PATIENT INFOSYSTEMS INC
Form 10QSB
November 14, 2003

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

FORM 10-QSB

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

For the quarterly period ended: September 30, 2003

OR

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

For the transition period from to

Commission file number: 0-22319

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

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

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

(585) 242-7200
(Issuer's telephone number)

As of November 13, 2003, 10,956,424 of the Company's common stock, par value $.01 per share, were outstanding.

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

PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

PATIENT INFOSYSTEMS INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

ASSETS	September 30, 2
CURRENT ASSETS:	
Cash and cash equivalents	$ 747
Accounts receivable	156
Notes receivable	3,100
Prepaid expenses and other current assets	186
Total current assets	4,190
Property and equipment, net	184
Intangible assets (net of accumulated amortization of $550,937 and $443,258)	71
TOTAL ASSETS	$ 4,447
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	$ 644
Accrued salaries and wages	389
Borrowings from directors	6,330
Borrowings from shareholders	1,815
Line of credit	3,000
Accrued expenses	454
Accrued interest	1,169
Deferred revenue	146
Total current liabilities	13,950
LINE OF CREDIT	
STOCKHOLDERS' DEFICIT:	
Preferred stock - $.01 par value: shares authorized: 5,000,000	
Series C, 9% cumulative, convertible, issued and outstanding - 100,000	1
Series D, 9% cumulative, convertible, issued and outstanding - 286,182 as of September 30, 2003	2
Common stock - $.01 par value: shares authorized: 20,000,000; issued and outstanding - 10,956,024 as of December 31, 2002 and 10,956,454 as of September 30, 2003	109
Additional paid-in capital	28,022
Accumulated deficit	(37,639,
Total stockholders' deficit	(9,503,
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 4,447

See notes to unaudited consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Se 2003
REVENUES			
Operations Fees	$ 499,506	$ 521,220	$ 1,725,6
Consulting Fees	928,306	63,000	2,226,1
Licensing Fees	1880	1880	5,6
Total revenues	1,429,692	586,100	3,957,4
COSTS AND EXPENSES			
Cost of sales	1,107,776	467,162	3,054,2
Sales and marketing	230,606	192,533	675,6
General and administrative	341,526	238,184	913,8
Research and development	35,060	26,242	100,2
Total costs and expenses	1,714,968	924,121	4,744,0
OPERATING LOSS	(285,276)	(338,021)	(786,61
OTHER EXPENSE			
Amortization of debt discount	(754,101)	-	(1,467,94
Interest expense, net	(151,262)	(136,126)	(447,47
NET LOSS	(1,190,639)	(474,147)	(2,702,04
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(667,924)	(22,500)	(2,180,24
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (1,858,563)	$ (496,647)	$ (4,882,28
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.17)	$ (0.05)	$ (0.4
WEIGHTED AVERAGE COMMON SHARES	10,956,424	10,956,024	10,956,1

See notes to unaudited consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2003
OPERATING ACTIVITIES:	
Net loss	$ (2,702,042)

Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	236,552
Amortization of debt discount	1,467,947
Gain on sale of property	-
Decrease (increase) in accounts receivable, net	284,440
Increase in prepaid insurance, expenses and other current assets	(80,672)
Increase in accounts payable	265,087
Increase in accrued salaries and wages	180,737
Increase in accrued expenses	403,365
Decrease in deferred revenue	(10,314)
Net cash provided by (used in) operating activities	45,100
INVESTING ACTIVITIES:	
Property and equipment additions	(27,744)
Proceeds form the sale of property	-
Notes receivable	(2,900,000)
Net cash used in investing activities	(2,927,744)
FINANCING ACTIVITIES:	
Borrowing from directors, net	1,500,000
Borrowing from stockholders	2,125,002
Line of credit borrowings	-
Exercise of incentive stock options	36
Net cash provided by financing activities	3,625,038
NET INCREASE IN CASH AND CASH EQUIVALENTS	742,394
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,011
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 747,405
Supplemental disclosures of non-cash information	
Dividend declared on convertible preferred stock	$ 155,887
Beneficial conversion feature of convertible preferred stock	$ 2,024,354
Debt discount associated with borrowing	$ 2,024,354

See notes to unaudited consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

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

1. The accompanying consolidated financial statements for the three month periods ended September 30, 2003 and September 30, 2002 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Certain 2002 amounts have been reclassified to conform to 2003 presentations. The results of operations for the nine months ended September 30, 2003 are not necessarily indicative of the results for the entire year ending December 31, 2003.

