

MEDIX RESOURCES INC  
Form PRE 14A  
February 13, 2003

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

[Amendment No. \_\_\_ ]

Filed by Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to ss.240.14a-11(c) or ss.240.14a-12

**Medix Resources, Inc.**

(Name of Registrant as Specified in Its Charter)

**Medix Resources, Inc.**

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

- 1) Title of each class of securities to which transaction applies:  
Common Stock, par value \$.001 per share.
- 2) Aggregate number of securities to which transaction applies:  
12,000,000 shares (excludes shares issuable only in the event that post-closing contingencies occur)
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. Set forth amount on which filing fee is calculated and state how it was determined: \$.60 per share, based on the average of the high (\$.63) and low (\$.57) price per share on the American Stock Exchange on February 5, 2003, a date within five business days prior to the date of this filing.
- 4) Proposed maximum aggregate value of transaction: \$7,200,000.
- 5) Total fee paid: \$1,440.

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by

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registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:
- 2) Form Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

**MEDIX RESOURCES, INC.**  
**420 Lexington Ave., Suite 1830**  
**New York, New York 10170**  
**(212) 697-2509**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2003**

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Medix Resources, Inc., a Colorado corporation, will be held at \_\_\_\_\_, on \_\_\_\_\_, \_\_\_\_\_, 2003 at 10:00 a.m., local time, for the following purposes:

1. To vote on a proposal to approve a Merger Agreement, dated as of December 19, 2002, by and among Medix Resources, its PS Purchase Corp. subsidiary, PocketScript LLC and Stephen S. Burns pursuant to which Medix Resources' subsidiary will be merged with and into PocketScript, LLC, the latter will become a wholly-owned subsidiary of Medix Resources and Medix Resources will issue to the equity holders of PocketScript common stock of Medix Resources, par value \$.001 per share, pursuant to various formulas set forth in the Merger Agreement.
2. To vote on a proposal to amend Medix Resources' articles of incorporation, increasing the number of authorized shares of common stock from 125,000,000 to 185,000,000.
3. To vote on a proposal to reincorporate Medix Resources in Delaware.
4. To vote on a proposal to approve Medix Resources' 2003 Stock Incentive Plan.
5. To transact such other business as may properly come before the special meeting or any adjournments(s) thereof.

Medix Resources' board of directors has fixed the close of business on February \_\_, 2003, as the record date for determining the shareholders entitled to receive notice of, and to vote at, the special meeting. A complete list of shareholders entitled to vote at the special meeting will be available, upon written demand, for inspection during normal business hours by any shareholder of Medix Resources prior to the special meeting, for a proper purpose, at Medix Resources' offices located at the address set forth above. Only shareholders of record on the record date are entitled to notice of, and to vote at, the special meeting and any and all adjournments or postponements thereof.

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ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE SPECIAL MEETING IN PERSON. HOWEVER, TO ENSURE YOUR REPRESENTATION AT THE SPECIAL MEETING, YOU ARE URGED TO MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PREPAID ENVELOPE ENCLOSED FOR THAT PURPOSE. ANY SHAREHOLDER ATTENDING THE SPECIAL MEETING MAY VOTE IN PERSON EVEN IF SUCH SHAREHOLDER HAS PREVIOUSLY RETURNED A PROXY CARD.

By Order of the Board of Directors

Mark W. Lerner  
Secretary

New York, New York

\_\_\_\_\_, 2003

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- A. Merger Agreement, dated as of December 19, 2002, among PS Purchase Corp., Medix Resources, Inc., PocketScript, LLC and Stephen S. Burns
- B. Form of Escrow Agreement
- C. Reincorporation Merger Agreement Between Medix Resources, Inc. and its Subsidiary
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**MEDIX RESOURCES, INC.**

**420 Lexington Ave., Suite 1830  
New York, New York 10170  
(212) 697-2509**

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**PROXY STATEMENT**  
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**SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2003**  
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**A WARNING ABOUT FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this document regarding the

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proposed PocketScript merger. These forward-looking statements are subject to risks and uncertainties, and there can be no assurance that such statements will prove to be correct. Forward-looking statements regarding the PocketScript merger include:

- o statements relating to synergies anticipated to result from the proposed merger;
- o statements relating to integration and other costs expected to be incurred in connection with the proposed merger; and
- o statements anticipating future performance.

Also, when we use words such as "believes," "expects," "anticipates," "estimates", "plans", "intends", "objectives", "goals", "aims" or "projects" or similar words or expressions, we are making forward-looking statements.

Many possible events or factors could affect the future financial results and performance of our combined companies after the proposed merger is completed. This could cause actual results or performance to differ materially from those expressed in our forward-looking statements. We have described the risks and uncertainties that could materially impact our respective businesses in the section entitled "Risk Factors Applicable to the PocketScript Merger" beginning on page 19.

Medix shareholders are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this proxy statement. We do not undertake any obligation to update publicly any forward-looking statements to reflect events, circumstances or new information after the date of this proxy statement or to reflect the occurrence of unanticipated events.

We have not authorized anyone to give you any information or to make any representation about the proposed merger, our proposed amendment to our articles of incorporation, our proposed reincorporation in the State of Delaware or the 2003 Stock Incentive Plan that differs from or adds to the information contained in this proxy statement. Therefore, if anyone gives you any different or additional information, you should not rely on it.

The information contained in this proxy statement speaks only as of the date of our notice of special meeting unless the information specifically indicates that another date applies. Information in this proxy statement regarding Medix Resources has been supplied by Medix Resources and information in this proxy statement regarding PocketScript has been supplied by PocketScript.

This proxy statement serves solely as a proxy statement in connection with the solicitation of proxies by Medix Resources for use at our upcoming special meeting. This proxy statement gives you detailed information about the proposed PocketScript merger, our proposed amendment to our articles of incorporation to increase the number of shares of common stock that we are authorized to issue, our proposed reincorporation in the State of Delaware and our 2003 Stock Incentive Plan, and it includes, among our annexes, our merger agreement as Annex A, our reincorporation merger agreement as Annex C and our 2003 Stock Incentive Plan as Annex F. You can get more information about Medix Resources from publicly available documents that we have filed with the Securities and Exchange Commission. See "Where You Can Find More Information".

### **QUESTIONS AND ANSWERS ABOUT THE POCKETSCRIPT MERGER**

**Q: WHAT AM I BEING ASKED TO VOTE UPON?**

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A: You are being asked to approve a merger in which our wholly-owned subsidiary will merge into PocketScript, PocketScript will become a wholly-owned subsidiary of Medix Resources and Medix Resources will issue shares of our common stock to the owners of PocketScript. PocketScript is organized as a limited liability company and its owners are referred to as unit holders. The proposed merger is governed by a Merger Agreement, dated as of December 19, 2002, by and among our PS Purchase Corp. subsidiary, Medix Resources, PocketScript and PocketScript's principal equity holder, Stephen S. Burns. Whenever we refer to the merger agreement in this proxy statement, we are referring to that Merger Agreement.

Our shareholders are also being asked to vote upon a proposal to amend our articles of incorporation to increase the number of shares of common stock that we may issue from time to time. At present, we are authorized to issue a total of 125,000,000 shares of common stock. We are proposing to increase that number of authorized shares from 125,000,000 shares to 185,000,000 shares. We believe that we will need a portion of such increase in order to have shares available to consummate the PocketScript merger. If our shareholders approve the PocketScript merger but do not approve the proposed increase in the authorized shares of common stock, it may become necessary for us to restructure the PocketScript merger, which may require further approval of our shareholders, resulting in delay and additional expense for Medix Resources. Accordingly, shareholders who approve the PocketScript merger are urged to also vote in favor of the proposed amendment to our articles of incorporation.

In addition, you are being asked to approve the reincorporation of Medix Resources in Delaware pursuant to an Agreement and Plan of Merger between Medix Resources and a wholly-owned subsidiary that we have organized to effect the reincorporation. Whenever we refer to the reincorporation agreement, we are referring to that Agreement and Plan of Merger. You are also being asked to approve the adoption of our 2003 Stock Incentive Plan. Under that plan, a total of 10,000,000 shares of our common stock may be issued to our key employees, officers, directors and consultants pursuant to stock options, stock appreciation rights and other forms of equity awards.

### **Q: WHAT ARE THE BENEFITS OF THE POCKETSCRIPT MERGER?**

A: We believe that the merger will benefit Medix Resources and our shareholders. PocketScript's focus has been on the development of software applications for wireless, handheld devices to improve physician efficiency and workflow. After the merger, shareholders of the combined company will own an equity interest in a more technologically advanced company with substantial human and technical resources. As a result, we believe, but cannot guarantee, that the merger should increase shareholder value to you.

### **Q: WHAT DO I NEED TO DO NOW?**

A: After you read and consider the information in this proxy statement, just mail your signed proxy card in the enclosed return envelope as soon as possible, so that your shares may be represented at our shareholder meeting. You should return your proxy card whether or not you plan to attend our shareholder meeting. If you attend our shareholder meeting, you may revoke your proxy at any time before it is voted and vote in person if you wish.

### **Q: IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?**

A: Your broker will vote your shares on the four proposals to be

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presented at the special meeting only if you provide instructions on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

### **Q: WHAT DO I DO IF I WANT TO CHANGE MY VOTE AFTER I HAVE MAILED IN MY SIGNED PROXY CARD?**

A. You can change your vote at any time before your proxy is voted at our special meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these methods, you must timely submit your notice of revocation or your new proxy card to us so that we receive it before votes are taken at the special meeting. Third, you can attend our meeting and vote in person. Simply attending our meeting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

### **Q: WHEN DO YOU EXPECT TO COMPLETE THE POCKETSCRIPT MERGER?**

A: We are working toward completing the PocketScript merger as promptly as possible and expect to close the transaction promptly after the special meeting is held. If both the PocketScript merger and the reincorporation proposal are approved, we would expect to complete the PocketScript merger before implementing the reincorporation proposal.

### **Q: HOW IS THE POCKETSCRIPT MERGER STRUCTURED?**

A: Pursuant to the merger agreement, PS Purchase Corp., which we refer to as our merger subsidiary, will merge into PocketScript. The unit holders of PocketScript will give up their equity interests in PocketScript, referred to as units, and will receive shares of our common stock in exchange for their units. PocketScript will become a wholly owned subsidiary of Medix Resources.

### **Q: PLEASE EXPLAIN WHAT POCKETSCRIPT UNIT HOLDERS WILL RECEIVE FOR THEIR POCKETSCRIPT UNITS.**

A: Subject to the adjustment provisions of the merger agreement, the unit holders will receive a total of 12,000,000 shares of our common stock as their initial consideration. This works out to 120,000 shares of our common stock for each of the 100 units which will be outstanding when the merger is consummated. We will be required to issue additional shares of our common stock after the merger is consummated if certain contingencies, referred to in the merger agreement as "Qualifying Events", are satisfied. We will be required to issue \$1,000,000 of our common stock, valued pursuant to a formula described below, for each Qualifying Event that occurs within the time periods specified in the merger agreement. The following table names the Qualifying Events and describes the period during which they must be satisfied. The Qualifying Events are described under the caption "Merger Agreement - Qualifying Events".

<b>Qualifying Event</b>	<b>Time Period</b>
Telcom Contingent Payment	Within six months after the merger closes
Hardware Vendor Contingent Payment	Within six months after the merger closes



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RXHub Contingent Payment	Within twelve months after we announce that PocketScript Express has launched its RxHub System
Pharmaceutical Company Contingent Payment	Within six months after the merger closes

If a Qualifying Event occurs, we will be required to issue to the former unit holders of PocketScript a number of shares of our common stock equal to \$1,000,000 divided by the average closing price of our common stock on the American Stock Exchange during the period commencing on the closing date of our merger and ending on the date that the Qualifying Event occurs.

**Q: ARE THERE CIRCUMSTANCES UNDER WHICH MEDIX WOULD BE REQUIRED TO ISSUE LESS THAN 12,000,000 SHARES OF OUR COMMON STOCK AS THE INITIAL CONSIDERATION?**

A: Yes. Immediately after the merger is completed, we will perform a financial review of PocketScript and prepare a balance sheet of PocketScript as of the closing date. Once the parties agree upon the closing balance sheet, there would be a reduction in the number of shares issuable pursuant to the merger agreement if PocketScript's current liabilities exceed PocketScript's current assets as of the closing by more than \$50,000.

**Q: WILL POKETSRIPT UNIT HOLDERS RECEIVE ALL OF THEIR MEDIX RESOURCES SHARES PROMPTLY AFTER THE CLOSING?**

A: No. Most of the shares of common stock that we are required to issue will be delivered to an escrow agent. Subject to our right to recover some of these shares pursuant to the adjustment provisions described above or pursuant to the indemnification provisions of the merger agreement, the shares initially issued in the PocketScript merger will be released from escrow as follows:

- o 3,000,000 shares will be released three months after the merger closes;
- o 2,000,000 shares will be released six months after the merger closes; and
- o 1,000,000 shares will be released every three months thereafter, until the two year anniversary of the closing, when all remaining shares will be released.

If a Qualifying Event occurs, two thirds of the shares issuable with respect to such Qualifying Event will be transferred to the escrow agent and one third of such shares will be released to the former unit holders of PocketScript. Subject to our right to recover some of these shares pursuant to the indemnification provisions of the Merger agreement, these escrowed shares will be released from escrow as follows:

- o one half of the shares placed into escrow will be released three months after the Qualifying Event occurs; and
- o one half of the shares placed into escrow will be released six months after the Qualifying Event occurs.

We plan to register the shares issuable pursuant to the merger in a registration statement that we intend to file with the SEC after the merger closes. Once the registration statement is declared effective, that registration statement will

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be available to the former unit holders of PocketScript for resales of the shares of our common stock that they receive pursuant to the PocketScript merger.

### **Q: DO POCKETSCRIPT'S UNIT HOLDERS HAVE THE RIGHT TO DISSENT FROM THE MERGER?**

A: Yes. They will have the right to dissent, provided that they follow procedures applicable under Ohio law. If unit holders owning more than 5% of the outstanding units dissent, we will have the right to terminate the Merger agreement.

### **Q: WHOM SHOULD I CALL WITH QUESTIONS?**

A: If you have any questions about the PocketScript merger or any other matter to be presented at the special meeting, please feel free to call Mark Lerner at (212) 697-2509. .

### **SUMMARY**

*This brief summary highlights selected information regarding the PocketScript merger and the reincorporation merger described more fully elsewhere in this proxy statement. It does not contain all of the information that is important to you. You should carefully read this entire proxy statement, the annexes and the other documents to which this proxy statement refers in order to fully understand the merger agreement, our proposed amendment to our articles of incorporation, our reincorporation proposal and our 2003 Stock Incentive Plan. See "Where You Can Find More Information" on page \_\_\_.*

#### The Parties to the PocketScript Merger

##### **Medix Resources, Inc.**

420 Lexington Ave., Suite 1830  
New York, New York 10170  
(212) 697-2509

We are an Internet-based communications and information management company which currently focuses on the healthcare market. The information contained on our website is not incorporated by reference in this document.

##### **PocketScript, LLC**

4770 Duke Drive, Suite 201  
Mason, Ohio 45040  
(513) 701-6001

PocketScript is a developer of software applications for wireless, handheld devices intended to improve physician efficiency and workflow. The information contained on PocketScript's website is not incorporated by reference in this document.

##### **Stephen P. Burns**

Stephen P. Burns, the president and a principal unit holder of PocketScript, is also a party to the merger agreement.

##### **PS Purchase Corp.**

420 Lexington Ave., Suite 1830  
New York, New York 10170  
(212) 697-2509

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PS Purchase Corp. is a wholly-owned subsidiary of Medix Resources that was organized solely for purposes of completing the PocketScript merger.

### The Parties to the Reincorporation Agreement

**Medix Resources, Inc.** (see above).

Medix Resources is a Colorado corporation.

**Medix Resources, Inc.**, a Delaware corporation.  
420 Lexington Avenue, Suite 1830  
New York, New York 10170  
(212) 697-2509

We have formed a wholly owned subsidiary, named Medix Resources, Inc., which we have organized as a Delaware corporation. We formed this subsidiary solely in order to enable us to reincorporate in Delaware.

### The Special Meeting

The special meeting of our shareholders will be held at \_\_\_\_\_, on \_\_\_\_\_, \_\_\_\_\_, 2003 at 10:00 a.m., local time. At our special meeting, we will ask our shareholders to approve the PocketScript merger agreement, our proposed amendment to our articles of incorporation, our reincorporation agreement and our 2003 Stock Incentive Plan.

The close of business on February \_\_, 2003 is the record date for determining which holders of our stock are entitled to vote at our special meeting. At the record date, there were \_\_\_\_\_ shares of our common stock entitled to vote at the special meeting. One third of the shares outstanding on the record date will constitute a quorum.

### Vote Required

The proposals to approve the PocketScript merger agreement and the reincorporation agreement will require the affirmative vote of holders of a majority of our outstanding common shares. The proposal to approve our 2003 Stock Incentive Plan will require the affirmative vote of a majority of the votes cast at the special meeting, as long as a quorum is present at the special meeting. The proposed amendment to our articles of incorporation will be deemed approved by our shareholders if the number of votes cast for such proposal exceeds the number of votes cast against such proposal, assuming that a quorum is present.

### Share Ownership of Management and Others

As of December 31, 2002, the current directors and executive officers of Medix Resources beneficially owned 6,672,070 shares of our common stock, representing approximately \_\_\_% of the voting stock outstanding on the record date. Of such 6,672,070 shares, 1,750,000 shares are issuable upon the exercise of warrants and 3,314,750 shares are issuable upon the exercise of stock options.

### Recommendations of the Board of Directors

Your board of directors believes that the PocketScript merger agreement, the proposed amendment to our articles of incorporation, the proposed reincorporation in the State of Delaware and the proposed 2003 Stock Incentive Plan are in the best interests of Medix Resources and its shareholders and has approved and declared advisable the PocketScript merger agreement, the proposed amendment to the articles of incorporation, the reincorporation agreement and

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the 2003 Stock Incentive Plan.

