PATIENT INFOSYSTEMS INC
Form 10-Q
November 13, 2001

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

FORM 10Q

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

For the quarterly period ended: September 30, 2001

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 registrant 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)
(Zip Code)

(716) 242-7200
(Registrant's telephone number, including area code)

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

As of November 12, 2001, 10,956,024 common shares were outstanding.

PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

PATIENT INFOSYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	(unaudited) September 30, 20
CURRENT ASSETS:	
Cash and cash equivalents	$30
Accounts receivable	226
Prepaid expenses and other current assets	85
Total current assets	342
PROPERTY AND EQUIPMENT, net	577
Debt issuance costs (net of accumulated amortization of $875,367 and $664,750)	17
Intangible assets (net of accumulated amortization of $263,792 and $156,113)	358
Other assets	
TOTAL ASSETS	$1,296
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	$185
Accrued salaries and wages	254
Borrowings from directors	3,302
Line of credit	2,500
Accrued expenses	575
Deferred revenue	122
Total current liabilities	6,939
LINE OF CREDIT	
STOCKHOLDERS' DEFICIT:	
Common stock - $.01 par value: shares authorized: 20,000,000; issued and outstanding: September 30, 2001 - 10,956,024; December 31, 2000 - 8,220,202	109
Preferred stock - $.01 par value: shares authorized: 5,000,000 Series C, 9% cumulative, convertible issued and outstanding - 100,000	1
Additional paid-in capital	24,377
Accumulated other comprehensive income	1
Accumulated deficit	(30,133,
Total stockholders' deficit	(5,642,
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$1,296

See notes to unaudited condensed consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Ni 200
REVENUES			
Operations Fees	$307,212	$385,304	$954,
Development Fees	15,900	13,246	72,
Licensing Fees	30,500	35,000	84,
Total revenues	353,612	433,550	1,111,
COSTS AND EXPENSES			
Cost of sales	576,900	982,638	1,897,
Sales and marketing	200,206	234,942	629,
General and administrative	423,765	397,323	1,155,
Financing Costs	8,934	192,750	558,
Research and development	68,091	73,997	163,
Total costs and expenses	1,277,896	1,881,650	4,404,
OPERATING LOSS	(924,283)	(1,448,100)	(3,292,6
INTEREST EXPENSE	(107,644)	(58,080)	(293,5
INVESTMENT LOSS	(200,000)	-	(200,0
OTHER INCOME (EXPENSE)	10,566	(4,587)	11,
NET LOSS	(1,221,361)	(1,510,767)	(3,774,8
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(22,500)	(22,500)	(67,5
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (1,243,861)	$ (1,533,267)	$ (3,842,3
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.11)	$ (0.19)	$ (0.
WEIGHTED AVERAGE COMMON SHARES	10,956,024	8,209,040	9,365,

See notes to unaudited condensed consolidated financial statements.

PATIENT INFOSYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 200
OPERATING ACTIVITIES:	

Net loss	$ (3,774,813)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	576,109
Investment Loss	200,000
(Gain) loss on sale of property	(305)
Compensation expense related to issuance of stock and warrants	352,673
Decrease in accounts receivable, net	184,883
Decrease in prepaid expenses and other current assets	81,100
Decrease in other assets	-
Decrease in accounts payable	(48,375)
Increase in accrued salaries and wages	78,498
Increase in accrued expenses	269,070
Decrease in deferred revenue	(39,934)
Net cash used in operating activities	(2,121,094)
INVESTING ACTIVITIES:	
Property and equipment additions	(8,706)
Proceeds from the sale of property	800
Net cash (used in) provided by investing activities	(7,906)
FINANCING ACTIVITIES:	
Proceeds from issuance of common and preferred stock, net	-
Borrowing from directors	2,131,500
Line of credit borrowings	-
Net cash provided by financing activities	2,131,500
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	2,500
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,231
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$30,731
Supplemental disclosures of non-cash information	
Dividend delared on Class C Convertible Preferred Stock	$67,500
Value of beneficial conversion feature on Class C Convertible Preferred Stock recognized as a dividend	$ -

See notes to unaudited condensed consolidated financial statements.

PATIENT INFOSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements for the period ended September 30, 2001

1. The accompanying condensed consolidated financial statements for the three and nine month periods ended September 30, 2001 and 2000 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 condensed 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, 2000. Certain reclassifications of 2000 amounts have been made to conform to 2001 presentations. The results of operations for the three and nine months ended September 30, 2001 are not necessarily indicative of the results for the entire year ending December 31, 2001.

