PATIENT INFOSYSTEMS INC
Form SB-2
May 15, 2006
As filed with the United States Securities and Exchange Commission on May 15, 2006

Registration No. 333-_____

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

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)

Chris E. Paterson

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:

Aaron J. Velli, Esq.

Darren K. DeStefano, Esq.

Brian F. Leaf, Esq.

Cooley Godward LLP

One Freedom Square

Reston Town Center

11951 Freedom Drive

Reston, Virginia 20190-5656

(703) 456-8000

Fax: (703) 456-8100

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. **o**

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. o

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. o

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

CALCULATION OF REGISTRATION FEES

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (2)
Common Stock, par value $0.01 per share	3,895,598	$1.19	$4,635,762	$496.03

(1) Includes 307,036 shares of common stock issuable upon the exercise of warrants.

(2) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933.

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.

Subject to Completion, dated May 15, 2006

PROSPECTUS

PATIENT INFOSYSTEMS, INC.

3,895,598 Shares of Common Stock

This prospectus relates to the sale of up to an aggregate of 3,895,598 shares of the common stock of Patient Infosystems which may be offered by the selling stockholders identified in this prospectus for their own account. Of such shares, 3,588,562 shares were outstanding as of May 12, 2006 and 307,036 shares are issuable upon exercise of warrants that we have issued to the selling stockholders.

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. The selling stockholders and the participating brokers or dealers may be deemed to be underwriters within the meaning of the Securities Act, in which event any profit on the sale of shares by the selling stockholders, and any commissions or discounts received by the brokers or dealers, may be deemed to be underwriting compensation under the Securities Act.

Our common stock is currently listed on the OTC Bulletin Board under the symbol PATY. On May 12, 2006, the last reported sale price of our common stock on the OTC Bulletin Board was $1.19 per share.

Investing in our common stock involves risks. Please read and carefully consider the Risk Factors beginning on page 10 of this prospectus before making a decision to purchase shares of our common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is May ___, 2006

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

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.

TABLE OF CONTENTS

SUMMARY

You should read this summary together with the more detailed information, including Patient Infosystems and CCS Consolidated s financial statements and related notes and the pro forma financial statements and related notes, appearing elsewhere in this prospectus. Unless otherwise stated or required by the context, in this prospectus when we use the terms we, us, the company or Patient Infosystems we are referring to Patie Infosystems, Inc. and its subsidiaries.

Patient Infosystems, Inc.

Patient Infosystems, Inc. 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. Our principal executive offices are located at 46 Prince Street, Rochester, New York 14607, and our telephone number is (585) 242-7200. Our Internet addresses are www.ptisys.com and www.careguide.com. The information contained on our websites do not constitute part of, nor is it incorporated by reference into, this prospectus.

During our first two years of operations, we emphasized the development of pure disease management programs, which accounted for a substantial portion of our revenue through 1997. However, beginning in 1998, we devoted resources to the development of broader applications of our technology platform, and these additional products grew to account for nearly 45% of our total revenue during the fiscal year ended December 31, 2002. During 2003, we further expanded our product mix to include services that support providers clinical improvement efforts. These services include support for development, training and maintenance of clinical registry software, consultative services in improvement methodologies and support of web-based informational and reporting resources.

On January 25, 2006, Patient Infosystems merged with CCS Consolidated, Inc. (the Merger). CCS Consolidated is a national care management company providing higher-risk and elderly care management services to health plans, work/life benefits companies and self-funded employers.

At the closing of the Merger, Patient Infosystems issued 43,224,352 shares of its common stock to the former stockholders of CCS Consolidated. This represented approximately 64% of the issued and outstanding voting shares of Patient Infosystems upon the closing of the merger, and as a result there was a change of control of Patient Infosystems.

In addition, under a stockholders agreement entered into at the closing of the merger, stockholders holding approximately 65% of the outstanding voting shares of Patient Infosystems common stock after the consummation of the merger have agreed to vote their shares in favor of the election of John Pappajohn, a current director of Patient Infosystems, Derace Schaffer, M.D., a current director of Patient Infosystems, and three individuals designated by holders of at least a majority of the Patient Infosystems common stock held by the former stockholders of CCS Consolidated who are parties to the stockholders agreement. The three new directors appointed were Mark L. Pacala, Daniel C. Lubin and Albert S. Waxman. As provided by the stockholders agreement, two additional directors may be added to the Patient Infosystems board of directors, which individuals must be unanimously approved by the other five members of the Patient Infosystems board of directors. These additional directors have not yet been appointed.

Because the former CCS Consolidated securityholders held approximately 63% of Patient Infosystems fully diluted shares of common stock immediately following the Merger, CCS Consolidated s designees to Patient Infosystems board of directors represent a majority of Patient

Infosystems directors and CCS Consolidated s executive management represent a majority of the executive management of the combined company, CCS Consolidated is deemed to be the acquiring

1

company for accounting purposes and the transaction is being accounted for as a reverse acquisition under the purchase method of accounting for business combinations in accordance with generally accepted accounting principles in the United States. Patient Infosystems has adopted March 31 as its fiscal year end, which was CCS Consolidated s fiscal year end.

On September 22, 2004, we acquired 100% of CBCA Care Management, Inc., or CMI, a New York corporation. CMI provides case and utilization management services primarily to self insured employers and health and welfare funds. We have sold case and utilization management services since 2000 and until 2004 outsourced the operations to CMI. We intend to continue to market case and utilization management services.

On December 31, 2003, we acquired the assets of American Caresource Corporation and formed American Caresource Holdings, Inc., or ACS, to operate those assets. ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist its clients in controlling the cost of a range of ancillary medical services. On December 16, 2005, we distributed approximately 12 million shares of common stock of ACS as a dividend to our stockholders and retained approximately 300,000 shares of ACS, of which we closed on the sale of 88,525 shares on December 30, 2005. Following the spin-off of ACS shares, ACS became an independent public company with its own management and board of directors. Two of our directors, John Pappajohn and Derace Schaffer, also serve as directors of ACS.

The Offering

Shares of common stock offered	Up to 3,895,598 shares, assuming full exercise of warrants.
Terms of the offering	The selling stockholders will determine how and when they will sell the common stock offered by this prospectus. See Plan of Distribution.
Use of Proceeds	We will not receive any proceeds from the sale of the common stock offered by the selling stockholders. However, if all of the warrants are fully exercised for cash, we may receive up to approximately $460,554 from the warrant holders. We will use such funds, if any, for working capital and general corporate purposes.
OTC Bulletin Board Symbol	PATY

Selected Summary Historical and Pro Forma Financial Data

The following tables present summary historical consolidated financial data for each of Patient Infosystems, Inc. and CCS Consolidated, Inc., as well as summary pro forma financial data.

Selected Summary Historical Financial Data of Patient Infosystems

The following table sets forth Patient Infosystems summary historical financial data. The statement of operations data for the fiscal years ended December 31, 2005 and December 31, 2004 have been derived from Patient Infosystems audited financial statements, which are included in Patient Infosystems Form 10-KSB for the year ended December 31, 2005. This financial data includes financial data related to ACS, a subsidiary of Patient Infosystems that Patient Infosystems spun off in a transaction which took the form of a dividend to its stockholders and which was effective on December 16, 2005.

You should read this information in conjunction with Patient Infosystems financial statements, including the related notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

PATIENT INFOSYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS DATA
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	**2004**
REVENUES	$ 11,056,526	$ 9,699,325
COSTS AND EXPENSES:		
Cost of revenue	8,213,711	6,688,533
Sales and marketing	1,484,984	1,078,354
General and administrative	2,301,836	1,602,134
Research and development	145,396	130,443
Total costs and expenses	12,145,927	9,499,464
OPERATING (LOSS) INCOME	(1,089,401)	199,861
Gain on investment	63,249	-
Debt financing costs	(1,689,244)	(812,630)
Interest expense	(270,421)	(126,828)
Other income	29,025	4,527
NET LOSS FROM CONTINUING OPERATIONS	(2,956,792)	(735,070)
LOSS FROM DISCONTINUED OPERATIONS OF ACS (includes $290,641 of expenses related to the distribution)	(2,419,522)	(2,831,238)
NET LOSS	(5,376,314)	(3,566,308)
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(722,303)	(904,918)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (6,098,617)	$ (4,471,226)
NET LOSS PER SHARE - BASIC AND DILUTED FROM CONTINUING OPERATIONS	$ (0.33)	$ (0.21)
NET LOSS PER SHARE - BASIC AND DILUTED FROM DISCONTINUED OPERATIONS	$ (0.22)	$ (0.36)
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.55)	$ (0.57)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	11,140,638	7,815,063

Consolidated Balance Sheet Data:	**December 31, 2005**
Cash and cash equivalents	$ 4,440,329
Current assets	7,430,438
Property and equipment, net	540,827
Intangible assets (including goodwill)	7,231,518

Total assets	15,202,783
Current liabilities	1,872,859
Total stockholders equity	13,329,924

Selected Summary Historical Financial Data of CCS Consolidated

The following table sets forth CCS Consolidated s summary historical financial data. The statements of operations data for the fiscal years ended March 31, 2005 and March 31, 2004 have been derived from the consolidated financial statements of CCS Consolidated that have been audited by independent auditors. The statements of operations data for the nine months ended December 31, 2005 and 2004 and the balance sheet data as of December 31, 2005 have been derived from financial statements that have not been audited.

