PATIENT INFOSYSTEMS INC
Form SB-2/A
July 01, 2004

As filed with the Securities and Exchange Commission on July 1, 2004
Registration No. 333-115217

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

AMENDMENT NO. 2
TO
FORM SB-2
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

PATIENT INFOSYSTEMS, INC.
(Name of small business issuer in its charter)

Delaware	8090	16-1476509
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

46 Prince Street
Rochester, New York 14607
(585) 242-7200

(Address and telephone number of principal executive offices and principal place of business)

Roger Louis Chaufournier
President and Chief Executive Officer
Patient Infosystems, Inc.
46 Prince Street
Rochester, New York 14607
(585) 242-7200

(Name, address and telephone number of agent for service)

Copies of Communications to:
Jeffrey A. Baumel, Esq.
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Four Gateway Center
100 Mulberry Street
Newark, New Jersey 07102
(973) 622-4444

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated July 1, 2004

PRELIMINARY PROSPECTUS

PATIENT INFOSYSTEMS, INC.

877,125 Shares of Common Stock

The stockholders named on page 48 are selling up to 877,125 shares of our common stock. 62,500 of the shares we are registering are issuable upon the exercise of outstanding common stock purchase warrants. The selling stockholders may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices. We will not receive any of the proceeds from the sale of shares by the selling stockholders, but we will receive funds from the exercise of their warrants.

Our common stock is currently listed on the OTC Bulletin Board under the symbol "PATY." On June 30, 2004, the last reported sale price of our common stock on the Nasdaq OTC Bulletin Board was $3.30 per share.

Investing in our common stock involves risks. Please read the "Risk

Factors" section beginning on page 5 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 July 1, 2004

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

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

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

Recent Developments

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

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

The Offering

Shares of common stock offered	877,125
Use of Proceeds	We will not receive any proceeds from the sale of the common stock offered by the selling stockholders. However, we may receive an aggregate of $162,500 upon the exercise of all the warrants held by selling stockholders, if such warrants are exercised for cash. We will use such funds, if any, for working capital and general corporate purposes.
OTC Bulletin	

Board Symbol PATY

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Summary Financial Information

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

Statement of operations data:

	Year Ended December 31,			
	2003	2002	2001	
Statement of Operations Data:				
Revenues	$5,687,293	$2,355,677	$1,586,443	$2,
Costs and expenses:				
Cost of sales	4,162,759	1,914,464	2,420,151	3
Sales and marketing	893,833	746,353	813,975	1
General and administrative	1,125,926	1,282,683	2,028,804	2
Research and development	131,782	105,614	190,731	
Total costs and expenses	6,314,300	4,049,114	5,453,661	7,
Operating loss	(627,007)	(1,693,437)	(3,867,218)	(5,
Other income	(2,750,954)	(530,924)	(598,087)	(
NET LOSS	$(3,377,960)	$(2,224,361)	$(4,465,305)	$(6,
Convertible preferred stock dividends	(7,671,557)	(90,000)	(90,000)	(
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(11,049,517)	$(2,314,361)	$(4,555,305)	$(6,
Net loss per share - basic and diluted	$ (3.25)	$ (2.36)	$ (5.17)	$
Weighted average common shares outstanding	3,399,616	979,668	880,875	

			As of December 31,	
	2003	2002	2001	
Balance Sheet Data:				
Cash and cash equivalents	$ 397,851	$ 5,011	$ 29,449	$
Working capital	(2,808,649)	(6,135,451)	(4,686,322)	(1,
Total assets	9,111,158	1,217,266	1,222,133	2
Long term obligations	3,040,295	3,000,000	2,500,000	2

Total liabilities	7,174,782	9,887,505	7,578,011	4
Total stockholders' (deficit) equity	1,936,376	(8,670,239)	(6,355,878)	(2,

RISK FACTORS

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

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

Patient Infosystems has never earned a profit and has depended upon the over $30 million that the Company has raised to date through its initial public offering, private placements of its equity securities and debt, to fund its working capital requirements. Patient Infosystems incurred an operating loss of approximately $0.6 million with a net loss of approximately $3.4 million for the year ended December 31, 2003 and had an approximate $2.8 million deficit in working capital and shareholders' equity of approximately $2 million at December 31, 2003. As of December 31, 2003, Patient Infosystems had total liabilities of $7,174,782 and a working capital deficit of $2,808,649. Since May 2003, Patient Infosystems' operation has been supported substantially by its operational cash flow. On December 31, 2003, Patient Infosystems acquired the assets of and assumed the liabilities for American Caresource Corporation and placed the operational assets and liabilities into a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"). It is anticipated that ACS will require significant additional working capital until it can fund its operational needs from operational cash flow, if at all. Existing working capital will last no more than a few months, and the Company anticipates that it will be required to raise at least an additional $2 million in 2004 to sustain the operation of ACS. As with any forward-looking projection, no assurances can be given concerning the outcome of Patient Infosystems' actual financial status given the substantial uncertainties that exist. There can be no assurances that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. If it is unable to identify additional sources of capital, Patient Infosystems will likely be forced to curtail its operations or the operations of ACS. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements appearing on page 59 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ACS' History of Operating Losses

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

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

History of Operating Losses; Continued Limited Patient Enrollment

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

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

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

Significant Customer Concentration

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

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

Consequences of the Need to Raise Additional Working Capital

As Patient Infosystems seeks additional financing or purchases, it is likely that it will issue a substantial number of additional shares that may be extremely dilutive to the current stockholders and 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.

Only One Independent Director

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

Terminability of Agreements

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

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

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

Unpredictability of Patient Behavior May Affect Success of Programs

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

Competition

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

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

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

Substantial Fluctuation in Quarterly Operating Results

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

Dependence on Data Processing and Telephone Equipment

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

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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.

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

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

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.

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.

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.

Control of Patient Infosystems

The executive officers, directors and certain stockholders of Patient Infosystems who beneficially own in the aggregate approximately 87.5% of the outstanding common stock control Patient Infosystems. As a result of such ownership, these stockholders, in the event they act in concert, will have control over the management policies of Patient Infosystems and all matters requiring approval by the stockholders of Patient Infosystems, including the election of directors.

Potential Liability and Insurance

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

Intellectual Property

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

SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

USE OF PROCEEDS

We will not receive any proceeds from the sale of common stock by the selling stockholders. We will receive proceeds upon the exercise of any warrants. If all of the selling stockholders exercise all of their warrants for cash, we will receive an aggregate of $162,500. We will use such funds, if any, for working capital and general corporate purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

During the fiscal years ended December 31, 2002 and 2003 and through January 9, 2004, our common stock traded on the OTC Bulletin Board under the symbol PATI. From January 12, 2004, our common stock has traded on the OTC Bulletin Board under the symbol PATY. The closing price for our common stock on June 30, 2004 was $3.30.

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

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

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Holders of common stock

As of February 27, 2004, there were approximately 89 holders of record of our common stock.

Dividends

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

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

Equity Compensation Plan Information

	Number of securities to be issued upon the exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number o securiti remaining ava for future is under equ compensation (excludi securiti reflected in (a)) (c)
Equity compensation plans approved by securities holders	101,160	$9.36	3,
Equity compensation plans not approved by securities holders			
Total	101,160	$9.36	3,

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Description of Business

General

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

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

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

During its first two years of operations, Patient Infosystems emphasized the development of pure disease management programs, which accounted for a substantial portion of its revenue through 1997. However, beginning in 1998, Patient Infosystems devoted resources to the development of broader applications of its technology platform, and its additional products grew to account for nearly 45% of the total revenue of Patient Infosystems during the fiscal year ended December 31, 2002. During 2003, the Company further expanded its product mix to include services in support of providers and their clinical improvement efforts. These services include support for development, training and 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 ("ACS"). ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist our clients control the cost of a range of ancillary medical services.

