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TENET INFORMATION SERVICES INC
Form 10QSB
February 18, 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 December 31, 2002

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.

(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)

Changed

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

4885 South 900 East, Salt Lake City, UT 84117

Check whether the Issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter
period that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

(1) Yes X No

(2) Yes X No___

The Company had 19,336,205 shares of common stock outstanding at February 5,
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

	December 31, 2002

CURRENT ASSETS:	
Cash	\$ 10,569
Accounts receivable, net of allowance for doubtful accounts of \$7,500	117,431
Work performed in excess of billings	14,925
Total current assets	142,925

FURNITURE, FIXTURES AND EQUIPMENT	135,259

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Less accumulated depreciation and amortization	(117,598)

	17,661

OTHER ASSETS, net	3,575

TOTAL ASSETS	\$ 164,161
	=====

See the accompanying notes to the condensed consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' DEFICIT

December 31, 2002

CURRENT LIABILITIES:	
Accounts payable	\$ 148,122
Accrued expenses	81,168
Accrued interest	8,460
Amounts due to related parties	47,596
Deferred revenue	122,891
Billings in excess of costs	51,140

Total current liabilities	459,377

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
Warrants outstanding	-
Accumulated deficit	(5,168,448)

Total shareholders' deficit	(295,216)

Total Liabilities and Shareholders Deficit	\$ 164,161
	=====

See the accompanying notes to the condensed consolidated financial statements.

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

	For the Three Months Ended December 31	
	2002	2001
	-----	-----
REVENUES	\$ 200,973	\$ 189,601
COSTS AND EXPENSES:		
Cost of revenues	116,795	111,012
Selling, general and administrative	106,217	39,416
Software development	21,675	29,213
	-----	-----
	244,687	179,650
	-----	-----
INCOME (LOSS) FROM OPERATIONS	(43,714)	9,951
	-----	-----
OTHER INCOME (EXPENSE):		
Interest expense	(4,304)	(4,894)
Miscellaneous income	-	-
	-----	-----
Other expense, net	(4,304)	(4,894)
	-----	-----
NET INCOME (LOSS) before Extraordinary item	(48,018)	5,057
	-----	-----
Extraordinary Item		
Gain on forgiveness of debt (Net of \$0 tax effect)	-	21,625
	-----	-----
NET INCOME (LOSS)	(48,018)	26,682
	-----	-----
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		
Operations	\$ (0.00)	\$ 0.00
Extraordinary item	0.00	0.00
	-----	-----
Total Basic and Diluted Earnings (Loss) Per Share	\$ (0.00)	\$ 0.00
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN PER CALCULATION	19,336,205	19,065,892
	=====	=====

See the accompanying notes to the condensed consolidated financial statements.

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

	For the Six Months Ended	
	December 31	
	2002	2001
	-----	-----
REVENUES	\$ 346,429	\$ 345,864
COSTS AND EXPENSES:		
Cost of revenues	211,339	185,929
Selling, general and administrative	159,520	84,418
Software development	46,806	53,359
	-----	-----
	417,665	323,706
	-----	-----
GAIN (LOSS) FROM OPERATIONS	(71,236)	22,158
	-----	-----
OTHER INCOME (EXPENSE):		
Interest expense	(8,161)	(11,204)
Misc income	-	-
	-----	-----
Other expense, net	(8,161)	(11,204)
	-----	-----
NET INCOME (LOSS) before Extraordinary item	(79,397)	10,954
EXTRAORDINARY ITEM		
Gain on forgiveness of debt (net of \$0 tax effect)	-	21,625
	-----	-----
NET INCOME (LOSS)	(79,397)	32,579
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		
Operations	\$ (0.00)	\$ 0.00
Extraordinary item	0.00	0.00
	-----	-----
Total Basic and Diluted Earnings (Loss) Per Share	\$ (0.00)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN PER CALCULATION	=====	=====
	19,336,205	19,065,892
	=====	=====

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See the accompanying notes to the condensed consolidated financial statements.

