

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

NUWAY MEDICAL INC
Form 10QSB
August 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 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 Number 33-43423

NUWAY MEDICAL, INC.

(exact name of small business issuer as specified in its charter)

DELAWARE

65-0159115

(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

23461 SOUTH POINTE DRIVE, SUITE 200 LAGUNA HILLS, CALIFORNIA 92653

(Address of principal executive offices)

(949) 454-9011

(Issuer's telephone number)

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.

Yes No

Number of shares outstanding of each of the issuer's classes of common equity, as of August 12, 2003: 33,403,646 shares of common stock, \$0.00067 par value per share.

TABLE OF CONTENTS

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

PART I.	FINANCIAL INFORMATION	PAGE NO.
Item 1.	Financial Statements	3
	Consolidated Balance Sheets - as of June 30, 2003 (unaudited) and December 31, 2002	3
	Consolidated Statements of Operations - for the Three and Six Months Ended June 30, 2003 and June 30, 2002 (unaudited)	4
	Consolidated Statements of Cash Flows - for the Six Months Ended June 30, 2003 and June 30, 2002 (unaudited)	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis	17
Item 3.	Controls and Procedures	23
PART II.	OTHER INFORMATION	
Item 2.	Changes in Securities	24
Item 6.	Exhibits and Reports on Form 8-K	24
	Signatures	24
	Certifications	25

-2-

NUWAY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2003 AND DECEMBER 31, 2002

ASSETS

	June 30, 2003 (unaudited)	December 31, 2002
	-----	-----
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 162,663	\$ 52,000
Accounts Receivable	10,000	
	-----	-----
Total Current Assets	172,663	52,000
	-----	-----

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

PROPERTY AND EQUIPMENT, net	24,568	28,84
	-----	-----
OTHER ASSETS		
Marketing Database, net	229,500	255,00
Med Wireless License, net	3,681,000	4,090,00
	-----	-----
Total Other Assets	3,910,500	4,345,00
	-----	-----
TOTAL ASSETS	\$ 4,107,731	\$ 4,374,36
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 922,129	\$ 1,131,57
Notes Payable, net	1,279,656	1,120,00
Debentures Payable, net	150,000	150,00
	-----	-----
Total Current Liabilities	2,351,785	2,401,57
	-----	-----
COMMITMENTS AND CONTINGENCIES AND SUBSEQUENT EVENTS (Notes 8, 9, 10 and 11)		
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.00067 Par Value, 25,000,000 Shares Authorized, 559,322 and No Shares Issued and Outstanding at June 30, 2003 and December 31, 2002, respectively	375	
Common Stock, \$.00067 Par Value, 100,000,000 Shares Authorized, 30,828,646 and 17,137,727 Shares Issued and Outstanding at June 30, 2003 and December 31, 2002, respectively	20,654	11,48
Additional Paid-In Capital	22,490,249	20,289,93
Accumulated Deficit	(20,628,328)	(18,201,62
Treasury Stock at cost, 44,900 shares as of June 30, 2003 and December 31, 2002	(127,004)	(127,00
	-----	-----
Total Stockholders' Equity	1,755,946	1,972,78
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,107,731	\$ 4,374,36
	=====	=====

-3-

NUWAY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 and 2002

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

	THREE MONTHS ENDED JUNE 30,		SI
	2003	2002	
	(unaudited)	(unaudited)	(u
Sales			
License of Software	\$ 5,500	\$ -	\$
Total Sales	5,500	-	
Costs and Expenses			
Selling, General and Administration	824,407	469,462	
Depreciation and Amortization	219,388	2,600	
Cancellation of Stock Warrants Previously Expensed	-	-	
Total Costs and Expenses	1,043,795	472,062	
Operating (Loss) Income	(1,038,295)	(472,062)	(
Other (Expenses) Income			
Interest (Expense) Income	(81,304)	550	
Net Other (Expenses) Income	(81,304)	550	
(Loss) Income Before Income Taxes	(1,119,599)	(471,512)	(
Income Taxes (Provision) Benefit	-	-	
Net (Loss) Income from Continuing Operations	(1,119,599)	(471,512)	(
Discontinued Operations (Note 2)	-	(261,173)	
Net (Loss) Income	\$ (1,119,599)	\$ (732,685)	\$ (
(Loss) Earnings Per Common Share and Common Share Equivalents Basic and Fully Diluted			
Common Share Equivalents Outstanding	30,775,820	6,904,644	2
Net (Loss) Income Per Share	\$ (0.04)	\$ (0.11)	\$

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

 CONSOLIDATED STATEMENTS OF CASH FLOWS

 FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

 (UNAUDITED)

	Six Month 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Net (Loss) Income	\$ (2,426,69
Adjustments to Reconcile Net (Loss) Income to Cash Used in Operating Activities:	
Depreciation and Amortization	438,7
Amortization of Discount on Note	8,3
Issuance of Stock for Services and Interest	1,731,5
Cash Used in Discontinued Operations	-
Cancellation of Warrants Previously Recorded as Expense	-
Increase in Accounts Receivable	(10,0
Increase in Prepaid Expenses and Other Current Assets	-
Decrease in Accounts Payable and Accrued Expenses	(209,4
Net Cash Used in Operating Activities	----- (467,5
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Used in Discontinued Operations	-
Increase in Other Assets	-
Net Cash Used in Operating Activities	----- -
Net Cash Used in Investing Activities	-
Net Cash Used in Operating Activities	----- -
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of Convertible Debentures	-
Reduction of Loan from Officers & Affiliates	-
Proceeds from the Sale of Preferred Stock	279,6
Proceeds from Term Loan	350,0
Net Cash Used in Operating Activities	----- -
Net Cash Provided by Financing Activities	629,6
Net Cash Used in Operating Activities	----- -
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	162,1
CASH AND CASH EQUIVALENTS - BEGINNING	5
-----	-----
CASH AND CASH EQUIVALENTS - ENDING	\$ 162,6
Net Cash Used in Operating Activities	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash Paid During the Period for:	
Interest	\$ -
Income Taxes	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING TRANSACTIONS	
Conversion of Debentures	\$ -
Effective Discount on Note Payable	\$ 198,6

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

a) PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

In the opinion of the management of NuWay Medical, Inc., (the "Company") the accompanying unaudited consolidated financial statements contain all adjustments (which are normal recurring accruals) necessary to present fairly the consolidated financial position as of June 30, 2003 and 2002; the consolidated results of operations for the three and six months ended June 30, 2003 and 2002; and the consolidated cash flows for the six months ended June 30, 2003 and 2002. Interim results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2002 included in the Company's Form 10-KSB, filed May 23, 2003.