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

Products and Capabilities

Care Team Connect for Health

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

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

Nurse help line

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

Population analysis and identification

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

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

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

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

Disease management services

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

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

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

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Low risk:	o Quality of life surveys o Reminders o Static educational mailings o 24-hour nurse help line
Moderate risk:	o Nurse engagement o Quality of life surveys o Chronic condition management program o Reminders o Static educational mailings o 24-hour nurse help line
High risk:	o Nurse engagement o Quality of life surveys o "Gold" chronic condition management program o Telemonitoring signs and symptoms assessment o Reminders o Static educational mailings o 24-hour nurse help line
Critical risk:	o Dedicated registered nurse as disease care manager o Baseline clinical assessment and treatment action plan o Regularly scheduled on-going clinical patient assessments

Disease management program components

Nurse engagement call

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

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

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

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

Chronic condition management program

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

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

"Gold" chronic condition management program

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

Quality of life re-assessment and on-going monitoring

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

Educational mailings

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

Reminders

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

Disease care management for critical risk patients

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

The program's key functions are the following:

1. One-on-one support by a dedicated registered nurse.

2. Establishing an extensive baseline clinical assessment and treatment action plan.

3. Regularly scheduled on-going clinical patient assessments that include extensive disease monitoring and surveillance.

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

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

Care management services

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

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

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

Smoking Cessation Services

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

Provider innovation and improvement support

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

Population Health Disease Management Systems and Strategies

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

Learning Organization Services

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

Technical assistance

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

Outcome Assessment, Data Collection and Reporting

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

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Ancillary benefits management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales and Marketing

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

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

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

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

Competition

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

Research and Development

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

Government Regulation

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

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

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

Employees

As of March 1, 2004, Patient Infosystems had 90 full time and 37 part-time employees.

Legal Proceedings

Neither Patient Infosystems, nor any of its subsidiaries, is a party to any material legal proceeding, nor, to the knowledge of Patient Infosystems, is any such proceeding threatened against it or any of its subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

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

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Overview

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

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

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

Patient Infosystems currently has patients enrolled in more than 30 of its disease-specific, demand management or survey programs. Through January 2004, an aggregate of over 775,000 persons have been enrolled or participated in Patient Infosystems' programs. Patient Infosystems has never been able to enroll a sufficient number of patients to cover the administrative cost of the business. The enrollment of patients in Patient Infosystems' programs has been limited by several factors, including the limited ability of clients to provide Patient Infosystems with accurate information with respect to the specific patient populations and coding errors that necessitated extensive labor-intensive data processing prior to program implementation.

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

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

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

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

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

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

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

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

payors. ACS recognizes actual or estimated liabilities to independent contract service providers as the related revenues are recognized. Patient claim costs of revenue consist of amounts due the providers as well as ACS' direct labor and overhead to administer the patient claims. ACS has never operated at a profit, and will require significant growth in either claims volume from existing contracts, new contracts or both in order to generate sufficient operational margin to become profitable. No assurances can be given that sufficient sources of new revenue will be identified and other sources of capital will have to be secured by Patient Infosystems to support these operations. If Patient Infosystems 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.

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

During 2003, the pressure of working capital shortfalls eased for Patient Infosystems. Patient Infosystems' had $123,998 of net cash provided by operating activities during 2003. During 2003. Patient Infosystems raised an additional $3.5 million of working capital and an additional $1.6 million as of March 31, 2004, through and the sale of its equity securities. These additional funds are being used to provide working capital for ACS. Patient Infosystems and ACS continue to incur losses and must identify substantial additional capital to sustain its operations. ACS' working capital shortfall is currently being funded by Patient Infosystems. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify any additional sources of capital, it will likely be forced to curtail or cease its operations or the operations of ACS. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements appearing at page 59 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations, negative working capital and stockholders' deficit raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Results of Operations

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

Revenues

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

Revenues	2003	2002
Operations Fees	$ 2,241,796	$ 2,125,522
Consulting Fees	3,391,867	168,606
Development Fees	51,110	36,239
Licensing Fees	2,520	25,310
Total	$ 5,687,293	$ 2,355,677

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

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

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

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

Costs and Expenses

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

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

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

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

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

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

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

	2003	2002

Interest expense	$ (753,685)	$ (535,269)
Interest income	145,473	
Other income (expense)	376	4,345
Total Expense	$ (607,836)	$ (530,924)

Interest expense is due to debt. Interest expense increased to $753,685 for the fiscal year ended December 31, 2003 from $535,269 for the fiscal year ended December 31, 2002. The increase in interest expense reflects the increased debt required to fund operations and obtain capital which was loaned to American Caresource Corporation.

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

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

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

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

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

Liquidity and Capital Resources

At December 31, 2003, Patient Infosystems had a working capital deficit of $2,808,649 as compared to a working capital deficit of $6,135,451 at December 31, 2002. At December 31, 2003, Patient Infosystems had a stockholders' equity of $1,936,376. Through December 31, 2003 these amounts reflect the effects of Patient Infosystems' continuing losses that have been funded, in part, by the issuance of equity and long term borrowings of $3,000,000 against its line of credit. Patient Infosystems has never earned profits and, since its inception, Patient Infosystems has primarily funded its operations, working capital needs and capital expenditures from the sale of its equity securities. Patient Infosystems is currently maintaining it operations only through the receipt of proceeds from the sale of equity securities. If these additional funds were not available, Patient Infosystems would likely be required to reduce its operations, reduce or cease the operations of American Caresource Holdings, Inc. or take other measures to curtail its losses.

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

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

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

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

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

On December 31, 2003, Patient Infosystems and Wells Fargo further amended the credit facility and is due and payable on June 30, 2005. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension. In consideration for their guarantees, in February 2004 the Company granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of the Company's common stock for $10.00 per preferred share.

In January 2004, Patient Infosystems borrowed $200,000 from Mr. Pappajohn, a director of the Company, in exchange for an unsecured note that bore no interest if repaid on or before March 31, 2004. The note was repaid on March 29, 2004 and bore no interest as of that date.

On March 30, 2004, Mr. Pappajohn and Mr. Schaffer signed a letter to Patient Infosystems in which they committed to obtain the operating funds that Patient Infosystems believes would be sufficient to fund its operations through December 31, 2004. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of Patient Infosystems' securities or that Patient Infosystems can borrow the additional amounts needed.

Patient Infosystems has expended significant amounts to expand its operational capabilities including increasing its administrative and technical costs. While Patient Infosystems has both curtailed its spending levels and increased its revenue, to the extent that American Caresource Holdings, Inc. revenues do not increase substantially, Patient Infosystems' losses will continue and its available capital will diminish further. Patient Infosystems' operations are currently being funded by the sale of equity securities. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient

Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify additional sources of capital, it will likely be forced to curtail or cease operations. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Capital expenditures during 2003 were $34,185, as compared to expenditures of $8,867 during 2002 and $9,240 during 2001. The expenditures during these periods represented the purchase of technology platform components of the integrated information capture and delivery systems, as well as purchases required to maintain Patient Infosystems' technology infrastructure. On December 31, 2003, Patient Infosystems acquired substantially all the assets and assumed substantially all the liabilities of American Caresource Corporation. Included among the assets acquired was $152,480 of capital assets, which consisted of computer hardware and software, furnishings, fixtures and leasehold improvements.

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Inflation

Inflation did not have a significant impact on Patient Infosystems' operations during 2003, 2002 or 2001. Patient Infosystems continues to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

Critical Accounting Policies

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

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

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

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

MANAGEMENT

Executive Officers and Directors

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

Name	Age	Position
Roger Louis Chaufournier	46	Director, President and Chief Executive Officer
Kent A. Tapper	47	Vice President Financial Planning, Acting Chief Financial Officer
Christine St. Andre	53	Chief Operating Officer
Derace L. Schaffer, MD	56	Chairman of the Board
John Pappajohn	75	Director

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

Roger Louis Chaufournier, 46 (President and Chief Executive Officer since April 1, 2000) Mr. Chaufournier has been the President and Chief Executive Officer of Patient Infosystems since April 1, 2000. Prior to joining Patient Infosystems, Mr. Chaufournier was President of the STAR Advisory Group, a healthcare consulting firm he founded in 1998. From August 1996 to July 1999, Mr. Chaufournier was the Chief Operating Officer of the Managed Care Assistance Company, a company that developed and operated Medicaid health plans. Managed Care Assistance Company filed for protection under the federal bankruptcy laws in June 2000. From 1993 to 1996, Mr. Chaufournier was Assistant Dean for Strategic Planning for the Johns Hopkins University School of Medicine. In addition, Mr. Chaufournier spent twelve years in progressive leadership positions with the George Washington University Medical Center from 1981 to 1993. Mr. Chaufournier was also Chairman of the Board and acting President of Metastatin Pharmaceuticals, a privately held company developing therapeutics in the area of prostate cancer. Mr. Chaufournier was a three time Examiner with the Malcolm Baldrige National Quality Award and has served as the national facilitator for the federal Bureau of Primary Health Care chronic disease collaboratives.