You should read this information in conjunction with CCS Consolidated s financial statements, including related notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

CCS Consolidated, Inc.
Consolidated Statement of Operations Data

(Dollars in thousands, except per share data)	**Years Ended March 31,**		**Nine Months Ended December 31,**	
	2005	**2004**	**2005**	**2004**
			(Unaudited)	
Revenues:				
Capitation revenue	$ 56,764	$ 43,447	$ 30,803	$ 39,074
Administrative service revenue	2,135	2,543	5,145	1,781
Fee for service revenue	7,338	8,708	3,085	6,212
Total revenues	66,237	54,698	39,033	47,067
Cost of services - direct service costs	62,540	47,861	35,607	42,669
Gross profit	3,697	6,837	3,426	4,398
Operating costs and expenses:				
Selling, general and administrative expense	8,332	6,983	4,562	6,051
Depreciation and amortization	1,356	1,961	1,018	939
Total operating costs and expenses	9,688	8,944	5,580	6,990
Operating loss from continuing operations	(5,991)	(2,107)	(2,154)	(2,592)
Other expense, net	(65)	(428)	(865)	(32)
Loss from continuing operations before income taxes	(6,056)	(2,535)	(3,019)	(2,624)
Income tax benefit (expense)	91	98	56	(24)
Loss from continuing operations	(5,965)	(2,437)	(2,963)	(2,648)
Income (loss) from discontinued operations	(524)	964	290	511
Net loss	(6,489)	(1,473)	(2,673)	(2,137)
Dividends and accretion of preferred stock	(152)	(274)	(114)	(114)
Net loss attributable to common stockholders	$ (6,641)	$ (1,747)	$ (2,787)	$ (2,251)

6

	Years Ended March 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
			(Unaudited)	
Net (loss) income attributable to common stockholders per share - basic and diluted:				
Loss from continuing operations	$ (0.74)	$ (10.79)	$ (0.37)	$ (0.33)
Discontinued operations	(0.06)	3.84	0.03	0.06
Net loss	$ (0.80)	$ (6.95)	$ (0.34)	$ (0.27)
Weighted average common shares outstanding	8,256,446	250,934	8,256,446	8,256,446

Consolidated Balance Sheet Data	**December 31, 2005**
(Dollars in thousands)	*(Unaudited)*
Cash and cash equivalents	$ 2,336
Current assets	11,734
Property and equipment, net	1,659
Intangible and other assets, net	3,124
Restricted cash, non-current	698
Total assets	17,215
Current liabilities	15,109
Long-term liabilities	8,453
Total stockholders deficit	(6,347)

Selected Unaudited Pro Forma Condensed Combined Financial Data

The following selected unaudited pro forma condensed combined financial information was prepared using the purchase method of accounting. For accounting purposes, CCS Consolidated is considered to have acquired Patient Infosystems in the Merger. The CCS Consolidated and Patient Infosystems unaudited pro forma condensed combined balance sheet data assume that the merger of CCS Consolidated and Patient Infosystems was consummated on December 31, 2005, and combines Patient Infosystems historical balance sheet at December 31, 2005 with CCS Consolidated s historical balance sheet at December 31, 2005. The CCS Consolidated and Patient Infosystems unaudited pro forma condensed combined statement of operations data for the year ended March 31, 2005 assume that the merger of CCS Consolidated and Patient Infosystems was consummated on April 1, 2004, and the CCS Consolidated and Patient Infosystems unaudited pro forma condensed combined statement of operations data for the nine months ended December 31, 2005 assume that the merger of CCS Consolidated and Patient Infosystems was consummated on April 1, 2005. The unaudited pro forma condensed combined statement of operations data for the year ended March 31, 2005 combines Patient Infosystems historical statement of operations for the twelve months then ended with CCS Consolidated s historical statement of operations for the year ended March 31, 2005. The unaudited pro forma condensed combined statement of operations data for the nine months ended December 31, 2005 combines Patient Infosystems historical statement of operations for the nine months then ended with CCS Consolidated s historical statement of operations for the nine months ended December 31, 2005.

The selected unaudited pro forma condensed combined financial data are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations of future periods or the results that actually would have been realized had

the entities been a

7

single entity during these periods. The selected unaudited pro forma condensed combined financial data as of and for the nine months ended December 31, 2005 and for the year ended March 31, 2005 are derived from the unaudited pro forma condensed combined financial statements at page F-69 of this prospectus and should be read in conjunction with those statements and the related notes. See Unaudited Pro Forma Condensed Combined Financial Statements.

Unaudited Pro Forma Condensed Combined Statement of Operations Data		**Nine Months Ended December 31,**
(Dollars in thousands, except per share data)	**Year Ended March 31, 2005**	**2005**
Revenues:		
Capitation revenue	$ 56,764	$ 30,803
Administrative service revenue	2,135	5,145
Fee for service revenue	17,988	10,847
Total revenues	76,887	46,795
Cost of services - direct service costs	70,084	41,074
Gross profit	6,803	5,721
Operating costs and expenses:		
Selling, general and administrative expense	11,264	7,658
Depreciation and amortization	1,656	1,243
Total operating costs and expenses	12,920	8,901
Operating loss from continuing operations	(6,117)	(3,180)
Other expense, net	(60)	(798)
Loss from continuing operations before income taxes	(6,177)	(3,978)
Income tax benefit	35	58
Loss from continuing operations	$ (6,142)	$ (3,920)
Basic and fully-diluted loss per share	$ (0.09)	$ (0.06)
Weighted average number of shares outstanding	67,538,976	67,538,976

Unaudited Pro Forma Condensed Combined Balance Sheet Data:

(Dollars in thousands)

	December 31, 2005
Cash and cash equivalents	$6,776
Current assets	19,024
Property and equipment, net	1,659
Intangible and other assets, net	4,329
Goodwill	28,317
Restricted cash, non-current	698
Total assets	54,027
Current liabilities	17,167

8

Long-term liabilities	8,453
Total stockholders equity	28,407

RISK FACTORS

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

Risks Related to the Historical Business of Patient Infosystems (without CCS Consolidated)

Patient Infosystems has a history of operating losses, and such losses may continue in the future due to continued limited patient enrollment.

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

Our 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 our failure to date to operate profitably.

We currently have patients enrolled in our disease-specific programs. Through March 2006, an aggregate of approximately 1.2 million persons have been enrolled in these programs. While we have been able to enroll a sufficient number of patients to cover the cost of its programs, we still have not been able to generate sufficient operational margin to achieve a net profit.

We will require significant working capital to continue to operate our business.

We currently believe that our resources will be sufficient to operate our business for at least the next twelve months. As with any forward-looking projection, and because the recently consummated merger of Patient Infosystems with CCS Consolidated involves numerous issues relating to the logistics of merging two previously separate operating businesses, no assurances can be given that our working capital will be adequate to meet our needs or that we will be able to raise either the required working capital through the sale of our securities or by borrowing any additional amounts needed. Sales of securities or additional borrowings may place a significant strain upon the market price of our common stock. If we are unable to identify additional sources of capital, we would likely be forced to curtail our operations. Moreover, if we raise additional financing through the sale of our equity securities, any stock that we issue may be extremely dilutive to our existing stockholders and result in substantial material changes to earnings (loss) per share. In addition, any debt financing we incur may impose significant financial and/or operating restrictions on us. As a result, the value of outstanding shares of our common stock could decline.

If we do not manage our growth successfully, our growth may slow, decline or stop, and we may never become profitable.

If we do not manage our growth successfully, our growth may slow or stop, and we may never become profitable. We have expanded our operations rapidly and plan to continue to expand, particularly in connection with the merger with CCS Consolidated. This expansion has created significant demands on our administrative, operational and financial personnel and other resources. Additional expansion in existing or new markets could strain resources and increase the need for capital. Our personnel, systems,

procedures, controls and existing space may not be adequate to support further expansion. In addition, because our business strategy emphasizes growth, the failure to achieve our stated growth objectives or the growth expectations of investors could cause our stock price to decline.

We have a limited number of customers, a few of which have accounted for a substantial portion of our business.

There is a significant concentration of our business in a small number of customers, with our most significant contract being with the Institute for Healthcare Improvement, or IHI, accounting for revenues of $2.8 million during the year ended December 31, 2005. The contract with IHI has never had a term of more than twelve months. The contract with IHI was renewed on April 1, 2006 for the period through March 31, 2007, but at a lower revenue rate. There can be no assurance given that the amount of revenue received by us under this contract will not be further reduced. We expect that our sales of services will continue to be concentrated in a small number of customers for the foreseeable future. Consequently, the loss of any one of our customers could have a material adverse effect on us and our operations. There can be no assurance that customers will maintain their agreements with us, enroll a sufficient number of patients in the programs developed by us for us to achieve or maintain profitability, or that customers will renew their contracts upon expiration, or on terms favorable to, us.

Our products and services may not be accepted in the marketplace.

In connection with the commercialization of our health information system, we are marketing services designed to link patients, health care providers and payors in order to provide specialized disease management services for targeted chronic diseases. However, at this time, services of this type have not gained general acceptance from our 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 our system, especially in the health care industry, in which the containment of costs is emphasized. Because of the subjective nature of patient compliance, we may be unable, for an extensive period of time, to develop a significant amount of data to demonstrate to potential customers the effectiveness of our services. Even after such time, no assurance can be given that our data and results will be convincing or determinative as to the success of our system. There can be no assurance that increased marketing efforts and the implementation of our strategies will result in market acceptance for our services or that a market for our services will develop or not be limited.

We are dependent on our customers for the marketing and implementation of our programs.