Your board of directors recommends that shareholders vote FOR the proposal to approve the PocketScript merger agreement, FOR the proposed amendment to our articles of incorporation, FOR the proposal to approve the reincorporation agreement and FOR the proposal to adopt the 2003 Stock Incentive Plan.

### Regulatory Approvals

In connection with the PocketScript merger, the reincorporation proposal and the proposal to approve a new Stock Incentive Plan, we will file listing applications with the American Stock Exchange, to assure that:

- o the shares of our common stock issuable pursuant to the PocketScript merger and the 2003 Stock Incentive Plan will be listed on the American Stock Exchange, and
- o there will be no substantive change in listing status when we reincorporate in Delaware.

The listing of our shares on the American Stock Exchange is a condition to our obligation to close the PocketScript merger. We will not effect the reincorporation in Delaware unless and until we have arranged for all of our outstanding shares to retain their listed status once we reincorporate in Delaware.

The consummation of the PocketScript merger will require the filing of merger certificates in Delaware and Ohio and consummation of the reincorporation in Delaware will require the filing of merger certificates in Delaware and Colorado. Similarly, if our stockholders approve the proposed amendment to our articles of incorporation, such amendment must be filed with the Secretary of State of the State of Colorado. Such filings must comply with detailed statutory requirements that are routine in merger transactions.

### The Merger

The PocketScript merger agreement provides for the acquisition of PocketScript by Medix Resources. PocketScript will merge with PS Purchase Corp. and become our wholly-owned subsidiary. The merger agreement is attached as Annex A to this proxy statement. We encourage you to read the merger agreement carefully because it is the legal document that governs the PocketScript merger.

#### ***Consideration to be Issued in the Merger***

As a result of the PocketScript merger, each of the 100 PocketScript units will be converted into the right to receive 120,000 shares of our common stock, subject to the adjustment provisions in the merger agreement, and one hundredth of the shares of common stock issuable in the event that one or more of the Qualifying Events occur. The initial consideration will not exceed 12,000,000 shares of our common stock. If each of the Qualifying Events occur, we will be required to issue an additional \$4,000,000 of our common stock. The precise number of shares to be issued in the event that a Qualifying Event occurs will be determined on the basis of an average closing price formula set forth in the merger agreement.

#### ***Reasons for the PocketScript Merger***

We believe that the technology developed by PocketScript will expand our ability to interconnect physicians and other providers of services and products in the healthcare market. We do not have the cash resources necessary to develop a comparable technology on our own. We concluded that the potential benefits to Medix Resources far outweighed the risks inherent in the merger of two

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under-capitalized companies.

### **Conditions to the Merger**

The completion of the merger depends upon the satisfaction of a number of conditions, including the following:

- o approval of the merger agreement by our shareholders;
- o approval of the merger agreement and related matters by the PocketScript unit holders;
- o the absence of any injunction or restraint that prohibits the merger;
- o execution of the escrow agreement;
- o the material accuracy as of the closing of each party's representations and warranties contained in the merger agreement;
- o the performance by each party of its material obligations under the merger agreement;
- o holders of no more than 5% of PocketScript's outstanding units shall have exercised dissenters' rights; and
- o the approval of the shares of our common stock issuable under the merger agreement for listing on the American Stock Exchange.

The merger agreement provides that certain conditions are conditions to the obligations of both Medix Resources and PocketScript, certain conditions are conditions to the obligations of Medix Resources only and certain conditions are conditions to the obligations of PocketScript only. We have provided a full list of the material conditions, and identified which conditions may be relied upon by which parties, under the caption "Merger Agreement - Conditions of Closing".

At the special meeting, our shareholders will be asked to vote upon a proposal to amend our articles of incorporation to increase the number of shares of common stock that we may issue from time to time. At present, we are authorized to issue a total of 125,000,000 shares of common stock. We are proposing to increase that number of authorized shares from 125,000,000 shares to 185,000,000 shares. We believe that we will need a portion of such increase in order to have shares available to consummate the PocketScript merger. If our shareholders approve the PocketScript merger but do not approve the proposed increase in the authorized shares of common stock, it may become necessary for us to restructure the PocketScript merger, which may require further approval of our shareholders, resulting in delay and additional expense for Medix Resources. Accordingly, shareholders who approve the PocketScript merger are urged to also vote in favor of the proposed amendment to our articles of incorporation.

### **Termination of the Merger Agreement**

We may mutually agree to terminate the merger agreement at any time. In addition, the merger agreement may be terminated:

- o by either party, on or after April 1, 2003, if the conditions to such party's obligations to consummate the merger are not satisfied;
- o by us, if we have determined that the merger has become inadvisable or impracticable by reason of the institution of legal proceedings which restrain or prohibit the merger or which question the validity or legality of the merger;

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- o by us, if any law is enacted which impairs the conduct or operation of Medix Resources' business as presently conducted or as we plan to conduct it; or
- o by either party, if the closing price of our common stock on the American Stock Exchange is less than \$.50 per share for five consecutive trading days.

### **Accounting Treatment**

We will treat the merger as a purchase transaction for accounting and financial reporting purposes. As a result, we will allocate our costs in connection with the merger to the assets of PocketScript acquired and the liabilities of PocketScript assumed according to their fair market values at the merger's completion. PocketScript's results of operations will be included in our consolidated results of operations only for periods after the merger closes.

### **Escrow Agreement**

Before the merger is completed, Medix Resources, Stephen Burns, as representative of the PocketScript unit holders, and an escrow agent will enter into an escrow agreement providing for substantially all of the Medix Resources common stock issued in the merger to be delivered to the escrow agent upon the closing of the merger. These shares will be held in an escrow account established as a source of indemnification to Medix Resources for, among other things, any losses arising from any breach by PocketScript of its representations and warranties in the merger agreement or any failure by PocketScript to perform its obligations under the merger agreement. The escrow agreement is an integral part of the merger agreement. The form of escrow agreement is set forth in Annex B to this proxy statement. We encourage you to read the form of escrow agreement carefully.

### **Dissenters' Rights**

Under Ohio law, PocketScript's unit holders may dissent from the merger and demand the fair value of their shares in cash. To exercise this right, PocketScript's unit holders may not vote in favor of the merger and must take certain other actions that Ohio law requires. PocketScript's unit holders have been advised of their right to dissent and the procedures to follow if they intend to exercise those rights.

### **Market Price Data**

Our common stock has traded on the American Stock Exchange under the symbol "MXR" since April 6, 2000. The following table sets forth the per share range of high and low closing sales prices of our common stock for the periods indicated:

	High (\$)	Low (\$)
<b>Year Ended December 31, 2001:</b>		
Quarter Ended March 31 .....	\$ 1.56	\$ 0.58
Quarter Ended June 30 .....	\$ 1.40	\$ 0.45
Quarter Ended September 30....	\$ 1.20	\$ 0.54
Quarter Ended December 31 ....	\$ 1.00	\$ 0.53
<b>Year Ended December 31, 2002:</b>		
Quarter Ended March 31 .....	\$ 0.91	\$ 0.47
Quarter Ended June 30 .....	\$ 0.62	\$ 0.27
Quarter Ended September 30....	\$ 0.62	\$ 0.31
Quarter Ended December 31 ....	\$ 0.94	\$ 0.48
<b>Year Ending December 31, 2003:</b>		
Quarter Ending March 31 (through _____, 2003)		

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On December 18, 2002, the last full trading day prior to our signing and announcing the merger agreement, the closing sales price of our common stock on the American Stock Exchange was \$0.80 per share. On \_\_\_\_\_, 2003, the most recent practicable date prior to the mailing of this proxy statement to you, the closing sales price of our common stock on the American Stock Exchange was \$\_\_ per share.

We encourage you to obtain current market quotations for our common stock. The market price for our common stock is highly volatile and fluctuates in response to a wide variety of factors.

We will file an application with the American Stock Exchange to list the Medix Resources common stock that PocketScript unit holders will receive in the merger.

### ***Dividend Policy***

We have never declared or paid any dividends on our common stock or preferred stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends on our common stock will be subject to our prior payment of all accrued and unpaid dividends on our outstanding preferred stock, will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements, contractual restrictions and other factors that the board of directors deems relevant.

### ***Summary Historical and Unaudited Pro Forma Financial Information***

#### ***Summary Historical Financial Information***

Medix Resources' Summary Historical Financial Information. We have derived the summary historical financial information of Medix Resources set forth below from our year-end and unaudited interim financial statements filed with the SEC. See "Where You Can Find More Information."

Statement of Operations	Nine Months Ended September 30,				For the Dece
Data:	2002	2001	2001	2000 (1)	---
Operating revenues .....	\$ 10,000	\$ 30,000	\$ 29,000	\$ 326,000	\$
Software research and development costs .....	533,000	947,000	1,075,000	685,000	
(Loss) or profit from continuing operations ....	(4,718,000)	(7,076,000)	(10,636,000)	(6,344,000)	(5
(Loss) or profit from continuing operations per share .....	\$ (0.08)	\$ (0.14)	\$ (0.21)	\$ (0.15)	\$
 Balance Sheet Data:					
Total assets .....	3,602,000	--	3,101,000	5,089,000	4
Long-term obligations, including current portion	--	--	--	--	
Working Capital .....	(1,949,000)	--	(1,404,000)	394,000	
Total shareholders' equity (deficit) .....	1,145,000	--	1,345,000	4,202,000	2

The following is

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supplementary information relating to software development costs:				
Software research and development costs .....	533,000	947,000	1,075,000	685,000
Capitalized software development costs .....	522,000	366,000	434,000	495,000
Total software development costs .....	1,055,000	1,313,000	1,512,000	1,180,000

- (1) In February of 2000, we disposed of our remaining medical staffing business and became solely a developer of software for our own use in providing Internet based communications for the medical services industry.
- (2) In January of 1998, we acquired the Cymedix software business and began the process of disposing of our medical staffing business.
- (3) Excludes amortization of previously capitalized development software costs which are included in cost of services in the Company's Statement of Operations.

PocketScript's Summary Historical Financial Information. We have derived the summary historical financial information of PocketScript set forth below from the PocketScript financial statements that are set forth elsewhere in this proxy statement. The information for September 30, 2002 and 2001 was derived from unaudited information contained in the PocketScript financial statements. You should read this financial information in conjunction with these financial statements.

Statement of Operations Data:	For the Nine Months Ended September 30		For the Year Ended December 31	
	2002	2001	2001	2000
Revenues .....	\$ 135,159	\$ 597,505	\$ 597,505	\$ 81,439
Operating expenses	531,923	4,554,309	4,965,484	7,612,307
Other income (expense) .....	(38,791)	(206,474)	(206,449)	(358,957)
Total gain from reorganization .... items	2,879,867	--	--	--
Net income (loss) .	2,444,312	(4,163,278)	(4,574,428)	(7,889,825)
Dividend on preferred units ...	--	(180,000)	(240,000)	(20,000)
Net income (loss) applicable to LLC members .....	\$ 2,444,312	\$ (4,343,278)	\$ (4,814,428)	\$ (7,909,825)
Income (loss) per unit .....	\$ 24,443.12	\$ (0.43)	\$ (0.48)	\$ (0.79)
Balance Sheet Data:	September 30, 2002	December 31, 2001	December 31, 2000	



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Total assets .....	\$ 359,135	\$ 2,097,086	\$ 2,879,996
Redeemable preferred stock .....	--	(8,781,208)	(6,400,658)
Working capital .... deficit	780,816	5,356,242	3,685,296
Total stockholders' (members') deficit .	1,814,844	12,040,364	7,375,936

*Unaudited Pro Forma Condensed Consolidated Summary Financial Information*

The following table summarizes, under the purchase method of accounting, pro forma condensed consolidated statement of operations data for the year ended December 31, 2001 and the nine months ended September 30, 2002 as if the PocketScript merger had been completed on the first day of such periods and pro forma condensed consolidated balance sheet data as of September 30, 2002 as if the merger had been completed on that date. We have included this unaudited pro forma condensed consolidated summary information only for the purposes of illustration, and it does not necessarily indicate what the operating results or financial position would have been if the merger between Medix Resources and PocketScript had been completed at the dates indicated. Moreover, this information does not necessarily indicate what the future operating results or financial position of the combined company will be. You should read this unaudited pro forma condensed consolidated summary financial information in conjunction with the "Unaudited Pro Forma Condensed Consolidated Financial Statements" presented elsewhere in this proxy statement. See "INDEX TO FINANCIAL STATEMENTS". This unaudited pro forma condensed consolidated summary financial information does not reflect any adjustments to conform accounting practices or to reflect any cost savings or other synergies that may result from the merger or any future merger-related expenses.

	Nine Months Ended September 30, 2002	Year Ended December 31, 2001
	-----	-----
Statement of Operations Data:		
Revenues .....	\$ 145,159	\$ 626,505
Loss from operations .....	5,571,999	14,042,587
Net loss .....	5,920,740	16,142,531
Basic and diluted net (loss) per share	\$ 0.08	\$ 0.26
Balance Sheet Data (as of September 30, 2002 only):		
Total assets.....	\$ 12,176,974	
Long-term debt, including current portion.....	1,364,689	
Working capital (deficit).....	(2,830,811)	
Total stockholders' equity.....	7,545,000	

**Comparative Per Share Data**

We have summarized below the per share or per unit information for Medix Resources and PocketScript on an historical basis and consolidated per share data on an unaudited pro forma basis. The consolidated data gives effect to the merger on a purchase method basis of accounting as described in "Unaudited Pro Forma Condensed Consolidated Financial Statements." Medix Resources and PocketScript did not pay any dividends on their common stock during the periods presented below.

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This information is only a summary and you should read it in conjunction with the selected historical financial information, the pro forma condensed consolidated financial statements and the separate historical financial statements of Medix Resources and PocketScript and related notes included in this document. The table below assumes that no adjustments are made in the initial merger consideration and that none of the Qualifying Events occur. Thus, the table assumes that each PocketScript unit will convert into 120,000 shares of our common stock.

	At or For the Year Ended December 31, 2001	At or For the Nine Months Ended September 30, 2002
Net income (loss) per share or unit:		
Medix Resources - Historical.....	\$(0.21)	\$ (0.08)
PocketScript - Historical.....	\$(0.48)	\$ 24,443.12 (1)
Medix Resources/PocketScript Pro Forma	\$(0.26)	\$ (0.08)
Pro Forma Equivalent (2) .....	\$(0.31)	\$ (9600.00)
Book value per share:		
Medix Resources - Historical.....	\$ 0.02	\$ .02
PocketScript - Historical.....	\$ 1.20	\$ (18,148.44)
Medix Resources/PocketScript Pro Forma	--	\$ 0.10
Pro Forma Equivalent (2) .....	--	\$ 12,000

(1) Reflects an aggregate gain resulting from PocketScript's bankruptcy reorganization of \$2,879,867.

(2) Calculated by multiplying the pro forma amount by 120,000 for 2002 and by 1.2 for 2001.

### The Reincorporation Merger

#### **General**

Your board of directors has concluded that it is in the best interests of Medix Resources and its shareholders for our company to reincorporate in Delaware. Our principal reason was to provide us with flexibility in attracting the additional capital that is essential if our company is to succeed. Most investors are comfortable investing in Delaware corporations and certain investors will insist that their funds be invested in Delaware companies whenever possible.

#### **Structure**

In order to reincorporate in Delaware, we have created a new wholly-owned subsidiary that we have incorporated in Delaware. Under the terms of the reincorporation merger, upon receipt of shareholder approval, Medix Resources will merge into this subsidiary and each share of Medix Resources stock will become one share of the stock of our Delaware subsidiary. Your ownership interest in the Delaware subsidiary immediately after the reincorporation merger will be identical to your ownership interest in Medix Resources immediately prior to the merger.

#### **Comparison of Shareholder Rights**

As a shareholder of Medix Resources, your rights will be governed by the Delaware statute governing corporations and by the certificate of incorporation and by-laws of our Delaware subsidiary. We have summarized the material differences between your rights as a shareholder of Medix Resources and the rights you will have as a shareholder of our Delaware subsidiary under "Approval

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of Reincorporation in the State of Delaware - Comparison of the Rights of Holders of Medix-COL Common Stock and Medix-DEL Common Stock". You should also review the following annexes for information about our proposed reincorporation:

Annex C - Reincorporation Agreement

Annex D - Certificate of Incorporation (Delaware subsidiary)

Annex E - By-Laws (Delaware subsidiary)

### **RISK FACTORS APPLICABLE TO THE POCKETSCRIPT MERGER**

You should carefully consider the following factors and other information contained in this proxy statement before approving the PocketScript merger.

**Risks Relating to the PocketScript Merger and the Combination of Medix Resources and PocketScript**

There are several uncertainties that arise from integrating our two companies.

In deciding that the merger is in the best interests of our company, our board of directors considered the potential complementary effects of combining our companies. However, the process of integrating separate businesses, especially when they are as geographically separated as Medix Resources, headquartered in New York, and PocketScript, headquartered in Ohio, involves a number of special risks, including:

- o the possibility that the business cultures of our two companies may not mesh;
- o the possibility that management may be distracted from regular business concerns by the need to integrate operations;
- o unforeseen difficulties in integrating operations and systems;
- o problems in retaining the employees of PocketScript;
- o challenges in attracting customers; and
- o potential adverse effects on operating results.

#### **Medix Resources may incur substantial costs in integrating PocketScript.**

We expect to incur restructuring and integration costs from combining PocketScript's operations with Medix Resources' operations. These costs may be substantial and may include costs for employee severance, relocation and disposition of excess equipment and other merger-related costs. We have not yet determined the total amount of these costs.