Kent Tapper, 47 (Vice President, Financial Planning of the Company since April 1999). Mr. Tapper has served as Chief Information Officer and Vice President, Systems Engineering and has been with Patient Infosystems since July 1995. Mr. Tapper became the acting Chief Financial Officer of Patient Infosystems in April 2000. From 1992 to 1995, Mr. Tapper served as Product Manager, Audio Response and Call Center Platforms for Northern Telecom, Inc. From 1983 to 1992, Mr. Tapper held Product Manager, Systems Engineering Manager and various engineering management positions with Northern Telecom.

Christine St. Andre, 53 (Executive Vice President and Chief Operating Officer since June 5, 2000) Ms. St. Andre has been the Executive Vice President and Chief Operating Officer of Patient Infosystems since June 5, 2000. Ms. St. Andre has more than 20 years experience managing complex healthcare organizations. From 1994 to 2000, Ms. St. Andre was Chief Executive Officer for the University of Utah Hospitals and Clinics. Prior to 1994, Ms. St. Andre served as Chief Executive Officer of George Washington University Medical Center. Ms. St. Andre's career in healthcare began in the area of information technology at the Thomas Jefferson University.

Derace L. Schaffer, M.D., 56 (Chairman of the Board of Directors since 1995). Dr. Schaffer has been Chairman of the Board and a Director of Patient Infosystems since its inception in February 1995. Dr. Schaffer is the founder and CEO of the Lan Group, a venture capital firm specializing in healthcare and high technology investments. He serves as a director of Allion Healthcare, Inc., a public company. He is also a director of several private companies, including Source Medical Inc. and Logisticare, Inc. Dr. Schaffer is a board certified radiologist. He received his postgraduate radiology training at Harvard Medical School and Massachusetts General Hospital, where he served as Chief Resident. Dr. Schaffer is a member of Alpha Omega Alpha, the national medical honor society, and is Clinical Professor of Radiology at the University of Rochester School of Medicine.

John Pappajohn, 75 (Director since 1995). Mr. Pappajohn has been a Director of Patient Infosystems since its inception in February 1995, and served as its Secretary and Treasurer from inception through May 1995. Since 1969, Mr. Pappajohn has been the sole owner of Pappajohn Capital Resources, a venture capital firm and President of Equity Dynamics, Inc., a financial consulting firm, both located in Des Moines, Iowa. He serves as a director for the following public companies: Allion Healthcare, Inc., MC Informatics, Inc. and Pace Health Management Systems, Inc.

Board Composition

We currently have three directors, each serving a term until the next annual meeting of stockholders.

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Compensation of Directors

Our directors do not receive compensation pursuant to any standard arrangement for their services as directors. All directors are reimbursed for expenses incurred in connection with attending meetings, including travel expenses to such meetings.

Our directors are eligible to participate in the Company's Stock Option Plan. Pursuant to the Stock Option Plan, non-employee directors of the Company receive a one-time grant of a non-qualified stock option to purchase 36,000 shares of the Company's Common Stock at an exercise price equal to fair market value per share on the date of their initial election to the Company's Board of Directors. Such non-qualified stock option vests as to 20% of the option grant on the first anniversary of the grant, and 20% on each subsequent anniversary, is exercisable only during the non-employee director's term and automatically expires on the date such director's service terminates. Upon the occurrence of a change of control, as defined in the Stock Option Plan, all outstanding unvested options immediately vest.

Indemnification Matters

Our Certificate of Incorporation eliminates the personal liability of directors to the fullest extent permitted by the provisions of paragraph (7) of subsection (b) of Section 102 of the General Corporation Law of Delaware. In addition, our Certificate of Incorporation includes provisions to indemnify our officers and directors and other persons against expenses, judgments, fines and amounts paid in settlement in connection with threatened, pending or completed suits or proceedings against those persons by reason of serving or having served as officers, directors or in other capacities to the fullest extent permitted by Section 145 of the General Corporation Law of Delaware.

Our bylaws provide the power to indemnify our officers, directors, employees and agents or any person serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise to the fullest extent permitted by Delaware law.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid by us and our predecessors during each of the last three fiscal years to our Chief Executive Officer and any other executive officer who received compensation greater than $100,000 during any of the last three fiscal years.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation Awards
Name and Principal Position	Year	Salary ($)	Bonus	Securities Underlying Options
Roger L. Chaufournier, President and Chief Executive Officer	2003	219,611	25,385	-
	2002	180,841	-	-
	2001	196,502	-	16,666
Christine St. Andre, Vice President, Chief Operating Officer	2003	184,050	22,212	-
	2002	157,512	-	-
	2001	171,893	-	12,500
Kent A. Tapper,	2003	124,154	14,913	-
Vice President, Financial Planning	2002	107,942	-	-
	2001	116,628	-	8,333

* No stock options were granted to the Chief Executive Officer and the named executive officers of the Company during 2003

No stock options were exercised by the Chief Executive Officer or the named executive officers of the Company during 2003. The following table sets forth certain information regarding unexercised options held by the Chief Executive Officer and the named executive officers of the Company at December 31, 2003. The table does not give effect to grants of options that occurred after December 31, 2003. For additional information with respect to these grants, see "Stock Option Plan".

Aggregated Option Exercises during 2003
and Option Values on December 31, 2003

Name	Number of Securities Underlying Unexercised Options at December 31, 2003(#)		Value of Unexercised In-the-Money Options at December 31, 2003($)(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Roger L. Chaufournier	23,415	9,917	$1,500	1,000
Christine St. Andre	17,499	7,501	1,125	750
Kent A. Tapper	9,582	1,751	3,187	263

(1) Calculated based upon $2.40 market value of the underlying securities as of December 31, 2003.

Employment Agreements

There were no employment agreements with any of the Company's executive officers.

Stock Option Plan

The Company's Amended and Restated Stock Option Plan (the "Plan") was adopted by the Board of Directors and stockholders in December 2003. As of April 20, 2004, up to 3,500,000 shares of Common Stock are authorized and reserved for issuance under the Plan. Under the Plan, options may be granted in the form of incentive stock options ("ISOs") or non-qualified stock options ("NQOs") from time to time to salaried employees, officers, directors and consultants of the Company, as determined by the Compensation Committee of the Board of Directors. The Compensation Committee determines the terms and conditions of options granted under the Plan, including the exercise price. The Plan provides that the Committee must establish an exercise price for ISOs that is not less than the fair market value per share at the date of the grant. However, if ISOs are granted to persons owning more than 10% of the voting stock of the Company, the Plan provides that the exercise price must not be less than 110% of the fair market value per share at the date of the grant. The Plan also provides for a non-employee director to be entitled to receive a one-time grant of a NQO to purchase 36,000 shares at an exercise price equal to fair market value per share on the date of their initial election to the Company's Board of Directors. Such NQO is exercisable only during the non-employee director's term and automatically expires on the date such director's service terminates. Each option, whether an ISO or NQO, must expire within ten years of the date of the grant.

As of June 29, 2004, options to acquire 1,518,827 shares of Common Stock have been granted to employees and directors of the Company. The following table sets forth information regarding the number of options outstanding and the exercise price of these options.

Number of Options Outstanding at June 29, 2004	Exercise Price
499	$1.08
3,000	$1.67
43,748	$2.25

1,426,000	$2.28
12,500	$6.00
6,000	$8.33
6,417	$16.50
2,500	$22.56
16,666	$24.72
789	$29.26
708	$33.00

Of these options, 92,827 of the options granted before December 31, 2003 were fully vested, 1,426,000 were granted on January 9, 2004, 456,400 of which vested immediately. The remaining options and all other options granted under the Plan vest as to 20% of the option grant on the first anniversary of the grant, and 20% on each subsequent anniversary.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

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

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

On December 31, 2003, Patient Infosystems and Wells Fargo further amended the credit facility, which is due and payable on June 30, 2005. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension. In consideration for their guarantees, in February 2004 the Company granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of the Company's common stock for $10.00 per preferred share.