2. On March 28, 2001, 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 credit facility to March 31, 2002 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn, two directors of the Company, guaranteed this extension. In consideration for their guarantees, the Company re-priced 625,000 warrants previously granted in connection with prior guarantees to $0.05 per share, effective April 1, 2001. The net value of these re-priced warrants is $35,735. The Company is amortizing this amount as debt issuance cost using a straight-line method over the 12-month period ending March 31, 2002. The estimated fair value of the re-priced warrants was determined using the Black Scholes method.

3. The Company borrowed $2,131,500 for working capital from Mr. Pappajohn during the nine month period ended September 30, 2001. From September 30, 2001 through October 31, 2001, the Company borrowed an additional $265,000 from Mr. Pappajohn. Through October 31, 2001, a total of $3,567,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer, all of which is secured by the assets of the Company. There can be no assurances that Mr. Pappajohn will continue to make funds available to the Company. If such funds are not available, the Company will cease operations.

   On June 6, 2001, the Company issued a total of 2,319,156 shares of unregistered Common Stock to Mr. Pappajohn and Dr. Schaffer as compensation for their continued financial support of the Company. Based upon recent trading of the Company's Common Stock at the time of issuance, the Company assigned a fair market value of $0.15 per share or a total of $347,873 to these unregistered shares and realized this amount as an operating expense in June of 2001.

4. For the three-month periods ended September 30, 2001 and 2000, the calculations for the basic and diluted loss per share were based upon loss attributable to common stockholders of $1,243,861 and $1,533,267, respectively, and a weighted average number of common shares of 10,956,024 and 8,209,040 respectively.

   For the nine-month periods ended September 30, 2001 and 2000, the calculations for the basic and diluted loss per share were based upon loss attributable to common stockholders of $3,842,313 and $5,369,044, respectively, and a weighted average number of common shares of 9,365,194 and 8,106,779 respectively.

   Options and warrants 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, 2001 and 2000 because the effect would have been antidilutive due to the net loss in those periods.

5. The accompanying unaudited condensed 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 condensed consolidated financial statements, the Company incurred a net loss of for the three and nine month periods ended September 30, 2001 of $1,221,361 and $3,774,813, respectively, and had an accumulated deficit of $30,133,099 at September 30, 2001. These factors, among others, may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The unaudited condensed 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.

6. The Company held an investment of Common Stock in a private company (the "Investment") that was recorded at its historical cost of $200,000. The Company has been made aware that the private company to which the Investment relates intends to cease operations. Accordingly, the Company considers the Investment to be other than temporarily impaired and has written off the Investment's entire carrying value of $200,000 as a non-operating expense as of September 30, 2001.

7. On June 29, 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was issued by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is a reason to suspect that their values have diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company is required to implement SFAS No. 141 on July 1, 2001 and it has not determined the impact, if any, that this statement will have on its consolidated financial position or the results of operations.

   On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 by January 1, 2002 and has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

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, 2001 and 2000 and its financial condition at September 30, 2001. 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 the Company. This review should be read in conjunction with the accompanying unaudited condensed 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-Q 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 shortfalls, 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, 2000.

Results of Operations

Revenues

Revenues consist of revenues from operations, development fees and licensing fees. Revenues decreased from $433,550 and $1,632,870 during the three and nine month periods ended September 30, 2000, respectively, to $353,612 and $1,111,606 during the three and nine month periods ended September 30, 2001, or 18% and 32% respectively.

Revenues	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Ni 2001
Operations Fees			
Disease Management and Compliance	$ 108,184	$ 164,935	$ 363,54
Surveys	42,244	54,089	128,42
Demand Management	138,784	146,603	408,89
Other	18,000	19,677	54,00
Total Operations Fees	307,212	385,304	954,86
Development Fees	15,900	13,246	72,24
Licensing Fees	30,500	35,000	84,50
Total Revenues	$ 353,612	$ 433,550	$ 1,111,60

Operations revenues are generated as the Company provides services to its customers. Operations revenues decreased from $385,304 and $1,517,598 during the three and nine month periods ended September 30, 2000, respectively, to $307,212 and $954,860 during the three and nine month periods ended September 30, 2001, respectively. Operations revenues continue to be the primary source of revenue for the Company. Operations revenues declined because of the termination of agreements for the conduct of surveys as a result of the elimination of a Medicare product by two of the Company's primary customers and the completion of several compliance programs that have not been fully replaced by new programs.