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

3. The Company borrowed $1,500,000 for working capital from Mr. Pappajohn during the nine month period ended September 30, 2003. On April 10, 2003, the Company replaced notes in the aggregate principal amount of $500,000 owed to Mr. Pappajohn with a new note for the principal amount of $900,000, representing the amount due under the original notes plus an additional $400,000 borrowed from Mr. Pappajohn for working capital. As of November 13, 2003, a total of $6,577,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer (both of whom are members of the Company's Board of Directors), inclusive of $246,852 of unamortized debt discount, all of which is secured by the assets of the Company.

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

4. On September 23, 2002, the Company signed an agreement to acquire substantially all the assets of American Care Source (ACS), headquartered in Dallas, Texas. This Asset Purchase Agreement was amended and restated on April 10, 2003 and further amended on July 30, 2003 and October 8, 2003 (hereinafter, the amended and restated Asset Purchase Agreement, as amended, is referred to as the "Asset Purchase Agreement"). ACS is an ancillary healthcare benefits management company. It provides a bridge connecting healthcare payers and the providers of ancillary healthcare services. Ancillary healthcare services include a broad array of services that supplement or support the care provided by hospitals and physicians, including the non-physician services associated with outpatient surgery centers, free-standing diagnostic imaging centers, home infusion, durable medical equipment, orthotics and prosthetics, laboratory and many other services. These ancillary services are provided to patients as benefits under group health plans and workers' compensation plans. ACS manages the administration of these ancillary healthcare benefits.

5. On April 10, 2003, the Company entered into a Note and Stock Purchase Agreement, which the Company amended on September 11, 2003 (the "Note and Stock Purchase Agreement") with certain investors (the "Investors"), including Mr. Pappajohn, a member of the Board of Directors of the Company, pursuant to which the Investors agreed to loan to the Company an aggregate of up to $3.5 million, $500,000 of which replaces notes payable to Mr. Pappajohn, which were outstanding at March 31, 2003. In consideration for the loans, the Company signed a series of promissory notes and issued a total of 286,182 shares of Series D 9% Cumulative Preferred Stock ("Series D Preferred Stock") to the Investors. The notes that were outstanding at

June 30, 2003 totaling $2,5 million (the "Original Notes") were replaced with new notes of equal value. Except for the maturity date of November 30, 2003, the replacement notes have substantially the same terms as the Original Notes. During the quarter ended September 30, 2003, the Company borrowed $1 million under the Note and Stock Purchase Agreement, resulting in a total borrowings of $3.5 million at September 30, 2003 and the Note and Stock Purchase Agreement. All the notes bear interest at a rate equal to the prime rate plus 3% per annum and mature on November 30, 2003. The 286,182 shares of Series D Preferred Stock are convertible into up to 34,341,840 shares of common stock valued at $4,807,858. The total value received by the lenders for borrowings was $8,307,858. In accordance with APB Opinion No. 14, a portion of the cash received totaling $596,662 and $2,024,354 for the three and nine month periods ended September 30, 2003, respectively, is allocable to equity resulting in a debt discount in those same amounts, which is amortized over the life of the loan. Holders of the Series D Preferred Stock have the right to elect two members of the Company's Board of Directors. Upon closing of a private placement of a minimum of $4 million in value of additional shares of Series D Preferred Stock and after the closing of the proposed acquisition of ACS, as contemplated by the Asset Purchase Agreement, any notes issued pursuant to the Note and Stock Purchase Agreement are convertible into Series D Preferred Stock. The purpose of the loan from the Investors is to provide funds to the Company for it to loan to ACS in order to provide working capital for the operations of ACS.