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

On December 31, 2003, the Company converted $4,482,500 in debt and $438,099 of accrued interest owed to Mr. Pappajohn and Dr. Schaffer into common stock by issuing 2,928,986 shares of the Company's common stock using a value of $1.68

per common share. Additionally on December 31, 2003, Mr. Pappajohn agreed to convert his remaining debt of $745,000 and accrued interest of $711,110 into 145,611 shares of the Company's Series D Convertible Preferred Stock at a price of $10.00 per preferred share.

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 as amended on September 10, 2003. These shares can be converted into common stock at a rate of 10 shares of common stock to 1 share of Series D Preferred Stock. Each share of Series D Preferred Stock has voting rights equivalent to 10 shares of common stock. John Pappajohn and Derace Schaffer, members of the Board of Directors of Patient Infosystems, hold 424,233 and 5,318 shares of Series D Preferred Stock, respectively.

In January 2004, Patient Infosystems borrowed $200,000 from Mr. Pappajohn, a director of the Company, in exchange for an unsecured note that bore no interest if repaid on or before March 31, 2004. The note was repaid on March 29, 2004 and bore no interest as of that date.

During April and May of 2004, Patient Infosystems borrowed $570,000 from Mr. Pappajohn, a director of the Company, in exchange for unsecured zero interest notes. The notes were repaid on June 21, 2004.

On June 17, 2004, Patient Infosystems Inc. sold 3,365,000 shares of common stock to institutional and other accredited investors for an aggregate purchase price of $5,653,200 in gross proceeds. Derace Shaffer, our Chairman of the Board, purchased 100,000 shares of common stock in the private placement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the shares of the Company's Common and Common equivalent Preferred Stock as of August 28, 2004, (i) by each person the Company knows to be the beneficial owner of 5% or more of the outstanding shares of Common Stock, (ii) the Chief Executive Officer and each named executive officer listed in the Summary Compensation Table below, (iii) each director and nominee for director of the Company and (iv) all executive officers and directors of the Company as a group. As of June 29, 2004, there were 9,571,799 shares outstanding. None of the persons listed below are Selling Stockholders.

Beneficial Owner(1)	Shares Beneficially Owned	Percentage Beneficially Owned
John Pappajohn(2)	7,640,090	53.77%
Principle Life Insurance(3) 810 Grand Ave. Des Moines, IA 50392	3,551,490	27.06%
American Caresource Corporation 17400 Dallas Parkway Dallas, TX 75287	1,100,000	11.49%
Derace L. Schaffer(4)	1,014,470	10.07%
Crestview Capital Master, LLC	500,000	5.22%

95 Revere Drive, Suite A Northbrook, IL 60062		
Gibralt Capital Corporation 2600-1075 W. Georgia Street Vancouver, BC V6E3C9	500,000	5.22%
Roger Louis Chaufournier(5)	233,332	2.38%
Christine St. Andre(6)	125,000	1.29%
Kent A. Tapper(7)	73,841	0.77%
All directors and executive officers as a group (6 persons)	9,086,733	60.02%
Total Shares Outstanding as of June 29, 2004	9,571,799	

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

(2) Includes 30,000 shares held by Halkis, Ltd., a sole proprietorship owned by Mr. Pappajohn, 30,000 shares held by Thebes, Ltd., a sole proprietorship owned by Mr. Pappajohn's spouse and 30,000 shares held directly by Mr. Pappajohn's spouse. Mr. Pappajohn disclaims beneficial ownership of the shares owned by Thebes, Ltd. and by his spouse. Includes options to purchase 3,000 shares which are either currently exercisable or which become exercisable within 60 days of April 28, 2004, 110,000 Common Share equivalents for the 11,000 shares of Series C Convertible Preferred Stock and 4,242,330 Common Share equivalents for the 424,233 shares of Series D Convertible Preferred Stock beneficially owned as of June 29, 2004.

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(3) Includes 3,551,490 Common Share equivalents for the 355,149 shares of Series D Convertible Preferred Stock beneficially owned as of June 29, 2004.

(4) Includes 12,000 shares held by Dr. Schaffer's children. Also includes 3,000 shares which are issuable upon the exercise of options that are either currently exercisable or which become exercisable within 60 days of June 29, 2004, 250,000 Common Share equivalents for the 25,000 shares of Series C Convertible Preferred Stock and 53,180 Common Share equivalents for the 5,318 shares of Series D Convertible Preferred Stock beneficially owned as of June 29, 2004.

(5) Includes options to purchase 233,332 shares which are either currently exercisable or which become exercisable within 60 days of the date of June 29, 2004. Does not include 200,000 shares subject to outstanding options that are not exercisable within 60 days of June 29, 2004.

(6) Includes options to purchase 125,000 shares which are either currently exercisable or which become exercisable within 60 days of the date of June 29, 2004. Does not include 100,000 shares subject to outstanding options that are not exercisable within 60 days of June 29, 2004.

(7) Includes options to purchase 73,933 shares which are either currently exercisable or which become exercisable within 60 days of June 29, 2004. Does not include 62,500 shares subject to outstanding options that are not exercisable within 60 days of June 29, 2004.

SELLING STOCKHOLDERS

The following table lists the name of each selling stockholder, the number of shares owned by each selling stockholder and the number of shares that may be offered for resale under this prospectus. To the extent permitted by law, the selling stockholders who are not natural persons may distribute shares, from time to time, to one or more of their respective affiliates, which may sell shares pursuant to this prospectus. We have registered the sale of the shares to permit the selling stockholders and their respective permitted transferees or other successors in interest that receive their shares from the selling stockholders after the date of this prospectus to resell the shares. An aggregate of up to 877,125 shares of our common stock may be offered and sold pursuant to this prospectus by the selling stockholders. We will file a post-effective amendment to identify any additional selling shareholders.

No selling stockholder has held any position or office or had a material relationship with us within the past three years other than as a result of the ownership of our common stock and other securities.

The following table sets forth certain information as of April 15, 2004 regarding the sale by the selling stockholders of 877,125 shares of common stock in this offering.

We issued an additional 155,161 shares of common stock to the Selling Stockholders because purchase price for the investors in the private placement that occurred on June 17, 2004 was lower than the price paid per share by the Selling Stockholders. Such additional shares have been included as shares beneficially owned before the offering, but not as shares registered pursuant to this offering.

Selling Stockholder	Shares Beneficially Owned Before the Offering (1)	Shares to be Registered Pursuant to this Offering	Shares Beneficially Owned After the Offering
John C. Lipman	147,514	114,625 (2)	147,514
Jack Erlanger	83,043	50,000	83,043
Mark Finkle	59,523	50,000	59,523
Edward Newman	29,761	25,000	29,761
Patrick Tully	208,333	175,000	208,333
Wasatch Micro Cap Value Fund (3)	297,619	250,000	297,619
Tucson Traditions (4)	59,523	50,000	59,523
American High Growth Equities Retirement Fund (5)	119,047	100,000	119,047
Joseph Giamanco (6)	59,523	50,000	59,523
Maxim Group LLC (7)	12,500	12,500	12,500

(1) Beneficial ownership is determined in accordance with rules and regulations of the Securities and Exchange Commission. In computing the number of

shares beneficially owned by a person, shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of the date of this prospectus are deemed outstanding. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares beneficially owned by him. Selling stockholders are deemed to beneficially own the shares of common stock issuable upon the exercise of their warrants.

(2) Includes shares of common stock issuable upon exercise of a warrant to purchase 50,000 shares of common stock. Such warrants were issued for consulting services in connection with an investor relations agreement. Such warrants were issued under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933.

(3) Brian Bythrow exercises voting control over the shares held by Wasatch Micro Cap Value Fund.

(4) In March 2004, Patient Infosystems sold 50,000 shares of common stock to Tucson Traditions for $100,000 cash, under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. Edward Burger exercises voting control over the shares held by Tucson Traditions.