We have limited financial, personnel and other resources to undertake extensive marketing activities. One element of our marketing strategy involves marketing specialized disease management programs to third party administrators and other 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, we will, to a degree, be dependent upon our customers, over whom we have no control, for the marketing and implementation of our programs and for the receipt of valid patient information. The timing and extent of patient enrollment is completely within the control of our 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, our revenue may be insufficient to support our activities. There can

be no assurance that the recently consummated merger with CCS Consolidated will have any favorable impact in reducing our dependence on our customers for marketing support.

Our agreements with our customers may be terminated by our customers on relatively short notice.

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

The success of our programs is highly dependent on the accuracy of information provided by patients.

Our ability to monitor and modify patient behavior and to provide information to health care providers and payors, and consequently the success of our disease management system, is dependent upon the accuracy of information received from patients. We have not taken and do not expect to take, specific measures to determine the accuracy of information provided to us by patients regarding their medical histories. No assurance can be given that the information our patients provide us 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 us to validate or confirm any such information. In the event that patients enrolled in our programs provide inaccurate information to a significant degree, we would be materially and adversely affected. Furthermore, there can be no assurance that our patient interventions will be successful in modifying patient behavior, improving patient health or reducing costs in any given case. Many potential customers may seek data from us with respect to the results of its programs prior to retaining us to develop new disease management or other health information programs. Our ability to market our system to new customers may be limited if we are unable to demonstrate successful results for our programs.

Our operating results have fluctuated in the past and could fluctuate in the future.

Our operating results have varied in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. These factors include:

- volume and timing of sales;
- rates at which customers implement disease management and other health information programs within their patient populations;
- impacts of substantial divestitures and acquisitions;
- loss or addition of customers and referral sources;
- seasonal fluctuations in healthcare utilization;

investments required to support growth and expansion;

changes in the mix of products and customers;

changes in healthcare reimbursement policies and amounts;

increases in direct sales costs and operating expenses;

12

increases in selling, general and administrative expenses;

increased or more effective competition; and

regulatory changes.

Any of the above could have a material adverse impact on our business, prospects, results of operations or financial condition.

Our business is dependent on data processing and transmission capabilities.

Our business is dependent upon its ability to store, retrieve, process and manage data and to maintain and upgrade our 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 our business.

Any inability to adequately protect our intellectual property could harm our competitive position.

We consider our methodologies, processes and know how to be proprietary. We seek to protect our proprietary information through confidentiality agreements with our employees. Our policy is to have employees enter into confidentiality agreements that contain provisions prohibiting the disclosure of confidential information to anyone outside of the company. In addition, the policy requires employees to acknowledge, and, if requested, assist in confirming our ownership of any new ideas, developments, discoveries or inventions conceived during employment, and requires assignment to us of proprietary rights to such matters that are related to our business. There can be no assurance that the steps we take to protect our intellectual property will be successful. If we do not adequately protect our intellectual property, competitors may be able to use our technologies and erode or negate our competitive advantage.

Acquisitions may cause integration problems, disrupt our business and strain our resources.

In the past, we have made business acquisitions, including the recent merger with CCS Consolidated. In addition, we may make additional acquisitions in the future. Our success will depend, to a certain extent, on the future performance of these acquired business entities. These acquisitions, either individually or as a whole, could divert management attention from other business concerns and expose us to unforeseen liabilities or risks associated with entering new markets and integrating those new entities. Further, the integration of these entities may cause us to lose key employees or key customers. Integrating newly acquired organizations and technologies could be expensive and time consuming and may strain resources. Consequently, we may not be successful in integrating these acquired businesses or technologies and may not achieve anticipated revenue and cost benefits.

If our actual financial results vary from any publicly disclosed forecasts, our stock price could decline materially.

Our actual financial results might vary from those that we anticipate, and these variations could be material. Publicly disclosed forecasts reflect numerous assumptions concerning expected performance, as well as other factors, which are beyond our control, and which might not turn out to have been correct. Although we believe that the assumptions underlying the projections are reasonable, actual results could be materially different, and to the extent actual results are materially different, our stock price could be materially adversely impacted.

We may be required to incur significant monetary penalties as a result of delays in registering the resale of shares in this prospectus.

During the months of October and December 2005, we issued an aggregate of 3,588,562 shares of our common stock in a private placement, which we refer to as the PIPE, at an average price of $3.49 per share for gross proceeds of approximately $12.5 million. After paying related commissions and other offering costs, the net proceeds of the PIPE were approximately $10.8 million. We used $6.0 million of the net proceeds to retire our debt obligations under a credit facility in full. Pursuant to the terms of the PIPE, we are obligated to register the resale of the shares sold in the PIPE on behalf of the investors. Under the terms of the PIPE, we will incur financial penalties of 1% of the gross proceeds (approximately $120,000) per month because the effective date of the registration statement relating to these shares has been delayed past March 1, 2006 until such time as the registration statement is declared effective.

Because the closing of the merger with CCS Consolidated was delayed until January 25, 2006 and because of subsequent delays in the registration process, financial penalties will apply for at least two months and possibly more. The effective date of the registration statement of which this prospectus is a part will depend on a number of factors that are beyond our control. Any significant delays in the effectiveness of the registration statement could have a material adverse impact on our financial condition and liquidity position.

The sale of shares of our common stock during October 2005 may be treated as the offer and sale of ACS common stock using a non-conforming prospectus under the Securities Act for which there may be potential liability.

As part of the PIPE described in the immediately preceding risk factor, in October 2005, we sold, in a private placement to accredited investors, 3,411,512 shares of our common stock from which we received gross proceeds of approximately $12.0 million. The purchasers of the shares of common stock of Patient Infosystems received shares of common stock of ACS as a result of the spin-off of ACS. To the extent that the investors in the private placement received shares of common stock of ACS in the spin-off, it may be asserted that shares of ACS common stock were offered and sold as part of the PIPE. Because the registration statement relating to the spin-off had been filed with the SEC prior to the date of the PIPE, it could therefore also be asserted that the PIPE might have been conducted using a non-conforming prospectus under the Securities Act. As a result, investors in the PIPE could assert a claim against Patient Infosystems with respect to the sale of the ACS shares. We cannot determine whether any such claim would be valid or whether or not, or to what extent, damages could in fact be successfully asserted. There can be no assurance that we would have sufficient resources to satisfy any successful claim or that, even if it did, the damages and associated costs would not have a material adverse effect on our financial condition.

Risks Related to the Business of CCS Consolidated

CCS Consolidated depends on payments from customers, and cost reduction pressure on these entities may adversely affect our business and results of operations.

The healthcare industry in which CCS Consolidated operates currently faces significant cost reduction pressures as a result of constrained revenues from governmental and private revenue sources and increasing underlying medical care costs. We believe that these pressures will continue and possibly intensify.

CCS Consolidated s services are geared specifically to assist its customers in controlling the high costs associated with the treatment of chronic diseases; however, the pressures to reduce costs in the short

14

term may negatively affect its ability to sign and/or retain contracts. In addition, this focus on cost reduction may cause its customers to focus on contract restructurings that reduce the fees for services rendered by CCS Consolidated. These financial pressures could have a negative impact on our operations.

CCS Consolidated has a limited number of customers, a few of which have accounted for a substantial portion of its business.

During the year ended March 31, 2005 and the nine months ended December 31, 2005, approximately 96% and 94%, respectively, of CCS Consolidated s revenues were concentrated in two customers, Health Net, Inc. and Aetna Health Plans. The contract between CCS Consolidated and Health Net has been terminated, and CCS Consolidated s services to Health Net generally ceased as of April 30, 2006. While we believe that the Health Net contract was not a profitable contract and that the termination of the Health Net contract will not adversely impact our profitability, if we are not able to execute contracts with new customers to replace Health Net, our revenues will be adversely affected. In addition, there is no guarantee that Aetna will continue to purchase CCS Consolidated s services at prior levels. If CCS Consolidated does not generate as much revenue from its major customers as is currently expected, or if CCS Consolidated loses Aetna as a customer, our results of operations could be materially adversely impacted.

CCS Consolidated s contract with Health Net has been terminated, which will result in a material reduction in revenues.

Prior to May 1, 2005, CCS Consolidated s contract with Health Net, Inc. provided for CCS Consolidated s acceptance of risk in the states of Connecticut, New York and New Jersey. Effective May 1, 2005, the contract related to the business in the State of Connecticut was converted from a risk basis to an administrative services only, or ASO, basis, necessitated by a change in insurance regulations. The conversion of this contract resulted in a decrease in revenue by approximately $2 million per month. Subsequently, on February 14, 2006, CCS Consolidated signed a transition agreement with Health Net that was effective as of January 1, 2006. This transition agreement results in the reduction of services to Health Net through April 30, 2006, after which time no services will be provided to Health Net. As part of the transition, the risk contracts for the states of New York and New Jersey were also converted to ASO contracts effective as of January 1, 2006. During the fiscal years ended March 31, 2005 and 2004, CCS Consolidated s contracts with Health Net represented approximately 68% and 95%, respectively, of its total revenues, and during the nine months ended December 31, 2004, its contracts with Health Net represented approximately 74% of its total revenues. The concentration of the Health Net contracts as a part of CCS Consolidated s revenues had decreased to 30% for the nine months ended December 31, 2005.

As the Health Net contracts were not profitable to CCS Consolidated, we do not believe that our net income will be adversely impacted by their termination, even though CCS Consolidated s revenues will be significantly reduced as a result of the Health Net transition. However, there can be no guarantee that the termination of the Health Net contracts will not have a material adverse impact on our results of operations.