The consolidated balance sheets at June 30, 2003 and December 31, 2002 include the accounts of NuWay Medical, Inc. and its joint venture subsidiary, NuWay Sports, LLC ("NuWay Sports") (collectively referred to as the "Company"). NuWay Medical, Inc. owns 51% of NuWay Sports and the remaining 49% is owned by Rasheed & Associates. Operations for NuWay Sports commenced in January 2003. NuWay Medical, Inc. has significant influence on the business operations of NuWay Sports and operations are consolidated. As there is no equity in NuWay Sports, 100% of this entity is absorbed by NuWay Medical, Inc. All significant inter-company balances have been eliminated in consolidation.

b) MANAGEMENT'S PLANS

The Company had approximately \$25,000 of cash on hand at July 31, 2003. In June 2003, the Company received the first and second installment (\$250,000 and \$100,000) of a total loan commitment of \$420,000 as described in Note 7 below. Notwithstanding this financing, the Company will still need to raise additional capital to sustain operations and implement its growth strategy until such time, if ever, that the Company achieves profitability. As of the date of this filing, the Company was not a party to any agreements to provide such financing. Although the Company is in the process of actively reviewing additional proposals made by private investors and investment bankers, there can be no assurance that the Company will be able to consummate any such transactions on terms satisfactory to the Company, or at all, or if consummated, that such financings will provide the Company with sufficient capital. If the Company is unable to secure additional financing within the next 120 days it would need to significantly curtail and perhaps shut down its operations. It is unlikely that the Company will be able to qualify for bank debt until such time as the Company is able to demonstrate sufficient financial strength to provide confidence for a lender.

The Company's shares were delisted effective as of June 10, 2003 from trading on the Nasdaq SmallCap Market. The shares are currently quoted

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

on the pink sheets. Although market makers have indicated to management that they are in the process of submitting an application for quotation of the Company's shares on the Over-the-Counter Bulletin Board, there can be no assurance that any of these applications will in fact be filed, such

-6-

applications (or any other applications that may in the future be filed) will be accepted, or the Company will be cleared to trade on the Bulletin Board, in particular in light of the public interest concerns raised by Nasdaq in connection with the delisting of the Company's shares. This Nasdaq delisting has made it more difficult to effect trades and has led to a significant decline in the frequency of trades and trading volume. The delisting could also adversely affect the Company's ability to obtain financing due to the decreased liquidity of the Company's shares.

Although the primary development of the Player Record Library System ("PRLS") has been completed, management plans on periodically upgrading its PRLS software application through additional research and development, including tailoring its application to the specific needs of its clients as those needs are brought to the Company's attention. The Company will be unable to accomplish the foregoing on a long-term basis, however, unless and until the additional financing referred to above is secured.

Based on its current business plan, and assuming sufficient financing is obtained, management believes it will be able to generate meaningful sales of its PRLS software application and that it may be able to secure sales or license agreements as early as the third quarter of 2003. The Company's PRLS was introduced by the Company to the marketplace in January 2003 and generated a total of approximately \$40,000 in revenues during the first and second quarters of 2003 through the sale of a scaled-down version of the product to 18 National Football League ("NFL") teams at the 2003 NFL Combine. Pursuant to these transactions, the Company digitized over 60,000 medical images for use by NFL teams in their evaluation of potential draft picks. Management believes that its PRLS is already being referred by its customers and prospects as the best of brand for its sports industry focus. The Company is marketing the PRLS to multiple sports leagues and is actively seeking additional vertical market opportunities. There can be no assurance, however, that the Company will be able to secure any further agreements for its product, that such agreements will ever generate meaningful revenue for the Company, or that the Company will be able to successfully capture any such vertical market opportunities.

Ultimately, the Company's ability to continue as a going concern is dependent upon its ability to establish and grow a revenue stream, attain a reasonable threshold of operating efficiencies, achieve profitable operations and attract new sources of capital. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

c) PROPERTY AND EQUIPMENT

Property and Equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the respective

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

asset. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

d) IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically reviews its long-lived assets for potential impairment as required by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which

-7-

supercedes previous guidance. As discussed in Note 2, the Company discontinued several operations during the year ended December 31, 2002.

e) REVENUE RECOGNITION

The Company recognizes revenue from its new medical technology business in accordance with SEC Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements." For hardware sales, revenue would be recognized upon shipment to customers. To date, no such sales have been made.

Revenue from the licensing of software products is recognized when a contract is executed (when applicable), all delivery obligations have been met, the fee is fixed or determinable, and collectability is probable. When licenses are sold together with services, in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), license fees are recognized upon delivery, provided that (1) the above criteria have been met, (2) payment of the license fees is not dependent upon the performance of the services, (3) the services do not include significant modifications to the features and functionality of the software, and (4) the services are not essential to the functionality of the software. If revenue is received from software maintenance agreements, it will be recognized ratably over the term of the agreement, as will annual software maintenance charges and upgrade fees be recognized ratably over the period covered. To date, no such maintenance revenue has been received by the Company.

f) EARNINGS (LOSS) PER SHARE

The Company reports basic and diluted earnings per share ("EPS") for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by dividing reported earnings by the weighted average shares outstanding adjusted for all potentially dilutive shares, which include shares issuable upon the exercise of outstanding stock options, warrants and convertible preferred stock using the "if-converted" method. For the three and six months ended June 30, 2003 and 2002, the denominator in the diluted EPS computation was the same as the denominator for basic EPS computation due to the antidilutive effect of the warrants and stock options on the Company's net loss.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

-8-

For the three and six months ended June 30, 2003 and June 30, 2002, the computation of basic and diluted EPS was as follows:

	Three Months 2003	Ended June 30, 2002	Six Months 2003	En
BASIC AND DILUTED EPS:				
Numerator - Net (Loss) Income from Continuing Operations	\$ (1,119,599)	\$ (471,512)	\$ (2,426,699)	\$
Denominator - Weighted Average Shares Outstanding	30,775,820	6,904,644	25,982,882	
(Loss) Income per Share	\$ (0.04)	\$ (0.07)	\$ (0.09)	\$
Numerator - Net (Loss) Income from Discontinued Operations	\$ -	\$ (261,173)	\$ -	\$
Denominator - Weighted Average Shares Outstanding	-	6,904,644	-	
(Loss) Income per Share	\$ -	\$ (0.04)	\$ -	\$
Numerator - Net (Loss) Income	\$ (1,119,599)	\$ (732,685)	\$ (2,426,699)	\$
Denominator - Weighted Average Shares Outstanding	30,775,820	6,904,644	25,982,882	
(Loss) Income per Share	\$ (0.04)	\$ (0.11)	\$ (0.09)	\$

g) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could differ from those estimates. Estimates are used when accounting for stock-based transactions, uncollectable accounts receivable, asset impairment, depreciation and amortization, and taxes, among others.

h) STOCK OPTIONS AND WARRANTS ISSUED FOR SERVICES

As permitted under the Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," the Company accounts for its stock-based compensation to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

related interpretations. The Company provides the pro forma net earnings, pro forma earnings per share, and stock-based compensation plan disclosure requirements set forth in SFAS No. 123.