(5) In March 2004, Patient Infosystems sold 100,000 shares of common stock to American High Growth Equities Retirement Fund for $200,000 cash, under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. Brad Butler exercises voting control over the shares held by American High Growth Equities Retirement Fund.

(6) In March 2004, Patient Infosystems sold 50,000 shares of common stock to Joseph Giamanco for $100,000 cash, under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933.

(7) Includes shares of common stock issuable upon exercise of a warrant to purchase 12,500 shares of common stock. Andrew Scott exercises voting control over the shares held by Maxim Group LLC. Maxim Group LLC is a registered broker-dealer and therefore, is considered an underwriter with respect to these securities.

On February 24, 2004, Patient Infosystems sold 592,500 shares of common stock, for $1,185,000 to six accredited investors, under an exemption from registration pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933. There was $68,250 of fees paid and a warrant to purchase 12,500 shares of Patient Infosystems common stock for $2.00 per share issued in connection with these funds. Patient Infosystems has agreed to file this registration statement on Form SB-2 for the sale of these shares.

Plan Of Distribution

The selling stockholders and any of their pledgees, donees, transferees, assignees or other successors-in-interest may, from time to time, sell any or all of the shares of common stock offered hereby on any stock exchange, market or trading facility on which the shares are traded or in private transactions.

Our common stock currently trades on the OTC Bulletin Board. Any sales by the selling stockholders may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- broker-dealers may agree with the selling stockholder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholders may from time to time pledge or grant a security interest in any of their warrants or common stock issuable upon conversion of their warrants and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares underlying the warrants from time to time under this prospectus.

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The selling stockholders also may transfer their warrants or shares of common stock issuable upon conversion of their warrants in other circumstances, in which case the pledges, donees, transferees, assignees or other successors-in-interest will be a "selling stockholder" for purposes of this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the common stock.

We will not receive any proceeds from sales of any shares by the selling stockholders. However, we may receive an aggregate of $162,500 upon the exercise of all the warrants held by selling stockholders, if such warrants are exercised for cash. We will use such funds, if any, for working capital and general corporate purposes.

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DESCRIPTION OF CAPITAL STOCK

We are authorized to issue 100,000,000 shares of capital stock divided into (i) 80,000,000 shares of common stock, par value $0.01 per share and (ii) 20,000,000 shares of preferred stock, par value $0.01 per share. As of June 29, 2004, there are 9,571,799 shares of our common stock outstanding, held of record by approximately 750 stockholders. There are 915,118 shares of Preferred Stock outstanding, held by 39 stockholders.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record in the election of directors and in all other matters to be voted on by the stockholders. There is no cumulative voting with respect to the election of directors. As a result, the holders of more than 50% of the shares voting for the election of directors can elect all of the directors. Holders of common stock are entitled:

- to receive any dividends as may be declared by the Board of Directors out of funds legally available for such purpose after payment of accrued dividends on the outstanding shares of preferred stock; and

- in the event of our liquidation, dissolution, or winding up, to share ratably in all assets remaining after payment of liabilities and after provision has been made for each class of stock having preference over the common stock.

All of the outstanding shares of common stock are validly issued, fully paid and nonassessable. Holders of our common stock have no preemptive right to subscribe for or purchase additional shares of any class of our capital stock.

Preferred Stock

Our Board of Directors has the authority, within the limitations set forth in our certificate of designations and certificate of incorporation to provide by resolution for the issuance of preferred stock, in one or more classes or series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or the designation of such series.

Series C Preferred Stock

The holders of Series C Preferred Stock are entitled to eight votes for each share held of record on all matters submitted to a vote of stockholders. Holders of Series C Preferred Stock are entitled to receive cumulative 9% dividends on an annual basis and ratably such dividends as may be declared by the Board of Directors of Patient Infosystems out of funds legally available therefor. In the event of any voluntary or involuntary liquidation, dissolution or winding up of Patient Infosystems, then, prior, and in preference to any distribution of any assets to the holders of common stock, the holders of Series C Preferred Stock will be entitled to be paid in full in an amount equal to (i) a per share price for each share of Series C Preferred Stock outstanding plus (ii) an amount equal to a cumulative, unpaid dividend at a 9% rate per annum plus (iii) an amount equal to all declared but unpaid dividends on each such share accrued up to such date of distribution. For purposes of calculating these preference payments, the per share price has been $10.00 for the Series C Preferred Stock. One share of the Series C Preferred Stock may be converted at any time, at the holder's option, into eight shares of common stock. Holders of Series C Preferred Stock have no preemptive rights.

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The conversion rate will be adjusted if Patient Infosystems pays a dividend on its common stock or subdivides or combines its outstanding common stock. If at any time, Patient Infosystems proposes to offer and sell shares of preferred stock having a conversion rate that is less than $1.25 per share of common stock, then the conversion rate for the Series C Preferred Stock will be adjusted such that each share of Series C Preferred Stock will be convertible into such number of shares that equals $10.00 divided by the conversion rate of the new shares of preferred stock offered and sold. As a result, each share of Series C Preferred Stock will be convertible into 10 shares of common stock or an aggregate of 750,000.

Series D Preferred Stock

The holders of Series D Preferred Stock are currently entitled to one hundred twenty votes for each share held of record on all matters submitted to a vote of stockholders. Holders of Series D Preferred Stock are entitled to receive cumulative 9% dividends on an annual basis and ratably such dividends as may be declared by the Board of Directors of Patient Infosystems out of funds legally available therefore. In the event of any voluntary or involuntary liquidation, dissolution or winding up of Patient Infosystems, then, prior, and in preference to any distribution of any assets to the holders of Common Stock, the holders of Series D Preferred Stock will be entitled to be paid in full in an amount equal to (i) a per share price for each share of Series D Preferred Stock outstanding plus (ii) an amount equal to a cumulative, unpaid dividend at a 9% rate per annum plus (iii) an amount equal to all declared but unpaid dividends on each such share accrued up to such date of distribution. For purposes of calculating these preference payments, the per share price will be $10.00 for each share of Series D Preferred Stock. One share of the Series D Preferred Stock may be converted at any time, at the holder's option, into one hundred twenty shares of Common Stock. Holders of Series D Preferred Stock have no preemptive rights. The 840,118 shares of Series D Preferred Stock outstanding may be convertible into 8,401,180 shares of common stock.

The conversion rate will be adjusted if Patient Infosystems pays a dividend on its common stock or subdivides or combines its outstanding common stock. The conversion rate will also be adjusted if Patient Infosystems issues or sells common stock or securities convertible into common stock at a price less than the then effective conversion rate, in which case the conversion rate will be adjusted to an amount equal to the effective price per share of the securities sold in the transaction giving rise to the adjustment.

Holders of a majority in voting power of the Series D Preferred Stock have the right to elect two members of the Board of Directors of Patient Infosystems.
Warrants

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As of June 29, 2004, we have outstanding warrants to purchase the equivalent of 686,791 shares of our common stock. We issued warrants to purchase 12,500 shares of our common stock at an exercise price of $2.00 per share pursuant to a private placement that occurred in February 2004.

Market for Common Stock

Shares of our common stock are listed on the OTC Bulletin Board under the symbol PATY.

Transfer Agent and Registrar

Our transfer agent and registrar is Continental Stock Transfer and Trust Company, 17 Battery Place, New York, New York 10004.

Shares Eligible for Future Sale

We currently have 9,571,799 shares of common stock outstanding. Of the 9,571,799 shares of common stock outstanding, up to 1,803,384 shares are freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by an "affiliate", which will be subject to the resale limitations of Rule 144 promulgated under the Securities Act.

All of the remaining shares of common stock currently outstanding are "restricted securities" or owned by "affiliates", as those terms are defined in Rule 144, and may not be sold publicly unless they are registered under the Securities Act or are sold pursuant to Rule 144 or another exemption from registration. The restricted securities are not eligible for sale without registration under Rule 144. As of June 29, 2004, there were outstanding options and warrants to purchase 2,205,618 shares of our common stock.

