

Edgar Filing: TENET INFORMATION SERVICES INC - Form 10QSB

TENET INFORMATION SERVICES INC  
Form 10QSB  
May 20, 2003

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.  
0-18113

TENET INFORMATION SERVICES, INC.  
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(Exact name of small business issuer as specified in its charter)

UTAH  
-----

(State or other jurisdiction  
of incorporation or organization)

87-0405405  
-----

(I.R.S. Employer  
Identification No.)

53 West 9000 South  
Sandy, Utah 84070  
-----

(Address of principal executive office)

(801) 568-0899  
-----

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the proceeding 12 months and (2) has been subject to such filing requirements  
for the past 90 days. Yes  No

The Company had 19,336,205 shares of common stock outstanding at May 15, 2003

Tenet Information Services, Inc.

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### PART I - FINANCIAL INFORMATION

#### ITEM I - Financial Statements

TENET INFORMATION SERVICES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

#### ASSETS

March 31, 2003

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#### CURRENT ASSETS:

Cash	\$ 116,265
Accounts receivable, net of allowance for doubtful accounts of \$7,500	138,236
Work performed in excess of billings	42,216

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Total current assets	296,717
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FURNITURE, FIXTURES AND EQUIPMENT	136,058
Less accumulated depreciation and amortization	(120,031)

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	16,027
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OTHER ASSETS, net	3,575
-----	
Total Assets	\$ 316,319
=====	

See the accompanying notes to condensed consolidated financial statements.

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TENET INFORMATION SERVICES, INC. AND SUSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEET (Continued)  
(Unaudited)

LIABILITIES AND SHAREHOLDERS' DEFICIT

March 31, 2003

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CURRENT LIABILITIES:	
Accounts payable	\$ 149,306
Accrued expenses	83,365
Accrued interest	10,649
Amounts due related parties	48,071
Deferred revenue	132,325
Billings in excess of costs	106,635
-----	
Total current liabilities	530,351
-----	
SHAREHOLDERS' DEFICIT:	
Common stock, \$.001 par value; 100,000,000 shares authorized; 19,336,205 shares outstanding	19,336
Additional paid-in capital	4,853,896
Accumulated deficit	(5,087,264)
-----	
Total shareholders' deficit	(214,032)
-----	
Total liabilities and shareholders' deficit	\$ 316,319
=====	

See the accompanying notes to condensed consolidated financial statements.

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TENET INFORMATION SERVICES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

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	For the Three Months Ended March 31,	
	2003	2002
REVENUES	\$ 316,632	\$ 207,155
COSTS AND EXPENSES:		
Cost of revenues	143,663	93,677
Selling, general and administrative	44,687	34,151
Software development	41,448	25,606
Total costs and expenses	229,798	153,434
INCOME FROM OPERATIONS	86,834	53,721
OTHER INCOME (EXPENSE):		
Interest expense	(5,650)	(3,796)
Interest income	-	87
Other expense, net	(5,650)	(3,709)
NET INCOME	\$ 81,184	\$ 50,012
BASIC AND DILUTED INCOME PER SHARE	\$ 0.00	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN PER SHARE CALCULATION	19,336,205	19,065,892

See the accompanying notes to condensed consolidated financial statements.

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TENET INFORMATION SERVICES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Nine Months Ended March 31	
	2003	2002
REVENUES	\$ 663,061	\$ 553,019

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COSTS AND EXPENSES:		
Cost of revenues	355,002	279,606
Selling, general and administrative	204,207	118,569
Software development	88,254	78,965
-----		
Total costs and expenses	647,463	477,140
-----		
INCOME FROM OPERATIONS	15,598	75,879
OTHER INCOME (EXPENSE):		
Interest expense	(13,811)	(15,334)
Interest income	-	421
-----		
Other expense, net	(13,811)	(14,913)
-----		
INCOME before extraordinary item	1,787	60,966
-----		
Extraordinary item	-	21,625
-----		
Net Income	\$ 1,787	\$ 82,591
=====		
BASIC AND DILUTED INCOME PER SHARE	\$ 0.00	\$ 0.00
=====		
WEIGHTED AVERAGE NUMBER OF		
COMMON SHARES USED IN PER SHARE		
CALCULATION		
	19,336,205	19,065,892
=====		

See the accompanying notes to condensed consolidated financial statements.