Simultaneously with the closing of the Note and Stock Purchase Agreement, the Company and ACS entered into a Credit Agreement subsequently amended on July 30, 2003 (the "Credit Agreement") pursuant to which the Company agreed to loan to ACS up to an aggregate of $3.4 million secured by all of the assets of ACS. As of September 30, 2003, the Company had notes receivable of $3.1 million from ACS. Patient Infosystems received warrants to purchase 26,344 shares of common stock of ACS, exercisable only if the Asset Purchase Agreement with ACS is terminated. Additional warrants to purchase ACS common stock may be issued depending on the total amount of funds it borrows from the Company under the Credit Agreement.

6. The calculations for the basic and diluted loss per share were based upon loss attributable to common stockholders of $1,858,563 and $4,882,283 and a weighted average number of common shares outstanding of 10,956,424 and 10,956,185 for the three and nine month periods ended September 30, 2003, respectively. The calculations for the basic and diluted loss per share were based upon loss attributable to common stockholders of $496,647 and $1,759,687 and a weighted average number of common shares outstanding of 10,956,024 for both the three and nine month periods ended September 30, 2002, respectively. Options totaling 1,114,040 and 1,115,140 to purchase shares of common stock were outstanding but not included in the computation of diluted loss per share for the three and nine month periods ended September 30, 2003 and 2002, respectively, because the effect would have been antidilutive due to the net loss in those periods.

7. The accompanying unaudited consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited consolidated financial statements, the Company incurred a net loss for the nine month period ended September 30, 2003 of $4,882,283 and had negative working capital of $9,760,182 and a stockholders' deficit of $9,503,778 at September 30, 2003. These factors, among others, may indicate that the Company will be unable to continue as a going concern.

   The unaudited consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of

liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's ability to continue as a going concern is dependant upon its ability to generate sufficient cash flow to meet its obligations. Management is currently assessing the Company's operating structure for the purpose of reducing ongoing expenses, increasing sources of revenue and is negotiating the terms of additional debt or equity financing.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss attributable to common shareholders - as reported	($1,858,563)	($496,647)	($4,882,283)	($1,759,6
Stock compensation expense	(30,961)	(31,693)	(88,123)	(99,4
Net loss - pro forma	($1,889,524)	($528,340)	($4,970,406)	($1,859,1
Net loss per share - basic and diluted - as reported	($0.17)	($0.05)	($0.45)	($0.
Net loss per share - basic and diluted - pro forma	($0.17)	($0.05)	($0.45)	($0.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using an assumed risk-free interest rates of 3.75% as of September 30, 2003 and an expected life of 7 years. The assumed dividend yield was zero. The Company has used a volatility factor of 1.56 for the year ended September 30, 2003. For purposes of pro forma disclosure, the estimated fair value of each option is amortized to expense over that option's vesting period and only the compensation expense related to the three and nine month periods ended September 30, 2002 and 2003 were used to adjust the net loss on a pro forma basis.

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

Balance as of December 31, 2002	$ 24,132,153
Series C dividends	(67,500)
Series D dividends	(88,387)
Value of 286,182 shares of Series D issued	
Portion of debt allocated to stock	2,021,492
Beneficial conversion feature	2,024,354
Value of 400 shares common stock issued	32
	$ 28,022,144

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

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

In an effort to give investors a well-rounded view of the Company's current condition and future opportunities, this Quarterly Report on Form 10-QSB includes forecasts by the Company's management about future performance and results. Because they are forward-looking, these forecasts involve uncertainties. These uncertainties include the Company's ability to continue its operations as a result of, among other things, continuing losses, working capital short falls, uncertainties with respect to sources of capital, risks of market acceptance of or preference for the Company's systems and services, competitive forces, the impact of changes in government regulations, general economic factors in the healthcare industry and other factors discussed in the Company's filings with the Securities and Exchange Commission including the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

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

On September 23, 2002, the Company signed an agreement to acquire substantially all the assets of American Care Source (ACS), headquartered in Dallas, Texas. This Asset Purchase Agreement was amended and restated on April 10, 2003 and subsequently amended on July 30, 2003 and October 8, 2003 (hereinafter, the amended and restated Asset Purchase Agreement as amended, is referred to as the "Asset Purchase Agreement"). ACS is an ancillary healthcare benefits management company. It provides a bridge connecting healthcare payers and the providers of ancillary healthcare services. Ancillary healthcare services include a broad array of services that supplement or support the care provided by hospitals and physicians, including the non-physician services

associated with outpatient surgery centers, free-standing diagnostic imaging centers, home infusion, durable medical equipment, orthotics and prosthetics, laboratory and many other services. These ancillary services are provided to patients as benefits under group health plans and workers' compensation plans. ACS manages the administration of these ancillary healthcare benefits.