Reconciliations under CCS Consolidated s contract with Aetna could result in additional cash to be paid by it or result in less cash to be paid to CCS Consolidated by Aetna than originally estimated.

CCS Consolidated s contracts with Aetna Health Plans contain provisions whereby Aetna pays a portion of the claims and CCS Consolidated pays the remainder, even though CCS Consolidated recognizes all of the revenue and all of the claims expense. CCS Consolidated records a net receivable each month equal to the net of the portion of the revenues and the estimated claims paid by Aetna.

15

Reconciliations are to be performed for each contract quarter within eight months after the end of each contract quarter, but these reconciliations are still incomplete to date. During December 2005, CCS Consolidated received a reconciliation regarding one of the two contracts for the year ending December 31, 2004, which estimated that CCS Consolidated owes approximately $350,000 for this period. We believe that the current calculation may be overstated in certain respects, and the reconciliation has not been finalized. Additionally, the reconciliations for 2005 have not been completed. In the event any reconciliation results in a determination that the sum of actual paid claims by Aetna plus CCS Consolidated s margin exceeds the amount of revenue retained by Aetna, CCS Consolidated would be required to pay additional cash to Aetna. Such a result could have an adverse impact on our financial position, results of operations, and statements of cash flows.

A majority of CCS Consolidated s revenues come from risk contracts. The claims on these risk contracts are paid over time and the actual claims made may exceed the estimated claim liabilities.

As of December 31, 2005, CCS Consolidated had approximately $9.4 million of claim reserve liabilities. To fund these claim liabilities, CCS Consolidated had operating and restricted cash of approximately $8.2 million and accounts receivable of approximately $2.8 million at such date. These claim liabilities will be paid out over several months, and the actual claims made may exceed the estimated claim reserve liabilities. If this were to occur, we would need additional cash and would incur charges to earnings that could have a material adverse impact on our results of operations. Additionally, there may be shortfalls in cash from time to time as the timing of the claim payments may be in contrast with the collections of the accounts receivable. If this were to occur, we would be required to locate additional sources of working capital, and there can be no assurance that it would be able to do so on favorable terms or at all.

CCS Consolidated s inability to perform well under its contracts could have a material adverse effect on our business and results of operations.

Our growth strategy for CCS Consolidated focuses on developing health and care support programs to address chronic diseases and medical conditions as well as the overall health of all enrollees of a health plan. While CCS Consolidated has considerable experience in health and care support programs with a broad range of medical conditions, any new or modified programs will involve inherent risks of execution. If CCS Consolidated does not perform well under its contracts, or if one or more of its customers perceive that it does not perform adequately, CCS Consolidated s and Patient Infosystems business reputations and our results of operations could be materially adversely impacted.

CCS Consolidated depends on the timely receipt of accurate data from its customers and its accurate analysis of such data.

Identifying which health plan members are eligible to receive CCS Consolidated s services and measuring its performance under its contracts are highly dependent upon the timely receipt of accurate data from its health plan customers and its accurate analysis of such data. Data acquisition, data quality control and data analysis are complex processes that carry a risk of untimely, incomplete or inaccurate data from CCS Consolidated s health plan customers or flawed analysis of such data, which could have a material adverse impact on our ability to recognize revenues.

An unfavorable outcome related to CCS Consolidated s dispute with Oxford Health Plans may result in additional liabilities and could result in additional reductions in cash.

CCS Consolidated is currently disputing amounts owed under its contract with Oxford Health Plans. Oxford has drawn on a $500,000 letter of credit that was placed under the contract and is claiming

16

that CCS Consolidated owes Oxford an additional $1 million in addition to replenishing the letter of credit. Patient Infosystems believes that Oxford owes CCS Consolidated approximately $180,000. CCS Consolidated received a letter from Oxford dated October 25, 2005 indicating that Oxford has submitted the matter to the American Health Lawyers Association for binding arbitration, seeking to compel the subsidiary to replenish the letter of credit in the amount of approximately $1.5 million and to pay Oxford approximately $1.0 million. CCS Consolidated has filed counterclaims against Oxford for amounts that CCS Consolidated contends are owed by Oxford under the agreement. The arbitration is scheduled for June 2006. We are vigorously defending against Oxford s claims although there can be no assurance that we will be able to resolve this matter favorably,

The profitability of certain of CCS Consolidated s contracts is dependent upon the type and number of cases that it processes.

CCS Consolidated has entered into a service agreement with a health plan under which it assists the plan with complex care management services for its customers in exchange for a fee. The profitability of the contract is dependent upon the number of cases that meet certain criteria for referral to CCS Consolidated and agree to receive the service. Although the contract currently generates a sufficient volume of cases to make the contract profitable, if the contract fails to continue to do so in the future, the fixed costs incurred to service this contract could exceed the revenue generated from the caseload. There can be no assurance that this contract will continue to generate the required level of revenue to make the contract profitable and, if it fails to do so, this could have a material adverse impact on our results of operations and financial condition.

CCS Consolidated s revenues are subject to seasonal pressure from the disenrollment processes of its contracted health plans.

Employers typically make decisions on which health insurance carriers they will offer to their employees and also may allow employees to switch between health plans on an annual basis. These annual membership disenrollment and re-enrollment processes of employers (whose employees are the health plan members) from health plans can result in a seasonal reduction in actual lives under management in January, during our fourth fiscal quarter.

Historically, a majority of employers and employees make these decisions effective December 31 of each year. An employer s change in health plans or employees changes in health plan elections may cause a decrease in actual lives under management for existing contracts as of January 1. Although these decisions may also cause a gain in enrollees as new employers sign on with customers, the identification of new members eligible to participate in CCS Consolidated s programs, in some products, is based on the submission of healthcare claims, which lags enrollment by an indeterminate period.

Another seasonal impact on actual lives could occur if a health plan decided to withdraw coverage altogether for a specific line of business, such as Medicare, or in a specific geographic area, thereby automatically disenrolling previously covered members. Historically, CCS Consolidated has experienced minimal covered life disenrollment from such a decision.

Risks Related to the Merger with CCS Consolidated

There can be no assurance that the merger with CCS Consolidated will result in any significant customer interest in the integrated service offering of the combined companies.

Historically, Patient Infosystems has been operating in the segment of the managed care business known as the population management business, where it most fundamentally is addressing its customers

17

desire to help educate their patient populations on illness prevention and post-illness reoccurrence measures. There can be no assurance that the cross-marketing of Patient Infosystems services to CCS Consolidated s customers (and vice versa) will materialize in any material way, in which case one of the underlying rationales for the merger will fail and the outlook for the combined business would be materially adversely impacted.

We may not realize anticipated benefits from the merger.

The integration of Patient Infosystems and CCS Consolidated will be complex, time-consuming and expensive, and may disrupt both businesses. The combined company currently needs to overcome significant challenges in order to realize any benefits or synergies from the merger. These challenges include the timely, efficient, and successful execution of a number of events, including the following:

integrating the operations and technologies of the two companies;

retaining and assimilating the key personnel of each company;

retaining existing customers of both companies and attracting additional customers;

retaining strategic partners of each company and attracting new strategic partners; and

creating uniform standards, controls, procedures, policies, and information systems.

The execution of these events will involve considerable risks and may not be successful. These risks include the following:

the potential disruption of ongoing business and distraction of the management of the combined company;

the potential strain on financial and managerial controls and reporting systems and procedures of the combined company;

unanticipated expenses and potential delays related to integration of the operations, technology, and other resources of the two companies;

the impairment of relationships with employees, suppliers, and customers as a result of any integration of new management personnel;

greater than anticipated costs and expenses related to the merger or the integration of the respective businesses of Patient Infosystems and CCS Consolidated; and

potential unknown liabilities associated with the merger and the combined operations.

The combined company may not succeed in addressing these risks or any other problems encountered in connection with the merger. The inability to successfully integrate the operations, technology, and personnel of Patient Infosystems and CCS Consolidated, or any significant delay in achieving integration, could have a material adverse effect on our business, prospects, financial condition and results of operations, and, as a result, on the market price of our common stock.

As a result of the merger, we are a substantially larger and broader organization, and if management is unable to sufficiently manage the company, operating results will suffer.

As a result of the merger, we have significantly more employees, a broader service offering, and customers in more channels than we did prior to the merger. We face challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs. The inability to manage successfully the substantially larger and diverse organization, or any significant delay in achieving successful management, could have a material adverse effect on us and, as a result, on the market price of our common stock.

The merger could cause us to lose key personnel, which could materially affect the combined company s business and require the combined company to incur substantial costs to recruit replacements for lost personnel.

As a result of the merger, current and prospective employees of both companies could experience uncertainty about their future roles within the combined company. This uncertainty may adversely affect our ability to attract and retain key management, sales, marketing, and technical personnel. Any failure to retain and attract key personnel could have a material adverse effect on our business.

Patient Infosystems may have difficulty integrating the CCS Consolidated business.

We cannot assure you that the integration of the CCS Consolidated business will be successfully completed without encountering difficulties or experiencing the loss of key employees, customers or suppliers or that the benefits from such integration will be realized. In addition, you cannot be assured that the management teams of CCS Consolidated and Patient Infosystems will be able to successfully work with each other.

Risks Related to the Healthcare Industry

We are subject to extensive changes in the healthcare industry.

The healthcare industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of healthcare 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 us and our targeted customers. Healthcare industry participants may react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring certain expenditures, including those for our programs. We cannot predict what impact, if any, such changes in the healthcare industry might have on our business, financial condition and results of operations. In addition, many healthcare providers are consolidating to create larger healthcare 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 our programs. Our failure to maintain adequate price levels could have a material adverse effect on our business.