#### **You will have a reduced ownership and voting interest after the merger.**

After the merger is completed, you will own a smaller percentage of the combined company and its voting stock than you currently own of Medix Resources. Consequently, you may be able to exercise less influence over the management and policies of the combined company than you currently exercise over Medix Resources.

**If Medix Resources and PocketScript do not integrate their technology and operations quickly and effectively, the potential benefits of the merger may not occur.**

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We cannot assure you that we will be able to integrate the two companies' technology and operations quickly and smoothly. In order to obtain the benefits of the merger, the companies must make PocketScript's technology and services operate together with Medix Resources' technology. We may be required to spend additional time or money on integration which would otherwise be spent on developing our business. Our combined companies' business, financial condition and prospects will be harmed if Medix Resources and PocketScript do not integrate their operations and technology smoothly or if management spends too much time on integration issues.

### **The merger may result in a loss of PocketScript employees.**

The success of the combined company may depend upon the retention of PocketScript executives and other key employees who are critical to the continued design, development and support of PocketScript's products and services. Despite our efforts to hire and retain quality employees, we might lose some of PocketScript's key employees following the merger. Competition for qualified management, engineering and technical employees in our industry is intense. Medix Resources and PocketScript may have different corporate cultures. PocketScript employees may be unwilling to work for a larger, publicly-traded company instead of a smaller, start-up company. In addition, competitors may recruit employees prior to the merger and during integration, as is common in high technology mergers. As a result, employees of PocketScript or the combined companies could leave with little or no prior notice. We cannot assure you that the combined companies will be able to attract, retain and integrate employees to develop and use the PocketScript technology following the merger.

### **We do not know how many shares of Medix Resources common stock will be issuable in the merger.**

If each of the Qualifying Events occurs, we will be required to issue \$4 million of our common stock. The value of our common stock will depend on the average closing price of our common stock during the period between the closing date of the merger and the dates on which the Qualifying Events occur. If the market price of our stock declines during this period, we will be required to issue more shares of our common stock than if the market price of our common stock remained even or appreciated during this period. The resulting dilution could be substantial. While we have the right to terminate the merger agreement if the closing price of our common stock falls below \$.50 for five consecutive days, we will have no right to terminate our obligation to issue shares after the merger is consummated.

### **Risk Factors Generally Relating to Medix Resources and/or PocketScript**

An investment in our common stock:

- o has a high degree of risk;
- o is highly speculative; and
- o should only be considered by those persons or entities who can afford to lose their entire investment.

In addition to the other information contained in this proxy statement, the following risk factors should be carefully considered in evaluating the matters described in this proxy statement.

### **Our continuing losses endanger our viability and have caused our accountants to issue a "going concern" exception in their annual audit report.**

We reported net losses of \$10,636,000, \$5,415,000 and \$4,847,000 for the years ended December 31, 2001, 2000 and 1999, respectively, and a net loss of

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\$4,718,000 for the nine months ended September 30, 2002. At September 30, 2002, we had an accumulated deficit of \$38,777,000 and negative working capital of \$1,949,000. Our Cymedix(R) products are in the development and early deployment stage and have not generated any significant revenue to date. We are funding our operations through the sale of our securities. Our independent accountants have included a "going concern" explanatory paragraph in their audit reports on our audited 2000 and 2001 financial statements. One of the reasons that PocketScript agreed to enter into the merger agreement was that management of PocketScript was concerned that if PocketScript continued to operate independently, its needs for working capital and its failure to reach profitability were leading to substantial liquidity problems. Thus, this merger is not expected to ease our financial concerns, at least in the short term

**Our need for additional financing is acute and failure to obtain it could lead to the financial failure of our company.**

We expect to continue to experience losses, in the near term, until such time as our Cymedix(R) products and the PocketScript products can be successfully deployed with physicians and produce revenue. The continuing development, marketing and deployment of the Cymedix connectivity products and the PocketScript products will depend upon our ability to obtain additional financing. Our Cymedix(R) products and the PocketScript products are in the development and early deployment stage and have not generated any significant revenue to date. We are funding our operations now, and if we acquire PocketScript, we will be funding the operations of our combined enterprise, through the sale of our securities. There can be no assurance that additional investments or financings will be available to us as needed to support the development and deployment of Cymedix(R) products and PocketScript products. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Cymedix business or PocketScript business at a distressed price or the financial failure of our company.

**Medix has frequent cash flow problems that often cause us to be delinquent in making payments to our vendors and other creditors, which may cause damage our business relationships and cause us to incur additional expenses in the payment of late charges and penalties.**

During 2002, from time to time, our lack of cash flow caused Medix to delay payment of our obligations as they came due in the ordinary of its business. In some cases, Medix was delinquent in making payments by the legally required due dates. At its four office locations, Medix had 48 monthly rental payments due in the aggregate during 2002. Two of those payments were late. Such payments were paid within 30 days of their due date. All payments plus any required penalties were ultimately paid with respect to our 2002 obligations. Medix had 26 Federal withholding and other payment due dates. Of those, three due dates were missed. The resulting delinquencies ranged from one to ten days before the required payments were made. Medix paid the resulting penalties as they were billed. Medix had state withholding obligations in five states, Colorado, California, Georgia, New Jersey and New York. Although Medix was not late in making withholding payments in those five states during 2002, it has been late in prior periods. Similarly, although Medix was not late in making deposits of its employees' 401(k) contributions during 2002, it has been late in making such deposits in the past. During 2003, the Company may be delinquent from time to time in meeting its obligations as they become due.

**We discontinued active development of our Cymedix(R) products as an independent product line in anticipation of the acquisition of the PocketScript products, and the failure to consummate the merger with PocketScript could impair our ability to compete.**

In anticipation of the merger with PocketScript, we discontinued the development of our Cymedix(R) products as an independent product line because we

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plan to incorporate the Cymedix(R) product technology with the PocketScript technology following its acquisition. We estimate approximately 800,000 of net capitalized software development costs will be written off related to abandoned projects. We believe that we can market and sell the combined technology more effectively than the Cymedix(R) products alone. However, if the PocketScript merger does not occur, the marketing and development of the Cymedix(R) products for commercial purposes will have been delayed for several months and we may be unable to then develop the Cymedix(R) products by themselves in a competitive manner.

**We are a development stage company, which means our products and services have not yet proved themselves commercially viable and therefore our future is uncertain.**

- o We develop products for Internet-based communications and information management for medical service providers, through our wholly owned subsidiary, Cymedix Lynx Corporation. Our Cymedix(R) products, as well as PocketScript's products, are still in the development and early deployment stage and have not generated any significant revenue to date. We are funding our operations through the sale of our securities. Our ability to continue to sell our securities can not be assured.
- o We are still in the process of gaining experience in marketing physician connectivity products, providing support services, evaluating demand for products, financing a technology business and dealing with government regulation of health information technology products. While we are putting together a team of experienced executives, they have come from different backgrounds and may require some time to develop an efficient operating structure and corporate culture for our company.

**We rely on healthcare professionals for the quality of the information that is transmitted through our interconnectivity systems, and we may not be paid for our services by third-party payors if that quality does not meet certain standards.**

The success of our products and services in generating revenue may be subject to the quality and completeness of the data that is generated and stored by the physician or other healthcare professional and entered into our interconnectivity systems, including the failure to input appropriate or accurate information.

**Our market, healthcare services, is rapidly changing and the introduction of Internet connectivity services and products into that market has been slow, which may cause us to be unable to develop a profitable market for our services and products.**

- o As a developer of connectivity technology products, we will be required to anticipate and adapt to evolving industry standards and new technological developments. The market for Medix Resource's products and PocketScript's products is characterized by continued and rapid technological advances in both hardware and software development, requiring ongoing expenditures for research and development, and timely introduction of new products and enhancements to existing products. The establishment of standards is largely a function of user acceptance. Therefore, such standards are subject to change. Our future success, if any, will depend in part upon our ability to enhance existing products, to respond effectively to technology changes, and to introduce new products and technologies that are functional and meet the evolving needs of our clients and users in the healthcare information systems market.

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- o The introduction of physician connectivity products in our market has been slow due, in part, to the large number of small practitioners who are resistant to change and the implicit costs associated with change, particularly in a period of rising pressure to reduce costs in the market. In addition, the integration of processes and procedures with several payors and management intermediaries in a market area has taken more time than anticipated. The resulting delays continue to prevent the receipt of significant transaction fees and cause us to continue to raise money by the sale of our securities to finance our operations.
- o Our early-stage market approach concentrated product distribution efforts in a single market (Atlanta, Georgia), thereby amplifying the effect of localized market restrictions on our prospects, and delaying large-scale distribution of our products. While we intend to mitigate these local factors with an aggressive strategy to develop alternate distribution channels in multiple markets, there can be no assurance of near term or long term success.
- o We cannot assure you that we will successfully complete the development of the Cymedix(R) products or PocketScript's products in a timely fashion or that our current or future products will satisfy the needs of the healthcare information systems market. Further, we cannot assure you that products or technologies developed by others will not adversely affect our competitive position or render our products or technologies noncompetitive or obsolete.

**As a provider of medical connectivity products and services, we may become liable for product liability claims that could have a materially adverse impact on our financial condition.**

Certain of our products and PocketScript's products provide applications that relate to patient medical histories and treatment plans. Any failure by our products to provide accurate, secure and timely information could result in product liability claims against us by our clients or their affiliates or patients. We are seeking product liability coverage, which may be prohibitive in cost. There can be no assurance that we will be able to obtain such coverage at an acceptable cost or that our insurance coverage would adequately cover any claim asserted against us. Such a claim could be in excess of the limits imposed by any policy we might be able to obtain. A successful claim brought against us in excess of any insurance coverage we might have could have a material adverse effect on our results of operations, financial condition or business. Even unsuccessful claims could result in the expenditure of funds in litigation, as well as diversion of management time and resources.

**Our industry, healthcare, continually experiences rapid change and uncertainty that could result in issues for our business planning or operations that could severely impact on our ability to become profitable.**

The healthcare and medical services industry in the United States is in a period of rapid change and uncertainty. Governmental programs have been proposed, and some adopted, from time to time, to reform various aspects of the U.S. healthcare delivery system. Some of these programs contain proposals to increase government involvement in healthcare, lower reimbursement rates and otherwise change the operating environment for our physician users and customers. Particularly, the Health Insurance Portability and Accountability Act of 1996, and the regulations that are being promulgated thereunder, are causing the healthcare industry to change its procedures and incur substantial cost in doing so. Although we expect these regulations to have the beneficial effect of spurring adoption of our software products, we cannot predict with any certainty what impact, if any, these and future healthcare reforms might have on our

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business.

We and PocketScript rely on intellectual property rights, such as copyrights and trademarks, and unprotected propriety technology in our business operations and to create value in our companies; however, protecting intellectual property frequently requires litigation and close legal monitoring and may adversely impact our ability to become profitable.

- o Our wholly owned subsidiary, Cymedix Lynx Corporation, has certain intellectual property relating to its software business. These rights have been assigned by our subsidiary to the parent company, Medix Resources. The intellectual property legal issues for software programs, such as the Cymedix(R) products and such as PocketScript's technology, are complex and currently evolving. Since patent applications are secret until patents are issued, in the United States, or published, in other countries, we cannot be sure that we are the first to file any patent application. In addition, we cannot assure you that competitors, many of which have far greater resources than we do, will not apply for and obtain patents that will interfere with our ability to develop or market product ideas that we or PocketScript have originated. Further, the laws of certain foreign countries do not provide the protection to intellectual property that is provided in the United States, and may limit our ability to market our products overseas. While we have no prospects for marketing or operations in foreign countries at this time, future opportunities for growth in foreign markets, for that reason, may be limited. We cannot give any assurance that the scope of the rights that we have been granted are broad enough to fully protect our Cymedix(R) software or PocketScript's software from infringement.
- o Litigation or regulatory proceedings may be necessary to protect our intellectual property rights, such as the scope of our patent rights. In fact, the information technology and healthcare industries in general are characterized by substantial litigation. Such litigation and regulatory proceedings are very expensive and could be a significant drain on our resources and divert resources from product development. There is no assurance that we will have the financial resources to defend our patent rights or other intellectual property from infringement or claims of invalidity. We and PocketScript have received claim notices asserting that third parties believe that certain of our products may infringe on their rights.
- o We and PocketScript also rely upon unprotected proprietary technology and no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to or disclose our proprietary technology or that we can meaningfully protect our rights in such unpatented proprietary technology. We will use our best efforts to protect such information and techniques; however, we cannot assure you that such efforts will be successful. The failure to protect our intellectual property could cause us to lose substantial revenues and to fail to reach our financial potential over the long term.

**Because our business is highly competitive and there are many competitors who are financially stronger than we are, we are at risk of being outperformed in staffing, marketing, product development and customer services, which could severely limit our ability to become profitable.**

- o eHealth Services. Competition can be expected to emerge from established healthcare information vendors and established or new Internet related vendors. The most likely competitors are companies with a focus on clinical information systems and enterprises with an



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Internet commerce or electronic network focus. Many of these competitors will have access to substantially greater amounts of capital resources than we have access to, for the financing of technical, manufacturing and marketing efforts. Frequently, these competitors will have affiliations with major medical product or software development companies, who may assist in the financing of such competitor's product development. We will seek to raise capital to develop our Cymedix(R) products and PocketScript products in a timely manner; however, so long as our operations remain under-funded, as they now are, we will be at a competitive disadvantage.

- o Personnel. The success of the development, distribution and deployment of our Cymedix(R) and PocketScript products is dependent to a significant degree on our key management and technical personnel. We believe that our and PocketScript's success will also depend upon our ability to attract, motivate and retain highly skilled, managerial, sales and marketing, and technical personnel, including software programmers and systems architects skilled in the computer languages in which our Cymedix(R) products and PocketScript operate. Competition for such personnel in the software and information services industries is intense. The loss of key personnel, or the inability to hire or retain qualified personnel, could have a material adverse effect on our results of operations, financial condition or business and on the success of our proposed acquisition of PocketScript.

**We have relied on the private placement exemption to raise substantial amounts of capital, and could suffer substantial losses if that exemption was determined not to have been properly relied upon.**

We have raised substantial amounts of capital in private placements from time to time. The securities offered in such private placements were not registered with the SEC or any state agency in reliance upon exemptions from such registration requirements. Such exemptions are highly technical in nature and if we inadvertently failed to comply with the requirements of any of such exemptive provisions, investors would have the right to rescind their purchase of our securities or sue for damages. If one or more investors were to successfully seek such rescission or institute any such suit, Medix Resources could face severe financial demands that could materially and adversely affect our financial position.

**The impact of shares of our common stock that may become available for sale in the future may result in the market price of our stock being depressed.**

As of December 31, 2002 we had 77,160,815 shares of common stock outstanding and 76 shares of preferred stock outstanding. As of that date, approximately 33,177,353 shares were issuable upon the exercise of outstanding options, warrants or other rights, and the conversion of preferred stock. Most of these shares will be immediately saleable upon exercise or conversion under registration statements we have filed with the SEC. The exercise prices of options, warrants or other rights to acquire common stock presently outstanding range from \$0.25 per share to \$4.97 per share. During the respective terms of the outstanding options, warrants, preferred stock and other outstanding derivative securities, the holders are given the opportunity to profit from a rise in the market price of our common stock, and the exercise of any options, warrants or other rights may dilute the book value per share of the common stock and put downward pressure on the price of the common stock. The existence of the options, conversion rights, or any outstanding warrants may adversely affect the terms on which we may obtain additional equity financing. Moreover, the holders of such securities are likely to exercise their rights to acquire common stock at a time when we would otherwise be able to obtain capital on terms more favorable than could be obtained through the exercise or conversion of such securities.

**Because of dilution to our outstanding common stock from the below market pricing features of financings that are available to us, the market price of our stock may be depressed.**

Financings that may be available to us under current market conditions, frequently involve below market current sales, as well as warrants or convertible debt that require exercise or conversion prices that are calculated in the future at a discount to the then market price of our common stock. Any agreement to sell, or convert debt or equity securities into, common stock at a future date and at a price based on the then current market price will provide an incentive to the investor or third parties to sell the common stock short to decrease the price and increase the number of shares they may receive in a future purchase, whether directly from us or in the market. The issuance of our common stock in connection with such exercise or conversion may result in substantial dilution to the common stock holdings of other holders of our common stock.

**Because of market volatility in our stock price, investors may find that they have a loss position if emergency sales become necessary.**

Historically, our common stock has experienced significant price fluctuations. One or more of the following factors influence these fluctuation:

- o unfavorable announcements or press releases relating to the technology sector;
- o regulatory, legislative or other developments affecting our company or the health care industry generally;
- o conversion of our preferred stock and convertible debt into common stock at conversion rates based on current market prices, or discounts to market prices, of our common stock and exercise of options and warrants at below current market prices;
- o sales by those financing our company through convertible securities which have been registered with the SEC and may be sold into the public market immediately upon receipt; and
- o market conditions specific to technology and internet companies, the health care industry and general market conditions.

In addition, in recent years the stock market has experienced significant price and volume fluctuations. These fluctuations, which are often unrelated to the operating performance of specific companies, have had a substantial effect on the market price for many health care related technology companies. Factors such as those cited above, as well as other factors that may be unrelated to our operating performance, may adversely affect the price of our common stock.

**The application of the "penny stock" rules to our common stock may depress the market for our stock.**

Trading of our common stock may be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended, unless an exemption from such rules is available. Broker-dealers making a market in our common stock will be required to provide disclosure to their customers regarding the risks associated with our common stock, the suitability for the customer of an investment in our common stock, the duties of the broker-dealer to the customer and information regarding bid and asked prices for our common stock, and the amount and description of any compensation the broker-dealer would receive in connection with a transaction in our common stock. The application of these rules may result in fewer market makers making a market in our common stock and may

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further restrict the liquidity of our common stock.