The Company's revenue has continued to decline. The Company has established relationships with several new customers and entered into joint marketing relationships with several of its strategic partners. While revenues from these relationships have been realized and are expected to grow, no assurances can be given that such revenues will be material to the Company's results of operations and financial condition. The Company has identified other possible new customers, but there can be no assurance that such prospects will contribute revenue in the near term, if at all.

Development fee revenues increased from $13,246 to $15,900 and from $34,446 to $72,246 for the three and nine month periods ended September 30, 2000 and 2001, respectively. This increase was due to increased focus on development of new programs and enhancement of existing programs. Development fee revenue represents the amounts that the Company charges its customers for the

development or customization programs for which it anticipates on going operations revenues. The Company has entered into new development agreements but anticipates that revenue from program development will remain constant in the future.

License fee revenues recognized from the Case Management Support System decreased to $30,500 from $35,000 for the three-month periods ended September 30, 2001 and 2000, respectively. License Revenue increased to $84,500 from $80,826 for the nine month periods ended September 30, 2001 and 2000 respectively. These changes are due to the negotiated schedule of fees in the ongoing contracts. The Company has not entered into any new licensing agreements for its Case Management Support System and the revenue for the current period reflects ongoing revenue from the existing agreements.

Costs and Expenses

Cost of sales include salaries and related benefits, services provided by third parties, and other expenses associated with the implementation and delivery of the Company's standard and customized population, demand, and disease management programs. Cost of sales for the three and nine months ended September 30, 2001 was $576,900 and $1,897,609, respectively, as compared to $982,638 and $3,354,557 (a decrease of 41% and 43%, respectively) for the three and nine month periods ended September 30, 2000. The decrease in these costs primarily reflects a response to the decreased level of population and disease management operational activities. The Company's gross margin continues to be negative. The Company anticipates that revenue must substantially increase before it will recognize economies of scale. No assurance can be given that revenues will increase or that, if they do, they will 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, 2001 were $200,206 an $629,396, respectively, as compared to $234,942 and $920,603, respectively, for the three and nine month periods ended September 30, 2000. Spending in this area has decreased due to the termination of staff and renegotiation of certain compensation plans. The Company does not have the resources to expand its sales and marketing staff but expects it will be required to invest in the sales and marketing process, and that such expenses related to sales and marketing may increase in future periods.

General and administrative expenses include the costs of corporate operations, finance and accounting, human resources and other general operating expenses of the Company. General and administrative expenses for the three and nine month periods ended September 30, 2001 were $423,765 and $1,155,214, respectively, as compared to $397,323 and $1,279,835, respectively, for the three and nine month periods ended September 30, 2000. These expenditures have been incurred to maintain the corporate infrastructure necessary to support anticipated program operations. The change in these costs is primarily a result of reductions in staff and closing of facilities in Pennsylvania and Canada, offset by increases in certain other expenses. The Company expects that general and administrative expenses will remain relatively constant in future periods.

Financing costs consist of expenses incurred to obtain sufficient working capital to continue operations. These expense have primarily consisted of compensation cost for shares of the Company's Common Stock as well as warrants to purchase the Company's Common Stock. Financing costs were $8,934 and $558,491, respectively, for the three and nine month periods ended September 30, 2001 as compared to $192,750 and $472,000, respectively, for the three and nine month periods ended September 30, 2000. A decrease in financing costs during the most recent 3 month period was seen because no new equity was issued during that period. The increase in financing costs over the nine month period is a result of the Company's continued dependence on debt to obtain working capital.

Financing costs are expected to remain relatively constant until such time as the Company can reduce its dependence on debt to fund its operations.

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 months ended September 30, 2001 were $68,091 and $163,523, respectively, as compared to $73,997 and $237,196, respectively, for the same periods of 2000.

The Company recorded an investment loss of $200,000 during the three and nine month periods ended September 30,2001. The Company held an investment of Common Stock in a private company (the "Investment") that was recorded at its historical cost of $200,000. The Company has been made aware that the private company to which the Investment relates intends to cease operations. Accordingly, the Company considers the Investment to be other than temporarily impaired and has written off the Investment's entire carrying value of $200,000 as a non-operating expense as of September 30, 2001.