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

19

Our business is subject to extensive government regulation.

The healthcare industry, including our current business, 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 healthcare 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, 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 we assist 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 we have not conducted a survey of the applicable law in all 50 states, we believe that we are not engaged in the practice of medicine or nursing. There can be no assurance, however, that our operations will not be challenged as constituting the unlicensed practice of medicine or nursing. If such a challenge were made successfully in any state, we 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 our contractual arrangements, could have a material adverse effect on our operations.

We and our customers may also be subject to Federal and state laws and regulations that govern financial and other arrangements among healthcare providers. These laws prohibit certain fee splitting arrangements among healthcare 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. 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.

Regulation in the health care field is constantly evolving. We are unable to predict what government regulations, if any, affecting our business may be promulgated in the future. Our business could be materially 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.

Compliance with new federal and state legislative and regulatory initiatives could adversely affect our results of operations or may require us to spend substantial amounts acquiring and implementing new information systems or modifying existing systems.

We and our customers are subject to considerable state and federal government regulation. Many of these regulations are vaguely written and subject to differing interpretations that may, in certain cases, result in unintended consequences that could impact our ability to effectively deliver services. The current focus on regulatory and legislative efforts to protect the confidentiality and security of individually-identifiable health information, as evidenced by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, is one such example.

We believe that federal regulations governing the confidentiality of individually-identifiable health information permit us to obtain individually-identifiable health information for health and care support purposes from a health plan customer; however, state legislation or regulation could preempt

federal legislation if it is more restrictive. Federal regulations governing the security of electronic individually-identifiable health information became mandatory for customers in April 2005. We are contractually required to comply with certain aspects of these confidentiality and security regulations.

Although we continually monitor the extent to which specific state legislation or regulations may govern our operations, new federal or state legislation or regulation in this area that restricts our ability to obtain individually-identifiable health information would have a material negative impact on our operations.

Our subsidiaries are subject to government regulation, and the failure to comply with such regulation could adversely affect our results of operations.

Certain of our subsidiaries are licensed to take risk in certain states. These subsidiaries must meet certain minimum capital and surplus tests as well as file quarterly and annual filings with regulatory and state authorities. If one of these subsidiaries does not remain in compliance with the statutory requirements, it is possible that the regulating authorities could impose greater restrictions on the subsidiary, including requiring additional cash deposits, additional reporting requirements and the potential revocation of licenses, each of which could have a materially adverse impact on our results of operations, liquidity and financial condition.

Government regulators may interpret current regulations governing our operations in a manner that negatively impacts our ability to provide services.

Broadly written Medicare fraud and abuse laws and regulations that are subject to varying interpretations may expose us to potential civil and criminal litigation regarding the structure of current and past contracts entered into with our customers. We believe that our operations have not violated and do not violate the provisions of the fraud and abuse statutes and regulations; however, private individuals acting on behalf of the United States government, or government enforcement agencies themselves, could pursue a claim against us under a new or differing interpretation of these statutes and regulations.

Our participation in federal programs may result in our being subject directly to various federal laws and regulations, including provisions related to fraud and abuse, false claims and billing and reimbursement for services, and the False Claims Act. Violations of the False Claims Act are punishable by treble damages and penalties of up to $11,000 per false claim. Actions may be brought under the False Claims Act by the government as well as by private individuals, known as whistleblowers, who are permitted to share in any settlement or judgment. Also, federal law contains various prohibitions related to false statements and false claims, some of which apply to private payors as well as federal programs.

We face competition for staffing, which may increase its labor costs and reduce profitability.

We compete with other healthcare and services providers in recruiting qualified management and staff personnel for the day-to-day operations of our business, including nurses and other healthcare professionals. In some markets, the scarcity of nurses and other medical support personnel has become a significant operating issue to healthcare businesses. This shortage may require us to enhance wages and benefits to recruit and retain qualified nurses and other healthcare professionals. A failure to recruit and retain qualified management, nurses and other healthcare professionals, or to control labor costs, could have a material adverse effect on our profitability.

We may face costly litigation that could force us to pay damages and harm our reputation.

Like other participants in the healthcare market, we are subject to lawsuits alleging negligence, product liability or other similar legal theories, many of which involve large claims and significant defense costs. Any of these claims, whether with or without merit, could result in costly litigation, and divert the time, attention, and resources of management. Although we currently maintain liability insurance intended to cover such claims, there can be no assurance that the coverage limits of such insurance policies will be adequate or that all such claims will be covered by the insurance. In addition, these insurance policies must be renewed annually. Although we have been able to obtain liability insurance, such insurance may not be available in the future on acceptable terms, or at all. A successful claim in excess of the insurance coverage could have a material adverse effect on our results of operations or financial condition.

We could share in potential liability resulting from adverse medical consequences of patients.

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

Risks Related to our Common Stock

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

The market price of our common stock has been and will likely continue to be highly volatile. From the date trading of our common stock commenced until May 12, 2006, the range of our stock price has been between $114.00 and $0.48, after giving effect to the 1-for-12 reverse stock split which became effective on January 9, 2004. Factors including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, government regulation, or developments or disputes relating to agreements or proprietary rights may have a significant impact on the market price of our common stock. In addition, potential dilutive effects of future sales of shares of our common stock us, our stockholders, or the holders of warrants and options, could have an adverse effect on the price of our common stock.

Our principal stockholders and management own a significant percentage of our outstanding common stock and will be able to exercise significant influence over our operations.

Our executive officers, directors and holders of more than 5% of our outstanding common stock, together with their respective affiliates, currently own more than 75% of our voting stock, including shares subject to outstanding options and warrants. These stockholders are able to determine the composition of our board of directors, retain the voting power to approve all matters requiring stockholder approval and will continue to have significant influence over our operations. This concentration of ownership could have the effect of delaying or preventing a change in control of the company, preventing or frustrating any attempt by our stockholders to replace or remove the current management, or otherwise

22

discouraging a potential acquirer from attempting to obtain control of the company, which in turn could limit the market value of our common stock.

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales might occur, could materially and adversely affect the market price of our common stock or our future ability to raise capital through an offering of our equity securities. As of May 11, 2006, we had an aggregate of 67,538,976 shares of common stock outstanding. If all options and warrants currently outstanding to purchase shares of common stock were to be exercised, there would be an aggregate of 70,478,582 shares of common stock outstanding. Of the 70,478,582 shares, up to 7,914,613 shares are freely tradable without restriction or further registration under the Securities Act, unless the shares are held by one of our affiliates as such term is defined in Rule 144 of the Securities Act. The remaining shares may be sold only pursuant to a registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act. The table below provides additional information on the number of shares that may be publicly sold and the dates that they become eligible for sale. The sale and distribution of these shares may cause a decline in the market price of our common stock.

Date	**Number of shares eligible for sale**	**Comment**
-		-

Currently	7,933,580	Shares outstanding other than (i) the shares being sold pursuant to this prospectus, (ii) shares issued in connection with the merger with CCS Consolidated and (iii) shares held by: - John Pappajohn; - Derace Schaffer; - Principal Life Insurance Company; - Christine St. Andre; - Kent Tapper; - Psilos Group Partners, L.P., Psilos Group Partners II, L.P. and CCP/Psilos CCS, LLC (collectively, Psilos); - Essex Woodlands Health Ventures Fund IV, L.P. and Essex Woodlands Health Ventures Fund V, L.P. (collectively Essex Woodlands); - Hickory Venture Capital Corporation (Hickory); - Radius Venture Partners I, L.P. (Radius); - CCS Consolidated Holdings LLC (CCS Holdings); and - SG Cowen Securities Corp. and its affiliates (collectively, SG Cowen); and
		issuable upon immediately exercisable options and warrants other than options and warrants held by directors and executive officers and warrants issued to the placement agent in the 2005 PIPE financing, the shares underlying which are being registered on the registration statement of which this prospectus is a part
Upon the effective date of this prospectus	3,895,598	Shares sold in Patient Infosystems PIPE offerings during October 2005 and December 2005 and shares issuable upon exercise of warrants issued to the placement agent in such transaction.
January 25, 2007	2,142,962	Shares issued in the merger, except for shares issued to: Psilos, Essex Woodlands, Hickory, Radius, CCS Holdings, and SG Cowen.
July 25, 2007	52,750,005	Shares (i) issued in the merger (excluding shares deposited into escrow in the merger) to Psilos, Essex Woodlands, Hickory, Radius, CCS Holdings and SG Cowen; and (ii) held by John Pappajohn, Derace Schaffer, Principal Life Insurance Company, Roger Chaufournier, Christine St. Andre and Kent Tapper (including shares underlying exercisable options

		and warrants).
		These shares will remain subject to volume limitations of Rule 144 for the following 12 month period.
Various dates	3,756,437	Shares (i) underlying options and warrants (other than those listed above) that are immediately exercisable and that vest and become exercisable and transferable, subject to the terms thereof, at various times in the future (including options currently held by Chris Paterson, Glen Spence and Ileana Welte and warrants held by former directors); and (ii) shares deposited into escrow at the closing of the merger which, when released to former CCS Consolidated stockholders, will become transferable on January 25, 2007 or July 25, 2007, depending on which stockholders such shares are released to.

The sale and distribution of these shares, or the perception that such sales or distributions might occur, may cause a decline in the market price of our common stock.