**We do not anticipate paying any cash dividends on our common stock in the foreseeable future.**

We have not had earnings, but if earnings were available, it is our general policy to retain any earnings for use in our operation. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock in the future will be dependent upon our financial condition, results of operations, current and anticipated cash requirements, preferred rights of holders of preferred stock plans for expansion, as well as other factors that the Board of Directors deems relevant. We anticipate that our future financing agreements will prohibit the payment of common stock dividends without the prior written consent of those providers.

### THE SPECIAL MEETING

#### General

The Medix Resources' Board of Directors is soliciting your signature on the enclosed proxy card for use at the Medix Resources special meeting of shareholders to be held on \_\_\_\_\_, 2003, at 10:00 a.m., local time, or at any adjournment(s) thereof, for the purposes that we have described in this proxy statement and in the notice of special meeting of shareholders that we have provided to you. The special meeting will be held at \_\_\_\_\_ . We first mailed these proxy solicitation materials on or about \_\_\_\_\_, 2003 to all shareholders listed in our shareholder records as of the record date for the special meeting. We will bear the cost of this solicitation.

#### Record Date and Quorum

Shareholders of record at the close of business on February \_\_, 2003 are entitled to vote at the special meeting. We refer to that date as the record date. On the record date, \_\_\_\_\_ shares of our common stock, \$0.001 par value per share, were outstanding. Shareholders holding at least one-third of all shares of our common stock, represented in person or by proxy, will constitute a quorum for the special meeting. If we have a quorum, we will be able to transact business at the special meeting.

#### Revocability of Proxies

Any proxy card signed and submitted pursuant to this solicitation may be revoked by the person or entity signing it at any time before its use. To revoke a proxy, a shareholder must either:

- o deliver to us a written notice of revocation prior to the time that the submitted proxy is voted;
- o deliver a duly executed proxy card bearing a later date than the other proxy card; or
- o attend the special meeting and vote in person.

An appointment of proxy will be revoked upon the death or incapacity of the shareholder appointing the proxy if our Secretary or other officer or agent who is authorized to tabulate votes receives notice of such death or incapacity before the proxy exercises his or her authority under the appointment.

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### Voting and Solicitation

Each outstanding share of our common stock will be entitled to one vote on each matter submitted to a vote at the special meeting. The proposed amendment to our articles of incorporation will be deemed approved by our shareholders if the number of votes cast for such proposal exceeds the number of votes cast against such proposal, assuming that a quorum is present. Our proposed 2003 Stock Incentive Plan will be deemed approved if a majority of the votes cast are cast for such proposal, assuming a quorum is present. The PocketScript merger agreement, and the reincorporation of Medix Resources in Delaware through the proposed reincorporation merger require approval of our shareholders by the affirmative vote of the holders of a majority of the outstanding shares of our common stock. Where brokers have not received any instructions from their clients on how to vote on a particular proposal, brokers are permitted to vote on routine proposals but not on non-routine matters. We refer to the absence of votes on non-routine matters as "broker non-votes." Abstentions and broker non-votes will be counted towards the presence of a quorum, but will not be counted and will have no effect on the outcome of the vote on the proposed amendment to our articles of incorporation. In voting on the 2003 Stock Incentive Plan, abstentions will have the effect of "no" votes, and broker non-votes will not be counted as votes cast. Since the PocketScript merger and the reincorporation merger require the approval of a majority of our outstanding shares of common stock, abstentions and broker non-votes will have the same effect as a vote against these transactions."

Our principal executive offices are located at 420 Lexington Ave., Suite 1830, New York, New York 10170. In addition to the use of the mails, we may solicit proxies personally, by telephone or by facsimile, and we may reimburse brokerage firms and other persons holding shares of our common stock in their names or in the names of their nominees, for their reasonable expenses in forwarding proxy solicitation materials to the beneficial owners. We may retain the services of a professional proxy solicitation firm, in which case we will pay such firm its standard fees for such services and reimburse such firm for its out-of-pocket expenses.

### Matters to be Brought Before the Special Meeting

We expect that four matters will be presented at the special meeting. Management will propose that our shareholders approve the PocketScript merger agreement, that our shareholders approve the proposal to amend our articles of incorporation to increase the number of authorized shares of common stock, that our shareholders approve the proposal to reincorporate Medix Resources in the State of Delaware and that our shareholders approve the adoption of our 2003 Stock Incentive Plan. We have provided detailed information regarding each of these proposals in this proxy statement.

IN THE EVENT THAT OUR SHAREHOLDERS DO NOT APPROVE THE POCKETSCRIPT MERGER AGREEMENT, MEDIX RESOURCES WILL NOT BE ABLE TO CONSUMMATE THE POCKETSCRIPT MERGER. IF OUR SHAREHOLDERS APPROVE THE POCKETSCRIPT MERGER AGREEMENT BUT DO NOT APPROVE THE PROPOSED AMENDMENT TO THE ARTICLES OF INCORPORATION, WE MAY BE PRECLUDED FROM CONSUMMATING THE POCKETSCRIPT MERGER OR MAY BE REQUIRED TO RESTRUCTURE THE POCKETSCRIPT MERGER IN A MANNER THAT WOULD REQUIRE A FURTHER VOTE OF OUR SHAREHOLDERS.

### Principal Shareholders

The following table sets forth certain information, as of December 31, 2002, regarding the shares of our common stock beneficially owned by each of the members of our board of directors, each of our executive officers and by each other person known by us to beneficially own more than five percent of our common stock.

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Name	Number of Shares	Percentage of Outstanding Shares (1)	Number of Shares Included in the Second Column Representing Shares Issuable upon Exercise or Conversion of Warrants, Options or Convertible Securities
<b><u>Directors</u></b>			
Darryl Cohen	2,688,320 (2)	3.4	1,855,000
Patrick Jeffries	1,635,000	2.1	1,197,500
John Lane	775,000	1.0	562,500
Samuel Havens	290,000	*	265,000
Guy Scalzi	240,000	*	240,000
Joan Herman (3)	0	0	0
<b><u>Other Executive Officers</u></b>			
Louis Hyman	412,500	*	362,500
Brian Ellacott	400,000	*	375,000
Mark Lerner	156,250	*	132,250
James Gamble	75,000	*	75,000
All Directors and Executive Officers as a Group (10 persons)	6,672,070	8.1	5,064,750

\* Represents less than one percent.

(1) As of December 31, 2002, there were 77,320,815 shares of common stock outstanding, including 160,000 shares issuable upon conversion of our outstanding preferred stock.

(2) Mr. Cohen disclaims beneficial ownership of 67,950 shares held in trust for his minor children.

(3) Ms. Herman has declined the grant of any options based on WellPoint company policy.

**THE POCKETSCRIPT MERGER**

**Background of the Merger**

As a result of the competitive environment in which Medix Resources operates, and the fact that many of our competitors have larger operations, are better capitalized and have stronger distribution channels for their products than we do, during the second half of 2002, our management decided to evaluate

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possible acquisition targets for Medix Resources. In October 2002, our Chief Executive Officer, Darryl Cohen, contacted Steven Burns, the President and Chief Executive Officer of PocketScript, to discuss the possibility of Medix Resources' acquiring PocketScript. Messrs. Cohen and Burns spoke by telephone several times regarding a possible acquisition. On or about October 18, 2002, Mr. Cohen met with Mr. Burns in Las Vegas to discuss the possible acquisition and to negotiate its terms. No finder or broker participated in the negotiations nor played any role in the proposed transaction.

From October 18, 2002 through October 29, 2002, Mr. Cohen, a representative of Medix' acquisition counsel, Moses & Singer LLP, and Mr. Burns and a representative of PocketScript's general counsel, Cummins & Hession PC, negotiated the terms of the acquisition as contained in the letter of intent signed by the parties on October 29, 2002.

Prior to the execution of the letter of intent, the board of directors of Medix conducted a telephone meeting to discuss the terms of the proposed acquisition. The board reviewed the text of the letter of intent. After discussion, the board concluded that the acquisition of PocketScript on the terms contained in the letter of intent was in the best interests of Medix and its stockholders.

On October 30, 2002, Medix released a press release announcing that it had entered into a letter of intent with PocketScript.

On November 11, 2002, Mr. Cohen, together with Andrew Brown, a consultant retained by Medix, and Brian Ellacot, our Executive Vice President of Business Development, met with Mr. Burns, Mick Kowitz and PocketScript's other management members, certain of its principal equity holders, a representative of Cummins & Hession PC and a representative of PocketScript's acquisition counsel, Katz, Teller, Brant & Hild, to discuss the acquisition, the terms of the merger agreement, PocketScript's business, Medix's business and the integration of PocketScript into Medix.

From November 20 through November 22, 2002, Gary Wilson, a consultant retained by Medix, conducted due diligence of PocketScript at its offices in Mason, Ohio.

The terms of the merger agreement were negotiated by Mr. Cohen and Medix's counsel primarily with Mr. Burns and PocketScript's general and acquisition counsel by means of multiple telephone conferences. Several drafts of the merger agreement were exchanged and reviewed by the parties. These negotiations took place for several weeks after the letter of intent was signed.

On December 18, 2002, in a telephone meeting, the board of directors of Medix approved the merger agreement. Subsequent to the board's approval of the merger agreement, such agreement was executed by the parties.

On the morning of December 19, 2002, Medix issued a press release announcing the signing of the merger agreement.

### Reasons for the Merger

Our board of directors, in the course of reaching the decision to approve the merger agreement, consulted with management and our advisors, and considered a number of factors, including the following material factors, the order of which does not necessarily reflect their relative significance:

- o The opportunity to deploy PocketScript's technology in connection with our business model;
- o the opportunity to add PocketScript's technical team to Medix

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Resources' technical team;

- o the opportunity to add certain members of PocketScript's management team, including PocketScript chief executive officer Stephen Burns;
- o the belief that the terms of the merger agreement, including the parties' representations, warranties and covenants, and the conditions to their respective obligations, are reasonable; and
- o reports from management and from legal and financial advisors as to the results of their preliminary due diligence investigation of PocketScript.

Our board of directors has determined that the merger is fair, is in the best interests of Medix Resources and is in the best interests of our shareholders. However, all business combinations, including the PocketScript merger, also include certain risks and disadvantages. The material potential risks and disadvantages to Medix Resources' shareholders identified by the Medix Resources' board and management include the following material matters, the order of which does not necessarily reflect their relative significance:

- o the difficulties and expenses associated with integrating our two companies;
- o the risk that the potential benefits sought in the merger might not be realized;
- o the risk that existing shareholders may be concerned by the number of shares of Medix Resources common stock to be issued under the merger agreement;
- o the risk that the combined company may not be able to retain the existing employees of Medix Resources and PocketScript or attract the professional expertise necessary for the combined company to prosper;
- o the extent to which Medix Resources' limited capital resources must be devoted to the development of PocketScript;
- o the fact that there is no real upside limit on the number of shares of our common stock that are issuable in the event that the Qualifying Events occur;
- o the risk that management will be required to spend a disproportionate amount of its time and attention on issues pertaining to the integration of our two companies; and
- o other applicable risks described in this proxy statement.

Other than these disadvantages, our board did not identify any other particular material risks to or material adverse effects on our corporation or shareholders. Our board of directors believes, and continues to believe, that these potential risks and disadvantages are outweighed by the potential benefits anticipated from the merger.

The foregoing discussion of the material factors considered by our board of directors is not intended to be exhaustive. In view of the wide variety of factors, risks and disadvantages considered in connection with our board's evaluation of the merger, our board did not find it practicable to, and did not, quantify or assign any relative or specific weights to the foregoing matters, and individual directors may have deemed different matters more significant than others.

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### Recommendation of the Board of Directors with Respect to the Merger

For the reasons discussed above, our board of directors has determined that the terms of the merger agreement and the transactions contemplated thereby are fair to, and in the best interests of, Medix Resources and our shareholders. Accordingly, our board recommends that our shareholders vote for the proposal to approve the PocketScript merger agreement and merger.

### Federal Securities Law Consequences

We have not registered, under the Securities Act of 1933 or otherwise, the shares of Medix Resources common stock that we will issue to PocketScript unit holders in the merger. However, we have agreed to execute a registration rights agreement which will obligate us to file registration statements, and to use our best efforts to have such registration statements declared effective by the SEC, covering the resale of the shares of our common stock issued pursuant to the merger agreement. Once these shares have been registered for resale, these shares may be traded freely without restrictions other than restrictions imposed pursuant to the merger agreement and the escrow agreement.

### **THE MERGER AGREEMENT**

*The following is a summary of the material terms of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, which is incorporated herein by reference. You may read the actual provisions of the merger agreement by referring to Annex A; you are urged to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.*

### The Merger; Closing; Effective Time

Before execution of the merger agreement, Medix Resources formed PS Purchase Corp. as a Delaware corporation and a wholly-owned subsidiary of Medix Resources to effectuate the merger. The closing of the merger will take place on the closing date, which will be a date determined by Medix Resources and PocketScript after satisfaction or waiver of the substantive conditions set forth in the merger agreement. We expect to conduct the closing shortly after the special meeting is held, since we anticipate that all other conditions to the merger will be satisfied or waived by that time. Subject to the provisions of the merger agreement, Medix Resources and PocketScript will file on the closing date a certificate of merger with the Secretary of State of the State of Ohio in accordance with the relevant provisions of Ohio law and a comparable document with the Secretary of State of the State of Delaware. As a result, PS Purchase Corp. will merge with and into PocketScript, and PocketScript will become a wholly-owned subsidiary of Medix Resources. We refer in this proxy statement to the "effective time" as the time when the merger becomes effective under Ohio and Delaware law.

### Initial Merger Consideration

At the effective time, by virtue of the merger and without any action on the part of any PocketScript unit holder, each issued and outstanding unit will be exchanged into the right to receive a pro rata portion of the initial merger consideration and a pro rata portion of the shares that we may be required to issue upon the occurrence of the Qualifying Events.

The initial merger consideration will be 12,000,000 shares of our common stock, subject to the following adjustments:

- o Prior to the closing, the initial consideration will be reduced to the



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extent that PocketScript's scheduled indebtedness, PocketScript's estimated working capital deficit (if any), excluding certain liability items, and the amounts, if any, paid to PocketScript's dissenting unitholders exceeds \$50,000. The 12,000,000 share figure will be reduced by a number equal to the amount of such excess divided by \$0.50.

- o The merger agreement requires us to prepare an audited balance sheet of PocketScript as of the closing date. PocketScript's representative will then have an opportunity to review the balance sheet that we prepare. If that representative disputes any aspect of the balance sheet and we are unable to amicably resolve any such disputes, we and the PocketScript representative will select an independent accounting firm to resolve all of these disputes. Once the closing balance sheet disputes have been resolved, we will determine whether PocketScript's current liabilities as of the closing date exceed PocketScript's current liabilities as of the closing date by more than \$50,000. The escrow agreement to be executed by the parties will provide that if there is any such excess, Medix resources will receive back from the escrow agent a number of shares of our common stock equal to the amount of such excess divided by an average closing price figure described in the merger agreement.

### Qualifying Events

We will be required to issue additional shares of our common stock after the merger is consummated if certain specified Qualifying Events occur. We will be required to issue \$1,000,000 of our common stock, valued pursuant to a formula described below, for each Qualifying Event that occurs within the time periods specified in the merger agreement. The following table names the Qualifying Events, describes the Qualifying Events and sets forth the period during which they must be satisfied.

<b>Qualifying Event</b>	<b>Description of Qualifying Event</b>	<b>Time Period</b>
Telcom Contingent Payment	Our combined company must enter into a marketing or strategic alliance agreement with one of several national telecommunications companies identified in the merger agreement. The agreement must be for a term of at least one year and must present the potential of generating material revenues for our combined company.	Within six months after the merger closes
Hardware Vendor Contingent Payment	Our combined company must enter into a strategic development, marketing or distribution agreement with one of several national handheld vendors identified in the merger agreement. The agreement must be for a term of at least one year, must include material performance obligations for the vendor and must present the potential of generating material revenues for our combined company.	Within six months after the merger closes

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RXHub Contingent Payment	At least 5,000 physicians must execute an average of at least 250 electronic prescriptions utilizing the RxHub System through the "PocketScript Express" browser-based product..	Within twelve months after the announcement that PocketScript Express launched its RxHub System
Pharmaceutical Company Contingent Payment	Our combined company must enter into a marketing agreement or strategic alliance agreement with one of several pharmaceutical companies identified in the merger agreement. The agreement must be for a term of at least one year, must include material performance obligations for the pharmaceutical company and must present the potential of generating material revenues for our combined company.	Within six months after the merger closes

If a Qualifying Event occurs, we will be required to issue to the former unit holders of PocketScript a number of shares of our common stock equal to \$1,000,000 divided by the average closing price of our common stock on the American Stock Exchange during the period commencing on the closing date of our merger and ending on the date that such Qualifying Event occurs.

### Exchange Procedures

As soon as reasonably practicable after the effective time of the merger, the parties will send a letter of transmittal, which is to be used to exchange PocketScript units for stock certificates of Medix Resources common stock, to each former PocketScript shareholder. The letter of transmittal will contain instructions explaining the procedures for assigning such units. Initially, shares of our common stock will be delivered to the escrow agent on behalf of the PocketScript unit holders, rather than to the PocketScript unit holders directly. See "Escrow Agreement; Indemnification."

After the merger is consummated, each unit will only represent the right to receive the shares of Medix Resources common stock into which those units have been converted. We will not pay dividends to holders of any PocketScript units until the units are surrendered. However, once those units are surrendered, we will pay to the holder, without interest, any dividends that have been declared after the effective time of the merger on the shares into which those PocketScript units have been converted. No such dividends are anticipated.

After the effective time of the merger, PocketScript will not register any transfers of units.

Neither Medix Resources, PocketScript nor any other person will be liable to any former holder of PocketScript units for any property properly delivered to a public official according to applicable abandoned property, escheat or similar laws.