Rule 144

Generally, under Rule 144 as currently in effect, subject to the satisfaction of certain other conditions, a person, including any of our affiliates or persons whose shares are aggregated with an affiliate, who has owned restricted shares of common stock beneficially for at least one year, is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of our then outstanding shares of common stock; or
- the average weekly trading volume of shares of our common stock during the four calendar weeks preceding such sale.

A person who is not an affiliate, has not been an affiliate within three months prior to sale, and has beneficially owned the restricted shares for at least two years is entitled to sell such shares under Rule 144(k) without regard to any of the limitations described above.

Charter and Bylaws Provisions and Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents Delaware corporations from engaging under certain circumstances, in a "business combination", which includes a merger or sale of more than 10% of the corporation's assets, with any "interested stockholder", or a stockholder who owns 15% or more of the corporation's outstanding voting stock, as well as affiliates and associates of any such persons, for three years following the date such stockholder became an "interested stockholder", unless (i) the business combination or the transaction in which such stockholder became an "interested stockholder" is approved by the board of directors prior to the date the "interested stockholder" attained such status; (ii) upon consummation of the transaction that resulted in the stockholder becoming an "interested stockholder", the "interested stockholder" owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (x) persons who are directors and also officers and (y) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or after the date the "interested stockholder" attained such status the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the "interested stockholder."

Our certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors. Our bylaws eliminate the right of stockholders to call special meetings of stockholders. These and other provisions may have the effect of delaying, deferring or preventing hostile takeovers or changes in the control or management of Patient Infosystems, Inc. even if doing so would be beneficial to our stockholders.

Reports to Stockholders

We have and will continue to comply with the periodic reporting, proxy solicitation and other applicable requirements of the Securities Exchange Act of 1934.

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon by McCarter & English, LLP.

EXPERTS

The consolidated financial statements and the related financial statement schedule of Patient Infosystems, Inc. included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph expressing substantial doubt about the Company's ability to continue as a going concern), and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of American Caresource Corporation that have been audited by McGladrey & Pullen LLP, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion), and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

a) Deloitte & Touche LLP resigned as the Registrant's independent accountants on April 21, 2004.

b) The Audit Committee of the Board of Directors of the Registrant approved on April 28, 2004 the engagement of the accounting firm of McGladrey & Pullen, LLP as accountants for the Registrant for the year ending December 31, 2004 subject to their normal client acceptance procedures.

c) Deloitte & Touche LLP's reports on the financial statements for the past two years ended December 31, 2003 and 2002 contained no adverse opinion or disclaimer of opinion. Deloitte & Touche LLP's reports on the financial statements contained an explanatory paragraph expressing substantial doubt about the Registrant's ability to continue as a going concern.

d) In connection with its audits for the two most recent fiscal years ended December 31, 2003 and 2002 and through April 21, 2004, there have been no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Deloitte & Touche LLP would have caused them to make reference thereto in their report on the financial statements for such years.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission, a Registration Statement on Form SB-2 under the Securities Act of 1933 with respect to the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information with respect to us and the common stock offered by this prospectus, reference is made to the registration statement and the exhibits and schedules filed as a part of the registration statement. Additionally, we file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission. You may read and copy any materials we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the Securities and Exchange Commission's Web site is http://www.sec.gov.

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AUDITORS' REPORT

To the Board of Directors and Stockholders of Patient InfoSystems, Inc.
Rochester, New York

We have audited the accompanying consolidated balance sheets of Patient Infosystems, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule on page 77. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Patient Infosystems, Inc. and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche LLP
Rochester, New York
March 30, 2004

PATIENT INFOSYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

	2003
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 397,851
Accounts receivable (net of doubtful accounts allowance of $52,141 and $55,000)	771,258
Prepaid expenses and other current assets	156,729
Notes receivable	-
Total current assets	1,325,838
PROPERTY AND EQUIPMENT, net	305,551
OTHER ASSETS:	
Intangible assets (net of accumulated amortization of $586,830 and $443,258)	497,893
Goodwill	6,981,876
TOTAL ASSETS	$ 9,111,158
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
CURRENT LIABILITIES:	
Bank overdraft	$ 189,608
Accounts payable	1,337,862
Accrued salaries and wages	442,299
Accrued expenses	1,472,445
Accrued interest	61,558
Current maturities of long-term debt	294,117
Borrowings from directors	-
Deferred revenue	336,598

Total current liabilities	4,134,487
LINE OF CREDIT	3,000,000
LONG-TERM DEBT	40,295
COMMITMENTS (Note 7)	
STOCKHOLDERS' EQUITY (DEFICIT):	
Preferred stock - $.01 par value: shares authorized: 20,000,000	
Series C, 9% cumulative, convertible	
issued and outstanding: 2003 & 2002 - 100,000	1,000
Series D, 9% cumulative, convertible	
issued and outstanding: 2003 - 830,100	8,301
Common stock - $.01 par value:	
authorized: 80,000,000; issued and outstanding: 2003 - 4,960,354	
authorized: 20,000,000; issued and outstanding: 2002 - 10,956,024	49,604
Additional paid-in capital	45,596,684
Accumulated deficit	(43,719,213
Total stockholders' equity (deficit)	1,936,376
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 9,111,158

See notes to consolidated financial statements.

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PATIENT INFOSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

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PAUL J. O SHEA

Director Since: 2001 **Age:** 57 **Class:** I

Enstar Officer Title: Executive Vice President and Joint Chief Operating Officer

Biographical Information: Paul O Shea has served as a director, Executive Vice President and Joint Chief Operating Officer of the Company since our formation in 2001. In his role as an executive officer, he leads our mergers and acquisitions operations, including overseeing our transaction sourcing, due diligence, and negotiations processes. In 1994, Mr. O Shea joined Dominic F. Silvester and Nicholas A. Packer in their run-off business venture in Bermuda, and he served as a director and Executive Vice President of Enstar Limited, which is now a subsidiary of the Company, from 1995 until 2001. Prior to co-founding the Company, he served as the Executive Vice President, Chief Operating Officer and a director of Belvedere Group/Caliban Group from 1985 until 1994.

Skills and Qualifications: Mr. O Shea is a qualified chartered accountant who has spent more than 30 years in the insurance and reinsurance industry, including many years in senior management roles. As a co-founder of the Company, Mr. O Shea has intimate knowledge and expertise regarding the Company and our industry.

SUMIT RAJPAL

Director Since: 2011 **Age:** 39 **Class:** I

Enstar Committees: Investment

Biographical Information: Sumit Rajpal is a managing director of Goldman, Sachs & Co. He joined Goldman, Sachs & Co. in 2000 and became a managing director in 2007.

Certain Other Directorships: Mr. Rajpal serves as a director on the boards of Ipreo Parent Holdco LLC, ProSight Specialty Insurance Holdings, TransUnion Holding Company, Inc., Safe-Guard Products International, LLC, and Hastings Insurance Group, and is a board observer for SKBHC Holdings, LLC. Mr. Rajpal previously served on the boards of Validus Holdings, Ltd. (from 2008 until February 2011) and USI Holdings Corporation (from May 2007 to December 2012).

Skills and Qualifications: Mr. Rajpal brings to our Board his extensive knowledge of the global insurance and reinsurance industries, which he has gained through years of experience as an investor and director. His expertise in corporate finance and investing is highly valuable to our Board s oversight of capital planning and our Investment Committee s oversight of our investment portfolios.

Directorship Arrangements

We have previously entered into the following arrangements relating to directorships:

Recapitalization/Merger (2007) On January 31, 2007, in connection with the merger of one of our wholly-owned subsidiaries with The Enstar Group, Inc. (the Merger), we also completed a recapitalization transaction. Pursuant to the terms of the agreement governing the recapitalization, Paul J. O Shea and Dominic F. Silvester were named directors of the Company.

Goldman Sachs Investment (2011) On April 20, 2011, we entered into an Investment Agreement (the Investment Agreement) with certain affiliates of Goldman, Sachs & Co. (Goldman Sachs) and, pursuant to the agreement s terms, Sumit Rajpal was named a director of the Company.