-9-

Had compensation cost for options issued under the 1994 Stock Option Plan, as described more fully in Note 6, been determined based upon fair value at the grant date for options granted, consistent with the provision of SFAS 123, the Company's net (loss) income and net (loss) income per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended June 30, 2003	2002	Six Months 2003
	-----	-----	-----
Net (Loss) Income - as reported	\$ (1,119,599)	\$ (732,685)	\$ (2,426,69
Deduct: stock based employee compensation expenses determined under fair value based method	-	-	
Net (Loss) Income - pro forma	\$ (1,119,599)	\$ (732,685)	\$ (2,426,69
Net (Loss) Income per share - as reported			
Basic	\$ (0.04)	\$ (0.11)	\$ (0.0
Diluted	\$ (0.04)	\$ (0.11)	\$ (0.0
Net (Loss) Income per share - pro forma			
Basic	\$ (0.04)	\$ (0.11)	\$ (0.0
Diluted	\$ (0.04)	\$ (0.11)	\$ (0.0

For stock issued to consultants and other non-employees for services, the Company records the expense based on the fair market value of the securities as of the date of stock issuance or agreement for such services.

i) RECLASSIFICATIONS

Certain amounts in the accompanying 2002 consolidated financial statements have been reclassified to conform to 2003 presentation, primarily those items having to do with discontinued operations. (See Note 2)

NOTE 2. DISCONTINUED OPERATIONS

Effective October 1, 2002, the Company sold its oil and gas operations, namely the stock of NuWay Resources Ltd., to Summit Oil and Gas, Inc. The purchase price for the stock was \$100,000 less all outstanding liabilities of NuWay Resources, Ltd. As the offsetting liabilities exceeded the purchase price, the

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Company received no funds. The Company recorded a loss from these operations through September 30, 2002 of \$68,650 and a loss of \$1,290,948 on disposal.

Effective October 1, 2002, the Company sold the stock of its wholly owned casino rental subsidiaries (Latin American Casinos del Peru S.A., and Latin American Casinos of Colombia, LTDA) to Casino Venture Partners, a Nevada partnership. The purchase price for the stock was \$300,000 less all outstanding liabilities of the two subsidiaries. As the offsetting liabilities exceeded the purchase price, the Company received no funds. The Company recorded a loss from these operations through September 30, 2002 of \$147,247 and a loss of \$1,376,733 on disposal.

The Company discontinued the operations of World's Best Rated Cigar Company on October 1, 2002 by donating any remaining inventory and terminating all outstanding warehouse lease

-10-

agreements without penalty. A loss of \$385,089 was incurred from these operations until the point of disposal and a loss of \$179,750 was recorded upon disposal of the net assets.

The results of operations of the Company's oil and gas, casino, and cigar distribution operations have been shown as discontinued operations as follows:

	Three Months Ended June 30, 2002	Six Months Ended June 30, 2002
Revenues	\$ 183,555	\$ 443,810
Operating Expenses	444,728	671,963
Loss from Discontinued Operations	\$ (261,173)	\$ (228,153)

NOTE 3. PROPERTY AND EQUIPMENT

Property and Equipment are summarized as follows:

	June 30, 2003	December 31, 2002
Furniture, Fixtures & Office Equipment	\$ 42,753	\$ 42,753
Less: Accumulated Depreciation	18,184	13,909
Property and Equipment, net	\$ 24,568	\$ 28,844

Furniture, fixtures and office equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is estimated to be five years.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

NOTE 4. INTANGIBLE ASSETS

The Company had the following Intangible Assets at June 30, 2003: a marketing database purchased from Genesis Health Tech, Inc. on June 28, 2002 and certain software technology licensed from Med Wireless, Inc. on August 21, 2002. The database is a comprehensive listing of healthcare providers in the U.S. and represents what the Company believes to be a valuable tool for phone, mail and direct marketing activities related to the Company's new medical technology products. The technology licensed from Med Wireless relates to the movement of medical images and data over the Internet and via handheld wireless devices and is critical to the Company's new PRLS product as well as potential future products. No amortization was recorded for these intangible assets in 2002 as the Company did not begin to utilize the database nor generate sales of products derived from this technology until 2003. In January 2003, the Company began to amortize both assets on a straight-line basis over estimated five year useful lives and a total of \$217,250 and \$434,500 in amortization expense was recorded for the three and six month periods, respectively.

In Note 5 to the Company's audited financial statements for the year ended December 31, 2002 appearing in the Company's Form 10-KSB filed May 23, 2003, the Company disclosed the fact that the value of the database was discounted and the discount in the Med Wireless license was increased after discussions with "valuation experts" and the Company's accountants. To clarify this disclosure, it is noted that the discussions with the valuation experts were conducted by the Company's accountants in the course of their audit, and not by the Company, and that these experts did not evaluate or otherwise pass upon the value of the Company's assets (nor has the Company at any time had such an evaluation from a third party expert).

-11-

NOTE 5. STOCK, STOCK OPTIONS AND WARRANTS

During the first quarter of 2003, the Company issued a total of 11,360,919 shares of its common stock for services performed during 2002 and 2003. Expenses totaling \$645,648 for 2,633,590 shares issued in January 2003 were accrued in the financial statements for the year ended December 31, 2002. Expenses aggregating \$843,000 relating to the balance of the shares issued in the first quarter (8,727,329 shares) were recorded in the three months ended March 31, 2003. Of this first quarter amount, approximately \$548,000 represents consulting expense, \$259,000 represents legal expenses, and the balance of \$36,000 represents compensation, advisory board, and board of director expenses.