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TENET INFORMATION SERVICES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

For the Nine Months Ended  
March 31,

	2003	2002
-----		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,787	\$ 82,591
Adjustments to reconcile net		
loss to net cash (used in) provided		
by operating activities		
Depreciation	7,144	7,343
Gain on forgiveness of debt	-	(21,625)
Changes in assets and liabilities		
Deposits & prepaid expenses	4,400	-

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Accounts receivable, net	(42,806)	(45,126)
Work performed in excess of billings	(21,585)	17,775
Accrued salaries & benefits	13,374	-
Accounts payable	31,329	(17,861)
Accrued expenses	-	(27,351)
Deferred revenue	(21,274)	17,479
Billings in excess of costs	68,150	9,704
Amounts due related parties	1,395	1,278
-----		
Net cash provided by operating activities	41,914	24,207
-----		

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of furniture, fixtures and equipment	(4,234)	(15,450)
-----		
Net cash used in investing activities	(4,234)	(15,450)
-----		

See the accompanying notes to condensed consolidated financial statements.

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TENET INFORMATION SERVICES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Unaudited)

	For the Nine Months Ended March 31,	
	2003	2002
-----		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on short-term debt	-	(5,000)
-----		
Net cash used in financing activities	-	(5,000)
-----		
INCREASE IN CASH	37,680	3,757
CASH, at beginning of period	78,585	37,022
-----		
CASH, at end of period	\$ 116,265	\$ 40,779
=====		

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$ 3,316	\$ 5,468
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See the accompanying notes to condensed consolidated financial statements.

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TENET INFORMATION SERVICES, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 - INTERIM FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by Tenet Information Services, Inc. and Subsidiary (the Company) and are unaudited. In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments for fair presentation, consisting of normal recurring adjustments except as disclosed herein.

The accompanying unaudited interim financial statements have been condensed pursuant to the rules and regulations of the Securities and Exchange Commission; therefore, certain information and disclosures generally included in financial statements have been omitted. These financial statements should be read in connection with the Company's annual financial statements included in the Company's annual report on Form 10-KSB as of June 30, 2002. The financial position and results of operations of the interim periods presented are not necessarily indicative of the results to be expected for the year ended June 30, 2003.

NOTE 2 - BASIC AND DILUTED EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution which could occur if all contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. A total of 605,000 potentially issuable common shares were excluded from the calculation of diluted earnings (loss) per common share at March 31, 2003 and 2002, because the effects would be anti-dilutive.

NOTE 3 - REVENUE RECOGNITION ON LONG TERM SOFTWARE CONTRACTS

Revenues from long-term software installations are recognized on the percentage of completion method, measured by the percentage of costs incurred to date to total estimated costs for each contract.

Contract costs include all direct material, labor and subcontract costs and those indirect costs relating to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to revenues

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and costs and are recognized in the period in which the revisions are

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determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The asset, work performed in excess of billings, represents costs incurred and revenues earned in excess of amounts billed. The liability, Billings in excess of costs, represents billings in excess of costs incurred and revenue recognized. Contract retentions are included in accounts receivable.

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

#### General

This discussion should be read in conjunction with management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

The Company is engaged in developing and servicing data processing information products used in hospitals. The Company's main product is an emergency department computer system known as EDNet. In addition, the Company also has a consulting practice which specializes in methods and systems improvements, productivity measurement, cost identification and organizational analysis for all inpatient and outpatient hospital departments, as well as customized software solutions for specific hospital departmental requirements.

As of March 31, 2003, the Company has installed its EDNet product in 24 clients, 19 of which have been upgraded to the EDNet Windows version. In addition, the Company is in the process of upgrading 5 additional current clients. Based on a request from a current client, a new product, named ARCNet, was developed for use in same day surgery and ambulatory care departments. ARCNet was installed at that client site and the product has received interest from other clients. All products/clients have annual maintenance contracts for continued support and updates.

The Consulting division provides consulting support to major hospitals throughout the country. These services consist primarily of cost benefit evaluations, patient classification for nursing, and productivity management for all other departments. Consulting services are charged on a negotiated fee basis.

#### Results of Operations

For the three months ended March 31, 2003 compared with the three months ended March 31, 2002.

During the three-month period ended March 31, 2003, the Company had revenues of \$316,632, which represented a 53% increase from \$207,155 for the corresponding period of the prior fiscal year. The 2003 sales consisted of:

3-month ended 3/31/03	% of sales	3-month ended 3/31/02	% of sales	Change in sales	% Change
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Emergency	\$ 180,349	57%	\$ 64,048	31%	\$ 116,301	182%
Consulting	\$ 136,283	43%	\$ 143,107	69%	\$ (6,824)	(5%)
	\$ 316,632	100%	\$ 207,155	100%	\$ 109,477	53%

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The increase in revenue resulted from upgrading software projects and new installations at customer sites.

Cost of revenues increased 53% to \$143,663 for the three-month period ended March 31, 2003 from \$93,677 for the corresponding period of the prior fiscal year.