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

	For the Six Months Ended December 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (79,397)	\$ 32,579
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	4,711	4,600
Gain on forgiveness of debt	-	(21,625)
Changes in assets and liabilities		
Accounts receivable, net	(22,001)	(39,754)
Prepaid Expenses	4,400	-
Accounts payable	(30,145)	(27,135)
Accrued expenses and interest	9,908	(24,525)
Deferred revenues	(30,708)	1,708
Work performed in excess of billings	5,706	2,405
Billings in excess of earned revenue	12,655	87,337
	(64,581)	15,590
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of furniture, fixtures and equipment	(3,435)	(4,946)
	(3,435)	(4,946)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	\$ -	\$ (5,000)
Advances from related parties	-	841
	-	(4,159)
NET INCREASE (DECREASE) IN CASH	\$ (68,016)	6,485
CASH, at beginning of period	78,585	37,022

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CASH, at end of period	\$ 10,569	\$ 43,507
	=====	=====

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$ 6,066	\$ 5,467
	=====	=====

See the accompanying notes to the condensed consolidated financial statements.

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

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 December 31, 2002 and 2001, 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 and costs and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably

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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.

NOTE 4 - EXTRAORDINARY ITEM

On November 1, 2001, Tenet completed negotiations with a creditor for settlement of a \$25,000 note, which was due in two payments of \$12,500 on December 31, 2000 and December 31, 2001, respectively. The creditor accepted a one-time \$5,000 payment as payment in full of all obligations of the note. This negotiated settlement will result in a one-time extra-ordinary gain of \$20,000 plus accrued interest of \$1,625 during the quarter ended December 31, 2001.

Item 2: Management's Discussion and Analysis or Plan of Operation

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-KSB 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 December 31, 2002, the Company had installed its EDNet product to 24 emergency department and urgent care sites. All sites have annual maintenance contracts for continued support and updates. As of December 31, 2002 the Company was in the process of installing EDNet upgrades at 6 client sites and has received a purchase order from an existing client to install the product at two of their additional sites.

Results of Operations

For the three months ended December 31, 2002 compared with the three months ended December 31, 2001.

During the three-month period ended December 31, 2002, the Company had revenues of \$200,973 which represented a 6 percent increase from \$189,601 for the corresponding period of the prior fiscal year. The 2002 sales consisted of:

	3-months ended 12/31/02	% of sales	3-months ended 12/31/01	% of sales	Change in sales	% Change of sales
Emergency	\$106,213	53%	\$160,565	85%	\$ (54,352)	(34)%
Consulting	\$ 94,760	47%	\$ 29,036	15%	\$ 65,724	227%
	\$200,973	100%	\$189,601	100%	\$ 11,372	6%
	=====	=====	=====	=====	=====	=====

Consulting revenue reflects a new consulting contract with a major hospital as well as follow-on work from an existing client. Emergency Department revenues were weaker due to temporary delays in completing client upgrade work.

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Cost of revenues increased 5% to \$116,795 for the three-month period ended December 31, 2002 from \$111,021 for the corresponding period of the prior fiscal year. The increased sales level required higher costs but the gross margin improved to 42%, in line with historical averages.

Selling, general, and administrative expenses increased 169% to \$106,217 for the three-month period ended December 31, 2002 from \$39,416 for the corresponding period of the previous fiscal year. This increase reflects higher employment levels and audit related expenses.

Software development costs decreased 26% to \$21,675 for the three-month period ended December 31, 2002 from \$29,213 for the corresponding period of the prior fiscal year. Development activities are now focused on enhancements to the EDNet product.

The Company had a net operating loss of \$(43,714) for the three-month period ended December 31, 2002 compared with an operating net profit of \$9,951 for the corresponding period of the previous year. This decline is associated with additional costs and expenses preparing for sales growth.