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

Our common stock trades on the OTC Bulletin Board. As a result, the holders of our common stock may find it more difficult to obtain accurate quotations concerning the market value of the stock. Stockholders also may experience greater difficulties in attempting to sell the stock than if it were listed on a stock exchange or quoted on the Nasdaq National Market or the Nasdaq Small Cap Market. Because our common stock does not trade on a stock exchange or on the Nasdaq National Market or the Nasdaq Small Cap Market, and the market price of the common stock is less than $5.00 per share, the common stock qualifies as a penny stock. SEC Rule 15g-9 under the Securities Exchange Act of 1934 imposes

additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an established customer or an accredited investor. This includes the requirement that a broker-dealer must make a determination on the appropriateness of investments in penny stocks for the customer and must make special disclosures to the customer concerning the risks of penny stocks. Application of the penny stock rules to our common stock could adversely affect the market liquidity of the shares, which in turn may affect the ability of holders of the common stock to resell the stock.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus that are not historical facts, including information about management s view of our future expectations, plans and prospects, the benefits provided by the combination of services offered by Patient Infosystems as a result of the merger with CCS Consolidated, the prospects for success of the merger and the combination of the two companies, such as expected synergies and expanded revenue opportunities, constitute forward-looking statements for purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995. When used in this prospectus, the words or phrases will likely result, expects, plans, will continue, is anticipated, esti project, or outlook or similar expressions are intended to identify forward-looking statements. Actual results may differ materially from historical results or those indicated or implied by these forward-looking statements as a result of a variety of factors including, but not limited to, risks and uncertainties associated with our financial condition, the continued use of our services by our existing customers at current or increased levels, the market acceptance of or preference for our systems and services, significant concentration of our revenues with a limited number of customers, our ability to increase and diversify our business and revenue base, including the expansion of CCS Consolidated s Continuous Care Management service, our ability to sell our products, our ability to compete with competitors, the growth of the healthcare market and general economic factors in the healthcare industry, the impact of and changes in governmental regulations, the failure to achieve projected operating efficiencies and unfavorable variances in interest rates and financing terms, as well as other factors that are discussed in Risk Factors section of this prospectus. We have no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of common stock by the selling stockholders, although we would receive proceeds upon the exercise of any warrants. If all of the selling stockholders exercise all of their warrants for cash, we will receive approximately $460,554. Any proceeds we receive from the exercise of the warrants will be used for general corporate purposes, including working capital.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Our common stock is traded on the Over-the-Counter Bulletin Board (the OTC Bulletin Board) under the symbol PATY. The following table sets forth, for the periods indicated, the range of high and low bid quotations for 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.

	High	**Low**
2004		
First Quarter	$6.00	$1.44
Second Quarter	$5.50	$2.00
Third Quarter	$3.60	$1.32
Fourth Quarter	$3.94	$1.66
2005		
First Quarter	$6.05	$2.92
Second Quarter	$5.90	$3.80
Third Quarter	$6.30	$4.16
Fourth Quarter	$4.50	$0.91 (1)
2006		
First Quarter	$1.53	$1.00
Second Quarter (through May 12, 2006)	$1.50	$1.18

(1) On December 16, 2005, the distribution of shares of ACS to our stockholders was completed. On December 16, 2005, our common stock closed at $3.94 per share, while on December 19, 2005 the closing price was $1.36 per share.

(b) Holders

The approximate number of record holders of Patient Infosystems common stock as of May 12, 2006 is 357. The approximate number of beneficial owners is 900.

(c) Dividends

We have not declared cash dividends on our common stock.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis provides a review of Patient Infosystems operating results for the fiscal years ended December 31, 2005 and 2004 and its financial condition at December 31, 2005, as well as CCS Consolidated s operating results for the fiscal years ended March 31, 2005 and 2004 and the nine-month periods ending December 31, 2005 and 2004 and its financial condition at December 31, 2005. The focus of this review is on the underlying business reasons for significant changes and trends affecting the revenues, net losses and financial condition of Patient Infosystems and CCS Consolidated. This review should be read in conjunction with the accompanying consolidated financial statements of Patient Infosystems and CCS Consolidated and related notes thereto included in this prospectus. The discussion and analysis of Patient Infosystems and CCS Consolidated s respective results of operations in this prospectus does not take into account the merger of the two companies, which was completed after December 31, 2005. When used in this section of the prospectus, references to Patient Infosystems are intended to refer solely to Patient Infosystems and its subsidiaries without giving effect to the completion of the merger with CCS Consolidated, and references to CCS Consolidated are intended to refer solely to CCS Consolidated and its subsidiaries without giving effect to the completion of the merger with Patient Infosystems.

Overview

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

On January 25, 2006, Patient Infosystems merged with CCS Consolidated, Inc. (the Merger). CCS Consolidated is a national care management company providing higher-risk and elderly care management services to health plans, work/life benefits companies and self-funded employers.

At the closing of the Merger, Patient Infosystems issued 43,224,352 shares of its common stock to the former stockholders of CCS Consolidated. This represented approximately 64% of the issued and outstanding voting shares of Patient Infosystems upon the closing of the merger, and as a result there was a change of control of Patient Infosystems.

In addition, under a stockholders agreement entered into at the closing of the merger, stockholders holding approximately 65% of the outstanding voting shares of Patient Infosystems common stock after the consummation of the merger have agreed to vote their shares in favor of the election of John Pappajohn, a current director of Patient Infosystems, Derace Schaffer, M.D., a current director of Patient Infosystems, and three individuals designated by holders of at least a majority of the Patient Infosystems common stock held by the former stockholders of CCS Consolidated who are parties to the stockholders agreement. The three new directors appointed were Mark L. Pacala, Daniel C. Lubin and Albert S. Waxman. As provided by the stockholders agreement, two additional directors may be added to the Patient Infosystems board of directors, which individuals must be unanimously approved by the other five members of the Patient Infosystems board of directors. These additional directors have not yet been appointed.

Because the former CCS Consolidated securityholders held approximately 63% of Patient Infosystems fully diluted shares of common stock immediately following the Merger, CCS Consolidated s designees to Patient Infosystems board of directors represent a majority of Patient Infosystems directors and CCS Consolidated s executive management represent a majority of the executive management of the combined company, CCS Consolidated is deemed to be the acquiring company for accounting purposes and the transaction is being accounted for as a reverse acquisition under

27

the purchase method of accounting for business combinations in accordance with generally accepted accounting principles in the United States. Patient Infosystems has adopted March 31 as its fiscal year end, which was CCS Consolidated s fiscal year end.

On September 22, 2004, Patient Infosystems acquired 100% of CBCA Care Management, Inc., or CMI, a New York corporation. CMI provides case and utilization management services primarily to self insured employers and health and welfare funds. We have sold case and utilization management services since 2000 and until 2004 outsourced the operations to CMI. We intend to continue to market case and utilization management services.

On December 31, 2003, we acquired the assets of American Caresource Corporation and formed American Caresource Holdings, Inc., or ACS, to operate those assets. ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist its clients in controlling the cost of a range of ancillary medical services. On December 16, 2005, Patient Infosystems distributed approximately 12 million shares of common stock of ACS as a dividend to its stockholders and retained approximately 300,000 shares of ACS, of which Patient Infosystems closed on the sale of 88,525 shares on December 30, 2005. Following the spin-off of ACS shares, ACS became an independent public company with its own management and board of directors. Two of Patient Infosystems existing directors, John Pappajohn and Derace Schaffer, also serve as directors of ACS.

Patient Infosystems results of operations for the year ended December 31, 2004 include the results of operations of CMI only for the period beginning September 22, 2004. The results of operations for the year ended December 31, 2005 include the results of operations of CMI for the entire period.

During 2005, Patient Infosystems completed a valuation of the identifiable intangible assets acquired from CMI and finalized the purchase price allocation. The final purchase allocation resulted in an increase in customer relationships and liabilities assumed and a decrease in goodwill as compared to previously reported amounts. The effect of these adjustments on the related amortization was insignificant.

Information related to the acquisition of CMI is as follows:

Purchase consideration	
Cash	$ 7,100,000
Expenses	193,959
Total	$ 7,293,959
Purchase allocation	
Current assets	$ 228,187
Liabilities assumed	(498,627)
Property & equipment	181,852
Customer relationships	604,115
Goodwill	6,778,432
	$ 7,293,959

Disease-Specific, Demand Management and Survey Programs

Patient Infosystems currently has patients enrolled in more than 30 of its disease-specific, demand management or survey programs. As of May 2006, an aggregate of over 1.2 million persons have enrolled or participated in these programs. Patient Infosystems has never been able to enroll a sufficient number of patients in these programs to cover their administrative costs. The enrollment of patients in Patient Infosystems disease-specific, demand management and survey programs has been limited by several

28

factors, including the limited ability of clients to provide Patient Infosystems with accurate information with respect to the specific patient populations and coding errors that necessitated extensive labor-intensive data processing prior to program implementation.

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

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

Patient Infosystems contracts typically call for a monthly fee to be paid by the customer for each person within the group who are eligible to be enrolled in its program services, require payment for services each month. The timing and method of customer payments fees varies by contract. Revenues from program operations are recognized monthly as long as program services are being delivered. The amount of the per patient fee varies from program to program depending upon the number of patient contacts required, the complexity of the interventions, the cost of the resources used and the detail of the reports generated.

Patient Infosystems administration and management services cover a predefined set of deliverables and responsibilities undertaken on behalf of the customer, such as assisting organizations with the development of clinical registries used to increase effective management of patients with chronic disease. The customer pays for these services on a monthly basis, and Patient Infosystems recognizes revenue each month based upon the services provided. 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. Patient Infosystems has experienced reductions in revenues associated with this program, and no assurance can be given that such reductions in revenue will not continue.