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Torus Acquisition (2014) On April 1, 2014, we and the Trident V funds completed the acquisition of Torus Insurance Holdings Limited (Torus). In connection with the closing, we and First Reserve entered into a Shareholder Rights Agreement under which First Reserve has the right to designate one representative to our Board of Directors. This designation right terminates if First Reserve ceases to beneficially own at least 75% of the total number of voting and non-voting shares acquired by it at the closing. Pursuant to the Shareholder Rights Agreement, Kenneth Moore was named a director of the Company, effective as of the closing.

Independence of Directors

Following the appointment of Mr. Becker on February 25, 2015, our Board currently consists of seven directors, of which five are non-management directors. The Board determined that the following four directors are independent as defined by Nasdaq Marketplace Rule 5605(a)(2):

Current Independent Directors:	
Robert J. Campbell	Rick Becker
Kenneth W. Moore	Sumit Rajpal

The Board made these determinations based primarily on a review of the responses of the directors to questions regarding employment and compensation history, family relationships and affiliations, and discussions with the directors. For details about certain relationships and transactions among us and our executive officers and directors, see Certain Relationships and Related Transactions beginning on page 28.

Board Leadership Structure

The Board has separated the positions of Chairman and Chief Executive Officer. Robert J. Campbell, an independent director, has served as Chairman since November 2011 (when our then Chairman and Chief Executive Officer, Dominic F. Silvester, recommended the separation of the positions). The Board believes that separating the roles of Chairman and CEO and having Mr. Campbell serve as Chairman is the most effective leadership structure for us at this time.

Mr. Campbell has served on our Board for over seven years. The Board believes he is well suited to assist with the execution of strategy and business plans, to play a prominent role in setting the Board s agenda, to act as the liaison between the Board and our senior management, and to preside at Board and shareholder meetings.

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The Board believes that our corporate governance structure appropriately satisfies the need for objectivity, and includes several effective oversight means, including:

- Ø the roles of Chairman and CEO are separated;
- Ø the Chairman is an independent director;
- Ø the Board is comprised of a majority of independent directors;
- Ø before or after regularly scheduled Board meetings, the independent directors meet in executive session to review, among other things, the performance of our executive officers; and
- Ø the Audit, Compensation and Nominating and Governance committees of the Board are comprised only of independent directors who perform key oversight functions, such as:

  - overseeing the integrity and quality of our financial statements,
  - overseeing risk assessment and management,
  - establishing senior executive compensation,
  - reviewing director candidates and making recommendations for director nominations, and
  - overseeing our corporate governance structure and practices.

The Board recognizes, however, that no single leadership model is right for all companies at all times and that, depending on the circumstances in the future, other leadership models might be appropriate for us.

Board Committees

Our Board has an Audit Committee, a Compensation Committee, a Nominating and Governance Committee and an Investment Committee. Each of our committees operates under a written charter that has been approved by our Board. The charters are reviewed annually by each respective committee, which recommends any proposed changes to our Board. Current copies of the charters for all of our committees are available on our website at *http://www.enstargroup.com/corporate-governance.cfm*. In addition, any shareholder may receive copies of these documents in print, without charge, by contacting Investor Relations at P.O. Box HM 2267, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM JX, Bermuda.

Our Board of Directors met a total of six times during the year ended December 31, 2014.

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The primary responsibilities of each of our committees, as well as the current composition of our committees and the number of committee meetings held during 2014, are described below.

Audit Committee	
The primary responsibilities of our Audit Committee include:	
overseeing our accounting and financial reporting process, including our internal controls over financial reporting, overseeing the quality and integrity of our financial statements, reviewing the qualifications and independence of our independent auditor, reviewing the performance of our internal audit function and independent auditor, reviewing related party transactions, overseeing our compliance with legal and regulatory requirements, appointing and retaining our independent auditors,	**Committee Members:** Robert J. Campbell (Chair) Rick Becker Kenneth W. Moore
pre-approving compensation, fees and services of the independent auditors and reviewing the scope and results of their audit, and overseeing the process by which we undertake risk assessment and risk management, including discussing our financial risk exposures and the steps management has taken and is taking to monitor and control such exposures, although we expect some of this oversight to be transitioned to our Risk Committee during 2015.	**Number of Meetings in 2014:** 5

Each member of the Audit Committee is a non-management director and is independent as defined in Nasdaq Marketplace Rule 5605(a)(2) and under the Securities Exchange Act of 1934, as amended (the Exchange Act). Our Board has determined that Messrs. Campbell and Becker qualify as audit committee financial experts pursuant to the definition set forth in Item 407(d)(5)(ii) of Regulation S-K, as adopted by the SEC. Kenneth J. LeStrange (an independent director) served as a member of our Audit Committee until December 31, 2014. Mr. Becker was appointed to the committee effective February 25, 2015.

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Compensation Committee

The primary responsibilities of our Compensation Committee include:

- determining the compensation of our executive officers,
- establishing our compensation philosophy,
- overseeing the development and implementation of our compensation programs, including our incentive plans and equity plans,
- overseeing the risks associated with the design and operation of our compensation programs, policies and practices, and
- periodically reviewing the compensation of our directors and making recommendations to our Board with respect thereto.

Each member of the Compensation Committee is a non-management director, is independent as defined in Nasdaq Marketplace Rule 5605(a)(2), and meets the enhanced independence standards applicable to compensation committee members in Nasdaq Marketplace Rule 5605(d)(2) and the Exchange Act. Additional information on the Compensation Committee and the role of management in setting compensation is provided below in Executive Compensation Compensation Discussion and Analysis beginning on page 31. Mr. LeStrange served as Chairman and member of the Compensation Committee until December 31, 2014.

Committee Members:

Rick Becker (Chair)

Robert J. Campbell

Kenneth W. Moore

Number of Meetings in 2014:

5

Nominating and Governance Committee

The primary responsibilities of our Nominating and Governance Committee include:

- identifying individuals qualified to become directors and reviewing any candidates proposed by directors, management or shareholders,

Committee Members:

Rick Becker (Chair)

Robert J. Campbell

recommending committee appointments to the Board, recommending the annual director nominees to the Board and the shareholders, establishing director qualification criteria, supporting the succession planning process, and advising the Board with respect to corporate governance-related matters.	**Number of Meetings in 2014:**
Each member of the Nominating and Governance Committee is a non-management director and is independent as defined in Nasdaq Marketplace Rule 5605(a)(2). Mr. Becker joined the committee as Chairman on February 25, 2015.	1

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Investment Committee

The primary responsibilities of our Investment Committee include:

- determining our investment strategy,
- developing and reviewing our investment guidelines and overseeing compliance with these guidelines and various regulatory requirements and any applicable loan covenants,
- overseeing our investments, including approval of investment transactions,
- overseeing the selection, retention and evaluation of outside investment managers,
- overseeing investment-related risks, including those related to the Company s cash and investment portfolios and investment strategies, and
- reviewing and monitoring the Company s investment performance quarterly and annually against plan and external benchmarks agreed from time to time.

Four members of the Investment Committee (Messrs. Campbell, Carey, Moore and Rajpal) are non-management directors, and three members (Messrs. Campbell, Moore and Rajpal) are independent as defined in Nasdaq Marketplace Rule 5605(a)(2).

*Richard Harris is the Company s Chief Financial Officer. David Rocke is an Executive Vice President of our subsidiary Enstar Limited. Cormac Treanor is Executive Vice President and Group Head of Life of our subsidiary Enstar (US) Inc. The Board has included Messrs. Harris, Rocke and Treanor on the Investment Committee because it believes their respective knowledge and insight in investment and other Company matters provides a significant benefit to the function of the committee. In particular, the Board believes that Mr. Harris insight into financial and accounting matters and knowledge of subsidiary portfolios, Mr. Rocke s

Committee Members:

Robert J. Campbell (Chair)

James D. Carey

Kenneth W. Moore

Sumit Rajpal

Richard J. Harris*

David Rocke*

Cormac Treanor*

Number of Meetings in 2013:

5

involvement in mergers and acquisitions, and Mr. Treanor s financial services and life insurance experience support the oversight of the Company s investments and add valuable skill sets to this committee.

Attendance at Meetings

We expect our directors to attend all meetings of our Board, all meetings of all committees of the Board on which they serve and each annual general meeting of shareholders, absent exigent circumstances.