Under the terms of the Asset Purchase Agreement, the Company will acquire the assets of ACS in exchange for shares of common stock of the Company equal to approximately sixteen percent (16%) of the fully diluted outstanding common stock of the Company, without giving effect to a private placement anticipated to be completed prior to the closing of the acquisition in order to provide working capital. The ACS beneficial ownership of the Company will change depending of the terms and amount of equity sold in any private placement. The agreement contains various conditions to closing, some of which may not be satisfied. Therefore completion of the transaction cannot be assured until closing. Among the conditions to closing are the following:

- the approval of the stockholders of the Company of certain amendments to its Certificate of Incorporation;

- the execution by certain shareholders of ACS and the Company of a Shareholders' Agreement providing for the voting of shares of the Company in favor of the election of certain individuals to the board of directors of the Company;

- the execution of agreements by John Pappajohn and Derace Schaffer to hold all indebtedness of the Company in abeyance until September 30, 2004;

- written documentation that the bank debt of the Company to Wells Fargo Bank has been renegotiated so as to provide a grace and forbearance period until December 31, 2003, before any principal payments are required and that John Pappajohn and Derace Schaffer will remain guarantors of such bank debt if required by Wells Fargo Bank;

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

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

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

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

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

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

The Company has filed a preliminary proxy statement with the Securities and Exchange Commission with respect to a meeting of stockholders to obtain approval of, among other things, certain amendments to the Company's certificate of incorporation necessary to consummate the proposed transaction with ACS.

Results of Operations

Revenues

Revenues consist of revenues from operations, development fees and licensing fees. Revenues increased to $1,429,692 from $586,100 during the three months ended September 30, 2003 and 2002, respectively, or 144%. Revenues increased to $3,957,408 from $1,628,144 during the nine months ended September 30, 2003 and 2002, respectively, or 143%.

Revenues	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Operations Fees				
Consulting	$ 928,306	$ 63,000	$ 2,226,157	$ 122,538
Disease and demand management	467,726	472,892	1,600,730	1,302,505
Surveys	24,701	42,428	84,077	147,233
Development Fees	7,079	5,900	40,804	27,438
Licensing Fees	1,880	1,880	5,640	28,430
Total Revenues	$ 1,429,692	$ 586,100	$ 3,957,408	$ 1,628,144

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

The changes in the Company's disease and demand management revenue was primarily attributable to new customers and a joint marketing relationship that has contributed new sources of revenue net of revenue lost due to the termination of two customers. The new customers accounted for increased revenue of $125,307 and $386,153 for the three and nine month periods ended September 30, 2003. Revenues from the joint marketing relationship increased from $24,955 and $67,055 for the three and nine month periods ended September 30, 2002, respectively, to $226,999 and $571,688 for the same respective periods of 2003. The Company received revenue of $1,200 and $317,753 as compared to $330,157 and $859,730 for the three and nine month periods ended September 30, 2003 and 2002, respectively, from terminated service agreements. The Company has identified other possible new customers, but there can be no assurance that such prospects will contribute revenue in the near term, or at all.

Development fee revenues were $7,079 and $5,900 for the three month periods ended September 30, 2003 and 2002, respectively and $40,804 and $27,438 for the nine month periods ended September 30, 2003 and 2002, respectively. The Company

received development revenues from a variety of customers for modification of specific programs. The Company has completed substantially all services under these agreements and anticipates primarily receiving development fee revenues in connection with the enhancement of its existing programs. Development fee revenues include clinical, technical and operational design and modification of the Company's programs. The Company anticipates that revenue from development fees will continue to be low unless the Company enters into new development agreements.

License fee revenues recognized from the Case Management Support System were $1,880 for the three month periods ended September 30, 2003 and 2002 and $5,640 and $28,430 for the nine month periods ended September 30, 2003 and 2002, respectively. The Company has not entered into any new licensing agreements for its Case Management Support System and the revenue for the current period reflects revenue generated exclusively from the existing agreement.