### Fractional Shares

No fractional shares of our common stock will be issued in the merger. Instead, the number of shares that we will deliver to a unit holder will be rounded to the nearest whole number of shares.

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### Escrow Agreement; Indemnification

Substantially all of the shares issuable to each PocketScript shareholder in the merger will initially be delivered to an escrow agent to be held in escrow under the terms of the escrow agreement. A copy of the form of escrow agreement is annexed to this proxy statement as Annex B. Shareholders of Medix Resources are urged to read the form of escrow agreement for a more complete description of the terms and conditions of the escrow arrangements. It is expected that \_\_\_\_\_, a bank headquartered in \_\_\_\_\_, will serve as the escrow agent.

The shares of common stock issuable pursuant to the merger agreement will be deposited in escrow and withdrawn from escrow as follows:

- o the 12,000,000 shares of our common stock initially issuable pursuant to the merger agreement will be deposited directly into escrow;
- o if, pursuant to the merger agreement, there is a reduction in the initial merger consideration, shares (valued as of the closing date) will be delivered back to Medix Resources from the escrow agent;
- o if shares of our common stock are issued as a result of the occurrence of a Qualifying Event, two thirds of such shares will be deposited in escrow and then released from escrow (subject to the indemnification provisions described below) in two tranches, one three months after the Qualifying Event occurs and one six months after the Qualifying Event occurs; and
- o subject to the indemnification provisions described below, the other shares deposited in escrow will be released from escrow in accordance with the following schedule:

3,000,000 shares will be released three months after the closing;

2,000,000 additional shares will be released six months after the closing;  
and

1,000,000 additional shares will be released every three months thereafter, with all remaining shares being released (other than shares subject to indemnification claims) two years after the closing.

The escrowed shares will be subject to the following indemnification claims:

- o PocketScript and Stephen Burns made numerous representations and warranties in the merger agreement. In the event that any such representations and warranties turn out to be inaccurate and Medix Resources suffers damages as a result of this inaccuracy, Medix Resources will be entitled, subject to the limitations described below, to a return of a number of shares equal to the dollar amount of such damages divided by the closing sale price of Medix Resources' common stock on the American Stock Exchange on a date or over a period to be set forth in the escrow agreement.
- o Similarly, should PocketScript or Stephen Burns fail to perform any covenants described in the merger agreement required to be performed prior to the closing and should Medix Resources suffer damages as a result of such non-performance, Medix Resources will be entitled, subject to the limitations described below, to a return of shares

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equal to the dollar amount of such damages divided by the closing sale price of Medix Resources' common stock on the American Stock Exchange on a date or over a period to be set forth in the escrow agreement..

- o In the event that Medix Resources is required to pay any amounts for taxes of PocketScript relating to periods prior to the closing or relating to the consummation of the PocketScript merger, Medix Resources will be entitled, subject to the limitations described below, to a return of shares equal to the dollar amount of such payment divided by the closing sale price of Medix Resources' common stock on the American Stock Exchange on a date or over a period to be set forth in the escrow agreement.
- o In the event that Medix Resources is not protected by the purchase price adjustment provisions for cash paid to dissenting shareholders, Medix Resources will be entitled, subject to the limitations described below, to a return of shares equal to the dollar amount of such cash payments divided by the closing sale price of Medix Resources' common stock on the American Stock Exchange on a date or over a period to be set forth in the escrow agreement.
- o In the event that Medix Resources incurs damages relating to any claims or obligations of any kind or nature relating to PocketScript, the business, operations or affairs of PocketScript or any of the assets, properties, interests in assets or properties or rights of PocketScript which were existing at or as of the closing date or arising in whole or in part out of any acts, transactions, conditions, circumstances or facts which occurred or existed on or prior to the closing date, Medix Resources will be entitled, subject to the limitations described below, to a return of shares equal to the dollar amount of such damages divided by the closing sale price of Medix Resources' common stock on the American Stock Exchange on a date or over a period to be set forth in the escrow agreement.

The merger agreement provides for certain limitations on the indemnification obligations of PocketScript and Stephen Burns. In the absence of fraud, Medix Resources will have no indemnification rights beyond the shares held in escrow and will not be entitled to recover more than a total of 3,000,000 shares of our common stock. Moreover, no indemnification claims may be made unless the aggregate amount of such claims exceeds \$100,000, in which case recovery may be made for all indemnifiable damages in excess of \$50,000.

### Representations and Warranties

*PocketScript.* The merger agreement contains representations and warranties by PocketScript relating to, among other things:

- o ownership of the units by the PocketScript unit holders;
- o organization, structure and power, authority relating to the merger agreement and enforceability of the merger agreement;
- o absence of conflicts with organizational documents, agreements, laws and other requirements;
- o capitalization;
- o subsidiaries and other investments;
- o financial statements;
- o absence of undisclosed liabilities;

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- o changes since November 30, 2002;
- o material contracts, performance under such contracts and defaults under such contracts;
- o labor and employee benefit matters and issues arising under the Employee Retirement Income Security Act of 1974;
- o compliance with laws and governmental consents;
- o insurance;
- o litigation;
- o related party transactions;
- o real property leases;
- o PocketScript's tax returns and related tax matters;
- o intellectual property rights and obligations;
- o accounts receivable;
- o clients and vendors; and
- o environmental matters.

*Medix Resources.* The merger agreement contains representations and warranties by us relating to, among other things:

- o organization, structure and power, authority relating to the merger agreement and enforceability of the merger agreement;
- o absence of conflicts with organizational documents, agreements, laws and other requirements;
- o capitalization;
- o consents and approvals required in order to complete the merger; and
- o accuracy of documents and financial statements filed by Medix Resources with the SEC.

### Covenants

We have each undertaken certain covenants in the merger agreement, including the following:

PocketScript has made covenants that place restrictions on the conduct of its business until either the effective time of the merger or the termination of the merger agreement. In general, PocketScript is required to carry on its business in the ordinary course of business consistent with past practice and use its best efforts to preserve and maintain PocketScript's business, assets, properties, rights and relationships with suppliers, customers, clients, employees, agents and others.

PocketScript has also agreed to certain specific restrictions; specifically, PostScript has agreed not to

- o create any liability other than in the ordinary course of business and

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consistent with past practice, but in no event greater than \$5,000;

- o guarantee the obligations of, or make any loans or advances to, any other person, other than in the ordinary course of business and consistent with past practice, but in no event greater than \$5,000;
- o transfer any assets, other than in the ordinary course of business and consistent with past practice, but in no event greater than \$5,000;
- o mortgage any assets, other than in the ordinary course of business and consistent with past practice, but in no event greater than \$5,000;
- o with respect to PocketScript's managers, directors, officers or employees:

increase the rate or terms of compensation payable or to become payable to any of them;

pay or agree to pay any employee benefit not required or permitted by any existing plan, agreement or arrangement to any of them;

commit to any additional pension, profit sharing, bonus, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, severance pay, retirement or other employee benefit plan, agreement or arrangement, or increase the rate or terms of any such plan, agreement or arrangement which now exists, to the extent applicable to any of them; or

enter into any employment or severance agreement with or for the benefit of them;

- o enter into or terminate any lease or make any change in any lease, other than in the ordinary course of business and consistent with past practice, but in no event greater than \$5,000;
- o make any capital expenditures, other than in the ordinary course of business and consistent with past practice, but in no event greater than \$5,000;
- o change or amend its articles of organization or operating agreement; issue any units, or issue or sell any securities convertible into or exchangeable for or carrying the right to, or options with respect to, or warrants to purchase or rights to subscribe to, any units or pay any dividends or distributions with respect to any membership or other equity interests;
- o negotiate an acquisition with any other party;
- o take any action that would cause any representation or warranty in the merger agreement to be untrue; or
- o commit or agree to take any of the foregoing actions.

PocketScript has also agreed to:

- o grant access to us so that our representatives can review PocketScript's business, assets, properties, books and records; and

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- o notify us of certain developments adversely affecting PocketScript's business or ability to consummate the merger.

Stephen Burns, PocketScript's chief executive officer, has agreed not to compete with us in the United States or Canada for a period of either one or two years after termination of employment, depending upon the circumstances relating to such termination. He has also agreed that, during that period, he will not solicit any of our employees, customers or other clients.

### Conditions to Closing

#### **Conditions to the Obligations of PocketScript and Medix Resources.**

PocketScript's and Medix Resources' obligations to complete the merger are subject to the satisfaction or waiver, on or before the closing, of various conditions, including the following:

- o no temporary restraining order, preliminary injunction, or permanent injunction or other order preventing the consummation of the merger shall have been issued;
- o no law shall have been enacted which prohibits, restricts or delays the consummation of the merger;
- o the parties and the escrow agent shall have executed the escrow agreement contemplated by the merger agreement;
- o we shall have executed and delivered a registration rights agreement providing for the registration of the shares issuable pursuant to the merger agreement; and
- o PocketScript, Medix Resources and each of Stephen Burns and Mick Kowitz (a key employee of PocketScript) shall have executed and delivered employment agreements referenced in the merger agreement.

#### **Conditions to the Obligations of Medix Resources.**

MedixResources' obligation to complete the merger is further subject to the satisfaction or waiver on or before the effective time of various additional conditions, including the following:

- o PocketScript's unit holders shall have approved the merger;
- o PocketScript's key employees shall have executed and delivered employment agreements in form and substance satisfactory to us;
- o we shall have completed, and been satisfied with, our due diligence review of PocketScript;
- o on the closing date, the representations and warranties made by PocketScript and Stephen Burns pursuant to the merger agreement shall be true and correct with the same effect as though made on and as of the closing date;
- o PocketScript and Stephen Burns shall have performed all of their covenants in the merger agreement required to be performed by them on or before the closing date;
- o we shall have received a satisfactory opinion letter from PocketScript's counsel;
- o PocketScript shall have given all notices and obtained all

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governmental or other third party consents, approvals and waivers necessary or desirable for the consummation of the merger;

- o no event, occurrence, fact, condition, change, development or effect shall have occurred or been threatened that has had or resulted in or could be expected to become or result in a material adverse effect on the business, assets, operations, results, financial condition or prospects of PocketScript;
- o we shall have obtained all necessary approvals, consents and waivers, made all filings and received the approval of our shareholders necessary in order for us to perform our obligations under the merger agreement;
- o PocketScript and Way Over the Line, LLC, a limited liability company, shall have merged or otherwise combined or consolidated their respective businesses, operations and assets;
- o each of the PocketScript unit holders shall have appointed Stephen Burns as their representative to act as their representative for all purposes under the merger agreement;
- o each of the unit holders shall have executed and delivered an investment letter in form and substance satisfactory to us;
- o Mick Kowitz shall have executed and delivered a non-competition agreement satisfactory to us;
- o unit holders owning at least 95% of PocketScript's outstanding units shall have voted in favor of the merger and waived any and all dissenters' rights;
- o we shall have received, at our own cost and expense, an opinion dated as of the closing date from a firm selected by us to the effect that, as of such date, the merger is fair to our shareholders from a financial point of view (we have not yet decided whether we will seek such an opinion or waive this requirement; we are not required by law to obtain such an opinion, typically referred to as a fairness letter); and
- o we shall have obtained, at our expense, certain audited financial statements of PocketScript; Conditions to the Obligations of PocketScript.

PocketScript's obligation to complete the merger is further subject to the satisfaction or waiver on or before the effective time of various additional conditions, including the following:

- o on the closing date, the representations and warranties made by us pursuant to the merger agreement shall be true and correct with the same effect as though made on and as of the closing date;
- o we shall have performed all of our covenants in the merger agreement required to be performed by us on or before the closing date;
- o we shall have raised not less than \$1 million in additional financing since October 25, 2002;
- o we shall have made all filings, given all notices and obtained all governmental, administrative, regulatory or other third party consents, approvals and waivers necessary to consummate the merger;



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- o we shall have delivered a satisfactory opinion from our counsel with respect to the merger agreement; and
- o no event shall exist or have occurred or come to exist or been threatened that, individually or in the aggregate, has had or resulted in or could be expected to become or result in a material adverse effect on the business, assets, operations, results, financial condition or prospects of Medix Resources.

### Termination of the Merger Agreement

The merger agreement may be terminated before the merger's completion:

- o by the mutual written consent of Medix Resources on the one hand, and PocketScript and Stephen Burns on the other hand;
- o on or after April 1, 2003 by either PocketScript and Burns or by Medix Resources, as the case may be, if the conditions set forth in the merger agreement have not been met by the applicable party;
- o by us if we determine that the transactions contemplated by the merger agreement have become inadvisable or impracticable by reason of any legal proceeding which seeks to restrain or prohibit the consummation of the merger or which questions the validity or legality of the transactions contemplated by the merger agreement;
- o by us, if any law shall have been enacted which impairs the conduct or operation of PocketScript as presently conducted and as contemplated to be conducted; or
- o by PocketScript and Stephen Burns or by us, if the closing price of our common stock on the American Stock Exchange is less than \$0.50 per share for five consecutive trading days.

If any such termination results from the breach of any representation, warranty, covenant or agreement by a party to the merger agreement, that party will be liable for damages sustained or incurred by any other party as a result of such breach.

### Amendment

The parties may amend the merger agreement before approval by Medix Resources' shareholders and PocketScript's unit holders. The parties may not do so after such approval if the amendment or waiver requires further shareholder or unit holder approval under law, without first obtaining approval from the affected shareholders or unit holders. Any amendment to the merger agreement must be in writing and signed by the parties.

### **SUMMARY INFORMATION ABOUT MEDIX RESOURCES**

The following description summarizes our current business and describes certain recent developments impacting Medix Resources. For additional information regarding Medix Resources, see "Where You Can Find More Information".

In 2002, we introduced our next generation of proprietary, point-of-care products, Cymedix(R)III. This suite of connectivity products is based upon a device-neutral architecture that leverages proven workstation, handheld and wireless technologies. The marketing and development of the combined PocketScript-Cymedix(R)suite of products is our sole business at this time, and

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a substantial portion of our net operating loss is due to marketing and development efforts. We are funding such expenses as well as our administrative expenses through the sale of our securities. We have no significant long-term debt financing available to us.

We acquired the Cymedix business in January of 1998. Cymedix has developed Internet-based communications and information management products, which we have begun marketing to medical professionals in selected regional markets. Growth of the medical information management marketplace is being driven by the need to share significant amounts of clinical and patient information among physicians, their outpatient service providers, hospitals, insurance companies and managed care organizations. We believe that this market is one of the fastest-growing sectors in healthcare today. The Cymedix(R) connectivity products contain elements that can be used to develop secure medical communications products that make use of the Internet. Using the Cymedix(R) tools, medical professionals can order, prescribe and access medical information from participating insurance companies and managed care organizations, as well as from any participating outpatient service provider, such as a laboratory or pharmacy. Currently we provide our products to physician users at no charge, and collect transaction fees from sponsoring payors whenever our products are used to provide services.

The products' relational database technologies provide user physicians with a permanent, ongoing record of each patient's name, address, insurance or managed care affiliation, referral status, medical history and an audit trail of past encounters. Physicians are able to electronically check patient eligibility, order medical laboratory procedures, receive and store test results, issue new and renewal drug prescriptions, make medical referrals and request authorizations.

Our principal executive office is located at The Graybar Building, 420 Lexington Ave., Suite 1830 New York, NY 10170, and our telephone number at that location is (212) 697-2509. We also have offices in Georgia.

### Recent Developments

In May 2002, we announced the formal launch of physician marketing activities in the state of Georgia. Georgia is our inaugural regional market, and it provides an important initial testing ground for physician user distribution and deployment methodologies. The regional operation has responsibility to secure locally based health plan, pharmacy benefit manager and lab sponsor agreements to complement national account sponsor sales and optimize local market density. As of December 31, 2002, market restrictions that are local to Georgia has led to new marketing and distribution initiatives. Specifically, assuming satisfactory funding, we plan to implement and test a variety of complementary pathways to expedite distribution and deployment of our technologies to physician communities in multiple markets, including: (i) nationally-oriented brand building; (ii) potential franchising and outsource arrangements; and (iii) licensing and co-branding opportunities.

We have announced several market initiatives with large regional physician networks. In January 2003, we announced the launch of an e-prescribing pilot program with Blue Cross Blue Shield of Massachusetts and PocketScript. The pilot program will include 100 Massachusetts doctors and nurses across the State. Also in January a physician connectivity program was launched through which a Mid-Atlantic health plan will provide its physicians with Medix Resources' PocketScript electronic prescribing technologies. This was followed by our recent announcement with Tufts Health Plan (Tufts HP) on an agreement to implement a substantial e-prescribing initiative, initially giving 2,000 physicians access to the PocketScript e-prescribing technology through BlackBerry Wireless Handhelds (TM) from Research In Motion (RIM).

During the period from April 1, 2002 through December 31, 2002, we

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completed private placements of our securities in which we raised \$5,481,000. In connection with those private placements, we have issued 13,702,500 shares of common stock and warrants to purchase an equal number of shares of common stock at the exercise price of \$0.50 per share.

At a Board of Directors meeting held on September 24, 2002, our previous President and CEO stepped down and was replaced by Darryl R. Cohen, who is fifty years old. Mr. Cohen was elected to the Board of Directors at a Board meeting held on October 8, 2002. Mr. Cohen directly or indirectly owns approximately 1 million shares of our common stock and warrants to purchase approximately 1 million additional shares. An investor in private and public companies, Mr. Cohen frequently works with the management of the companies in which he's invested, assisting them in the areas of marketing strategy and financing efforts. He is also co-owner of a financial services advisory firm, Omni Financial, providing financial restructuring services for individuals. From 1994 to 1998, Mr. Cohen was President of DCNL Incorporated, formerly the Sterling Brush Company. DCNL was a privately held beauty supply manufacturer and distributor he founded in 1988 and sold to Helen of Troy in 1998. From 1986 to 1999, during his tenure as President of DCNL, Mr. Cohen was also co-owner and president of Basics Beauty Supply Stores. He is a member of the board of directors of Access Marketing and consults to a major media company in the cable television market. Mr. Cohen holds a BA in Political Science from the University of California at Berkeley.