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.

Care Management Programs

Patient Infosystems subsidiary, CCS Consolidated, is a national care management company providing high-risk and elderly care management services to health plans, work/life benefits companies, and self-funded employers. By providing comprehensive medical and psychosocial care management services for the highest-risk, medically complex members, CCS Consolidated enables clients to realize lower health care costs, while optimizing the quality of care and lifestyle of members. CCS Consolidated brings to its partnerships with private and government payors a highly specialized infrastructure and multi-disciplinary clinical care management staff to improve the appropriateness and reduce the overall costs of care. CCS Consolidated differentiates itself from utilization management companies by focusing on comprehensively managing care, rather than concentrating solely on authorizing individual health care services. Patient Infosystems believes that CCS Consolidated is also unique in its integration of risk assessment and stratification processes, clinical care management pathways, disease management protocols, intensive multi-disciplinary staffing, and credentialed post-acute specialty provider networks, including a national network of field-based geriatric case managers.

CCS Consolidated coordinates care for elderly and chronically ill populations across the full spectrum of post-acute needs, including home health, acute rehabilitation and skilled nursing care. CCS Consolidated works with customers to identify members who are medically complex and to provide telephonic and face-to-face care management to people who need assistance in achieving recovery. By focusing on patients with complex medical profiles who generate the majority of health care costs, this strategy combines the use of lower cost care delivered outside the hospital with intensive patient-focused interventions to reduce the high cost of hospitalization and maximize an individual s health status and independence. Patient Infosystems believes that CCS Consolidated has organized a proprietary delivery system that reduces overall health care costs and improves outcomes for patients.

CCS Consolidated has three types of revenue. First, CCS Consolidated accepts risk on the providing of post-acute services and receives a Per Member Per Month fee that is categorized as capitation revenue. Alternatively, CCS Consolidated provides services to health plans without accepting risk, and for these type of contracts, they may receive either an administration service fee or may provide these services on a fee-for-service basis. For risk contracts, the cost of services includes the cost of providing clinical care and the incurred claims.

CCS Consolidated s business strategy is to contract with health plans, government agencies, and employer groups to help them reduce health care costs while improving the quality of care. Patient Infosystems believes that the steadily rising cost of healthcare for employers, increasing demands on Medicare and Medicaid funding that are outpacing resources, and an emerging interest in care management and disease management services by the federal government and large insurers creates a fertile environment for the CCS Consolidated business model.

While CCS Consolidated has historically derived most of its income from risk-based contracts, it is currently diversifying its revenue sources by adding more administrative fee contracts. CCS Consolidated will continue to offer risk-based and non-risk-based post acute care management products, but where possible they will be linked to a Continuous Care Management service which will allow CCS Consolidated to follow the complex patients over the long term after their return to their home environment.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the consolidated financial statements of Patient Infosystems and CCS Consolidated.

Use of Estimates

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

Revenue Recognition

Prior to its merger with CCS Consolidated, Patient Infosystems principal sources of revenue were contracts for the provision of provider improvement services for federally funded health centers or disease, demand, case and utilization management services to self insured employers, health and welfare funds or other such entities that accept medical risk for defined populations. Deferred revenue represents amounts that may be billed in advance of delivery under these contracts.

For disease, demand, case and utilization management services, Patient Infosystems contracts may call for a per member per month, per employee per month or per-enrolled patient fee to be paid by the customer for a series of program services as defined in the contract or a fixed monthly fee which is intended to provide a defined set of services. The timing of customer payments varies by contract, but typically occurs in advance of the associated services being provided. Revenues from program operations are recognized ratably as the program services are delivered.

For its development contracts, Patient Infosystems program enhancements consist of specific changes or modifications to existing products requested by customers and are short-term in nature. Therefore, revenue is recognized upon delivery of the enhancement.

CCS Consolidated recognizes capitated revenue for contracts whereby it accepts risk. Capitated revenue is recorded by multiplying a contractually negotiated revenue rate per health plan member per month (PMPM) by the number of health plan members covered by its services during the month. These PMPM rates are initially determined during contract negotiations with customers based on estimates of the costs of our services, including the cost of claims. Such rates are generally renegotiated

31

at contract renewal. In certain contracts, the PMPM rates differ depending on the health plan s lines of business, such as Medicare, Commercial or Medicaid. The PMPM rates will also differ in certain cases depending on the type of service provider, such as a skilled nursing facility or a home health provider. Contracts with health plans generally range from one to two years with provisions for subsequent renewal.

CCS Consolidated recognizes Administrative Services Only (ASO) revenue for contracts whereby it receives a fee for providing its services without it accepting risk for claims. Such contracts include those that pay a set fee each month. Other contracts include a PMPM ASO fee and other contracts include a per day per member case rate based on the number of health plan members who receive services during the month. Such fees are negotiated with the health plan or employer group based on estimated costs and anticipated level of services.

CCS Consolidated recognizes fee-for-service revenue for certain services provided for its customers and expenses paid on behalf of its customers for which it is generally reimbursed on a cost-plus basis during the period in which the services are provided.

Some of CCS Consolidated s revenues are based on contractual arrangements which may be subject to retroactive adjustments as final settlements are determined. Such amounts are recorded on an estimated basis in the period the related services are rendered and are adjusted in future periods upon final settlement.

Intangibles and Other Assets

Intangible and other assets consist primarily of websites, trademarks, customer relationships and goodwill associated with acquisitions. Patient Infosystems intangible assets are amortized over their respective estimated useful lives. Goodwill is not amortized to expense. Goodwill and identifiable intangible assets are reviewed annually for impairment and their recorded value is reduced whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Based on the evaluation performed as of March 31, 2005 for CCS Consolidated and December 31, 2005 for Patient Infosystems, management concluded that no impairment of recorded goodwill or intangible asset existed as of that date. The evaluation approach utilized is dependent on a number of factors, including estimates of future revenues and costs, appropriate discount rates and other variables. Management bases its estimates on assumptions believed to be reasonable, but which are inherently uncertain. Therefore, future impairments could result if actual results differ from those estimates.

Direct Service Costs

Direct service costs are comprised of the incurred claims paid to third-party providers for services for which CCS Consolidated is at risk and the related expenses of CCS Consolidated associated with the providing of its services. Network provider and facility charges for authorized services that have yet to be billed to CCS Consolidated are estimated and accrued in its Incurred But Not Reported (IBNR) claims payable liability. Such accruals are based on historical experience, current enrollment statistics, patient census data, adjudication and authorization decisions and other information. The IBNR liability is adjusted as changes in these factors occur and such adjustments are reported in the period of determination. Although it is possible that actual results could vary materially from recorded claims in the near term, management believes that the recorded IBNR liability is adequate.

The above listing is not intended to be a comprehensive list of all of Patient Infosystems and CCS Consolidated s accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for

32

management s judgment in their application. There are also areas in which management s judgment in selecting any available alternative would not produce a materially different result. See the notes to Patient Infosystems and CCS Consolidated s consolidated financial statements included in this prospectus, which contain additional accounting policies and other disclosures required by generally accepted accounting principles.

Results of Operations for Patient Infosystems

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues

Revenues are comprised of revenues from disease and demand management fees, case and utilization management fees provider improvement fees and other fees. Revenues increased 14% to $11,056,526 for the fiscal year ended December 31, 2005 from $9,699,325 for the fiscal year ended December 31, 2004. On a pro forma basis giving effect to the acquisition of CMI as of January 1, 2004, revenue would have decreased 27% from $15,135,334 for the fiscal year ended December 31, 2004 to $11,056,526 for the fiscal year ended December 31, 2005. A summary of these revenues by category is as follows for the fiscal years ended December 31:

Revenues	**2005**	**2004**	**2004** Pro Forma
Disease and demand management	$ 2,210,827	$ 2,345,848	$ 2,206,485
Case and utilization management	5,888,753	2,075,181	7,650,553
Provider improvement	2,928,818	5,259,301	5,259,301
Other Fees	28,128	18,995	18,995
Total	$ 11,056,526	$ 9,699,325	$15,135,334

Revenues from disease and demand management fees decreased 5.8% from $2,345,848 for the fiscal year ended December 31, 2004 to $2,210,827 for the fiscal year ended December 31, 2005. Disease and demand management revenues are generated as Patient Infosystems provides these services to its customers for their disease-specific programs, patient surveys, health risk assessments, patient satisfaction surveys and nurse help line programs. Park Place Entertainment, a customer which accounted for revenue of $438,705 in 2004, and a smoking cessation program which accounted for revenue of $415,579 in 2004, terminated their respective service agreements with Patient Infosystems effective December 31, 2004. Patient Infosystems was able to replace most, but not all, of this lost revenue through sales to a number of new customers. During 2005, Patient Infosystems devoted the majority of its sales and marketing efforts toward increasing revenue from disease, demand, case and utilization management services, but plans to retain most of its existing customers and to continue to add additional new clients through direct sales and through reselling arrangements with third party administrators. No assurances can be given that these revenues will increase, or that any change will be material to Patient Infosystems operating results.