Costs and Expenses

Cost of sales includes salaries and related benefits, services provided by third parties, and other expenses associated with the implementation and delivery of the Company's consulting services, standard and customized population, demand and disease management programs. Cost of sales for the three and nine month periods ended September 30, 2003 was $1,107,776 and $3,054,233, respectively, as compared to $467,162 and $1,416,741 for the three and nine month periods ended September 30, 2002. The increase in these costs was primarily the result of increased operational activity. The Company's gross margin, being the percentage of revenues available to offset other costs and expenses after subtracting the cost of sales was 23% for the three and nine month periods ended September 30, 2003 as compared to 20% and 13% for the same respective periods of 2002. The Company anticipates that revenue must increase for it to recognize economies of scale adequate to improve its margins. No assurance can be given that revenues will increase or that, if they do, they will continue to exceed costs and expenses.

Sales and marketing expenses consist primarily of salaries, related benefits, travel costs, sales materials and other marketing related expenses. Sales and marketing expenses for the three and nine month periods ended September 30, 2003 were $230,606 and $675,667, respectively, as compared to $192,533 and $546,096 for the same respective periods of 2002. Spending in this area has increased due to an increase in sales activity. The Company anticipates expansion of the Company's sales and marketing staff and expects it will continue to invest in the sales and marketing process, and that such expenses related to sales and marketing might increase in future periods.

General and administrative expenses include the costs of corporate operations, finance and accounting, human resources and other general operating expenses of the Company. General and administrative expenses for the three and nine month periods ended September 30, 2003 were $341,526 and $913,836, as compared to $238,184 and $894,819 for the same respective periods of 2002. These expenditures have been incurred to maintain the corporate infrastructure necessary to support anticipated program operations. The increase in these expenses is due primarily to reversing a $114,953 accrued expense as a result of a renegotiated vendor contract during August of 2002.

Research and development expenses consist primarily of salaries and related benefits and administrative costs associated with the development of certain components of the Company's integrated information capture and delivery system, as well as development of the Company's standardized disease management programs and the Company's Internet based technology products. Research and development expenses for the three and nine month periods ended September 30, 2003 were $35,060 and $100,288, respectively, as compared to $26,242 and $73,878 for the

same respective periods of 2002.

Amortization of debt discount was $754,101 and $1,467,947 for the three and nine month periods ended September 30, 2003, respectively. This cost relates to the issuance of equity to, and incurrence of debt from, certain lenders pursuant to the Note and Stock Purchase Agreement dated April 10, 2003 and as amended on September 11, 2003, pursuant to which the lenders agreed to make short term loans to the Company. The total value received by the lenders from the Company under the Note and Stock Purchase Agreement as amended was $8,307,858. In accordance with APB Opinion No. 14, a portion of the cash received totaling $1,427,692 and 596,662 for the quarters ended June 30 and September 30, 2003, respectively, is allocable to equity resulting in a debt discount in those same amounts, which is amortized over the life of the loan. As of September 30, 2003, the Company had amortized $1,467,947 of the total debt discount of $2,024,354. The remaining $556,407 will be amortized over the two month period ending November 30, 2003. If additional amounts must be borrowed, there may be additional consideration to the lenders and additional financing costs associated with such loans, which may increase financing costs and may cause the life the life of this intangible asset to be adjusted.

The Company recorded net interest expense of $151,262 and $447,479 for the three and nine month periods ended September 30, 2003, respectively, as compared to $136,126 and $388,797 for the same respective periods of 2002, principally due to the net increase of interest expense on debt.

Income (loss)

The Company had a net loss attributable to the common stockholders after preferred stock dividends, of $1,858,563 and $4,882,283 for the three and nine month periods ended September 30, 2003, respectively, with a net loss per share of $0.17 and $0.45 per share for the same respective periods. Without the financing cost of $754,101 and $1,467,947 and the beneficial conversion feature of $596,662 and $2,024,354 for the three and nine month periods ended September 30, 2003, respectively, the Company had a net loss attributable to the common shareholders after preferred stock dividends, of $507,800 and $1,389,982 for the three and nine month periods ended September 30, 2003, respectively, as compared to $496,647 and $1,759,687 for the three and nine month periods ended September 30, 2002. This represents a net loss per common share of $0.05 and $0.13 for the three and nine month periods ended September 30, 2003, compared to the net loss of $0.05 and $0.16 per common share shown for the same respective periods of 2002.