At the September 24, 2002 Board meeting, the previous Chairman of the Board stepped down and Patrick W. Jeffries was elected Chairman of our Board of Directors.

In July 2002, Loyola University Health System, a wholly owned subsidiary of Loyola University Chicago, announced the initial findings of a live, field test of our Cymedix(R) laboratory technology. Early results indicate that the median laboratory processing time was reduced from an average of ten minutes per transaction to less than one minute, validating expectations for substantive, long-range productivity savings. We and Loyola University Medical Center (LUMC) have worked together to create lab-focused connectivity tools for Loyola Medical Laboratory's outreach clients. Participating physician practices utilize the Cymedix(R) laboratory technology to select and requisition laboratory tests; provide bar-coded identification for specimens; orchestrate patient specimen packing lists; electronically link with LUMC's internal laboratory system; and report full and partial test results on a real-time, 24 by 7 basis.

During the nine months ended September 30, 2002, net cash used in operating activities was approximately \$3.5 million. During that period, we raised approximately \$4.8 million from the exercise of options and warrants, and the issuance of common stock, net of offering expenses, and debt. We had approximately \$8,000 in cash as of December 31, 2001, with a net working capital deficit of approximately \$1,949,000. We have been delinquent, from time to time, in the payment of our current obligations, including payments of withholding and other tax obligations. We continue in discussions and negotiations with institutional sources regarding debt and equity financings to fund our operations. There can be no assurance that additional investments or financings will be available to us as needed. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Cymedix business or PocketScript business at a distressed price or our financial failure. See "Risk Factors Regarding the PocketScript Merger."

We entered into a secured convertible loan agreement with WellPoint, dated February 19, 2002, pursuant to which we borrowed \$1,000,000 from WellPoint Health Networks Inc. The loan was secured by the grant of a security interest in all of our intellectual property, including our patent, copyrights and trademarks. On October 7, 2002, the loan, including all accrued interest, was converted into 2,405,216 shares of our common stock. Upon the conversion of the

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loan, the security interest was terminated.

We executed an Amended and Restated Common Stock Purchase Warrant with WellPoint Pharmacy Management, dated February 18, 2002, to restructure our obligations to issue warrants to WellPoint. Under that Warrant, we are obligated to issue up to 7,000,000 shares of our common stock at exercise prices of \$0.30 per share for 3,000,000 shares, \$0.50 per share for 3,000,000 shares and \$1.75 per share for 1,000,000 shares, if various performance related vesting requirements are satisfied by WellPoint. Currently, WellPoint has satisfied certain of these requirements. WellPoint's rights to purchase our shares under the Warrant expire on September 8, 2004. The Warrant grants to WellPoint certain registration rights to require us to register with the SEC the shares issued to WellPoint for resale to the public. In the Warrant, WellPoint has agreed to restrict sales to the public of these shares during the first year after they have been issued to 200,000 shares per month and 100,000 shares in any five trading days. The Warrant contains anti-dilution provisions providing that the number of shares that may be purchased by WellPoint under the Warrant may be adjusted in certain circumstances.

### **INFORMATION ABOUT POCKETSCRIPT**

#### PocketScript's Business

PocketScript develops software applications for wireless, handheld devices to improve physician efficiency and workflow. Using its flagship product, PocketScript, physicians can electronically write and transmit prescriptions; receive formulary and drug interaction information; access education and compliance services; and connect wirelessly to the Internet.

PocketScript has created a method of writing electronic prescriptions with only a few touches of the screen that has now been enhanced by the use of speech-driven technology. The compression technology enables large packets of information to be sent securely over a wireless connection. For example, in less than one second, a speech command can be compressed and sent via high-speed wireless transmission to an on-site computer server. There, the speech command is decompressed, recognized, re-compressed and instantly returned wirelessly to the handheld computer for visual confirmation by the physician.

By using PocketScript's technology, doctors can obtain patient information, insurance coverage information, formulary listings and potential drug interactions, and then use the technology to send prescriptions via secure fax or encrypted Internet transmissions. Physicians can access more than 60,000 patient records and instantly select the specific information necessary to generate a prescription for a patient. Additionally, the compression technology allows physicians to write 350 prescriptions a day without recharging the battery.

The PocketScript wireless system uses a radio frequency signal from an antenna inserted into a Windows CE-based PDA (or Personal Digital Assistant) to transmit data to a secure server. The PDA wirelessly connects to the server to obtain current patient, insurance and drug information, enabling physicians to make informed decisions at the point of care. PocketScript operates on the Microsoft CE or Pocket PC operating system and currently is being offered on most commercially available Pocket PC PDA's, including the Hewlett-Packard Jornada and Ipaq Pocket. All of the handheld PDA's will fit into the physician's pocket.

PocketScript's technologies maximize the available battery life at the point-of-care for electronic prescribing. PocketScript employs 128-bit encryption, firewalls and a number of additional security measures to ensure patient confidentiality. Most important, patient records reside on the physician's office server, not on the device itself.

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We believe that the PocketScript system provides the following potential benefits:

### ***For Physicians***

The PocketScript system:

- o streamlines the process of prescribing medications, while providing the physician access to information about potential adverse drug interactions, patient drug history and formulary guidelines for managed care plans;
- o was designed by a physician to be integrated into the doctor's workflow
- o can access approximately 60,000 patient records in a single second, allowing almost instant access to information necessary to generate a prescription;
- o sends prescriptions via the Internet through a 128-bit encrypted, secure application directly to the pharmacy of the patient's choice;
- o assures patient confidentiality since most information resides on the physician's office server and via other safeguards; and
- o can create a prescription with a few touches of the screen.

### ***For Pharmacies***

Electronic prescriptions are more decipherable than handwritten or telephone orders, thus potentially reducing medication errors due to transcription difficulties. Similarly, electronic prescriptions can decrease the time spent by pharmacy staff reworking prescriptions generated by traditional means.

### ***For the Pharmaceutical Industry***

Pharmaceutical companies can partner with PocketScript to deliver electronic product details directly to the prescribing physician. In addition, it will be possible to track physician compliance with managed care formularies, thus reducing the number of off-formulary prescriptions.

### **PocketScript Selected Financial Data**

We have derived the summary historical financial information of PocketScript set forth below from the PocketScript financial statements that are set forth elsewhere in this proxy statement. You should read this financial information in conjunction with these financial statements. See "INDEX TO FINANCIAL STATEMENTS".

PocketScript was originally incorporated as an Ohio corporation and was reincorporated as a Delaware corporation in 2000. In February 2002, PocketScript filed a voluntary petition for Chapter 11 reorganization with the bankruptcy court. At that time, PocketScript filed a motion to sell substantially all of its assets free and clear of liens to an entity represented by a group of secured creditors and certain members of the former management team for an amount, \$1,600,000, which approximated the balances owed to the secured creditors plus certain fees associated with the Chapter 11 proceedings. No competing bids were received and, in March 2002, the bankruptcy court entered an order to sell the assets to an entity established by the secured creditors. That entity was PocketScript, LLC, the entity which we are acquiring pursuant to the

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PocketScript merger agreement.

In connection with the bankruptcy proceedings, assets that were not recovered from off-site locations were written-off in the amount of \$564,610, professional fees and other related costs of \$470,847 were incurred and unsecured liabilities of \$3,460,324 and secured liabilities of \$455,000 belonging to creditors other than the secured creditors that established PocketScript, LLC were discharged.

Statement of Operations Data:	For the Nine Months Ended September 30		For the Year Ended December 31	
	2002	2001	2001	2000
	(in thousands)			
Revenues .....	\$ 135,159	\$ 597,505	\$ 597,505	\$ 81,439
Operating expenses:				
Selling, general and administrative expenses .....	485,998	3,522,095	3,933,270	6,467,412
Software development research and development costs .	45,925	1,032,214	1,032,214	1,144,895
Total operating expenses .....	531,923	4,554,309	4,965,484	7,612,307
Other income (expense) .....	(38,791)	(206,449)	(206,449)	(358,957)
Reorganization items:				
Discharge of liabilities .....	3,915,324	--	--	--
Reorganization expenses .....	(470,847)	--	--	--
Write-off of .....	(564,610)	--	--	--
assets .....				
Total gain from reorganization .... items	2,879,867	--	--	--
Net income (loss) .	2,444,312	(4,163,278)	(4,574,428)	(7,889,825)
Dividend on preferred stock ...	--	(180,000)	(240,000)	(20,000)
Net income (loss) applicable to common stockholders (LLC members) .....	\$ 2,444,312	\$ (4,343,278)	\$ (4,814,428)	\$ (7,909,825)
Income (loss) per unit .....	\$ 24,443.12	\$ (0.43)	\$ (0.48)	\$ (0.79)
Weighted average shares (units) outstanding .....	10,000,000	10,000,000	10,000,000	100
Balance Sheet Data:	September 30, 2002	December 31, 2001	December 31, 2000	

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Total assets .....	\$	359,135	\$	2,097,086	\$	2,879,996
Redeemable preferred stock .....		--		(8,781,208)		(6,400,658)
Working capital .... deficit		780,816		5,356,242		3,685,296
Total stockholders' (members') deficit .		1,814,844		12,040,364		7,375,936

### PocketScript Management's Discussion and Analysis of PocketScript's Results of Operations and Financial Condition

#### **Overview**

PocketScript, LLC is an information technology company headquartered in Mason, Ohio which specializes in the development and management of connectivity solutions for clinical and business transactions within the healthcare industry. Specifically, PocketScript has developed technology that allows physicians to create prescriptions which are transmitted wirelessly from the physician at the point of care and routed to pharmacies and pharmacy benefit managers.

PocketScript, LLC is a successor to PocketScript, Inc. PocketScript, Inc. was originally founded in November of 1999. PocketScript, Inc. ultimately invested over \$13 million in developing and implementing its leading product, also called PocketScript. PocketScript, Inc. aggressively tried to spur adoption of its products in various geographic markets across the country by building its own sales force and installation team. While recognizing that widespread adoption would require consistent sales and support efforts and continued investment in the technology over a period of years, PocketScript, Inc. was dependent on external capital for realization of its business model.

After the collapse of the capital markets in 2000 and 2001, PocketScript, Inc. was ultimately forced to file for bankruptcy in February of 2002. The assets of PocketScript, Inc. were purchased by an affiliate of PocketScript, LLC. PocketScript, LLC was founded by the principal secured creditors and key former management of the former PocketScript, Inc. This purchase was effected at the end of April, 2002.

Since the purchase of the PocketScript assets, PocketScript, LLC has operated with greatly reduced personnel and overhead costs. Principal changes in its operations have included:

Primary focus on continued development of the technology. Over half of PocketScript, LLC's employees are directed towards the development and support of the technology.

Developing Lower Cost Installation Systems. Between the advent of better wireless technologies and continued improvements to the PocketScript system, PocketScript, LLC has eliminated many of the hours necessary to install and support the system, thus reducing personnel costs.

Aligning Sales Efforts with HealthCare Payors. Originally, PocketScript, Inc. did not have any contact with health care payors except through their agents, pharmaceutical benefit managers ("PBMs"). Now, PocketScript, LLC coordinates its marketing and sales efforts in tandem with health care payors and PBMs on concentrated regional marketing/sales campaigns. PocketScript's goal is for the health care payor to endorse PocketScript as a preferred product and financially support the initial roll out costs.

#### **Liquidty on Capital Resources**

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The Company's capital requirements in connection with its operations, technology development and marketing activities have been and will continue to be significant. As of September 30, 2002, the Company had a working capital deficit of approximately \$780,816. The Company's independent certified public accounts stated in their report on the financial statements that due to losses from operations and a working capital deficit, there is substantial doubt about the Company's ability to continue as a going concern.

PocketScript, LLC has continued to be dependent on financial and services support from its key stakeholders and has not established itself as cash flow positive on operations. Moreover, management acknowledges that PocketScript, LLC's inability to access certain financial markets has significantly slowed its attempts to establish PocketScript as the leading national technology for the writing and transmission of prescriptions. Accordingly, PocketScript, LLC sought a partner that would allow it access to capital markets and to bring in additional management. As a result of these efforts, it ultimately agreed to the merger with Medix Resources.

### **Results of Operations**

#### *Comparison of Twelve Months Ended December 31, 2001 and December 31, 2000*

For the 12 months of 2001, revenue amounted to \$598,000 compared to \$81,000 in 2000. The increase in revenue is ascribed to certain transactions with PBM's for the development of the PocketScript system and its implementation in key markets, including with Tufts Healthcare. Some of this revenue reflects non-recurring transactions.

Operating expenses of \$4,965,000 reflect a decrease of \$2,600,000 from \$7,612,000 in 2000. The decrease in expenses is primarily due to a decrease in Selling General Administrative of \$2,534,000 reflecting the decrease of PocketScript's workforce from approximately 65 full-time employees in May of 2001 to approximately 12 by the end of 2001 and a decrease in related expenses.

Software and research and development costs of \$1,032,000 reflect a decrease of approximately \$113,000 or 10% for the twelve-month period compared to the prior year. This decrease represents a moderate decrease in personnel over the same period.

Net other income and expenses reflect a net expense of \$206,000 as compared with a \$359,000 net expense during 2000. Finance and interest expenses were reduced by almost 50% or \$202,000 as a result of PocketScript, Inc.'s inability to consummate any capital raising transactions from June of 2001 onward until its bankruptcy.

Net loss from operations decreased approximately \$3,163,000 from \$4,368,000 for the twelve months ended December 30, 2001 to \$7,531,000 for the year ended December 31, 2000, due to all of the reasons discussed above.

#### *Comparison of The Nine Months Ended September 30, 2002 and September 30, 2001.*

Total revenues for the nine months ended September 30, 2002, were \$135,000 compared with \$598,000 for the nine months ended September 30, 2001. Revenues decreased due to the bankruptcy of PocketScript, Inc. and transition to PocketScript, LLC.

Direct costs decreased more than \$4 million from \$4.6 million to \$0.5 million. The decrease reflects the company's reduction in sales, marketing and business development costs due to the PocketScript, Inc. bankruptcy and subsequent changes to operations to reduce operating costs as discussed above. Other income/expense reflected a decrease in net expenses of approximately



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\$167,500. PocketScript recognized a net gain from its bankruptcy reorganization in the amount of \$2.9 million, which was a one time gain and is not indicative of future operating results, resulting in net income for the nine months ended September 30, 2002 of \$2.4 million.

### Information About PocketScript's Units

PocketScript is organized as an Ohio limited liability company. The equity in PocketScript is represented by units, rather than by shares of capital stock.

PocketScript is a private company. Its 100 outstanding units are presently held by 48 investors. Such units are not publicly traded and there is no market for such units. PocketScript has not made any distributions in respect of its units.

The following table sets forth, for each holder of units who beneficially owned more than 5 units as of December 31, 2002, and for each manager of PocketScript, the number and percentage of shares of common stock that they will beneficially own by virtue of the merger agreement, assuming that we ultimately issue a total of 16,000,000 shares of common stock pursuant to the merger agreement.

Name	Units Beneficially Owned (1)	Shares of Medix Common Stock to be Issued (2)	Percentage Ownership of Medix Resources (3)
Steve Burns .....	25.054	4,023,280	3.19%
Lawrence B. Waldman	13.052	2,151,360	1.70%
David Wolf .....	12.201	1,920,840	1.52%
Mick Kowitz .....	10.341	1,651,360	1.31%
John Kane .....	5.702	869,720	0.69%

- (1) The members of PocketScript are anticipated to approve an amendment to its Operating Agreement prior to the effective date of the merger which will provide for the following modified percentage distributions for shares (if any) received upon satisfaction of any Qualifying Event: Stephen Burns - 25.42%; Lawrence B. Waldman - 14.634%; David Wolf - 11.400%; Mick Kowitz - 10.243%; and John Kane - 4.637%.
- (2) Assumes a total of 12,000,000 shares are issued as part of the initial merger consideration and an additional 4,000,000 shares are issued pursuant to satisfaction of Qualifying Events.
- (3) As of December 31, 2002, there were 77,320,815 shares of Medix Resources common shares outstanding for purposes of this calculation. Such amount assumes conversion of all outstanding preferred shares, but does not assume exercise of outstanding stock options or warrants. As of December 31, 2002, 33,017,353 shares of our common stock were issuable upon the exercise of all outstanding stock options and warrants.

The approval by holders of a majority of the outstanding shares of our common stock is required to approve the merger agreement and the transactions contemplated thereby. Your board of directors recommends a vote FOR the approval of the proposal to authorize such issuance, which is designated as Proposal One on the enclosed proxy card.

### PROPOSAL TWO

#### AMENDMENT OF OUR ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF

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### AUTHORIZED SHARES OF COMMON STOCK FROM 125,000,000 SHARES TO 185,000,000 SHARES

#### General

Our Board of Directors has declared advisable an amendment to the Medix Resources articles of incorporation to increase the aggregate number of authorized shares of common stock from 125,000,000 shares to 185,000,000 shares (the "Amendment") and has directed that the Amendment be submitted to the stockholders at the special meeting. The articles of incorporation presently authorize the issuance of 125,000,000 shares of common stock and 2,500,000 shares of preferred stock. No change is proposed in the number of authorized shares of preferred stock.

#### Proposed Amendment

If the Amendment is approved, the text of Section 1 of Article IV of our articles of incorporation would read in its entirety as follows:

"Section 1. Classes and Shares Authorized. The total number of shares of Common Stock that the Corporation shall have authority to issue is One Hundred Seventy-Five Million (185,000,000) shares of Common Stock, \$0.001 par value per share. The total number of shares of Preferred Stock that the Corporation shall have authority to issue is Two Million Five Hundred Thousand (2,500,000) shares of Preferred Stock, \$1.00 par value per share."

