PATIENT INFOSYSTEMS INC
Form 424B3
May 20, 2005
Dated May 12, 2005

PROSPECTUS

PATIENT INFOSYSTEMS, INC.

708,626 Shares of Common Stock

The stockholders named on page 55 are selling up to 708,626 shares of our common stock. The selling stockholders may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices. We will not receive any of the proceeds from the sale of shares by the selling stockholders, but we will receive funds from the exercise of their warrants.

Our common stock is currently listed on the OTC Bulletin Board under the symbol PATY. On May 3, 2005, the last reported sale price of our common stock on the Nasdaq OTC Bulletin Board was $3.99 per share.

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

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

The date of this Prospectus is May 12, 2005

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

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SUMMARY

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

Our Company

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.

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.

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.

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

The Offering

Shares of common stock offered	708,626
Use of Proceeds	We will not receive any proceeds from the sale of the common stock offered by the selling stockholders.
OTC Bulletin Board Symbol	PATY

Summary Financial Information

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

Statement of operations data:

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Statement of Operations Data:					
Revenues	$15,736,649	$5,687,293	$2,355,677	$1,586,443	$2,139,262
Costs and expenses:					
Cost of sales	12,529,121	4,162,759	1,914,464	2,420,151	3,906,010
Sales and marketing	1,532,032	893,833	746,353	813,975	1,425,990
General and administrative	3,358,234	1,125,926	1,282,683	2,028,804	2,329,585
Goodwill impairment	802,105	-	-	-	-
Research and development	130,443	131,782	105,614	190,731	305,543
Total costs and expenses	18,351,935	6,314,300	4,049,114	5,453,661	7,967,128
Operating loss	(2,615,286)	(627,007)	(1,693,437)	(3,867,218)	(5,827,866)
Other (expenses) income	(951,022)	(2,750,954)	(530,924)	(598,087)	(211,340)
NET LOSS	$(3,566,308)	$(3,377,961)	$(2,224,361)	$(4,465,305)	$(6,039,206)
Convertible preferred stock dividends	(826,738)	(7,671,557)	(90,000)	(90,000)	(617,500)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(4,393,047)	$(11,049,518)	$(2,314,361)	$(4,555,305)	$(6,656,706)
Net loss per share - basic and diluted	$(0.56)	$(11.96)	$(2.36)	$(5.17)	$(9.14)
Weighted average common shares outstanding	7,815,063	924,109	979,668	880,875	727,969

	As of December 31,				
Balance Sheet Data:	**2004**	**2003**	**2002**	**2001**	**2000**
Cash and cash equivalents	$229,298	$397,851	$5,011	$29,449	$28,231
Working capital	(1,868,268)	(2,808,649)	(6,135,451)	(4,686,322)	(1,375,391)
Total assets	16,901,543	9,111,158	1,217,266	1,222,133	2,292,244
Long term obligations	7,219,325	3,040,295	3,000,000	2,500,000	2,500,000
Total liabilities	11,502,162	7,174,782	9,887,505	7,578,011	4,481,225
Total stockholders' (deficit) equity	5,399,381	1,936,376	(8,670,239)	(6,355,878)	(2,188,981)

RISK FACTORS

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

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 a 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; 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.

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 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 new business concept in an industry characterized by an increasing number of market entrants who have introduced or are developing an array of new services. As is typical in the case of a new business concept, demand and market acceptance for newly introduced services are subject to a high level of uncertainty, and there can be no assurance as to the ultimate level of market acceptance for Patient Infosystems system, especially in the health care industry, in which the containment of costs is emphasized. Because of the subjective nature of patient compliance, Patient Infosystems may be unable, for an extensive period of time, to develop a significant amount of data to demonstrate to potential customers the effectiveness of its services. Even after such time, no assurance can be given that Patient Infosystems data and results will be convincing or determinative as to the success of its system. There can be no assurance that increased marketing efforts and the implementation of Patient Infosystems strategies will result in market acceptance for its services or that a market for Patient Infosystems services will develop or not be limited.

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

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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.

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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

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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

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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.

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.

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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 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.

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.

USE OF PROCEEDS

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

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Patient Infosystems 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 Infosystems 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.

	High	Low
2003		
First Quarter	$3.12	$1.68
Second Quarter	$3.00	$0.96
Third Quarter	$3.00	$0.96
Fourth Quarter	$4.08	$1.32
2004		
First Quarter	$6.00	$1.44
Second Quarter	$5.50	$2.00
Third Quarter	$3.60	$1.32
Fourth Quarter	$3.94	$1.66

(b) Holders

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

(c) Dividends

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

Patient Infosystems 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

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	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.

MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion of our financial condition and plan of operation should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus. This prospectus contains certain statements of a forward-looking nature relating to future events or our future financial performance. We caution prospective investors that such statements involve risks and uncertainties, and that actual events or results may differ materially. In evaluating such statements, prospective investors should specifically consider the various factors.

Management s discussion and analysis provides a review of Patient Infosystems 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 Infosystems. 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 Infosystems current condition and future opportunities, this Registration Statement includes forecasts by Patient Infosystems 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 Infosystems systems and services, competitive forces, the impact of, and changes in, government regulations, general economic factors in the healthcare industry, and other factors identified in this prospectus, including the matters set forth under the caption Risk Factors which could cause actual results to differ materially from those indicated by such forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

Overview

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

On September 22, 2004, Patient Infosystems 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 Infosystems 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 Infosystems has sold case and utilization management services since 2000 and until 2004 outsourced the operations to CMI. Patient Infosystems 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 Infosystems acquired CMI assets of $781,221 and assumed $242,059 of liabilities. During 2005, Patient Infosystems will complete an independent valuation of the identifiable intangible assets acquired and any changes to the estimated amounts will be offset by a corresponding change in goodwill.

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

Because the acquisition of assets and the 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 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 in 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.

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 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 his 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.

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:

Revenues	**2004**	**2003**	**2004** Pro forma	**2003** 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.

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 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:

	2004	2003
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 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.

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

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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