Liquidity and Capital Resources

At September 30, 2003, the Company had a working capital deficit of $9,760,182 as compared to $6,135,451 at December 31, 2002. Through September 30, 2003, these amounts reflect the effects of the Company's continuing losses as well as increased borrowings, $3,000,000 of which was classified as a long-term liability at December 31, 2002 but is classified as a current liability at September 30, 2003. Since its inception, the Company has primarily funded its operations, working capital needs and capital expenditures from the sale of equity securities or the incurrence of debt.

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

The Company borrowed $1,500,000 for working capital from Mr. Pappajohn during the nine month period ended September 30, 2003. On April 10, 2003, the Company replaced notes in the aggregate principal amount of $500,000 owed to Mr.

Pappajohn with a new note for the principal amount of $900,000, representing the amount due under the original notes plus an additional $400,000 borrowed from Mr. Pappajohn for working capital. As of November 13, 2003, a total of $6,577,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer (both of whom are members of the Company's Board of Directors), inclusive of $246,852 of unamortized debt discount, all of which is secured by the assets of the Company.

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

On April 10, 2003, the Company entered into a Note and Stock Purchase Agreement, which the Company amended on September 11, 2003 (the "Note and Stock Purchase Agreement") with certain investors (the "Investors"), including Mr. Pappajohn, a member of the Board of Directors of the Company, pursuant to which the Investors agreed to loan to the Company an aggregate of up to $3.5 million, $500,000 of which replaces notes payable to Mr. Pappajohn, which were outstanding at March 31, 2003. In consideration for the loans, the Company signed a series of promissory notes and issued a total of 286,182 shares of Series D 9% Cumulative Preferred Stock ("Series D Preferred Stock") to the Investors. The notes that were outstanding at June 30, 2003 totaling $2.5 million (the "Original Notes") were replaced with new notes of equal value. Except for the maturity date of November 30, 2003, the replacement notes have substantially the same terms as the Original Notes. During the quarter ended September 30, 2003, the Company borrowed $1 million under the Note and Stock Purchase Agreement, resulting in total borrowings of $3.5 million at September 30, 2003 and the Note and Stock Purchase Agreement. All the notes bear interest at a rate equal to the prime rate plus 3% per annum and mature on November 30, 2003. The 286,182 shares of Series D Preferred Stock are convertible into 34,341,840 shares of common stock of the Company, valued at $4,807,858. The total value received by the lenders for borrowings was $8,307,858. In accordance with APB Opinion No. 14, a portion of the cash received totaling $596,662 and $2,024,354 for the three and nine month periods ended September 30, 2003, respectively, is allocable to equity resulting in a debt discount in those same amounts, which is amortized over the life of the loan. Holders of the Series D Preferred Stock have the right to elect two members of the Company's Board of Directors. Upon closing of a private placement of a minimum of $4 million in value of additional shares of Series D Preferred Stock and after the closing of the proposed acquisition of ACS, as contemplated by the Asset Purchase Agreement, any notes issued pursuant to the Note and Stock Purchase Agreement are convertible into Series D Preferred Stock. The purpose of the loan from the Investors is to provide funds to the Company for it to loan to ACS in order to provide working capital for the operations of ACS.

Simultaneously with the closing of the Note and Stock Purchase Agreement, the Company and ACS entered into a Credit Agreement subsequently amended on July 30, 2003 (the "Credit Agreement") pursuant to which the Company agreed to loan to ACS up to an aggregate of $3.4 million secured by all of the assets of ACS. As of September 30, 2003, the Company had notes receivable of $3.1 million from ACS. Patient Infosystems received warrants to purchase 26,344 shares of common stock of ACS, exercisable only if the Asset Purchase Agreement with ACS is terminated. Additional warrants to purchase ACS common stock may be issued depending on the total amount of funds it borrows from the Company under the Credit Agreement.