#### General Effect of the Proposed Amendment and Reasons for Approval

Of our 125,000,000 authorized shares of common stock, 77,160,815 shares were issued and outstanding as of December 31, 2002. At that date, we had also reserved for issuance a total of 33,177,353 additional shares of common stock for issuance as follows:

- o 10,272,750 shares are issuable upon the exercise of vested and unvested stock options;
- o 22,720,978 shares are issuable upon the exercise of outstanding warrants; and
- o 160,000 shares are issuable upon conversion of outstanding shares of preferred stock.

In addition, we are currently proposing to adopt a new Stock Incentive Plan which, if approved by our stockholders, will require us to reserve an additional 10,000,000 shares of common stock. Furthermore, under the PocketScript merger agreement, upon consummation of the PocketScript merger we will be obligated to issue 12,000,000 shares of common stock, subject to certain adjustments. If certain Qualifying Events described elsewhere in this proxy statement occur within the time periods specified in the merger agreement, we will be obligated to issue up to \$4,000,000 dollars worth of additional common shares, valued at the average market price during a period occurring after the closing of the PocketScript merger. Thus, as of the date hereof and as of the closing, we will not know how many shares we will be required to issue with respect to the Qualifying Events.

In addition to satisfying our current commitments as described above, we will be required to raise additional capital to finance our operations and to finance the development of our software products. The purpose of the proposed Amendment includes providing us with greater flexibility in financing these cash requirements, by providing us with adequate authorized common stock to commit in

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future financings. Your Board of Directors has determined that we soon will be restricted in its financing options due to the limited amount of authorized but unissued shares of common stock provided for in our articles of incorporation. We currently fund operations principally by issuing common stock and warrants from time to time in private transactions at a discount to market. Failure to authorize this amendment could limit our ability to raise capital to fund its operations. We believe that we will require at least 12,500,000 common shares for such private placements during 2003.

We are proposing to increase that number of authorized shares from 125,000,000 shares to 185,000,000 shares. We believe that we will need a portion of such increase in order to have shares available to consummate the PocketScript merger. If our shareholders approve the PocketScript merger but do not approve the proposed increase in the authorized shares of common stock, it may become necessary for us to restructure the PocketScript merger, which may require further approval of our shareholders, resulting in delay and additional expense for Medix Resources. Accordingly, shareholders who approve the PocketScript merger are urged to also vote in favor of the proposed amendment to our articles of incorporation.

On February 7, 2003, the last trading date prior to the day on which your board approved the Amendment (subject to shareholder approval), the closing sale price of the common stock on the American Stock Exchange was \$0.69 per share.

Adoption of the Amendment would enable your board from time to time to issue additional shares of common stock for such purposes and such consideration as the Board may approve without further approval of our stockholders, except as may be required by law or the rules of the American Stock Exchange. As is true for shares presently authorized but unissued, common stock authorized by the Amendment may, among other things, have a dilutive effect on earnings per share and on the equity and voting power of existing holders of common stock.

Our shareholders will have no appraisal rights under Colorado law with respect to the Amendment or any equity financing that Medix Resources may undertake after its adoption. In addition, shareholders do not have any preemptive rights to participate in any future issuance of common stock, and therefore will suffer dilution of ownership upon such issuance. The issuance of additional shares could also have the effect of diluting the earnings per share and book value of existing shares of our common stock. Although the authorization of the additional shares is not intended as an anti-takeover device, the additional shares could be used to dilute the stock ownership of persons seeking to gain control of the Company, which could preclude existing shareholders from taking advantage of such a situation.

### Vote Required

The proposed Amendment to our articles of incorporation will be deemed approved by our shareholders if the number of votes cast for such proposal exceeds the number of votes cast against such proposal, assuming that a quorum is present. Your board of directors recommends a vote FOR the approval of the proposed Amendment, which is designated as Proposal Two on the enclosed proxy card.

## **PROPOSAL THREE**

### **REINCORPORATION IN THE STATE OF DELAWARE**

#### General

Your board has recommended, and at the special meeting the shareholders will be asked to authorize, the change of Medix Resources' state of

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incorporation from Colorado to Delaware. This transaction will not result in any change in the business, management, assets, liabilities or net worth of Medix Resources. Reincorporation in Delaware will allow us to take advantage of certain provisions of the corporate laws of Delaware. The purposes and effects of the proposed change are summarized below.

In order to effect our reincorporation in Delaware, Medix Resources will be merged into a newly formed, wholly-owned subsidiary incorporated in Delaware. To distinguish between this merger and the PocketScript's merger, we refer to this merger as the reincorporation merger and the agreement and plan of merger governing the reincorporation as the reincorporation agreement. Prior to the reincorporation merger, the Delaware subsidiary will not have engaged in any activities except in connection with the proposed reincorporation transaction. The mailing address of the Delaware subsidiary's principal executive offices and its telephone number are the same as Medix Resources' mailing address and telephone number. As part of its approval and recommendations of our reincorporation in Delaware, your board has approved, and recommends to the shareholders for their adoption and approval, a reincorporation agreement pursuant to which Medix Resources will be merged with and into the Delaware subsidiary. The full texts of the reincorporation agreement and the certificate of incorporation and by-laws of the successor Delaware corporation under which our business would be conducted after the reincorporation merger are set forth in this proxy statement as Annex C, Annex D and Annex E, respectively. The discussion contained in this proxy statement is qualified in its entirety by reference to such Annexes. The provisions of the Certificate of Incorporation will be substantially identical to those of our current articles of incorporation, as amended, except that the Certificate of Incorporation will (i) be governed by Delaware law, and (ii) include additional provisions regarding the indemnification of directors, officers and other agents.

In the following discussion of the proposed reincorporation, the term "Medix-COL" refers to Medix Resources as currently organized as a Colorado corporation; the term "Medix-DEL" refers to the new wholly-owned Delaware subsidiary of Medix-COL that will be the surviving corporation after the completion of the reincorporation transaction; and the term "Medix Resources" includes either or both, as the context may require, without regard to the state of incorporation.

Upon shareholder approval of the proposed reincorporation, and upon acceptance for filing of appropriate certificates of merger by the Secretary of State of Delaware and the Secretary of State of Colorado, Medix-COL will be merged with and into Medix-DEL pursuant to the reincorporation agreement, resulting in a change in Medix Resources' state of incorporation. Medix Resources will then be subject to the Delaware General Corporation Law and the Certificate of Incorporation and Bylaws set forth in Annex D and Annex E, respectively. Upon the effective time of the reincorporation, each outstanding share of each class of stock of Medix-COL automatically will be converted into one share of the corresponding class of stock of Medix-DEL. Outstanding options and warrants to purchase shares of common stock of Medix-COL will be converted into options and warrants to purchase the same number of shares of common stock of Medix-DEL.

IT WILL NOT BE NECESSARY FOR OUR SHAREHOLDERS TO EXCHANGE THEIR EXISTING STOCK CERTIFICATES FOR CERTIFICATES OF MEDIX-DEL. OUTSTANDING STOCK CERTIFICATES OF MEDIX-COL SHOULD NOT BE DESTROYED OR SENT TO MEDIX RESOURCES.

### Principal Reasons for Changing Our State of Incorporation

Your board of directors believes that the proposed reincorporation will provide flexibility for both the management and business of the Company.

Delaware is a favorable legal and regulatory environment in which to

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operate. For many years, Delaware has followed a policy of encouraging incorporation in that state and, in furtherance of that policy, has adopted comprehensive, modern and flexible corporate laws which are periodically updated and revised to meet changing business needs. As a result, many major corporations have initially chosen Delaware for their domicile or have subsequently reincorporated in Delaware. The Delaware courts have developed considerable expertise in dealing with corporate issues, and a substantial body of case law has developed construing Delaware law and establishing public policies with respect to Delaware corporations, thereby providing greater predictability with respect to corporate legal affairs. In addition, many investors and securities professionals are more familiar and comfortable with Delaware corporations than corporations governed by the laws of other jurisdictions, even where the laws are similar. This latter factor was considered especially important to your board, since it is anticipated that it will be necessary for Medix Resources to continue to access the private and public capital markets in order for management to execute its business plans.

### Comparison of the Rights of Holders of Medix-COL Common Stock and Medix-DEL Common Stock

Medix-COL is a Colorado corporation; the Colorado Business Corporation Act and the articles of incorporation and Bylaws of Medix-COL govern the rights of its shareholders. Medix-DEL is a Delaware corporation; the rights of its shareholders are governed by the Delaware General Corporation Law and the Certificate of Incorporation and Bylaws of Medix-DEL.

The corporation laws of Colorado and Delaware differ in many respects. Although we have not described all of the differences in this proxy statement, we have described below certain provisions which could materially impact the rights of shareholders of Medix-COL as compared to the rights of shareholders in Medix-DEL.

#### **Removal of Directors**

Directors may generally be removed with or without cause under the laws of both Colorado and Delaware, with the approval of a majority of the outstanding shares entitled to vote in an election of directors. However, no director may be removed if the number of votes cast against such removal would be sufficient to elect the director.

#### **Colorado**

A director of a corporation that does not have a staggered or classified board of directors or cumulative voting may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors. In the case of a Colorado corporation having cumulative voting, if less than the entire board is to be removed, a director may not be removed without cause if the number of shares voted against such removal would be sufficient to elect the director under cumulative voting. The articles of incorporation of Medix-COL provide for a staggered or classified board of directors if the Board consists of six or more persons, but do not provide for cumulative voting.

#### **Delaware**

A director of a corporation that does not have a staggered or classified board of directors or cumulative voting may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors. In the case of a Delaware corporation having cumulative voting, if less than the entire board is to be removed, a director may not be removed without cause if the number of shares voted against such removal would be sufficient to elect the director under cumulative voting. A director of a

corporation with a staggered or classified board of directors may be removed only for cause, unless the certificate of incorporation otherwise provides. The Certificate of Incorporation of Medix-DEL provides for a staggered or classified board of directors, but not for cumulative voting. The Certificate of Incorporation of Medix-DEL provides that the staggered board provisions will apply regardless of the size of the Board.

***Staggered or Classified Board of Directors***

A classified or staggered (the term used in the Colorado Business Corporations Act) board is one on which a certain number, but not all, of the directors are elected on a rotating basis each year. This method of electing directors makes changes in the composition of the board of directors more difficult, and thus makes a potential change in control of a corporation a lengthier and more difficult process.

***Colorado***

The Medix-COL articles of incorporation provides for a staggered board if the Board consists of six or more persons, dividing the Board into three classes. Colorado law permits, but does not require, a staggered board of directors, pursuant to which the directors can be divided into as many as three classes with staggered terms of office, with only one class of directors standing for election each year.

***Delaware***

Delaware law permits, but does not require, a staggered board of directors, pursuant to which the directors can be divided into as many as three classes with staggered terms of office, with only one class of directors standing for election each year. The Medix-DEL Certificate of Incorporation provides for a staggered board, dividing the board into three classes if the Board consists of six or more persons.

***Indemnification and Limitation of Liability of Directors, Officers and Other Agents***

Delaware and Colorado have similar laws respecting indemnification by a corporation of its officers, directors, employees and other agents. The laws of both states also permit, with certain exceptions, a corporation to adopt provisions in its articles or certificate of incorporation, as the case may be, eliminating the liability of a director to the corporation or its shareholders for monetary damages for breach of the director's fiduciary duty in certain cases. There are nonetheless certain differences between the laws of the two states respecting indemnification and limitation of liability of directors, officers, employees and other agents.

***Colorado***

The articles of incorporation of Medix-COL eliminate the liability of directors to the corporation, subject to exceptions that generally reflect statutory exceptions. Colorado law does not permit the elimination of a director's monetary liability where such liability is based on: (a) a breach of the director's duty of loyalty to the corporation or its shareholders, (b) acts or omissions not in good faith, (c) acts or omissions which involve intentional misconduct or knowing violations of law, (d) unlawful distributions to shareholders or (e) any transaction from which the director directly or indirectly derived an improper personal benefit.

Colorado law generally permits indemnification of director liability, including expenses actually and reasonably incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a

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majority vote of a disinterested quorum of the directors, by independent legal counsel or by a majority vote of a quorum of the shareholders that the person seeking indemnification acted in good faith and, in the case of conduct in an official capacity, in a manner he or she reasonably believed was in the best interests of the corporation or a benefit plan (if acting in a capacity with respect to such a plan). In other cases, the director is entitled to indemnification if his or her conduct was at least not opposed to the corporation's best interests. In a criminal proceeding, the director is entitled to indemnification if he or she had no reasonable cause to believe the conduct was unlawful.

Without court approval, however, no indemnification is available in any action by or on behalf of the Corporation (i.e., a derivative action) in which such person is adjudged liable to the corporation or in any other proceeding where the director is adjudged liable on the basis that he or she received an improper personal benefit. Colorado law requires indemnification of director expenses when the individual being indemnified has successfully defended any action, claim, issue, or matter therein, on the merits or otherwise.

A director may also apply for and obtain indemnification as ordered by a court under circumstances where the court deems the director is entitled to mandatory indemnification under Colorado law or when, under all the facts and circumstances, it deems it fair and reasonable to award indemnification even though the director has not strictly met the statutory standards. An officer is also entitled to apply for and receive court awarded indemnification to the same extent as a director.

A corporation cannot indemnify its directors by any means (other than under a third party insurance contract) if to do so would be inconsistent with the limitations on indemnification set forth in the Colorado Business Corporations Act.

A Colorado corporation may indemnify officers, employees, fiduciaries and agents to the same extent as directors, and may indemnify those persons to a greater extent than is available to directors if to do so does not violate public policy and is provided for in a by-law, a general or specific action of the board of directors or shareholders or in a contract.

The Bylaws of Medix-COL provide that Medix-COL will indemnify any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that such person is or was a director, officer, employee, fiduciary or agent of Medix-COL or, while serving in such capacity, is or was also serving at the request of Medix-COL as a director, officer, partner, trustee, employee, fiduciary or agent of another entity or employee benefit plan, against all liability and loss suffered and expenses, including attorneys' fees, reasonably incurred by such person. An indemnified person will be indemnified against reasonably incurred expenses, judgments, penalties, fines and settlement amounts if the indemnified person is determined to have conducted themselves in good faith and reasonably believed that:

- o in the case of conduct in the indemnified person's official capacity with Medix-COL, that the conduct was in Medix-COL's best interests,
- o in all other cases, except for criminal conduct, that the conduct was not opposed to Medix-COL's best interests, or
- o in the case of a criminal proceeding, that the indemnified person had no reasonable cause to believe that the conduct was unlawful.

Medix-COL will not indemnify a person with respect to any claim to the extent

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that the claim is brought by Medix-COL and in which the person was held liable to Medix-COL for deriving an improper personal benefit. In addition, in proceedings brought by or in Medix-COL's name, indemnification will be limited to reasonable expenses incurred in connection with the proceeding.

### **Delaware**

The Certificate of Incorporation of Medix-DEL also eliminates the liability of directors to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permissible under Delaware law, as such law exists currently or as it may be amended in the future. Under Delaware law, such provision may not eliminate or limit director monetary liability for: (a) breaches of the director's duty of loyalty to the corporation or its stockholders; (b) acts or omissions not in good faith or involving intentional misconduct or knowing violations of law; (c) the payment of unlawful dividends or unlawful stock repurchases or redemptions; or (d) transactions in which the director received an improper personal benefit. Such limitation of liability provisions also may not limit a director's liability for violation of or otherwise relieve its directors from the necessity of complying with federal or state securities laws, or affect the availability of non-monetary remedies such as injunctive relief or rescission.

Delaware law generally permits indemnification of expenses, including attorney's fees, actually and reasonably incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a majority vote of a disinterested quorum of the directors, by independent legal counsel or by a majority vote of a quorum of the stockholders that the person seeking indemnification acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the corporation. Without court approval, however, no indemnification may be made in respect of any derivative action in which such person is adjudged liable for negligence or misconduct in the performance of his or her duty to the corporation.

Delaware law also permits a Delaware corporation to provide indemnification in excess of that provided by statute. In contrast to Colorado law, Delaware law does not require authorizing provisions in the certificate of incorporation and does not contain express prohibitions on indemnification in certain circumstances. A court may impose limitations on indemnification, however, based on principles of public policy.

Delaware law provides that the indemnification provided by statute shall not be deemed exclusive of any other rights under any by-law, agreement, vote of stockholders or disinterested directors or otherwise.

The Certificate of Incorporation of Medix-DEL provides that Medix-DEL will indemnify any person who was or is made or is threatened to be made a party or is otherwise involved in any Proceeding, by reason of the fact that such person is or was a director, officer, employee, fiduciary or agent of Medix-DEL or, while serving in such capacity, is or was also serving at the request of Medix-DEL as a director, officer, partner, trustee, employee, fiduciary or agent of another entity or employee benefit plan, against all liability and loss suffered and expenses, including attorneys' fees, reasonably incurred by such person. An indemnified person will be indemnified against reasonably incurred expenses, judgments, penalties, fines and settlement amounts if the indemnified person is determined to have conducted themselves in good faith and reasonably believed that:

- o in the case of conduct in the indemnified person's official capacity with Medix-DEL, that the conduct was in Medix-DEL's best interests,
- o in all other cases, except for criminal conduct, that the conduct was not opposed to Medix-DEL's best interests, or



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- o in the case of a criminal proceeding, that the indemnified person had no reasonable cause to believe that the conduct was unlawful.

Medix-DEL will not indemnify a person with respect to any claim to the extent that the claim is brought by Medix-DEL and in which the person was held liable to Medix-DEL for deriving an improper personal benefit. In addition, in proceedings brought by or in Medix-DEL's name, indemnification will be limited to reasonable expenses incurred in connection with the proceeding.

Both Colorado and Delaware law require indemnification when a director or officer has successfully defended an action on the merits or otherwise.

