 of debt to Patient Infosystems debt using its credit facility, which Patient Infosystems used to retire \$1,000,000 of its credit facility. In consideration of the guarantees, ACS is obligated to issue warrants to purchase 974,950 shares of ACS common stock at the fair market value per share to be established by the ACS Board of Directors based upon an independent appraisal.

On March 30, 2005, Mr. Pappajohn and Dr. Schaffer signed a letter to Patient Infosystems in which they made a commitment to obtain the operating funds that Patient Infosystems believes would be sufficient to fund its operations through January 1, 2006. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of Patient Infosystems' securities or that Patient Infosystems can borrow the additional amounts needed.

### Item 13. Exhibits

(a) Exhibits.

<u>Exhibit #</u>	<u>Description of Exhibits</u>
3.1	~ Certificate of Amendment to the Certificate of Incorporation
3.2	* By-Laws
4.1	** Patient Infosystems, Inc. Amended and Restated Stock Option Plan
4.2	*** Certificate of Designations, Powers, Preferences and Relative, Participating, Optional or Other Special Rights, and the Qualifications, Limitations Thereof of the Series C Preferred Stock of Patient InfoSystems, Inc.
4.3	*** Certificate of Designations, Powers, Preferences and Relative, Participating, Optional or Other Special Rights, and the Qualifications, Limitations Thereof of the Series D Preferred Stock of Patient InfoSystems, Inc.
10.20	+ Lease Agreement dated as of February 22, 1995 between Patient Infosystems and Conifer Prince Street Associates.
10.21	+ First Addendum to Lease Agreement dated as of August 22, 1995 between Patient Infosystems and Conifer Prince Street Associates.
10.22	+ Second Addendum to Lease Agreement dated as of November 17, 1995 between Patient Infosystems and Conifer Prince Street Associates.
10.23	+ Third Addendum to Lease Agreement dated as of March 28, 1996 between Patient Infosystems and Conifer Prince Street Associates.
10.24	+ Fourth Addendum to Lease Agreement dated as of October 29, 1996 between Patient Infosystems and Conifer Prince Street Associates.
10.25	+ Fifth Addendum to Lease Agreement dated as of November 30, 1996 between Patient Infosystems and Conifer Prince Street Associates.
10.26	+ Sixth Addendum to Lease Agreement dated as of November 24, 1997 between Patient Infosystems and Conifer Prince Street Associates.
10.30	++ Seventh Addendum to Lease Agreement dated as of June 16, 1999 between Patient Infosystems and Conifer Prince Street Associates.
10.35	++ Security Agreement dated as of December 23, 1999 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.36	++ Arbitration Agreement dated as of December 23, 1999 between Patient Infosystems and Norwest Bank Iowa, National Association.
10.37	++ Financing Statement executed by Patient Infosystems and Norwest Bank Iowa, National Association.
10.41	***

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Form of Subscription Agreement dated on or about March 31, 2000 between Patient Infosystems and John Pappajohn, Derace Schaffer, Gerald Kirke and Michael Richards for Series C 9% Cumulative Convertible Preferred Stock.

10.42 \*\*\* Form of Registration Rights Agreement dated on or about March 31, 2000 between Patient Infosystems and John Pappajohn, Derace Schaffer, Gerald Kirke and Michael Richards for Series C 9% Cumulative Convertible Preferred Stock.

10.43 \*\*\* Eighth Addendum to Lease Agreement dated as of December 8, 2000 between Patient Infosystems and Conifer Prince Street Associates.