In March 2003, Dennis Calvert, the Company's CEO and president, was granted 3,000,000 shares of common stock under the Company's 2003 Stock Compensation Plan as a bonus for services rendered by Mr. Calvert to the Company. Following this issuance, however, Mr. Calvert returned the shares to the Company pending a shareholder vote to approve or disapprove the issuance. Mr. Calvert and the Company have since agreed not to seek shareholder approval for the issuance and to rescind the issuance in its entirety. Mr. Calvert and the compensation committee of the Board of Directors plan to negotiate an alternative bonus arrangement with Mr. Calvert (which could be in the form of cash, shares of stock, or a combination thereof). The amount and timing of such bonus has not yet been determined.

During the second quarter of 2003, the Company issued a total of 2,330,000 shares of its common stock for services performed during the three-month period ended June 30, 2003. Expenses aggregating \$242,700 relating to the balance of

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

shares issued in the second quarter were recorded as consulting expense in the three months ended June 30, 2003.

At June 30, 2003 there were 2,575,000 shares scheduled to be issued in July 2003 for services performed during the three months ended June 30, 2003. Expenses aggregating \$231,750 equal to the market value of the stock at the date of issuance was accrued at June 30, 2003. Of this accrued amount, approximately \$115,750 represents consulting expense and the balance, \$116,000 represents legal expenses.

The Company had the following outstanding convertible securities at June 30, 2003: (a) stock options issued under the 1994 Stock Option Plan to purchase up to 65,000 shares of the Company's common stock (see Note 6); (b) five-year warrants to acquire up to 300,000 shares of common stock at an exercise price of \$1.75 per share; (c) a warrant to purchase up to 100,000 shares of common stock at an exercise price of \$0.30 per share exercisable through February 23, 2004, issued in 2002 to a former executive of the Company; and (d) warrants to purchase up to 559,322 shares of common stock at an exercise price of \$.20 per share, exercisable for a period of three years, issued in conjunction with the Company's sale of 559,322 shares of Convertible Preferred Stock during the first quarter of 2003, and which are not convertible until six months from the date of issuance (Note 9).

At June 30, 2003, the Company also had outstanding 1,725,000 publicly traded warrants (NMEDW) to purchase the Company's common stock at an exercise price of \$3.00 per share. The expiration date of these warrants was extended by the Company to December 11, 2003.

See Note 7 for discussion of warrants issued in conjunction with debt entered into in June 2003.

-12-

NOTE 6. INCENTIVE STOCK OPTION PLAN

On June 13, 1994, the Company adopted the 1994 Stock Option Plan providing for the issuance of options to purchase up to 1,000,000 shares of the Company's common stock. The term of each option may not exceed ten years from the date of grant (five years for options granted to employees owning more than 10 percent of the outstanding shares of the voting stock of the Company). The 1994 Plan will terminate in June 2004, unless terminated earlier by action of the board of directors. In June 1999, the Company increased the shares allocated under the plan to 1,500,000.

At June 30, 2003 and December 31, 2002, the Company had options outstanding and exercisable as follows:

	Number of Shares	Price Per Share
	-----	-----
Options Outstanding at December 31, 2002	65,000	\$1.00 - \$1.75
Options Issued	-	
Options Expired	-	
Options Exercised	-	
	-----	-----

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Options Outstanding at June 30, 2003	65,000	\$1.00 - \$1.75
	=====	

All outstanding stock options were fully exercisable at June 30, 2003.

NOTE 7. NOTES PAYABLE

In conjunction with the acquisition of the technology license from Med Wireless, Inc. on August 21, 2002, the Company assumed a \$1,120,000 note with interest at 10% per annum payable by Med Wireless to Summitt Ventures, Inc., a company controlled by Mark Anderson. The note is secured by the Company's assets and was originally due on June 15, 2003. On March 26, 2003, Summitt Ventures sold the note, together with 4,182,107 shares of the Company's common stock, to New Millennium Capital Partners LLC ("New Millennium"), a limited liability company controlled and owned in part by the Company's CEO and president, Dennis Calvert, in exchange for a \$900,000 promissory note issued by New Millennium in favor of Summitt Ventures. This note is secured by all of the stock of the Company owned by New Millennium and Mr. Calvert. On March 26, 2003, the Company's board of directors voted to convert the \$1,120,000 note held by New Millennium into 22,400,000 shares of restricted common stock of the Company (at a conversion price discounted 37.5% to the then market price of \$0.08). New Millennium agreed to this conversion. Subsequent to the vote by the board to convert the note, the Company received notification from Nasdaq's Listing Qualifications Department that converting the note without shareholder approval violated certain Nasdaq Marketplace Rules. In response to this notification, the board, with the concurrence of New Millennium, voted to amend its resolution and withhold issuance of the shares to New Millennium until the Company's shareholders approved the conversion. This shareholder vote has not taken place as of the filing of this report, and the shares have not been issued to New Millennium.

The business purpose of the original decision to convert the note into equity was to retire \$1,120,000 in debt owed by the Company thereby increasing shareholder equity by that amount and avoiding a default on the note and the insolvency and possible liquidation of the Company. In arriving at a conversion price, the board of directors determined that a 37.5% discount to market price was appropriate based on a number of factors, including that (i) with the quantity of the shares that would be issued, a block of shares that size could not be liquidated without affecting the market price of the

-13-

shares, and (ii) the shares would be "restricted shares" and could therefore not be sold by New Millennium (an affiliate of the Company) in the public markets prior to two years from the date of the conversion, and thereafter would be subject to the volume and manner of sale limitations of Rule 144 under the Securities Act of 1933.

To allow time for a shareholder vote with respect to the conversion, New Millennium agreed to extend the terms of the note, from June 15, 2003 to October 1, 2003.

At the Company's June 6, 2003 board meeting, Mr. Calvert, on behalf of New Millennium, and the Company, through the unanimous action of the Board (with Mr. Calvert abstaining), agreed that, in light of current market conditions (namely the significant increase in the trading price of the Company's common stock since March 26, 2003, the date on which the conversion of the note to equity was originally approved by the Board, from \$0.08 to \$0.28 as of June 6, 2003), it would be inequitable for New Millennium to convert the note at the originally

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

agreed to \$0.05 per share price. In this regard, Mr. Calvert, on behalf of New Millennium, and the Company orally agreed to rescind the agreement to convert the note. In addition, New Millennium orally agreed with the Company to extend the maturity date of the note to a first payment due October 1, 2003 in the amount of \$100,000 and the balance of the principal due on April 1, 2004, with interest due according to the original terms of the note (to correspond to the payment terms of the note made by New Millennium in favor of Summitt), and furthermore to reduce the Company's obligation on the note to the extent that New Millennium is able to reduce its obligation on its note with Summitt Ventures. While the prior holder of the note, Summitt Ventures, purported to condition New Millennium's purchase on the conversion of the note, Mr. Calvert has represented to the Company that due to Mr. Anderson's actions (as previously described by the Company in its Form 10-QSB for the quarter ended March 31, 2003), Mr. Calvert now believes that conversion of the note is no longer required.

