

PRECIS INC
Form 10-Q
August 13, 2003

U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT**

For the transition period from to

Commission File Number: 001-15667

PRECIS, INC.

(Name of business issuer in its Charter)

OKLAHOMA

(State or other jurisdiction of
incorporation or organization)

73-1494382

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

2040 North Highway 360

Grand Prairie, Texas 75050

(Address of principal executive offices)

(972) 522-2000

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of issuer's classes of common equity, as of the latest practicable date: As of August 1, 2003, 11,848,306 shares of the issuer's common stock, \$0.01 par value, were outstanding.

PRECIS, INC.

FORM 10-Q

For the Quarter Ended June 30, 2003

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Our financial statements which are prepared in accordance with Regulation S-X are set forth in this report beginning on page 13.

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

The following discussion is qualified in its entirety by the more detailed information in our Form 10-KSB and the financial statements contained in this report, including the notes thereto, and our other periodic reports filed with the Securities and Exchange Commission since December 31, 2002 (collectively referred to as the Disclosure Documents). Certain forward-looking statements contained herein and in such Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in such statements. Our ability to achieve such results is subject to the risks and uncertainties discussed in our Form 10-KSB. Any forward-looking statements contained in this report represent our judgment as of the date hereof. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

Overview

Consumer Healthcare Savings Solution

We offer savings on healthcare services throughout the United States to persons who are under-insured. These savings are offered by accessing the same preferred provider organizations (PPOs) that are utilized by many insurance companies. These programs are sold primarily through a network marketing strategy under the name Care Entrée. We design these programs to benefit healthcare providers as well as our program members. Providers commonly give reduced or preferred rates to PPO networks in exchange for steerage of patients. However, the providers must still file claim forms and wait 30 to 60 days to be paid for their services. Our programs utilize these same provider networks to obtain the same savings for the Care Entrée program members. However, the healthcare providers are paid immediately for their services and are not required to file claim forms. We provide transaction facilitation services to both the program member and the healthcare provider.

Independent marketing representatives may enroll as representatives by paying an enrollment fee and signing a standard representative agreement. We pay independent marketing representatives commissions equal to 20% of the membership fees of members they enroll for the life of the members' enrollment. Independent marketing representatives can also recruit other representatives and earn override commissions on sales made by those recruited representatives. We pay a total of 35% in override commissions down through seven levels. We have also established bonus pools that allow independent marketing representatives who have achieved certain levels to receive commissions of up to 5% measured in part by our revenues in these programs. Independent marketing representatives can also earn a commission equal to the membership fees if three or more program members are enrolled in a month. In the month of the membership sales, no override commissions are paid to the representative's upline.

Affordable Healthcare Insurance

In late 2001, through our subsidiary, SmartCare Insurance Agency, we contracted with numerous insurance companies to offer high deductible and scheduled benefit insurance policies. These policies, when combined with the Care Entrée program, offer affordable well-rounded solutions for individuals and companies who are no longer able to afford or obtain traditional health insurance policies. These policies are sold through our independent marketing representatives who are licensed insurance agents.

Wholesale Membership Solution

Healthcare Membership Programs

We also design healthcare membership programs for employer groups, retailers and association-based organizations. Memberships in these programs are offered and sold by direct marketing through direct sales or in-bound direct marketing. We believe that our clients, their members, and the vendors of the products and services offered through the programs, all

benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients' particular member base. Most of our memberships are sold by third-party organizations and are generally marketed using the third-party's name or brand. We refer to these programs and membership sales as wholesale programs or private label programs.

Rental Purchase and Club Membership Programs

We also design club membership programs for rental-purchase companies, financial organizations, employer groups, retailers and association-based organizations. Memberships in these programs are offered and sold as part of a point-of-sale transaction or by direct marketing through direct mail or as inserts. Program members are offered and provided our third-party vendors' products and services. We believe that our clients, their customers, and the vendors of the products and services offered through the programs, all benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients' particular customer base. Most of our memberships are sold by third-party organizations, generally in connection with a point-of-sale transaction. We refer to these programs and membership sales as wholesale programs. Some of our wholesale programs utilize our smart card technology and products as enhancements.

Benefits to Members of Our Programs

We believe that our programs offer members an economic, efficient and convenient method for the selection of products and services. Members are entitled to savings for products and services that may not otherwise be available to them. Vendors of products and services offered and sold through the programs to members are benefited. Vendors are provided the opportunity demographically to reach a large number of targeted customers with minimal incremental marketing cost.

Critical Accounting Policies

Revenue Recognition

Healthcare Membership Revenues

We recognize membership revenues in the month the member joins the program. Membership revenues are reduced by the amount of refunds incurred. Subsequent to the initial membership month, membership revenues are recognized on each monthly anniversary date.

Membership and Independent Marketing Representatives Enrollment Fees: Membership enrollment fees, net of direct costs, are deferred and amortized over the estimated membership period, that averages less than 12 months. Independent marketing representative fees, net of direct costs, are deferred and amortized over the term of the contract.

Rental Purchase and Club Membership Revenues

Rental purchase and club membership revenues are recognized in the month that our products and services have been delivered to our clients. We sell our rental purchase and club membership programs on a wholesale basis to our clients. The wholesale client remits a portion of the rental purchase and club membership revenues to us and retains the balance as compensation for having made the sale. We provide an allowance for those accounts which are considered to be uncollectible.

Commission Expense

Commissions are paid to our independent marketing representatives in the month following the month in which a member enrolls in our Care Entrée program. Commissions are only paid in the following month when the related monthly membership fees have been received. We do not pay advanced commissions on membership sales.

Goodwill

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We review our goodwill for any impairment on an annual basis. The goodwill arises in connection with our acquisitions of The Capella Group Inc, in June 2001, and Foresight Inc. in December 2000. As of June 30, 2002 goodwill amounted to \$21,077,285. The value of our goodwill is primarily dependent upon continued healthcare and rental purchase and club program membership revenues.

Results of Operations

Current and Comparative Prior Period Historical Information. The following table sets forth selected results of operations for the three months and six months ended June 30, 2003 and 2002.

	For the Three Months Ended June 30, Unaudited		For the Six Months Ended June 30, Unaudited	
	2003	2002	2003	2002
Product and service revenues	\$ 10,963,994	\$ 10,708,920	\$ 21,726,303	\$ 20,281,719
Operating expenses:				
Cost of operations	3,407,147	2,680,398	6,571,932	5,149,499
Sales and marketing	4,069,180	4,366,808	8,283,434	8,175,977
General and administrative	1,495,075	1,365,978	3,091,886	2,782,935
Total operating expenses	8,971,402	8,413,814	17,947,252	16,108,411
Operating income	1,992,592	2,295,736	3,779,051	4,173,308
Other expenses:				
Interest income and expense, net	44,927	16,476	73,908	17,429
Total other expenses	44,927	16,476	73,908	17,429
Earnings before income taxes	1,947,665	2,279,260	3,705,143	4,155,879
Provision for income taxes	681,285	839,669	1,252,003	1,496,486
Net earnings	1,266,380	1,439,591	2,453,140	2,659,393
Preferred stock dividend				14,137
Net earnings applicable to common shareholders	\$ 1,266,380	\$ 1,439,591	2,453,140	\$ 2,645,256
Earnings per common share				
Basic	\$ 0.11	\$ 0.12	\$ 0.21	\$ 0.22
Diluted	\$ 0.11	\$ 0.12	\$ 0.21	\$ 0.22
Weighted average number of common shares outstanding:				
Basic	11,861,365	11,794,297	11,849,927	11,772,277