The Company has expended substantial funds to establish its operational capabilities and infrastructure. The Company's cash has been steadily depleted as a result of operating losses. The Company anticipates that its losses will continue and, but for the continuing loans from Mr. Pappajohn, the Company has

no available cash to continue operations. Accordingly, the Company has been required to seek cash to maintain its operations. The Company is continuing its efforts to raise additional funds privately, which may involve the sale of convertible preferred stock or further debt securities. No assurance can be given that the Company will successfully raise the necessary funds. Any additional financing, which includes the issuance of additional securities of the Company, may be dilutive to the Company's existing stockholders. If the Company is unable to raise additional funds, it will be required to cease operations.

Inflation

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

Forward Looking Statements

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

Item 3. Controls and Procedures.

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

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Borrowing from directors

On April 10, 2003, the Company entered into a Note and Stock Purchase Agreement, which the Company amended on September 11, 2003 (the "Note and Stock Purchase Agreement") with certain investors (the "Investors"), including Mr. Pappajohn, a member of the Board of Directors of the Company, pursuant to which the Investors agreed to loan to the Company an aggregate of up to $3.5 million, $500,000 of which replaces notes payable to Mr. Pappajohn, which were outstanding at March 31, 2003. In consideration for the loans, the Company signed a series of promissory notes and issued a total of 286,182 shares of Series D 9% Cumulative Preferred Stock ("Series D Preferred Stock") to the Investors. The notes that were outstanding at June 30, 2003 totaling $2.5 million (the "Original Notes") were replaced with new notes of equal value. Except for the maturity date of November 30, 2003, the replacement notes have substantially the same terms as the Original Notes. All the notes bear interest at a rate equal to the prime rate plus 3% per annum and mature on November 30, 2003. The 286,182 shares of Series D Preferred Stock are convertible into 34,341,840 shares of common stock of the Company, valued at $4,807,858. During the quarter ended September 30, 2003, the Company borrowed $1 million under the Note and Stock Purchase Agreement, resulting in total borrowings of $3.5 million at September 30, 2003 and the Note and Stock Purchase Agreement. The total value received by the lenders for borrowings was $8,307,858. In accordance with APB Opinion No. 14, a portion of the cash received totaling $596,662 and $2,024,354 for the three and nine month periods ended September 30, 2003, respectively, is allocable to equity resulting in a debt discount in those same amounts, which is amortized over the life of the loan. Holders of the Series D Preferred Stock have the right to elect two members of the Company's Board of Directors. Upon closing of a private placement of a minimum of $4 million in value of additional shares of Series D Preferred Stock and after the closing of the proposed acquisition of ACS, as contemplated by the Asset Purchase Agreement, any notes issued pursuant to the Note and Stock Purchase Agreement are convertible into Series D Preferred Stock. The purpose of the loan from the Investors is to provide funds to the Company for it to loan to ACS in order to provide working capital for the operations of ACS. See "Liquidity and Capital Resources".

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index.

(b) Reports on Form 8-K:

None.

SIGNATURES

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

PATIENT INFOSYSTEMS, INC.

Date: November 13, 2003 /s/Roger L. Chaufournier

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

Date: November 13, 2003 /s/Kent A. Tapper

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

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
11	Statements of Computation of Per Share Earnings.
10.67	Amendment No1 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 No1 to the Note and Stock Purchase Agreement dated as of September 11, 2003 between Patient Infosystems and a group of investors.
10.69	Amendment No1 to the Credit Agreement dated as of July 30, 2003 between Patient Infosystems and American Caresource Corporation.
10.70	Amendment No2 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.
31.1	Certification of Roger Chaufournier required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Kent Tapper required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of Roger Chaufournier and Kent Tapper required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

Exhibit 11. Statement of Computation of Per Share Earnings

PATIENT INFOSYSTEMS, INC.

	Three Months Ended September 30,		Ni
	2003	2002	2003
Net loss	$ (1,190,639)	$ (474,147)	$ (2,702,
Convertible preferred Stock dividends	(667,924)	(22,500)	(2,180,
Net loss attributable to Common Stockholders	$ (1,858,563)	$ (496,647)	$ (4,882,
Weighted average common shares	10,956,424	10,956,024	10,956
Net loss per share - Basic and diluted	$ (0.17)	$ (0.05)	$ (0