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10.45	***	Amended and Restated Credit Agreement dated as of March 28, 2001 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
10.47	***	Form of Promissory Notes payable to Dr. Schaffer and Mr. Pappajohn.
10.48	***	Form of Security Agreements with Dr. Schaffer and Mr. Pappajohn.
10.49	***	Ninth Addendum to Lease Agreement dated as of January 7, 2002 between Patient Infosystems and Conifer Prince Street Associates.
10.51	#	Second Amended and Restated Credit Agreement dated as of March 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
10.53	#	Security Agreement dated as of March 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
10.54	##	Addendum to Amended and Restated Credit Agreement dated as of June 28, 2002 between Patient Infosystems and Wells Fargo Bank Iowa, National Association.
10.55	##	Agreement for Purchase and Sale of Assets dated as of September 23, 2002 between Patient Infosystems and American CareSource Corporation.
10.56	###	Tenth Addendum to Lease Agreement dated as of June 24, 2002 between Patient Infosystems and Conifer Prince Street Associates.
10.57	###	Eleventh Addendum to Lease Agreement dated as of December 30, 2002 between Patient Infosystems and Conifer Prince Street Associates.
10.58	###	Letter of Agreement dated as of March 28, 2003 between Patient Infosystems, John Pappajohn and Derace Schaffer.
10.59	###	Second Addendum to Second Amended and Restated Credit Agreement dated as of March 28, 2003 between Patient Infosystems and Wells Fargo Bank, National Association.
10.60	###	Modification Agreement dated as of March 28, 2003 between Patient Infosystems and Wells Fargo Bank, National Association.
10.61	^	Amended and Restated Agreement for the Purchase and Sale of Assets among Patient Infosystems, Inc., American Caresource Corporation, formerly known as Health Data Solutions, and the Stockholders Signatory hereto, dated April 10, 2003.
10.62	^	Note and Stock Purchase Agreement between Patient Infosystems, Inc. and a group of investors, dated April 10, 2003.
10.63	^	Patient Infosystems, Inc. Series D Convertible Preferred Stock Registration Right Agreement dated April 10, 2003.
10.64	^	Credit Agreement between American Caresource Corporation and Patient Infosystems, Inc. dated April 10, 2003.
10.65	^^	Twelfth Addendum to Lease Agreement dated as of April 28, 2003 between Patient Infosystems and Conifer Prince Street Associates.
10.66	^^	Thirteenth Addendum to Lease Agreement dated as of June 27, 2003 between Patient Infosystems and Conifer Prince Street Associates.
10.67	^^^	Amendment No. 1 to the Amended and Restated Agreement for the Purchase and Sale of Assets dated as of July 30, 2003 between Patient Infosystems and American Caresource Corporation.
10.68	^^^	Amendment No. 1 to the Note and Stock Purchase Agreement dated as of September 11, 2003 between Patient Infosystems and a group of investors.
10.69	^^^	Amendment No. 1 to the Credit Agreement dated as of July 30, 2003 between Patient Infosystems and American Caresource Corporation.
10.70	^^^	Amendment No. 2 to the Amended and Restated Agreement for the Purchase and Sale of Assets dated as of October 8, 2003 between Patient Infosystems and American Caresource Corporation.
10.71	+++	Third Addendum to Second Amended and Restated Credit Agreement dated as of December 31, 2003 between Patient Infosystems and Wells Fargo Bank, National Association.
10.72	+++	Form of Securities Purchase Agreement.
10.73	+++	Fourteenth Addendum to Lease Agreement dated as of May 18, 2004 between Patient Infosystems and Conifer Prince Street Associates.
10.74	+++	Form of Securities Purchase Agreement.
10.75	~~	Agreement of Purchase and Sale dated as of August 26, 2004 by and among the Registrant, CBCA Care Management, Inc. and CBCA, Inc. previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on September 1, 2004 and incorporated herein by reference.
10.76	~~	Fourth Addendum to Second Amended and Restated Credit Agreement dated as of September 21, 2004 between Patient Infosystems and Wells Fargo Bank, National Association.

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- 10.77    ~~    Modification Agreement dated as of September 22, 2004 between Patient Infosystems and Wells Fargo Bank, National Association.
- 10.78           Commercial Lease dated July 1, 1998 between Today Tristar, L.P. and American Caresource Corporation, as amended.
- 10.79           Lease dated July 1, 2002 between Madison Square Park, LLC and American Caresource Corporation.
- 10.80           Lease Agreement dated as of October 29, 1997 between Talcott Realty and SIA Brokerage, Inc., as amended by USI Care Management, Inc. and Carlyle Heritage II L.P.
- 10.81           Fourth Amendment to Lease dated December 6, 2004 between Carlyle Heritage II L.P. and CBCA Care Management, Inc.
- 10.82           Lease Agreement dated September 8, 2003 between Howard Hughes Properties, L.P. and CBCA Inc.



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- 10.83 Credit Agreement dated December 1, 2004 between Well Fargo Bank, National Association and American Caresource Holdings, Inc.
- 10.84 Security Agreement dated December 1, 2004 between Well Fargo Bank, National Association and American Caresource Holdings, Inc.
- 10.85 First Addendum to Credit Agreement dated February 2, 2005 between Well Fargo Bank, National Association and American Caresource Holdings, Inc.
- 10.86 Fifth Addendum to Second Amended and Restated Credit Agreement dated as of February 2, 2005 between Patient Infosystems and Wells Fargo Bank, National Association
- 14.1 Code of Ethics
- 23.1 Consent of McGladrey & Pullen LLP
- 23.2 Consent of Deloitte & Touche LLP
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- ~ Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-KSB filed on March 30, 2004 and incorporated herein by reference.
- ~~ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on November 15, 2004 and incorporated herein by reference.
- \* Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-1 filed on July 3, 1996 and incorporated herein by reference.
- \*\* Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-8 filed on October 8, 2004 and incorporated herein by reference.
- \*\*\* Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 2, 2001 and incorporated herein by reference.
- + Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 13, 1999 and incorporated herein by reference.
- ++ Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on March 30, 2000 and incorporated herein by reference.
- +++ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on August 16, 2004 and incorporated herein by reference.
- # Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on April 10, 2002 and incorporated herein by reference.
- ## Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-Q filed on November 14, 2002 and incorporated herein by reference.
- ### Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed on March 31, 2003 and incorporated herein by reference.
- ^ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on May 15, 2003 and incorporated herein by reference.
- ^^ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on August 15, 2003 and incorporated herein by reference.
- ^^^ Previously filed with the Securities and Exchange Commission as an Exhibit to the Quarterly Report on Form 10-QSB filed on November 14, 2003 and incorporated herein by reference.