Interest expense decreased to \$4,304 for the three-month period ended December 31, 2001 compared to \$4,894 during the prior fiscal year.

The Company's net loss of \$48,018 or \$(0.00) per share for the three-month period ended December 31, 2002 compared with net income of \$26,682 or \$0.00 per share for the corresponding period of the previous fiscal year. The net loss for the quarter is a result of the higher expense levels.

For the six months ended December 31, 2001 compared with the six months ended December 31, 2000.

During the six month period ended December 31, 2002, the Company had revenues of \$346,429, which represented a 0% increase from \$345,864 for the corresponding period of the prior fiscal year. The 2002 sales consisted of:

	6-month ended 12/31/02	% of sales	6-month ended 12/31/01	% of sales	Change in sales	%
	-----	-----	-----	-----	-----	-----
Emergency	\$218,488	63%	\$280,560	81%	\$(62,072)	22%
Consulting	\$127,941	37%	\$ 65,304	19%	\$ 62,637	96%
	-----	-----	-----	-----	-----	-----
	\$346,429	100%	\$345,864	100%	\$ 565	0%
	=====	=====	=====	=====	=====	=====

While sales were essentially flat, increases in consulting revenue offset the reduction in software activity.

Cost of revenues increased 14% to \$211,339 for the six-month period ended December 31, 2002 compared to \$185,929 for the corresponding period of the prior fiscal year. The gross margin decreased from 46% of sales to 39% in 2002. The lower margins reflect a higher mix of consulting revenues which are typically more labor intensive than software.

Selling, general, and administrative expenses increased 89% to \$159,520 for the six-month period ended December 31, 2002 from \$84,418 for the corresponding period of the previous fiscal year. This increase reflects higher employment levels.

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Software development expenses decreased 12% to \$46,806 for the six-month period ended December 31, 2002 from \$53,359 for the corresponding period of the prior fiscal year. Development efforts are now focused on product enhancements to meet customer requirements.

The Company had an operating loss of (\$71,236) for the six-month period ended December 31, 2002 compared with an operating income of \$22,158 for the corresponding period of the previous year. Increased SG&A expense levels contributed to the increase.

Interest expense decreased to \$8,161 for the six-month period ended December 31, 2002 from \$11,204 for the corresponding period of the prior year. Interest expense decreased due to reduction of debt.

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 six months ended December 31, 2002 operating activities used \$64,581 in cash as compared to those same activities providing \$15,591 in the six months ended December 31, 2001. The Company has sufficient capital for its current operations. However, in order to significantly expand sales, the Company may require additional cash from an external source. At December 31, 2002 the Company had total assets of \$164,161 and shareholders' deficit of (\$295,216) compared to total assets of \$221,558 and shareholders' deficit of (\$215,819) at June 30, 2002, the Company's last fiscal year end. The decrease in assets is primarily due to an 87% decrease in cash. The increase in shareholders equity is primarily the result of operating losses resulting from higher expense levels in the last six months. The Company did not capitalize any software development costs during the six months ended December 31, 2002 nor did it capitalize any such costs during the prior year.

The Company's cash position decreased 87% during the six month period ended December 31, 2002 to \$10,569 down from \$78,585 as of June 30, 2002. The Company's working capital deficit was \$316,452 at December 31, 2002 as compared to \$215,819 at June 30, 2002.

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

Item 3: Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the principal financial officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

(b) Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

99 Certification under Section 906 of the Sarbanes-Oxley Act

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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:
 - a) 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;
 - b) 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
 - c) 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):
 - a) 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
 - b) 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: February 18, 2003

/s/ Frank C. Overfelt

Frank C. Overfelt
Director, President

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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 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:
 - a) 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;
 - b) 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
 - c) 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):
 - a) 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
 - b) 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

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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: February 18, 2003

/s/ Jerald Nelson

Jerald Nelson
Corporate Treasurer,
Chairman of the Board