Selling, general, and administrative costs increased 31% to \$44,687 for the three-month period ended March 31, 2003 from \$34,151 for the corresponding period of the previous fiscal year. Software development costs increased 62% to \$41,448 for the three-month period ended March 31, 2003 from \$25,606 for the corresponding period of the prior fiscal year. The company has elected not to capitalize any of its development expenses. The increases in selling, general and administrative costs and software development costs results from a reallocation of resources.

The Company had \$86,834 of income from operations for the three-month period ended March 31, 2003 compared with \$53,721 of income from operations for the corresponding period of the previous year. This increase in income from operations was the result of increased sales.

Interest expense increased to \$5,650 for the three-month period ended March 31, 2003 from \$3,796 for the corresponding period of the prior year.

The Company's net income per share was \$0.00 as compared to \$0.00 for corresponding period of the previous year.

For the nine months ended March 31, 2003 compared with the nine months ended March 31, 2002.

During the nine month period ended March 31, 2003 the Company had revenues of \$663,061 which represents a 20% increase from \$553,019 for the corresponding period of the prior fiscal year. The 2003 sales consisted of:

	9-month ended 3/31/03	% of sales	9-month ended 3/31/02	% of sales	Change in sales	% Change
Emergency	\$ 377,738	57%	\$ 344,608	62%	\$ 33,130	10%
Consulting	\$ 285,323	43%	\$ 208,411	38%	\$ 76,912	37%
	\$ 663,061	100%	\$ 553,019	100%	\$ 110,042	20%

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This increase in sales was due mainly to the increase in consulting revenues as well as an increase in EDNet upgrades.

Cost of revenues increased 27% to \$355,002 for the nine-month period ended March 31, 2003 from \$279,606 for the corresponding period of the prior fiscal year.

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Selling, general, and administrative costs increased 72% to \$204,207 for the nine-month period ended March 31, 2003 from \$118,569 for the corresponding period of the previous fiscal year. The increase reflects higher personnel costs.

Software development costs increased 12% to \$88,254 for the nine-month period ended March 31, 2003 from \$78,965 for the corresponding period of the prior fiscal year. Development efforts are now focused on product enhancements to meet customer requirements.

The Company had \$15,598 of income from operations for the nine-month period ended March 31, 2003 compared with \$75,879 of income from operations for the corresponding period of the previous year.

Interest expense decreased to \$13,811 for the nine-month period ended March 31, 2003 from \$15,334 for the corresponding period of the prior year. Interest expense was higher for the nine month period ended March 31, 2002 because of interest that was paid with the retirement of debt.

The Company's net income per share was \$0.00 as compared to \$0.00 for the corresponding period of the previous year.

### Liquidity and Capital Resources

The Company's primary needs for capital are to fund an increased sales effort and to keep the software products current in the marketplace. For the nine months ended March 31, 2003 net cash provided by operating activities was \$41,914 as compared to those same activities providing \$24,207 in the nine months ended March 31, 2002, an increase of \$17,707. The Company has sufficient capital for its current operations. However, in order to significantly expand sales, the Company will require additional cash from an external source. At March 31, 2003, the Company had total assets of \$316,319 and shareholders' deficit of (\$214,032) compared to total assets of \$221,558 and shareholders' deficit of (\$215,819) at June 30, 2002, the Company's fiscal year end. The 1% increase in shareholders equity is primarily the result of operations. The company did not capitalize any software costs during the nine months ended March 31, 2003 nor did it capitalize any such costs during the prior year. The Company's cash position increased by \$37,680 during the nine-month period ended March 31, 2003 to \$116,265 up from \$78,585 as of June 30, 2002. The Company had a working capital deficit of (\$233,634) at March 31, 2003 as compared to (\$238,431) at of June 30, 2002.

Inflation has not had a significant impact on the Company's operations.

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Item 3 - Controls and Procedures.

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Jerald Nelson, our Corporate Treasurer and Chairman of the Board, have concluded that our disclosure controls and procedures are appropriate and effective. He has evaluated these controls and procedures as of a date within 90 days of the filing date of this report on Form 10-QSB. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

99 Certification under Section 906 of the Sarbanes-Oxley Act  
(18 U.S.C. Section 1350)

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### SIGNATURES

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

Dated: May 20, 2003

TENET INFORMATION  
SERVICES, INC.

/s/ Jerald L. Nelson

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Jerald L. Nelson  
Chairman of the Board of Directors

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### Attachment A

Form of Certification for Form 10-QSB

### CERTIFICATIONS\*

I, Jerald Nelson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Tenet Information Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this

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quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - d) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - e) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - f) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, base on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - c) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 20, 2003

/s/ Jerald Nelson

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Jerald Nelson  
Corporate Treasurer,  
Chairman of the Board