Revenues from case and utilization management fees increased 183% from $2,075,181 for the fiscal year ended December 31, 2004 to $5,888,753 for the fiscal year ended December 31, 2005. Case and utilization management revenues are generated as Patient Infosystems wholly owned subsidiary, CMI, provides these services to its customers in support of their medical management needs. On a pro forma basis giving effect to the acquisition of CMI as of January 1, 2004, case and utilization management revenue decreased 23% to $5,888,753 for the year ended December 31, 2005 from $7,650,533 for the year ended December 31, 2004. Park Place Entertainment, which accounted for pro forma revenue of CMI of approximately $410,000 for the year ended December 31, 2004, terminated its

contract for CMI s case and utilization management services as of December 31, 2004. In addition, each of the Cayman Islands government, which accounted for pro forma revenue of CMI of approximately $268,000 for the year ended December 31, 2004, and UFCW Local 56, which accounted for pro forma revenues of CMI of approximately $334,000 for the year ended December 31, 2004, terminated their contracts for CMI s case and utilization management services during the year ended December 31, 2005. These contracts accounted for revenue of approximately $212,000 and $126,000, respectively, during the year ended December 31, 2005.

Revenues from provider improvement fee decreased 44% from $5,259,301 for the fiscal year ended December 31, 2004 to $2,928,818 for the fiscal year ended December 31, 2005. This decrease is due to Patient Infosystems reduced role in support of the Health Disparities Collaboratives funded by the Bureau of Primary Healthcare (BPHC) and administered by the Institute for Healthcare Improvement. Patient Infosystems is actively marketing its provider improvement services to other entities that have expressed interest in provider improvement services and is seeking opportunities to expand its role in the programs funded by the BPHC. No assurances can be given that these marketing efforts will replace any revenues lost nor that any such change will be material to Patient Infosystems operating results.

Revenues from other fees increased 48% from $18,995 for the fiscal year ended December 31, 2004 to $28,128 for the fiscal year ended December 31, 2005. Other revenue represents amounts that Patient Infosystems charges its customers for custom information technology services and right-to-use fees for Patient Infosystems Internet-based Case Management Support System. Patient Infosystems anticipates that other fee revenue will remain immaterial in future periods.

Costs and Expenses

Cost of sales includes salaries and related benefits, services provided by third parties, and other expenses associated with the development of Patient Infosystems customized disease state management programs, as well as the operation of each of its disease state management programs. Cost of sales increased 23% from $6,688,533 for the fiscal year ended December 31, 2004 to $8,213,711 for the fiscal year ended December 31, 2005. The increase in these costs primarily reflects operational costs required in support of increased revenues. The operational margin, being the percentage of revenues used to offset the cost of revenue, decreased from 31% for the year ended December 31, 2004 to 26% for the year ended December 31, 2005. This decrease was due to the loss of economies which resulted from the overall decrease in revenues.

Selling, general and administrative and marketing expenses increased 40% from $2,810,931 for the fiscal year ended December 31, 2004 to $3,932,216 for the fiscal year ended December 31, 2005. These costs consist primarily of salaries, related benefits and travel costs, sales materials, other marketing related expenses, costs of corporate operations, finance and accounting, human resources and other general operating expenses of Patient Infosystems. This increase was primarily due to a full year of expenses related to CMI resulting in an additional $859,000 of selling, general and administrative and marketing expenses and $410,000 of expenses related to the merger with CCS Consolidated, which costs cannot be capitalized because CCS Consolidated will be deemed to be the accounting acquirer as a result of the merger. Patient Infosystems intends to invest in and expand its sales and marketing process in future periods. To the extent that Patient Infosystems has limited funds available for sales and marketing, or cannot leverage its marketing partnerships adequately, it will likely be unable to invest in the necessary marketing activities to generate substantially greater sales.

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

	2005	2004
Financing costs	$ (1,689,244)	$ (812,630)
Interest expense	(270,421)	(126,828)
Interest income	23,680	5,419
Gain on investments	63,249	-
Other (expense) income	5,345	(892)
Total Expense	$ (1,867,391)	$ (934,931)

Financing costs increased to $1,689,244 for the fiscal year ended December 31, 2005 as compared to $812,630 for the fiscal year ended December 31, 2004. In 2004, Patient Infosystems issued warrants as compensation to guarantors of its debt. The $812,630 of financing costs represents the amortization of debt issuance costs associated with these warrants during the year ended December 31, 2004, which warrants were valued at $2,501,874 using the Black-Scholes method. As of December 31, 2005, this debt was satisfied in full by Patient Infosystems, and the guarantors were released from their guarantees on January 9, 2006. The remaining $1,689,244 in unamortized debt issuance costs were expensed as of December 31, 2005.

Interest expense is due to interest payments required on outstanding indebtedness. Interest expense increased to $270,421 for the fiscal year ended December 31, 2005 from $126,828 for the fiscal year ended December 31, 2004. The increase in interest expense was the result of borrowing additional funds to complete the acquisition of CMI on September 22, 2004, which debt remained outstanding until the fourth quarter of 2005.

Interest income was realized from insured money market investments, which consisted of certain working capital amounts not immediately needed to fund operations. These amounts are expected to continue to be immaterial in future periods.

On December 30, 2005, Patient Infosystems issued 177,050 units, which consisted of newly issued common stock of Patient Infosystems and shares of ACS held by Patient Infosystems. Patient Infosystems sold a total of 177,050 shares of its common stock and 88,525 shares of ACS common stock for $3.05 per unit in a private placement to institutional and other accredited investors. Gross proceeds to Patient Infosystems from this sale were approximately $540,000. Patient Infosystems attributed $79,862 of these proceeds to the sale of the 88,525 shares of ACS common stock. The carrying cost for the ACS shares sold was $16,613, resulting in a capital gain to Patient Infosystems of $63,249.

Preferred stock dividends

For the fiscal year ended December 31, 2005, Patient Infosystems recorded $722,303 in dividends on convertible preferred stock as compared to $904,918 for the year ended December 31, 2004. The decrease was due to fewer shares of preferred stock outstanding due to conversions of 25,000 shares of preferred stock into 250,000 shares of Patient Infosystems common stock during the year ended December 31, 2004 and 21,210 shares of preferred stock into 212,100 shares of common stock during the year ended December 31, 2005. All remaining shares of Patient Infosystems preferred stock were converted into shares of common stock on January 25, 2006.

Net loss

Patient Infosystems had a net loss attributable to common stockholders of $6,098,617 for the

fiscal year ended December 31, 2005, compared to $4,471,226 for the fiscal year ended December 31, 2004. This represents a loss of $0.55 per basic and diluted share for 2005 and $0.57 for 2004.

Discontinued operations

Discontinued operations are the historical net loss of American Caresource Holdings, Inc. (ACS), a wholly owned subsidiary which was distributed as a dividend to Patient Infosystems stockholders of record as of November 8, 2005. For the year ended December 31, 2005, Patient Infosystems reported ACS revenue of $3.7 million, operating expenses of $5.6 million and non-operating expenses of $0.5 million, with a resulting net loss of $2.4 million, as compared to revenue of $6.0 million, operating expenses of $8.0 million and non-operating expenses of $0.8 million, with a resulting net loss of $2.8 million for the year ended December 31, 2004. The ACS operating results reported by Patient Infosystems include only operating results achieved by ACS through November 8, 2005. There was no gain or loss recorded related to the distribution. Upon completion of the spin-off of ACS, ACS became a separate public registrant, and is required to publicly file separate reports under the Securities Exchange Act.

Results of Operations for CCS Consolidated

The following financial tables presents data regarding CCS Consolidated s results of operations, financial position and cash flows as of and for the years ended March 31, 2005 and 2004 and as of and for the nine months ended December 31, 2005 and 2004. Such data was derived from CCS Consolidated s financial statements. This information should be read in conjunction with (i) CCS Consolidated s historical consolidated financial statements as of and for the years ended March 31, 2005 and 2004 and the related notes thereto, and (ii) CCS Consolidated s unaudited interim consolidated financial statements as of and for the nine months ended December 31, 2005 and 2004, and the related notes thereto. All dollar amounts are stated in thousands of dollars:

	Nine Months Ended December 31,		Variance
	2005	**2004**	**Favorable (Unfavorable)**
Operating Results			
Capitated Revenue			
Health Net	$ 6,128	$ 29,832	$ (23,704)
Aetna	24,675	9,242	15,433
Total capitated revenue	**$ 30,803**	**$ 39,074**	**$ (8,271)**
Administrative Services Revenue			
Health Net	$ 3,629	$ -	$ 3,629
Aetna	27	1,032	(1,005)
Other	1,489	749	740
Total ASO revenue	**$ 5,145**	**$ 1,781**	**$ 3,364**
Fee-For-Service Revenue			
Health Net	$ 2,047	$ 5,064	$ (3,017)
Other	1,038	1,148	(110)
Total fee-for-service revenue	**$ 3,085**	**$ 6,212**	**$ (3,127)**
Total Revenue			
Health Net	$ 11,804	$ 34,896	$ (23,092)
Aetna	24,702	10,274	14,428
Other	2,527	1,897	630
Total revenue	**$ 39,033**	**$ 47,067**	**$ (8,034)**
Percentage of Revenue by Major Customer			
Health Net	30.2%	74.1%	(43.9)%
Aetna	63.3%	21.8%	41.5%
Other	6.5%	4.1%	2.4%
Total revenue	**100.0%**	**100.0%**	

	Nine Months Ended December 31,		Variance
	2005	**2004**	**Favorable (Unfavorable)**
Direct Service Costs			
Incurred claims	$ 27,695	$ 36,433	$ 8,738
Direct clinical expenses	7,912	6,236	(1,676)
Total direct service costs	**$ 35,607**	**$ 42,669**	**$ 7,062**
Direct Service Costs as a Percentage of Revenue			
Incurred claims as a percentage of total revenue	70.9%	77.4%	6.5%
Direct clinical expenses as a percentage of revenue	20.3%		