TENET INFORMATION SERVICES INC
Form 10QSB
May 24, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[x]

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

For the quarterly period ended **March 31, 2004**

[ ]

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

87-0405405

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

53 West 9000 South

Sandy, Utah 84070

(Address of principal executive office)

(801) 568-0898

(Issuer s telephone number)

Changed

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 966,860 shares of common stock outstanding at May 10, 2004

Tenet Information Services, Inc.

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Item 1.

Financial Statements (Unaudited)

PART I - FINANCIAL INFORMATION

ITEM I - Financial Statements

TENET INFORMATION SERVICES, INC.

CONDENSED BALANCE SHEET

(Unaudited)

ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

		March 31, 2004
Current Assets		
Cash	$	

	182,540
Accounts receivable	11,461
Note receivable (current portion)	6,500
Total current assets	200,501
Furniture, Fixtures And Equipment	5,175
Less accumulated depreciation and amortization	(4,057)
Net furniture, fixtures and equipment	1,118
Other Assets	
Note receivable (long-term portion)	14,652
Other assets	3,575
Total other assets	18,227
Total Assets	$ 219,846
Current Liabilities	
Accounts payable	$ 39,265
Accrued expenses	39,696
Amounts due to related parties	10,142
Total current liabilities	89,103
Shareholders' Equity	
Common stock, $.001 par value; 100,000,000 shares authorized; 966,860 shares outstanding	967
Additional paid-in capital	4,872,265
Deficit accumulated prior to date of inception of the Development stage	(4,697,885)
Deficit accumulated from date of inception of the Development stage	(44,604)
Total shareholders equity	130,743
Total Liabilities And Shareholders Equity	$ 219,846

See the accompanying notes to the condensed consolidated financial statements.

TENET INFORMATION SERVICES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended March 31, 2004	2003
Operating Expenses		
Selling, general and administrative	$ 20,466	$ 18,785
Loss From Operations	(20,466)	(18,785)
Other Income (Expense)		
Interest income	778	95
Interest expense	(787)	(5,745)
Total other expense, net	(9)	(5,650)
Net Loss From Continuing Obligations	(20,475)	(24,435)
Income From Discontinued Operations	-	105,619
Net Income (Loss)	$	$

	(20,475)	81,184
Basic and Diluted Earnings (Loss) Per Share		
Continuing operations	$ (0.02)	$ (0.03)
Discontinued operations	$ (0.00)	$ 0.11
Total Basic and Diluted Earnings (Loss) Per Share	$ (0.02)	$ 0.08
Weighted Average Number Of Common Shares Used In Per Share Calculation	966,860	966,860

See the accompanying notes to the condensed consolidated financial statements.

TENET INFORMATION SERVICES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the nine months ended March 31,	
	2004	2003

			For the Period October 23, 2003 (Date of Inception of Development Stage) through March 31, 2004
Operating Expenses			
Selling, general and administrative	$ 82,110	$ 72,060	$ 44,301
Loss From Operations	(82,110)	(72, 060)	(44,301)
Other Income (Expense)			
Interest income	2,119	179	1,510
Interest expense	(3,197)	(13,989)	(1,813)
Total other expense, net	(1,078)	(13,810)	(303)
Net Loss From Continuing Obligations	(83,188)	(85,870)	(44,604)
Income From Discontinued Operations			
(Which includes the gain on sale of EdNet of $308,259 for the nine months ended March 31, 2004, net $0 in income taxes)	352,276	87,657	-
Net Income (Loss)	$ 269,088	$ 1,787	$ (44,604)
Basic And Diluted Earnings (Loss) Per Share			
Continuing operations	$ (0.08)	$ (0.09)	
Discontinued operations	$ 0.36	$ 0.09	
Total Basic and Diluted Earnings (Loss) Per Share	$ 0.28	$ 0.00	
Weighted Average Number Of Common Shares Used In Per Share Calculation	966,860	966,860	

See the accompanying notes to the condensed consolidated financial statements.