As a result of the elimination of the conversion feature of the note, the shareholders of the Company will not be asked to approve the conversion terms as was previously contemplated by the Company.

On June 10, 2003 the Company entered into a Term Loan Agreement ("Loan Agreement") with Augustine II, LLC ("Augustine"), pursuant to which Augustine agreed to loan the Company \$420,000, payable in installments of \$250,000, \$100,000, and \$70,000 (the "Loan"). The Company received the first installment of \$250,000 on June 13, 2003. The second installment of \$100,000 was paid to the Company on June 30, 2003, with the balance payable to the Company on August 1, 2003. Principal and interest (at an annual rate of 10%) are due in full on February 29, 2004. The Company recorded \$1,347 of interest expense as of June 30, 2003. The Loan Agreement is subject to certain requirements that the Company make mandatory prepayments of the Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, all or any portion of the Loan may be prepaid by the Company at any time without premium or penalty. The proceeds of the Loan are being used by the Company for working capital.

As additional consideration for making the Loan, Augustine received five year warrants to purchase up to 6,158,381 shares of the Company's common stock at an exercise price of \$0.16 per share. The Company can require that the warrants be exercised if the Company's shares trade at or above \$0.60 per share for each trading day within the 30 calendar days prior to the maturity date of the Loan, trading volume of the shares equals or exceeds 100,000 shares per day during such period, and the shares of the Company's common stock underlying the warrants have been included on a registration statement filed with and declared effective by the SEC prior to the maturity date. If these conditions are not fully satisfied by the maturity date, then Augustine may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the

-14-

warrants pursuant to the "cashless exercise" provisions of the warrants. Using the Black-Scholes pricing model, the Company allocated approximately \$199,000 of the Loan proceeds to the warrants and \$151,000 to the note payable, which allocations were made on a pro rata basis based on the fair value of the warrants. The Black Scholes calculation assumed a discount rate of approximately four percent, volatility of 257 percent and no dividends. Given that the warrants were issued in conjunction with Loan Agreement, such fair value represents an effective discount on the debt and will be amortized over the term of the loan. Amortization of this discount for the quarter ended June 30, 2003

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

is approximately \$8,000 and is recorded as effective interest expense in the accompanying consolidated statement of operations.

As security for the Loan, New Millennium (an affiliate of Mr. Calvert) pledged 2.5 million shares of the Company's common stock owned by New Millennium, and the Company has granted Augustine a security interest in its ownership interest in the Company's subsidiary, NuWay Sports, LLC.

NOTE 8. CONVERTIBLE DEBENTURES

In December 2000, the Company, through a private placement, issued \$3,500,000 principal amount of 6 percent Convertible Debentures to several investors. These debentures were originally due June 13, 2001 and their maturity date was subsequently extended to December 13, 2001. They are convertible into common stock at a price of \$1.75 per share. The interest on the debentures is payable either in cash or shares of common stock, at the discretion of the Company. During 2001, \$1,100,000 of the debentures plus accrued interest were converted into 666,283 shares of the Company's common stock. During 2002, \$2,250,000 of the remaining debentures plus accrued interest were converted into 1,332,570 shares of common stock. In December 2002 the Company received a notice from the remaining two debenture holders (the "Remaining Debenture Holders") requesting conversion of the remaining outstanding \$150,000 of debentures. The notice provided that, as a condition to conversion, the certificates representing the shares issuable upon conversion of the debentures would need to be delivered to the Remaining Debenture Holders prior to the end of 2002. Pursuant to the request, and to complete the conversion, the Company issued to the Remaining Debenture Holders 96,006 shares of common stock and promptly notified the Remaining Debenture Holders' counsel and the Company's transfer agent of the approval and ratification of the issuance. However, the actual certificates representing the shares were not delivered to the Remaining Debenture Holders until the first quarter of 2003. The Remaining Debenture Holders then refused acceptance of the shares, claiming that because the actual certificates representing the shares were not delivered in 2002 as specified in the conversion notice, the conversion was invalid and the debentures would therefore remain outstanding and continue to accrue interest until repaid in full. The Remaining Debenture Holders have since demanded full payment on their \$150,000 of debentures (plus accrued interest). In June 2003, the Remaining Debenture Holders filed suit in the Orange County Superior Court against the Company claiming it breached the debenture agreement by failing to honor the terms of the notice of conversion. Although the Company's financial statements reflect the \$150,000 of debentures as still being outstanding, the Company disputes the Remaining Debenture Holders' claims that the conversions were invalid and intends to vigorously defend against this action.

NOTE 9. CONVERTIBLE PREFERRED STOCK

During the six month period ended June 30, 2003, the Company entered into two Convertible Preferred Stock and Warrant Purchase Agreements whereby the Company sold an aggregate of 559,322 shares of a newly created series of Preferred Stock, Series A Convertible Preferred Stock, par value \$.00067, for a total consideration of \$279,661. Each share of the Series A Preferred Stock

-15-

is convertible into one share of the Company's common stock. In addition, each share of preferred sold entitles the purchaser to one warrant to purchase one share of common stock at a price of \$0.20 per share. Using the Black-Scholes pricing model, the Company estimated the fair value of these warrants to be approximately \$35,000, and such amount has been netted in additional paid in

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

capital on the June 30, 2003 consolidated balance sheet. The Black Scholes calculation assumed a discount rate of approximately five percent, volatility of 180 percent and no dividends. The Series A Preferred Stock may be converted by the holder at any time after six months from the purchase date and the warrant is exercisable for a period of three years from the purchase date.

NOTE 10. COMMITMENTS AND CONTINGENCIES

LITIGATION

During 2002, Ms. Geraldine Lyons, the Company's former Chief Financial Officer, sued the Company for breach of her employment contract. The lawsuit is venued in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County in the State of Florida and was initiated by the filing of a complaint in June 2002. The principal parties in the case are Ms. Lyons, the Company, and the Company's former president Todd Sanders. Ms. Lyons alleges that \$25,000 is due to her under her employment contract; that the contract requires the Company to guarantee that she can sell for \$300,000 the 100,000 shares of stock the Company is required to issue her; and, that Mr. Sanders promised to purchase from her for \$4.00 per share 100,000 shares of stock held by her. The Company has counter-sued Ms. Lyons for breach of fiduciary duty, fraud, violation of section 12(a)(2) of the 1933 Securities Act of 1933, violation of section 517.301 of the Florida Statutes, negligent misrepresentation, conversion, and unjust enrichment resulting from the restatement of the Company's financial statements for the years ended December 31, 2000 and December 31, 1999 that the Company believes was required as a result of her activities. The restatements corrected the previous omission of certain material expenses related primarily to compensation expense arising from warrants issued and repriced stock options, as well as other errors. The case is ongoing at this time. The Company intends to vigorously defend its actions and pursue its affirmative claims to the fullest extent possible. Management does not expect that this case will have a material adverse effect on the Company's financial position.