In 2014, during the time they were serving, all of the directors other than Mr. Moore attended at least 75% of the meetings of the Board and the committees of the Board on which the director served and was not recused from attending. Due to our acquisitive business model, from time to time, a special meeting may be required solely with respect to a particular matter, such as an acquisition or significant new business transaction or investment, in which a director may be recused from participating due to a potential conflict of interest between the Company and the business of his primary employer. Where such a matter is the only material purpose for holding the special meeting, it

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is our practice that a recused director is not eligible to attend the meeting, and accordingly his attendance record would not be impacted. Mr. Moore, who became a director upon the closing of our acquisition of Torus, missed Board and committee meetings held on two consecutive days due to a scheduling conflict identified prior to his appointment.

All directors then serving attended the 2014 annual general meeting of shareholders, other than Mr. Rajpal, who participated in the meeting by telephone as an observer. His telephonic participation was not considered attendance due to our policy requiring in-person attendance for meetings. In addition, in 2014, our independent directors met each quarter in executive sessions without management.

Board Oversight of Risk Management

Effective risk oversight is an important priority for the Board, which has placed strong emphasis on ensuring we have a robust risk management framework to identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational and financial objectives of the Company and our subsidiaries. Our Board and its committees have risk oversight responsibility and play an active role in overseeing management of the risks we face.

The overall objective of our risk management framework is to support good risk governance, support the achievement of business objectives and provide overall benefits to us by adding value to the control environment, and to contribute to an effective business strategy, efficiency in operations and processes, strong financial performance, accurate financial reporting, regulatory compliance, a good reputation with key stakeholders, business continuity planning, and capital planning.

Our enterprise risk management (ERM) consists of numerous processes and controls that have been designed by our senior management (including our risk management team), with oversight by our Board and its committees, managed by our senior executives, and implemented by employees across our organization. Risk assumption is inherent in our business, and appropriately setting risk appetite and executing our business strategies in accordance therewith is key to our performance. For more information on ERM, refer to Item. 1 Business Enterprise Risk Management (ERM) beginning on page 33 of our Annual Report on Form 10-K for the year ended December 31, 2014.

The Board and its committees regularly review information regarding, among other things, our operations, loss reserves, acquisitions, credit, liquidity, investments, active underwriting and the risks associated with each. Management is responsible for the Company s risk management, including identifying, monitoring, prioritizing, and addressing risks, and management reports to the Board and its committees with respect thereto.

Following a review of the Company s growth and newer business segments, the Board recently determined that it would create a Risk Committee and an Underwriting Committee at the Board level to provide enhanced director oversight and involvement in these areas. During 2015, we expect to approve charters for these committees and appoint committee members, so that full engagement of these committees will commence.

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Our committees support the Board s oversight of risk management in the following ways:

Committee	Risk Management Responsibilities
Audit Committee	Reviews our overall risk appetite with input from management Reviews our risk management methodologies Oversees management s execution of our risk management objectives Discusses our financial risk exposures and the steps management has taken and is taking to monitor and control such exposures Receives direct reports from the Company s Head of Internal Audit, who meets with the committee on a quarterly basis and maintains an open dialogue with the Audit Committee Chairman Receives direct reports on ERM, which is expected to occur during Risk Committee meetings in the coming year
Compensation Committee	Oversees risks relating to our compensation programs and plans (as more fully described in Executive Compensation Compensation Discussion and Analysis Compensation Risk Assessment on page 46) Conducts an annual risk assessment of our compensation programs to ensure they are properly aligned with Company performance and do not provide incentives for our employees to take inappropriate or excessive risks
Nominating and Governance Committee	Oversees risks relating to corporate governance matters, including with respect to reviewing Board and Committee composition and the Company s relations with our shareholders Oversees and supports the Board in management succession planning

Investment Committee	Regularly evaluates and tests our investment portfolio and investment strategies under various stress scenarios Oversees compliance with investment guidelines, which assist us in monitoring our investment-related risks Monitors and evaluates our internal investment management department and external investment managers Oversees the Company s investment systems and technology resources and any associated risks

Director Nominations, Qualifications and Recommendations

When identifying and evaluating director nominees, our Nominating and Governance Committee considers the nominees personal and professional integrity, judgment, ability to represent the interests of the shareholders, and knowledge regarding insurance, reinsurance and investment matters, as well as other factors discussed below. The Nominating and Governance Committee has primarily identified candidates through its periodic solicitation of ideas from members of the Board, the Company s executive officers, and individuals known to the Board or executive officers, although in certain private placement or acquisition-related transactions, parties have obtained the right to designate a board representative.

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Several members of our Board recommended Rick Becker to the Nominating Committee as a potential candidate to fill the vacancy created by the resignation of Kenneth LeStrange, who left the Board on December 31, 2014 due to time constraints created by his commitments to other business interests. These directors were familiar with Mr. Becker s experience in the insurance industry and his service on other boards. Members of the Nominating Committee and the Board interviewed Mr. Becker, reviewed his qualifications, and recommended that he be appointed. Our Board of Directors is also continuing its ongoing recruitment efforts to identify additional high-quality independent directors, and has been working with a director search firm to find individuals who meet our criteria and complement and enhance our Board and its committees.

For incumbent directors, the committee reviews each director s overall service to the Company during the director s term, including the director s level of participation and quality of performance. The Nominating and Governance Committee considered and nominated the candidates proposed for election as director at the Annual General Meeting, with the Board unanimously agreeing on the nominees.

Director Qualifications

We seek to identify candidates who represent a mix of backgrounds and experiences that will improve the Board s ability, as a whole, to serve the needs of our Company and the interests of our shareholders. While we do not have a formal diversity policy for selection of directors, we consider diversity broadly to include differences of professional experience, individual attributes and skill sets, perspective, knowledge and expertise in substantive matters pertaining to our business and industry.

Given the complex nature of our business and the insurance and reinsurance industry, we seek to include directors whose experiences, although varying and diverse, are also complementary to and demonstrate a familiarity with the substantive matters necessary to lead the Company and navigate our run-off and active underwriting businesses.

Shareholder Recommendations

Shareholders may recommend candidates to serve as directors by submitting a written notice to the Nominating and Governance Committee at Enstar Group Limited, P.O. Box HM 2267, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM JX, Bermuda. Shareholder recommendations must be accompanied by sufficient information to assess the candidate s qualifications and contain the candidate s consent to serve as director if elected. Shareholder nominees will be evaluated by the Nominating and Governance Committee in the same manner as nominees selected by the committee.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is or was during 2014 an employee, or is or ever has been an officer, of the Company. During the year ended December 31, 2014, no executive officer served as a member of the compensation committee or as a director of another entity having an executive officer serving on our Compensation Committee or as one of our directors.

Code of Conduct

We have adopted a Code of Conduct that applies to all of our directors and employees, including all senior executive and financial officers. A copy of our Code of Conduct is available on our website at http://www.enstargroup.com/corporate-governance.cfm by clicking on Code of Conduct.

In addition, any shareholder may receive a copy of the Code of Conduct or any of our committee charters in print, without charge, by contacting Investor Relations at Enstar Group Limited, P.O. Box HM 2267, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton HM JX, Bermuda. We intend to post any

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amendments to our Code of Conduct on our website. In addition, we intend to disclose any waiver of a provision of the Code of Conduct that applies to our senior executives and financial officers, by posting such information on our website or by filing a Form 8-K with the SEC within the prescribed time period.

Shareholder Communications with the Board

Shareholders and other interested parties may send communications to our Board by sending written notice to:

Enstar Group Limited

Attention: Corporate Secretary

P.O. Box HM 2267

Windsor Place, 3rd Floor

22 Queen Street

Hamilton, HM JX

Bermuda

The notice may specify whether the communication is directed to the entire Board, to the independent directors, or to a particular Board committee or individual director.

Our Corporate Secretary will handle routine inquiries and requests for information. If our Corporate Secretary determines the communication is made for a valid purpose and is relevant to the Company and its business, our Corporate Secretary will forward the communication to the entire Board, to the independent directors, to the appropriate committee chairman or to the individual director as the notice was originally addressed. At each regular meeting of our Board, our Corporate Secretary will present a summary of all communications received since the previous meeting that were not forwarded and will make those communications available to the directors on request.

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DIRECTOR COMPENSATION