TENET INFORMATION SERVICES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended March 31,		
	2004	2003	For the Period October 23, 2003 (Date of Inception of Development Stage) through March 31, 2004
Cash Flows From Operating Activities			
Net income (loss)	$ 269,088	$ 1,787	$ (44,604)
Adjustments to reconcile net income or (loss) to net cash (used in) provided by operating activities			
Depreciation and amortization	1,367	7,144	654
Gain on sale of discontinued EdNet	(308,359)	-	-
Changes in assets and liabilities			
Accounts receivable, net	79,636	(42,806)	(1,611)
Prepaid Expenses	-	4,400	-
Accounts payable and accrued expenses	(157,645)	46,098	(82,357)
Deferred revenues	(75,059)	(21,274)	-

Work performed in excess of billings	-	(21,585)	-
Billings in excess of earned revenue	(7,290)	68,150	-
Net cash from operating activities	(198,262)	41,914	(127,918)
Cash Flows From Investing Activities			
Acquisition of furniture, fixtures and equipment	-	(4,234)	-
Proceeds from sale of EdNet	339,000	-	-
Payments received on notes receivable	4,548	-	3,062
Net cash from investing activities	343,548	(4,234)	3,062
Cash Flows From Financing Activities			
Payments on related party notes	(33,996)	-	(33,996)
Net cash from financing activities	(33,996)	-	(33,996)
Net Increase (Decrease) In Cash	111,290	37,680	(158,852)
CASH, at beginning of period	71,250	78,585	341,392
CASH, at end of period	$ 182,540	$ 116,265	$ 182,540
Cash paid during the period for interest	$ 14,675	$ 3,316	

See the accompanying notes to the condensed consolidated financial statements.

TENET INFORMATION SERVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(1)

Presentation of Interim Financial Statements

The accompanying condensed consolidated financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-Ksb.

In the opinion of management, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company s consolidated financial position at March 31, 2004 and the results of its operations and its cash flows for the three month and nine months ended March 31, 2004 and 2003 respectively. Because of the sale of the consulting division and the EDNet product line, the results of operations for the three-month and nine-month period ended March 31, 2004 are not indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2004.

(1)

Stock-Based Compensation

The Company accounts for its stock options issued to directors, officers and employees under Accounting Principles Board Opinion No. 25 and related interpretations ("APB 25"). Under APB 25, compensation expense is recognized if an option's exercise price on the measurement date is below the fair value of the Company's common stock. The Company accounts for options and warrants issued to non-employees in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) which requires these options and warrants to be accounted for at their fair value.

No stock-based employee compensation cost is reflected in net income, as all options had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and basic and diluted loss per common share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock Based Compensation, to stock-based employee compensation:

	For the Three Months Ended March 31,		**For the Nine Months Ended March 31,**	
	2004	**2003**	**2004**	**2003**

Net income (loss), as reported	$ (20,475)	$ 81,184	$ 269,088	$ 1,787
Adjust: Total stock-based employee compensation				
expense determined under fair value based method				
for all awards, including adjustment for forfeited options	(154)	(1,342)	(676)	(4,422)
Pro forma net income (loss)	$ (20,629)	$ 79,842	$ 268,412	$ (2,635)
Basic and diluted earnings (loss) per common share				
as reported	$ (0.02)	$ 0.08	$ 0.28	$ 0.00
Basic and diluted earnings (loss) per common share				
pro forma	$ (0.02)	$ 0.08	$ 0.28	$ (0.00)

(3)

Change in Estimate

At the end of its previous fiscal year, the Company accrued its legal costs for the fourth quarter. In the first quarter of the year, the Company established actual legal costs for the previous quarter and adjusted its obligation for payment of legal expense to the actual amount due, resulting in a one-time decrease in the current period s legal expenses and associated operating costs of $19,471. The Company has accounted for this as a change in accounting estimate.

(4)

Reclassification

The Company reclassified $15,529 of expense to selling, general and administrative expense for the nine months ended March 31, 2004 that was previously reported as part of discontinued operations for the six months ended December 31, 2003. The net loss from continuing operations for the three and six months ended December 31, 2003 should have been $51,258 and $63,433, respectively. The income from discontinued operations for the three and six months ended December 31, 2003 should have been $351,337 and $352,996, respectively. The reclassification had no change in previously reported net income.

(5)

Basic and Diluted Loss Per Share

Basic earnings per common share are computed by dividing net loss 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 21,250 and 30,250 post-split stock options were excluded from the calculation of diluted loss per common share at March 31, 2004 and 2003 respectively, because the effects of exercise would be antidilutive.