See Note 8 for a discussion of a claim relating to the conversion of the Company's 6% Convertible Debentures.

EMPLOYMENT AGREEMENTS

In December 2002, the Company entered into a five-year employment agreement with the Company's current President, Dennis Calvert. His agreement calls for a base monthly salary of \$14,000 plus performance bonuses and employee related benefits. Mr. Calvert serves as President, Chief Executive Officer, Interim CFO and Chairman of the Board.

In March 2003, the Company entered into a five-year employment agreement with Joseph Provenzano who serves the Company as Secretary, Board Member and Senior Executive reporting to Mr. Calvert. His agreement calls for him to receive not less than \$10,900 per month in salary plus incentive bonuses, stock ownership participation and employee related benefits. At the Company's discretion, the Company may choose to pay up to \$4,900 of this monthly salary with stock in lieu of cash.

-16-

LEASE COMMITMENT

The Company is obligated on a month-to-month office lease at its California facility. This lease required monthly rentals of \$7,850 through May 2003 and was increased to \$8,750 at June 2003. All other leases are of short duration or are on a month-to-month arrangement. Rent expense for the six months ended June 30,

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

2003 and the year ended December 31, 2002 was approximately \$48,250 and \$96,500, respectively.

STOCK-BASED COMMITMENTS

The Company currently utilizes the services of a number of consultants who are compensated with shares of common stock. While each agreement can generally be terminated with a 15 day notice, the Company may be obligated to issue additional shares to the consultants.

NOTE 11. SUBSEQUENT EVENTS

ISSUANCE OF S-8 SHARES: Between July 1 and August 12, 2003, the Company issued a total of 2,575,000 shares of common stock pursuant to a registration statement on Form S-8 to consultants for services performed, which included 200,000 shares issued to Mr. Cox, a member of the board of directors, for his services as a director.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION AND FORWARD LOOKING STATEMENTS

The following discussion and analyses should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements included elsewhere in this report.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other sections of this Form 10-QSB, contain "forward looking statements" within the meaning of Rule 175 under the Securities Act of 1933, as amended, and Rule 3b-6 under the Securities Act of 1934, as amended, including statements regarding, among other items, the Company's business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among others, the following: the Company's ability to raise additional financing or generate revenue sufficient to sustain the Company's operations, demand for the Company's products, competitive pricing pressures, changes in the market price of technologies used in the Company's products, the level of expenses incurred in the Company's operations, the scope, duration and results of the SEC's inquiry into the Company, the possibility that such inquiry will result in a formal investigation of the Company by the SEC, the possibility that the Company or its officers and directors will become the subject of criminal proceedings, the possibility that stockholders or regulatory authorities may initiate proceedings against the Company and/or its officers and directors as a result of any past securities law violations, the possibility that the

-17-

Company's securities will not become eligible for quotation on the OTC Bulletin Board, and the effect of the Company's recent Nasdaq delisting on the liquidity of the Company's stock and its ability to raise capital. In light of these risks and uncertainties, there can be no assurance that the forward-looking

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

information contained herein will in fact transpire or prove to be accurate. The Company disclaims any intent or obligation to update "forward looking statements."

OVERVIEW

NuWay Medical, Inc. (the "Company") recently began to offer medical and health related technology products and services with an initial focus on the health and information software technology needs of the sports industry. The Company's primary product is its Player Record Library System ("PRLS"), a highly specialized electronic medical record and workflow process software application designed to address the information technology needs of the sports industry relating to player health including the need for technology that facilitates compliance with the Health Insurance Portability and Accountability Act ("HIPAA").

The Company markets its PRLS through its subsidiary NuWay Sports, LLC, a joint venture formed in December 2002 and owned 51% by the Company and 49% by Rasheed & Associates. NuWay Sports recently sold the scaled down version of its PRLS to several NFL teams and is promoting its service to other NFL teams, the NFL itself, the NFL Trainers Association, the NFL Players Association and the NFL Player Safety Council. NuWay Sports also plans to market its PRLS to teams, leagues, and player associations in the National Basketball Association ("NBA"), Major League Baseball ("MLB"), and other sports such as hockey, soccer, boxing, motor sports, and entertainment sports. The Company believes that its PRLS would benefit not only professional sports leagues and participants, but also collegiate programs and in some cases, high school athletic programs.

The following discussion compares the three and six month periods ended June 30, 2003 and June 30, 2002. Due to the recent complete material change in the Company's business focus and operations, this discussion will not address the discontinued operations in the areas of oil and gas exploration, cigar distribution, and gaming equipment rentals which constituted the majority of the Company's operations during the first half of 2002.

ANALYSIS OF FINANCIAL CONDITION

The Company had approximately \$25,000 of cash on hand at July 31, 2003. In June 2003, the Company received the first and second installments (\$250,000 and \$100,000) of a total loan commitment of \$420,000 as described in Note 7 to the financial statements appearing elsewhere in this report. Notwithstanding this financing, the Company will still need to raise additional capital to sustain operations and implement its growth strategy until such time, if ever, that the Company achieves profitability. As of the date of this filing, the Company was not a party to any agreements to provide such financing. Although the Company is in the process of actively reviewing additional proposals made by private investors and investment bankers, there can be no assurance that the Company will be able to consummate any such transactions on terms satisfactory to the Company, or at all, or if consummated, that such financings will provide the Company with sufficient capital. If the Company is unable to secure additional financing within the next 120 days it would need to significantly curtail and perhaps shut down its operations. It is unlikely that the Company will be able to qualify for bank debt until such time as the Company is able to demonstrate sufficient financial strength to provide confidence for a lender.

The Company's shares were delisted effective as of June 10, 2003 from trading on

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

the Nasdaq SmallCap Market. The shares are currently quoted on the pink sheets. Although market makers have indicated to management that they are in the process of submitting an application for quotation of the Company's shares on the Over-the-Counter Bulletin Board, there can be no assurance that any of these applications will in fact be filed, such applications (or any other applications that may in the future be filed) will be accepted, or the Company will be cleared to trade on the Bulletin Board, in particular in light of the public interest concerns raised by Nasdaq in connection with the delisting of the Company's shares. This Nasdaq delisting has made it more difficult to effect trades and has led to a significant decline in the frequency of trades and trading volume. The delisting could also adversely affect the Company's ability to obtain financing due to the decreased liquidity of the Company's shares.