(b) Reports on Form 8-K.

Patient Infosystems filed a current report on Form 8-K on October 7, 2004 filing an updated description of Patient Infosystems' capital stock.

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Patient Infosystems filed a current report on Form 8-K on October 7, 2004 reporting that on September 22, 2004, Patient Infosystems had acquired all the outstanding stock of CBCA Care Management, Inc.

Patient Infosystems filed a current report on Form 8-K on November 16, 2004 filing a copy of a press release dated November 15, 2004 announcing Patient Infosystems' earnings for the three and nine month periods ended September 30, 2004.

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Patient Infosystems filed a current report on Form 8-K on November 19, 2004 disclosing the appointment of three new independent directors of Patient Infosystems.

Patient Infosystems filed a current report on Form 8-K/A on December 6, 2004 updating the information provided in the report on Form 8-K dated October 7, 2004, reporting the financial information required in Item 7 thereof.

## **Item 14 Principal Accountant Fees and Services.**

### Relationship with Independent Auditors

Audit services performed by McGladrey & Pullen LLP and Deloitte & Touche LLP for the fiscal years 2004 and 2003, respectively, consisted of the examination of Patient Infosystems' financial statements, services related to filings with the Securities and Exchange Commission ( SEC ), acquisition audits and tax services.

### Audit Fees

The aggregate fees billed by McGladrey & Pullen LLP for professional services rendered in connection with the audit of Patient Infosystems' annual financial statements for the year ended December 31, 2004, the review of Patient Infosystems' quarterly financial statements for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, and services related to the consents required related to registration statements or review of other statements and reports filed by the registrant during the periods reported, were approximately \$213,000 as compared to \$83,750 for the same respective periods of 2003 which were paid to Deloitte & Touche LLP.

### Audit-Related Fees

The aggregate audit related fees paid to McGladrey & Pullen LLP were approximately \$162,000 representing audits related to acquisitions as compared to \$5,440 for the year ended December 31, 2003 which were paid to Deloitte & Touche LLP. Service provided for this fee includes travel and other reimbursed expenses.

### Tax Fees

The aggregate fees billed by RSM McGladrey, Inc. an entity associated with McGladrey & Pullen LLP, for professional services rendered related to taxes of Patient Infosystems for the year ended December 31, 2004 were approximately \$26,000 as compared to \$5,440 for the year ended December 31, 2003 which were paid to Deloitte & Touche LLP.

### All Other Fees

There were no other fees billed by McGladrey & Pullen LLP or RSM McGladrey, Inc. for the year ended December 31, 2004 as compared to \$45,000 for the year ended December 31, 2003 which were paid to Deloitte & Touche LLP. These fees related primarily to the consents required related to registration statements or review of other statements and reports filed by the registrant during the periods reported.

The Audit Committee considers at least annually whether the provision of non-audit services by McGladrey & Pullen LLP is compatible with maintaining auditor independence.

### Pre-Approval of Audit and Permissible Non-Audit Services

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditor is required to provide detailed back-up

documentation

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at the time of approval. All audit and permissible non-audit services provided by McGladrey & Pullen LLP and or Deloitte & Touche LLP to Patient Infosystems for the fiscal years ended 2004 and 2003 were approved by the Audit Committee.

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SIGNATURE PAGE

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

PATIENT INFOSYSTEMS, INC.

By: /s/ Roger L. Chaufournier  
Roger L. Chaufournier  
March 31, 2005  
Date  
  
Chairman and Chief Executive Officer  
  
(Principal Executive Officer)

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

By: /s/ Roger L. Chaufournier  
Roger L. Chaufournier  
March 31, 2005  
Date  
  
Chairman and Chief Executive Officer  
  
(Principal Executive Officer)

By: /s/ Christine St. Andre  
Christine St. Andre  
March 31, 2005  
Date  
  
President and Chief Operating Officer

By: /s/ Kent A. Tapper  
Kent A. Tapper  
March 31, 2005  
Date  
  
Vice President Financial Planning  
  
(Principal Financial and Accounting Officer)

By: /s/ Derace L. Schaffer  
March 31, 2005

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Derace L. Schaffer, M.D.

Date

Director

By: /s/ John Pappajohn  
John Pappajohn

March 31, 2005  
Date

Director

By: /s/ Edward Berger  
Edward Berger

March 31, 2005  
Date

Director

By: /s/ Robert Kaufman  
Robert Kaufman

March 31, 2005  
Date

Director

By: /s/ Donald Ryan  
Donald Ryan

March 31, 2005  
Date

Director





**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

Patient Infosystems, Inc.

We have audited the accompanying consolidated balance sheet of Patient Infosystems, Inc. and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, cash flows and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patient Infosystems, Inc.