(6)

Sale of Consulting Division Assets and EDNet Assets

On May 23, 2003, the Company sold all the assets of the Company s consulting division to a shareholder and former employee of the Company.

On July 29, 2003, the Company entered into an asset purchase agreement to sell all of the assets of the EDNet product line to ClinicalVentures, L.C. The sale of assets closed on October 22, 2003 following a special shareholder meeting at which the transaction was approved by the shareholders of the Company. As a result of the sale of the EDNet product line to ClinicalVentures, the Company currently has no operations. ClinicalVentures purchased all office and computer equipment associated with the EDNet product line, which had a net book value of $3,092 and the right to pursue work with the Company s EDNet product line clients in exchange for $339,000 in cash as well as accepting certain obligations and liabilities of the Company. The purchaser assumed the obligation to support all ongoing maintenance contracts currently in force with EDNet clients.

In conjunction with the above agreement, the Company and ClinicalVentures executed a software license agreement pursuant to which ClinicalVentures obtained a non-exclusive right and license to use the Company s EDNet and ARCNet tracking software products. This license agreement allows ClinicalVentures to distribute the software for a period of five years. As part of this license agreement, ClinicalVentures agreed to pay to the Company 5% of the initial software license fees received by ClinicalVentures during the five-year period with respect to new sales or licenses of the EDNet and ARCNet tracking products up to an aggregate of $90,000.

The financial statements present the results from the consulting division and the EDNET product line as discontinued operations.

During the nine months ended March 31, 2004 and 2003, the Company s discontinued operations had revenues of $74,139 and $598,549, respectively. During the nine month periods ended March 31, 2004 and 2003 respectively, the company s discontinued operations had income from operations of $44,017 and $87,657.

(7)

Stock Split

At the special shareholder meeting on October 22, 2003, the shareholders approved a 1 for 20 reverse stock split of the Company s common stock and common stock options. As a result of the reverse split, the Company has 966,860 outstanding shares of stock, after adjustments for fractional shares. The reverse stock split has been retroactively reflected in the accompanying consolidated financial statements for all periods presented.

(8)

Development Stage Company

Based on the sale of all operating assets the Company has become a development stage company and reporting subsequent to October 22, 2003 is on a Development Stage basis.

(9)

Letter of Intent

On March 17, 2004, the company signed a letter of intent to acquire Let s Go Aero (LGA), a privately held product design and engineering company based in Colorado Springs, Colorado in an exchange of stock, subject to due diligence and approval by both companies shareholders.

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, 2003

As a result of the sale of all remaining operations on October 22, 2003, Tenet became a development stage company. The Company was actively seeking business opportunities until March 17, 2004 (see the Company s Form 8-K filed March 17, 2004) when the company signed a letter of intent to acquire Let s Go Aero (LGA), a privately held product design and engineering company based in Colorado Springs, Colorado in an exchange of stock, subject to due diligence and approval by both companies shareholders. LGA is an innovative leader at designing and selling cargo carrier solutions for the automotive and recreation industries, specializing in aerodynamic carriers for recreational equipment transport, general travel and commercial trade uses.

Results of Operations

For the three months ended March 31, 2004 compared with the three months ended March 31, 2003.

During the three-month period ended March 31, 2004 the Company had operating expenses of $20,466 compared to $18,785 for the corresponding period of the prior fiscal year. The major reason for the increase in the administrative costs are transaction costs associated with the divestiture and expenses required to wind down the Company s operations as it transitions into a development stage and investigates new opportunities.

The Company reported a net loss of $20,475 or ($0.02) per share for the three-month period ended March 31, 2004 compared with a net income of $81,184 or $0.08 per share for the corresponding period of the previous year. This decrease resulted from the sale of the Company s remaining operations.

For the nine months ended March 31, 2004 compared with the nine months ended March 31, 2003.

During the nine month period ended March 31, 2004, the Company had operating expenses of $82,110 compared to $72,060 in expenses for the prior year. This increase resulted from increased overhead associated with the divesture of its operating entities.

The Company recorded net income of $269,088 or $0.28 per share for the nine months period ended March 31, 2004 compared with net income of $1,787 or $0.00 per share for the corresponding period of the prior year. This gain resulted from the sale of all operating entities of the company.

Liquidity and Capital Resources

The Company s primary needs for capital are to fund ongoing administrative expenses while the Company seeks and evaluates new business opportunities. The Company anticipates sufficient capital for its current operations but if a merger or similar business combination arose, additional capital may need to be raised.