Although the primary development of the PRLS system has been completed, management plans on periodically upgrading its PRLS software application through additional research and development, including tailoring its application to the specific needs of its clients as those needs are brought to the Company's attention. The Company will be unable to accomplish the foregoing on a long-term basis, however, unless and until the additional financing referred to above is secured.

Based on its current business plan, and assuming sufficient financing is obtained, management believes it will be able to generate meaningful sales of its PRLS software application and that it may be able to secure sales or license agreements as early as the third quarter of 2003. The Company's PRLS was introduced by the Company to the marketplace in January 2003 and generated a total of approximately \$40,000 in revenues during the first and second quarters of 2003 through the sale of a scaled-down version of the product to 18 NFL teams at the 2003 NFL Combine. Pursuant to these transactions, the Company digitized over 60,000 medical images for use by NFL teams in their evaluation of potential draft picks. Management believes that its PRLS is already being referred by its customers and prospects as the best of brand for its sports industry focus. The Company is marketing the PRLS to multiple sports leagues and is actively seeking additional vertical market opportunities. There can be no assurance, however, that the Company will be able to secure any further agreements for its product, that such agreements will ever generate meaningful revenue for the Company, or that the Company will be able to successfully capture any such vertical market opportunities.

Based on its current business plan, management anticipates that the Company will need to add additional staff over the next 12 months. Although it only had three full time employees as of July 31, 2003, the Company also relies on at least 12 consultants who work on behalf of the Company. The Company intends to add some of these consultants to its full time staff as employees and add additional staff members on an as needed basis. Based on its anticipated growth in revenues, and subject to the availability of additional financing, the Company expects to add up to approximately 20 full time employees before the end of 2003.

During the latter half of 2002, because the Company was focused on implementing its new business, it generated no revenues, and thus received no cash from operations, resulting in negative working capital. Current assets increased from \$521 at December 31, 2002 to \$172,663 at June 30, 2003. The increase was due to the sale of \$279,661 of the Company's Preferred Series A shares, \$350,000 of proceeds from the Term Loan Agreement, and \$40,000 in revenues generated by the sale of the Company's PRLS since its introduction to the marketplace in the first quarter of 2003.

Other assets declined from \$4,345,000 at December 31, 2002 to \$3,910,500 at June 30, 2003. The decrease of \$434,500 was primarily related to amortization of our intangible assets.

Current liabilities decreased from \$2,401,579 at December 31, 2002 to \$2,351,785 at June 30, 2003. The decrease was due to an increase in Notes Payable of \$350,000 offset by the net effective discount on note of approximately \$190,000 related to the warrants attached to the Augustine II, LLC note payable and a reduction in accounts payable and accrued expenses of \$209,000. Accounts payable and accrued expense obligations were satisfied by cash payments and the issuance of the Company's common stock.

Total stockholders' equity decreased by 11 percent to \$1,755,946 at June 30, 2003. This decrease was due to the net loss of \$2,426,699 for the six month period ended June 30, 2003, net of the effect of the issuance of the Company's common stock to compensate consultants and others, approximately \$199,000 recorded as Additional Paid in Capital related to the effective discount on note and the sale of shares of Series A Preferred Stock, which generated net proceeds to the Company of \$279,661.

RECENT FINANCING

On June 10, 2003 the Company entered into a Term Loan Agreement ("Loan Agreement") with Augustine II, LLC ("Augustine"), pursuant to which Augustine agreed to loan the Company \$420,000, payable in installments of \$250,000, \$100,000, and \$70,000 (the "Loan"). The Company received the first installment of \$250,000 on June 13, 2003. The second installment of \$100,000 was paid to the Company on June 30, 2003, with the balance payable to the Company on August 1, 2003. Principal and interest (at an annual rate of 10%) are due in full on February 29, 2004. The Company recorded \$1,347 of interest expense as of June 30, 2003. The Loan Agreement is subject to certain requirements that the Company make mandatory prepayments of the Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, all or any portion of the Loan may be prepaid by the Company at any time without premium or penalty. The proceeds of the Loan are being used by the Company for working capital.

As additional consideration for making the Loan, Augustine received five year warrants to purchase up to 6,158,381 shares of the Company's common stock at an exercise price of \$0.16 per share. The Company can require that the warrants be exercised if the Company's shares trade at or above \$0.60 per share for each trading day within the 30 calendar days prior to the maturity date of the Loan, trading volume of the shares equals or exceeds 100,000 shares per day during such period, and the shares of the Company's common stock underlying the warrants have been included on a registration statement filed with and declared effective by the SEC prior to the maturity date. If these conditions are not fully satisfied by the maturity date, then Augustine may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the warrants pursuant to the "cashless exercise" provisions of the warrants. Using the Black-Scholes pricing model, the Company allocated approximately \$199,000 of the proceeds of the Loan to the warrants and \$151,000 to the note payable, which allocations were made on a pro rata basis based on the fair value of the warrants. The Black Scholes calculation assumed a discount rate of approximately four percent, volatility of 257 percent and no dividends. Given that the warrants were issued in conjunction with Loan Agreement, such fair value represents an effective discount on the debt and will be amortized over the term of the loan. Amortization of this discount for the quarter ended June 30, 2003 was approximately \$8,000 and was recorded as effective interest expense in the accompanying consolidated statement of operations.

-20-

As security for the Loan, New Millennium (an affiliate of Mr. Calvert) pledged 2.5 million shares of the Company's common stock owned by New Millennium, and the Company has granted Augustine a security interest in its ownership interest in the Company's subsidiary, NuWay Sports, LLC.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

Revenues

During the three months ended June 30, 2002, there were no revenues from continuing operations, compared to \$5,500 of revenue in the three months ended June 30, 2003 as a result of the sale of a scaled down version of the Company's PRLS product to customers at the Texas High School Combine. During the last half of 2002, the Company changed its business to focus on fulfilling information technology needs of the sports industry. This change led to the development of the Company's PRLS. Consequently, the results of our prior business line operations in gaming machine rental, oil and gas development and distribution of cigars were reclassified in our consolidated statements of operations as "discontinued operations."