The Company recorded interest expenses of $107,644 and $293,583, respectively, for the three and nine month periods ended September 30, 2001 as compared to $58,080 and $121,579, respectively, for the three and nine month periods ended September 30, 2000. These expenses are related the Company's debt and are expected to increase steadily until the Company becomes less dependent on debt to fund its operations.

The Company recorded other income of $10,566 and $11,397, respectively, for the three and nine month periods ended September 30, 2001 as compared to expenses $4,587 and $21,144, respectively, for the same periods of 2000, principally due to receipt of a state tax refund and to the sale of certain assets.

The Company had a net loss attributable to the common shareholders after preferred stock dividends, of $1,243,861 and $3,842,313, respectively, for the three and nine months ended September 30, 2001 as compared to $1,533,267 and $5,369,044, respectively, for the three and nine month periods ended September 30, 2000 respectively. This represents a net loss per common share of $.41 for the nine month period ended September 30, 2001, as compared to a net loss of $.66 per common share in the same period of 2000. The preferred stock dividends in 2000 include a beneficial conversion feature for the 100,000 shares of Series C Stock of $550,000.

Liquidity and Capital Resources

At September 30, 2001 the Company had a working capital deficit of $6,597,133 as compared to $1,375,391 at December 31, 2000. The September 30, 2001 amounts reflect the effects of the Company's continuing losses as well as increased borrowings, $2,500,000 of which was considered to be a long-term liability at December 31, 2000 but is classified as a current liability at September 30, 2001. Since its inception, the Company has primarily funded its operations, working capital needs and capital expenditures from the sale of equity securities and borrowings from directors and external sources.

On March 31, 2000, the Company completed a private placement of 100,000 shares of newly issued Series C 9% Cumulative Convertible Preferred Stock ("Series C"), raising $1,000,000 in total proceeds. These shares can be converted into Common Stock at a rate of 8 shares of Common Stock to 1 share of Series C Preferred Stock. Each Series C share has voting rights equivalent to 8 shares of Common Stock (800,000 shares). The proceeds from this issuance were used to support the Company's operations. The fair market value of the Company's

Common Stock at the time of issuance of Series C Stock was $1.9375 per share. The Series C Preferred Stock is convertible at a price equal to $1.25 per share of Common Stock resulting in a discount, or beneficial conversion feature, of $0.6875 per share. The total amount of this beneficial conversion feature ($550,000) is deemed to be the equivalent of a preferred stock dividend. The Company recorded the deemed dividend at the date of issuance by increasing accumulated deficit and increasing additional paid-in capital. Accordingly, there was no net effect on total stockholders' equity.

On March 28, 2001, 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 credit facility to March 31, 2002 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn, two directors of the Company, guaranteed this extension. In consideration for their guarantees, the Company re-priced 625,000 warrants previously granted in connection with prior guarantees to $0.05 per share, effective April 1, 2001. The Company assigned a fair value of $35,735 to the warrants and intends to fully amortize this deferred financing cost using the straight-line method over the 12-month period ending March 31, 2002. The estimated fair value of the re-priced warrants was determined as the difference between (i) the fair market value of the original warrants as of April 1, 2001 using the Black Scholes method and (ii) the fair market value of the re-priced warrants as of April 1, 2001.

The Company borrowed $2,131,500 for working capital from Mr. Pappajohn during the nine month period ended September 30, 2001. From September 30, 2001 through October 31, 2001, the Company borrowed an additional $265,000 from Mr. Pappajohn. Through October 31, 2001, a total of $3,567,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer, all of which is secured by the assets of the Company. There can be no assurances that Mr. Pappajohn will continue to make funds available to the Company. If such funds are not available, the Company will cease operations.

The Company held an investment of Common Stock in a private company (the "Investment") that was recorded at its historical cost of $200,000. The Company has been made aware that the private company to which the Investment relates intends to cease operations. Accordingly, the Company considers the Investment to be other than temporarily impaired and has written off the Investment's entire carrying value of $200,000 as a non-operating expense as of September 30, 2001.

The Company has expended substantial amounts to expand its operational capabilities and strengthen its infrastructure, which at the same time has increased its administrative and technical costs. In addition, the Company's cash has been steadily depleted as a result of operating losses. The Company anticipates that its losses will continue and, except for the loans from Mr. Pappajohn, the Company has no available capital. Accordingly, the Company has been required to seek capital to maintain its operations. 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 identify additional capital, it will be required to cease operations.