At March 31, 2004 the Company had positive net working capital of $111,398 as compared to a net working capital deficit of ($234,634) at March 31, 2003.

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

Item 3 Controls and Procedures

(a) Evaluation of disclosure controls and procedures- Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Quarterly Report of Form 10-Qsb such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal control over financial reporting- During the quarter under report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1.

Litigation

N/A

Item 2.

Changes in Securities

N/A

See information below in Item 4 on one-for-twenty reverse stock split approved by shareholders at a Special Shareholder Meeting on October 22, 2003.

Item 3.

Defaults Upon Senior Securities

N/A

Item 4.

Submission of Matters to Vote of Security Holders

Special Shareholder Meeting

The Company held a special shareholder meeting on October 22, 2003 in Salt Lake City. The purpose of the meeting was to consider and vote on the following six proposals presented to shareholders and contained in the definitive proxy statement mailed to each shareholder and filed with the Securities and Exchange Commission:

1.

Approval of that certain Asset Purchase Agreement by and between Tenet and ClinicalVentures, L.L.C. ("ClinicalVentures") and dated August 1, 2003 (the "Asset Purchase Agreement") and the sale of substantially all of the Company s operating assets and the assignment of certain liabilities (the "Transaction") pursuant to the Asset Purchase Agreement.;

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2.

Approval of a resolution authorizing shareholders to take action by the written consent of fewer than all of the shareholder entitled to vote with respect to the action, to the fullest extent permitted by Utah corporate law (the "Written Consent Resolution") and approval of an amendment to the Articles of Incorporation allowing such action;

3.

Approval of a resolution authorizing a one-for-twenty reverse stock split of the outstanding shares of common stock, (the "Reverse Stock Split Resolution") to take effect upon the filing of the Amended and Restated Articles with the Utah Department of Commerce, Division of Corporations and Commercial Code and approval of an amendment to the Articles of incorporation allowing such action;

4.

Approval of amendments to the Company s Articles of Incorporation, which amendments will include the following:

a.

Elimination of Articles VI of the Company s Articles of Incorporation, which provides that Tenet may acquire its own shares. All rights and restrictions in Article VI are provided to Tenet in the Utah Revised Business Corporations Act (the "Act") making this Article unnecessary, and

b.

Elimination of Article VII of the Company s Articles of Incorporation, which provides that Tenet may make distributions to shareholders. All rights and restrictions in Article VII are provided to Tenet in the Act, making this Article unnecessary;

5.

Approval of amendments to the Company s Articles of Incorporation, which amendments will include the following:

a.

Elimination of Article II, which provides that Tenet shall exist indefinitely. Under the "Act", every corporation has perpetual duration, making this article unnecessary;

b.

Modification to Article III which defines Tenet's purpose. The modification eliminates references to computer systems related to the medical and health fields and allows Tenet to engage in any acts, activities and pursuits for which a corporation may be organized under the Act;

c.

Deletion of references to the Utah Business Corporation Act, substituting references to the Utah Revised Business Corporation Act (this modification allows the Articles of Incorporation to be consistent with the State of Utah's adoption of a revised act, the renumbering of articles to be consistent with the deletion of articles), and the restatement of the Articles of Incorporation (the "Amended and Restated Articles") by incorporating in a single document the amendments approved and adopted by our shareholders at the Special Meeting, as well as all prior provisions still in effect.

6.

Election of three (3) directors to the Tenet Board of Directors, each to serve for a one year term expiring at our annual meeting in 2004, and with three nominees for those positions presented by the Board (the "Director Nominees").

All six proposals were approved by shareholders at the special meeting. The directors of the Company have directed company personnel to take all actions necessary to implement the changes required by the approval of the proposals.

Item 5.

Other Information

N/A

Item 6.

Exhibits and Reports on Form 8-K

(i)

Exhibits

Exhibit No.

Description

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Certification required under Section 302 of Sarbanes-.

Oxley Act of 2002

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Certification required under Section 906 of Sarbanes-.

Oxley Act of 2002

(ii)

Reports on Form 8-K

None

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 21, 2004

TENET INFORMATION

SERVICES, INC.

/s/ Jerald L. Nelson

Jerald L. Nelson

Chairman of the Board of Directors