Selling, General and Administration Expense ("SG&A")

During the three months ended June 30, 2003, SG&A increased by 76 percent to \$824,407 from \$469,642 for the three months ended June 30, 2002. The largest components of these expenses were:

- a. Salaries and Payroll-Related Expenses: These expenses were \$79,000 for the three months ended June 30, 2003 as compared to \$75,000 in the same period in 2002. These expenses remained flat as the Company continued its strategy of operating with a reduced headcount and relying on outside consultants to provide necessary services in a variety of areas.
- b. Consulting Expenses: These expenses increased significantly for the three months ended June 30, 2003, to \$452,000 from \$300,000 for the three months ended June 30, 2002, an increase of 51 percent. This increase was directly related to new management's strategy of maintaining a very low permanent staffing level and supplementing that with consultants on a project-by-project basis. Further, the development of new products and technology related to the Company's change of business required additional consulting assistance in the areas of applications development, sales, marketing and administration. These positions were primarily staffed by independent contractors who were compensated with shares of the Company's common stock.
- c. Legal Expenses: These expenses increased from \$75,000 for the three months ended June 30, 2002 to \$175,000 for the three months ended June 30, 2003, an increase of 133 percent. This increase was due to the high level of legal assistance required in 2003 for matters such as (i) addressing NASDAQ compliance issues (ii) a major shift in the Company's core business, and (iii) numerous stock issuances (iv) addressing subpoenas and interview requests by the grand jury investigating Mark Anderson, and (v) addressing the SEC's request for documents as part of its informal investigation.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

During the three months ended June 30, 2003, the Company issued an aggregate of 2,330,000 shares of its common stock as consideration for \$242,700 of services provided to the Company during the quarter.

-21-

Discontinued Operations

As discussed above and in the notes to our consolidated financial statements, effective October 1, 2002, the Company disposed of several operations through the sale of two foreign subsidiaries, Latin American Casinos and NuWay Resources, and, effective November 2002, ceased operations of its World's Best Rated Cigar Company subsidiary. Due to the discontinuance of these operations, the Company has reclassified the historical operating results from these ventures for the three months ended June 30, 2002 and disclosed such results below the results from continuing operations in the consolidated statements of operations. These businesses generated losses from operations of \$261,173 for the three months ended June 30, 2002.

Net (Loss) Income

Net loss for the three months ended June 30, 2003 was \$1,119,599, or \$(0.04) per share compared to a net loss of \$732,685, or \$(0.11) per share, for the three months ended June 30, 2002. Besides the significant growth in total costs and expenses, the net loss per share was affected by the larger number of weighted average common share equivalents outstanding at June 30, 2003 as compared to 2002 (30,775,820 at June 30, 2003 as compared to 6,904,644 at June 30, 2002).

COMPARISON OF THE SIX MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

Revenues

During the six months ended June 30, 2002, there were no revenues from continuing operations compared to approximately \$40,000 of revenue in the six month period ended June 30, 2003 as a result of the sale of a scaled down version of the Company's PRLS product to 18 NFL teams at the 2003 NFL Combine and to customers at the Texas High School Combine. During the last half of 2002, the Company changed its business to focus on fulfilling information technology needs of the sports industry. This change led to the development of the Company's PRLS. Consequently, the results of our prior business line operations in gaming machine rental, oil and gas development and distribution of cigars were reclassified in our consolidated statements of operations as "discontinued operations."

Selling, General and Administration Expense ("SG&A")

During the six months ended June 30, 2003, SG&A increased by 80 percent to \$1,953,133 from \$1,087,888 for the six months ended June 30, 2002. The largest components of these expenses were:

- a. Salaries and Payroll-Related Expenses: These expenses were \$133,000 for the six months ended June 30, 2003 versus \$150,000 in the same period in 2002, a decrease of \$17,000. This decrease reflects the Company's reduced headcount and its reliance on outside consultants to provide necessary services in a variety of areas.
- b. Consulting Expense: These expenses increased significantly for the six months ended June 30, 2003 to \$1,176,000 from \$932,000 for the six

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

months ended June 30, 2002, an increase of 26 percent. This increase was directly related to new management's strategy of maintaining a very low permanent staffing level and supplementing that with consultants on a project-by-project basis. Further, the development of new products and technology related to the Company's change of business required additional consulting assistance in the areas of applications development, sales, marketing and administration. These positions were

22

primarily staffed by independent contractors who were compensated with shares of the Company's common stock.

- c. Legal Expenses: These expenses increased from \$150,000 for the six months ended June 30, 2002 to \$528,000 for the six months ended June 30, 2003, an increase of 252 percent. This increase was due to the high level of legal assistance required in 2003 for matters such as (i) addressing NASDAQ compliance issues (ii) a major shift in the Company's core business, and (iii) numerous stock issuances (iv) addressing subpoenas and interview requests by the grand jury investigating Mark Anderson, and (v) addressing the SEC's request for documents as part of its informal investigation.

During the six months ended June 30, 2003, the Company issued an aggregate of 13,690,919 shares of its common stock. Of these shares, 2,633,590 were issued in consideration for \$645,648 of obligations previously incurred and 11,217,329 were issued as consideration for \$1,257,472 of services provided to the Company during the six month period ended June 30, 2003.

Net (Loss) Income

Net loss for the six months ended June 30, 2003 was \$2,426,699, or \$(0.09) per share, compared to a net income \$345,138, or \$0.06 per share, for the six month period ending June 30, 2002. In addition to the significant growth in total costs and expenses, the net loss per share was affected by the cancellation of stock warrants previously expensed of \$1,659,750, and the larger number of weighted average common share equivalents outstanding for the six month period ending June 30, 2003 as compared to 2002 (25,982,882 at June 30, 2003 as compared to 6,156,073 at June 30, 2002).

ITEM 3. CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company's management, with the participation of the President, Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President, Chief Executive Officer and Interim Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

b) Changes in internal controls.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-23-

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

ISSUANCE OF S-8 SHARES: Between July 1 and August 12, 2003, the Company issued a total of 2,575,000 shares of common stock pursuant to a registration statement on Form S-8, to consultants for services performed, which included 200,000 shares issued to Mr. Cox, a member of the board of directors, for his services as a director.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A) EXHIBITS

EXHIBITS	DESCRIPTION OF EXHIBIT
31.1	Certification of President, Chief Executive Officer and Interim Chief Financial Officer pursuant to 15 U.S.C. section 7241, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President, Chief Executive Officer and Interim Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the three months ended June 30, 2003.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: August 12, 2003

NUWAY MEDICAL, INC.

By: /s/ Dennis Calvert

Dennis Calvert, President,
Chief Executive Officer, and
Interim Chief Financial Officer

-24-