On June 7, 2001, the Company issued a press release concerning the execution of a definitive agreement to acquire substantially all the assets of Health Data Solutions of Brownsburg, Indiana and its affiliate American Care Source of Dallas, Texas.

On September 28, 2001, the Company issued a press release announcing that the agreement to acquire substantially all the assets of Health Data Solutions and American Care Source was terminated.

Inflation

Inflation did not have a significant impact on the Company's costs during the three and nine month periods ended September 30, 2001 and 2000. 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, 2000. 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.

New Accounting Pronouncements

During the first quarter of 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company has not identified any derivatives that meet criteria for a derivative instrument and does not participate in any hedging activities. As a result, management of the Company concluded that there was no material effect on the Company's consolidated financial position, results of operations or cash flows resulting from the adoption of SFAS No. 133 in 2001.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," which supercedes SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This standard is effective for transfers occurring after March 31, 2001, with certain disclosure requirements effective for the year ending December 31, 2000. Management of the Company has concluded that there was no material effect on the Company's consolidated financial position, results of operations or cash flows resulting from the adoption of SFAS No. 140 at September 30, 2001.

On June 29, 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was issued by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is a reason to suspect that their values have diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company is required to implement SFAS No. 141 on July 1, 2001 and it has not determined the impact, if any, that this

statement will have on its consolidated financial position or the results of operations.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 by January 1, 2002 and has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to changes in interest rates primarily in its cash transactions. The interest paid on the Company's outstanding line of credit is based upon the prime rate. The Company has the option of reducing its interest expenses by rolling the outstanding line of credit balance into notes that carry a rate equal to LIBOR plus 1.75%.

In relation to the operations of Patient Infosystems Canada, fluctuations of foreign currency can impact the Company's net operating results. However, management believes that due to the relative size of its operations in Canada, such impact would not be significant to the consolidated financial statements. The Company currently has no significant investments in foreign currency instruments.

The balances the Company has in cash or cash equivalents are generally available without legal restrictions to fund ordinary business operations. The Company regularly invests excess operating cash in certificates of deposit and U.S. government bonds and other bonds that are subject to changes in short-term interest rates. Accordingly, the Company believes that the market risk arising from its holding of these financial instruments is minimal. The Company did not make any purchases of available-for-sale securities in the three and nine month periods ended September 30, 2000 and 2001.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Borrowing from directors

The Company borrowed $2,131,500 for working capital from Mr. Pappajohn during the nine month period ended September 30, 2001. From September 30, 2001 through October 31, 2001, the Company borrowed an additional $265,000 from Mr. Pappajohn. Through October 31, 2001, a total of $3,567,500 has been borrowed from Mr. Pappajohn and Dr. Schaffer, all of which is secured by the assets of the Company. There can be no assurances that Mr. Pappajohn will continue to make funds available to the Company. If such funds are not available, the Company will cease operations.

Item 6. Exhibits and Reports on Form 8-K

On June 7, 2001, the Company issued a press release concerning the execution of a definitive agreement to acquire substantially all the assets of Health Data Solutions of Brownsburg, Indiana and its affiliate American Care Source of Dallas, Texas.

On September 28, 2001, the Company issued a press release announcing that the agreement to acquire substantially all the assets of Health Data Solutions and American Care Source was terminated.

Exhibits:

(a) (11) Statements of Computation of Per Share Earnings

(b) Incorporated herein by reference in entirety, is a copy of the press release filed with the Commission by the Company on June 7, 2001 as Exhibit 99.1 of Form 8-K.

SIGNATURES

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

Dated: November 12, 2001

PATIENT INFOSYSTEMS, INC.
(Registrant)

Date: November 12, 2001

/s/Roger L. Chaufournier

Roger L. Chaufournier
Director, President and
Chief Executive Officer

Date: November 12, 2001

/s/ Kent A. Tapper

Kent A. Tapper
Principal Accounting Officer

Exhibit 11. Statement of Computation of Per Share Earnings

PATIENT INFOSYSTEMS, INC.

	Three Months Ended September 30,		Nin
	2001	2000	2001
Net loss	$(1,221,361)	$(1,510,767)	$ (3,774,81
Convertible preferred Stock dividends	(22,500)	(22,500)	(67,50

Net loss attributable to Common Stockholders	$(1,243,861)	$(1,533,267)	$ (3,842,31
Weighted average common shares	10,956,024	8,209,040	9,365,19
Net loss per share - Basic and diluted	$ (0.11)	$ (0.19)	$ (0.4