Expenses incurred by an officer or director in defending an action may be paid in advance under Colorado and Delaware law if the director or officer undertakes to repay the advances if it is ultimately determined that he or she is not entitled to indemnification. Certain commentators have suggested that the provision in the Sarbanes-Oxley Act of 2002 prohibiting loans to directors and executive officers may prohibit such advances to directors and officers of public corporations, although this issue has not yet been resolved.

The laws of both Colorado and Delaware authorize a corporation's purchase of indemnity insurance for the benefit of its officers, directors, employees and agents whether or not the corporation would have the power to indemnify against the liability covered by the policy.

### Inspection of Shareholder List

Both Delaware and Colorado law allow any shareholder to inspect the shareholder list for a purpose reasonably related to such person's interests as a shareholder.

### ***Consideration for Issuance of Shares***

#### ***Colorado***

Shares may be issued for consideration consisting of tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed and other securities of the corporation. In the absence of fraud in the transaction, the determination of the board is conclusive insofar as the adequacy of consideration relates to whether the shares are validly issued, fully paid, and nonassessable.

Shares may not be issued for consideration consisting of a promissory note of the subscriber or an affiliate of the subscriber unless the note is negotiable and is secured by collateral, other than the shares, having a fair market value at least equal to the principal amount of the note. The note must reflect a promise to pay independent of the collateral and cannot be a "nonrecourse" note.

Shares with a par value may be issued for consideration less than such par value.

#### ***Delaware***

Shares may be issued for consideration consisting of tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed and other securities of the corporation.

In the absence of "actual fraud" in the transaction, the judgment of the board as to the value of the consideration is conclusive.

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No provisions restrict the ability of the board to authorize the issuance of stock for a promissory note of any type, including an unsecured or nonrecourse note or a note secured only by the shares.

Shares with par value cannot be issued for consideration with a value that is less than the par value. Shares without par value can be issued for any consideration determined to be valid by the board.

### ***Dividends and Repurchases of Shares***

#### ***Colorado***

Colorado law dispenses with the concepts of par value of shares as well as statutory definitions of capital, surplus and the like. Colorado law permits a corporation to declare and pay cash or in-kind property dividends or to repurchase shares unless, after giving effect to the transaction: (a) the corporation would not be able to pay its debts as they become due in the usual course of business; or (b) the corporation's total assets would be less than the sum of its total liabilities plus (unless the articles of incorporation permit otherwise) the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

#### ***Delaware***

The concepts of par value, capital and surplus are retained under Delaware law. Delaware law permits a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year as long as the amount of capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. In addition, Delaware law generally provides that a corporation may redeem or repurchase its shares only if the capital of the corporation is not impaired and such redemption or repurchase would not impair the capital of the corporation.

### ***Amendments to the Charter***

Both Colorado law and Delaware law generally provide that amendments to the charter -- the articles of incorporation for Colorado corporations and the certificate of incorporation for Delaware corporations -- require the approval of the board of directors and the shareholders.

#### ***Colorado***

Under Colorado law, an amendment to a corporation's articles of incorporation will be deemed approved by its shareholders if the number of votes cast for such proposal exceeds the number of votes cast against such proposal, assuming that a quorum is present. Since Medix-COL has a 33-1/3% quorum requirement, conceivably holders of as few as 17% of the corporation's shares could approve an amendment to the Medix-COL articles of incorporation.

#### ***Delaware***

Under Delaware law, an amendment to a corporation's certificate of incorporation generally will require the approval of the holders of a majority of the outstanding voting shares. Shares which are not voted thus would have the same effect as a "no vote".

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### ***Shareholder Voting on Mergers and Certain Other Transactions***

Both Delaware and Colorado law generally require that holders owning a majority of the shares of both acquiring and target corporations approve statutory mergers.

#### ***Colorado***

Colorado law does not require a shareholder vote of the surviving corporation in a merger (unless the corporation provides otherwise in its articles of incorporation) if (a) the merger agreement does not amend the existing articles of incorporation, with certain limited exceptions (b) each shareholder of the surviving corporation whose shares were outstanding immediately before the merger will hold the same number of shares, with identical designations, preferences, limitations and relative rights immediately after the merger, and (c) the number of shares outstanding immediately after the merger, plus the number of shares issued as a result of the merger, will not exceed more than twenty per cent (20%) of the total number of voting shares of the surviving corporation outstanding immediately before the merger.

Unless one of these exceptions are available, Colorado law requires that holders of a majority of the outstanding voting shares of both acquiring and target corporations approve statutory mergers, unless the articles of incorporation, bylaws adopted by the shareholders, or the board of directors require a supermajority (greater than a simple majority) voting requirement in connection with mergers.

The articles of incorporation of Medix-COL provide that if Medix-COL sells all or substantially all of its assets to, merges or consolidates with, or exchanges all of its shares with, an unaffiliated third-party that is a beneficial owner of more than 10% of Medix-COL's outstanding shares of capital stock, the holders of at least two-thirds of Medix-COL's outstanding capital stock would need to approve the transaction, unless the transaction were approved by a majority of Medix-COL's directors who were (a) directors prior to the transaction in which the unaffiliated third-party became a beneficial owner of more than 10% of Medix-COL's outstanding shares of capital stock or (b) elected by a majority of Medix-COL's directors who were in office at the time that the unaffiliated third-party became a beneficial owner of more than 10% of Medix-COL's outstanding shares of capital stock.

#### ***Delaware***

Delaware law contains a similar exception to its voting requirements for reorganizations where shareholders of the corporation immediately prior to the reorganization will own immediately after the reorganization equity securities constituting more than 80 percent of the voting power of the surviving or acquiring corporation or its parent entity.

Both Delaware law and Colorado law also require that a sale of all or substantially all of the assets of a corporation otherwise than in the ordinary course of business be approved by a majority of the outstanding voting shares of the corporation transferring such assets.

The certificate of incorporation of Medix-DEL provide that if Medix-DEL sells all or substantially all of its assets to, merges or consolidates with, or exchanges all of its shares with, an unaffiliated third-party that is a beneficial owner of more than 10% of Medix-DEL's outstanding shares of capital stock, the holders of at least two-thirds of Medix-DEL's outstanding capital stock would need to approve the transaction. Medix-DEL did not include in its certificate of incorporation a provision comparable to the provision in Medix-COL's articles of incorporation permitting approval of such a transaction by the holders of a majority of the outstanding capital stock if a majority of

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directors who were so-called "continuing directors" (that is, directors prior to the transaction in which the unaffiliated third-party became a beneficial owner of more than 10% of Medix-DEL's outstanding shares of capital stock or directors elected by a majority of Medix-DEL's directors who were in office at the time that the unaffiliated third-party became a beneficial owner of more than 10% of Medix-DEL's outstanding shares of capital stock) approved the transaction because of case law in Delaware with respect to the lack of enforceability of continuing director provisions in a related context. Instead, the certificate of incorporation of Medix-DEL permits approval of such a transaction by the holders of a majority of the outstanding capital stock if a majority of the entire board approves the transaction.

### ***Shareholder Approval of Certain Business Combinations under Delaware Law***

In recent years, a number of states have adopted special laws designed to make certain kinds of "unfriendly" corporate takeovers, or other transactions involving a corporation and one or more of its significant shareholders, more difficult. Under Section 203 of the Delaware General Corporations Law, certain "business combinations" with "interested stockholders" of Delaware corporations are subject to a three-year moratorium unless specified conditions are met.

Section 203 prohibits a Delaware corporation from engaging in a "business combination" with an "interested stockholder" for three years following the date that such person or entity becomes an interested stockholder. With certain exceptions, an interested stockholder is a person or entity who or which owns, individually or with or through certain other persons or entities, 15% or more of the corporation's outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner, individually or with or through certain other persons or entities, of 15% or more of such voting stock at any time within the previous three years, or is an affiliate or associate of any of the foregoing.

For purposes of Section 203, the term "business combination" is defined broadly to include mergers with or caused by the interested stockholder; sales or other dispositions to the interested stockholder (except proportionately with the corporation's other stockholders) of assets of the corporation or a direct or indirect majority-owned subsidiary equal in aggregate market value to ten percent or more of the aggregate market value of either the corporation's consolidated assets or all of its outstanding stock; the issuance or transfer by the corporation or a direct or indirect majority-owned subsidiary of stock of the corporation or such subsidiary to the interested stockholder (except for certain transfers in a conversion or exchange or a pro rata distribution or certain other transactions, none of which increase the interested stockholder's proportionate ownership of any class or series of the corporation's or such subsidiary's stock or of the corporation's voting stock); or receipt by the interested stockholder (except proportionately as a stockholder), directly or indirectly, of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or a subsidiary.

The three-year moratorium imposed on business combinations by Section 203 does not apply if:

- o prior to the date on which such stockholder becomes an interested stockholder, the board of directors approves either the business combination or the transaction that resulted in the person or entity becoming an interested stockholder;
- o upon consummation of the transaction that made him or her an interested stockholder, the interested stockholder owns at least 85% of the corporation's voting stock outstanding at the time the

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transaction commenced (excluding from the 85% calculation shares owned by directors who are also officers of the target corporation and shares held by employee stock plans that do not give employee participants the right to decide confidentially whether to accept a tender or exchange offer); or

- o on or after the date such person or entity becomes an interested stockholder, the board approves the business combination and it is also approved at a stockholder meeting by 66-2/3 % of the outstanding voting stock not owned by the interested stockholder.

Section 203 only applies to publicly held corporations that have a class of voting stock that is

- o listed on a national securities exchange,
- o quoted on an interdealer quotation system of a registered national securities association or
- o held of record by more than 2,000 stockholders.

Although a Delaware corporation to which Section 203 applies may elect not to be governed by Section 203, Medix-DEL does not intend to so elect.

Section 203 will encourage any potential acquirer to negotiate with Medix-DEL's board of directors. Section 203 also might have the effect of limiting the ability of a potential acquirer to make a two-tiered bid for Medix-DEL in which all stockholders would not be treated equally. Shareholders should note, however, that the application of Section 203 to Medix-DEL will confer upon our board the power to reject a proposed business combination in certain circumstances, even though a potential acquirer may be offering a substantial premium for Medix-DEL's shares over the then-current market price. Section 203 would also discourage certain potential acquirers unwilling to comply with its provisions.

### ***Interested Director Transactions***

Under both Delaware and Colorado law, contracts or transactions in which one or more of a corporation's directors has an interest are generally not void or voidable because of such interest, provided that certain conditions, such as obtaining the required approval and fulfilling the requirements of good faith and full disclosure, are met. With certain exceptions, the conditions are similar under Delaware and Colorado law. To authorize or ratify the transaction, under Colorado law (a) either the shareholders or the disinterested members of the board of directors must approve any such contract or transaction in good faith after full disclosure of the material facts, or (b) the contract or transaction must have been fair as to the corporation. The same requirements apply under Delaware law, except that the fairness requirement is tested as of the time the transaction is authorized, ratified or approved by the board, the shareholders or a committee of the board. If board approval is sought, the contract or transaction must be approved by a majority vote of the disinterested directors, though less than a majority of a quorum, except that interested directors may be counted for purposes of establishing a quorum.

### ***Loans to Directors and Officers***

The Sarbanes-Oxley Act of 2002 prohibits the extension of credit to directors and executive officers of public corporations, subject to certain limited exceptions. The discussion below does not give effect to such prohibition, which is perceived to supercede state law.

### ***Colorado***

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The board of directors cannot make a loan to a director (or any entity in which such person has an interest), or guaranty any obligation of such person or entity, until at least ten days after notice has been given to the shareholders who would be entitled to vote on the transaction if it were being submitted for shareholder approval. The board of directors may make loans to, or guarantees for, officers on such terms as they deem appropriate whenever, in the board's judgment, the loan can reasonably be expected to benefit the corporation.

### ***Delaware***

The board of directors may make loans to, or guarantees for, directors and officers on such terms as they deem appropriate whenever, in the board's judgment, the loan can reasonably be expected to benefit the corporation.

### ***Shareholder Derivative Suits***

Under both Delaware and Colorado law, a stockholder may bring a derivative action on behalf of the corporation only if the stockholder was a stockholder of the corporation at the time of the transaction in question or if his or her stock thereafter devolved upon him or her by operation of law.

### ***Colorado***

Colorado law provides that the corporation or the defendant in a derivative suit may make a motion to the court for an order requiring the plaintiff shareholder to furnish a security bond.

### ***Delaware***

Delaware does not have a similar bonding requirement.

### ***Appraisal/Dissenters' Rights***

Under both Delaware and Colorado law, a shareholder of a corporation participating in certain major corporate transactions may, under varying circumstances, be entitled to appraisal/dissenters' rights pursuant to which such shareholder may receive cash in the amount of the fair market value of his or her shares in lieu of the consideration he or she would otherwise receive in the transaction. Under both Delaware and Colorado law, such fair market value is determined exclusive of any element of value arising from the accomplishment or expectation of the transaction.

### ***Colorado***

Under Colorado law, the major corporate transactions that may entitle shareholders to appraisal/dissenters' rights are mergers, share exchanges, and the sale, lease, exchange or other disposition of all, or substantially all, of the property of the corporation. A shareholder, whether or not entitled to vote, is entitled to dissent and obtain payment of the fair market value of the shareholder's shares in the event of such major corporate transactions. Dissenters rights are not available to shareholders of the parent in certain mergers of subsidiaries that are at least ninety percent (90%) owned by the parent, into such parent. Dissenters rights also are not available to shareholders of a Colorado corporation with respect to such major corporate transactions by a corporation the shares of which are either listed on a national securities exchange, or on the national market system of the national association of securities dealers automated quotation system, or are held of record by more than 2,000 holders, if such stockholders receive only shares of the surviving corporation, shares of any other corporation that are either listed on a national securities exchange or on the national market system of the national association of securities dealers automated quotation system or held of

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record by more than 2,000 holders, cash in lieu of fractional shares, or any combination of the foregoing.

### **Delaware**

Appraisal rights are not available (a) with respect to the sale, lease or exchange of all or substantially all of the assets of a corporation, (b) with respect to a merger or consolidation by a corporation the shares of which are either listed on a national securities exchange or are held of record by more than 2,000 holders if such stockholders receive only shares of the surviving corporation or shares of any other corporation that are either listed on a national securities exchange or held of record by more than 2,000 holders, plus cash in lieu of fractional shares of such corporations, or (c) to stockholders of a corporation surviving a merger if no vote of the stockholders of the surviving corporation is required to approve the merger under certain provisions of Delaware law.

### **Dissolution**

#### **Colorado**

If the board of directors initially approves the dissolution, it may be approved by a simple majority of the outstanding shares of the corporation's stock entitled to vote, unless the articles of incorporation, bylaws adopted by the shareholders, or the board of directors require a supermajority (greater than a simple majority) voting requirement in connection with dissolutions. Under Colorado law, shareholders may only initiate dissolution by way of a judicial proceeding.

### **Delaware**

Unless the board of directors approves the proposal to dissolve, the dissolution must be approved by all the stockholders entitled to vote thereon. Only if the board of directors initially approves the dissolution may it be approved by a simple majority of the outstanding shares of the corporation's stock entitled to vote. With respect to such a board-initiated dissolution, Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority (greater than a simple majority) voting requirement in connection with dissolutions. Medix-DEL's Certificate of Incorporation contains no such supermajority requirement, however, and a majority of the outstanding shares entitled to vote, voting at a meeting at which a quorum is present, would be sufficient to approve a dissolution of Medix-DEL that had previously been approved by the board of directors.

### Vote Required

The approval of a majority of the outstanding shares of our common stock is required to reincorporate in Delaware. Your board of directors recommends a vote FOR the approval of the Company's reincorporation in Delaware, which is designated as Proposal Three on the enclosed proxy card.

## PROPOSAL FOUR

### THE 2003 STOCK INCENTIVE PLAN

On February 10, 2003, our board of directors adopted, subject to shareholder approval, the Medix Resources, Inc. 2003 Stock Incentive Plan (the "Stock Incentive Plan"). The purpose of the Stock Incentive Plan is to enable us to attract and retain qualified directors, officers, employees and consultants, and to provide these persons with an additional incentive to contribute to our

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success. The material aspects of the Stock Incentive Plan are summarized below. We have attached a copy of the Stock Incentive Plan to this proxy statement as Annex F. Shareholders are urged to read the plan in its entirety.

### Administration

The Stock Incentive Plan provides that it will be administered by our board of directors or any duly created committee appointed by our board and charged with the administration of the Stock Incentive Plan. To the extent required in order to satisfy the requirements of Section 162(m) of the Internal Revenue Code, any committee will consist solely of "outside directors", within the meaning of Section 162(m). We will refer to the Board or any committee which administers the Stock Incentive Plan as the "Program Administrator". It is currently anticipated that the Stock Incentive Plan will be administered by a committee consisting of three board members to be designated by the board, except as otherwise required by Section 162(m) of the Code or as required by SEC or American Stock Exchange rule-making. The board may also designate a special committee to administer the Stock Incentive Plan to the extent necessary to satisfy the requirements of Section 162(m) of the Code.

### Structure

The Stock Incentive Plan actually consists of four different plans - a plan which contemplates the grant of incentive stock options, a plan which contemplates the grant of non-statutory stock options (which we refer to as "supplemental stock options"), a plan which contemplates the grant of stock appreciation rights and a plan which permits the grant of performance shares.

### Eligibility

All directors, officers, employees and consultants of Medix Resources and our subsidiaries are eligible to receive benefits under the Stock Incentive Plan. As a matter of law, only employees are eligible to receive incentive stock options. Grants under the Stock Incentive Plan are discretionary, and we are unable, at the present time, to determine the identity or number of directors, officers, other employees and consultants who may be granted benefits under the Stock Incentive Plan in the future.

### Types of Options

The Program Administrator may designate any option granted under the Stock Incentive Plan as either an incentive stock option or a supplemental stock option, or the Program Administrator may designate a portion of the option as an incentive stock option and the remaining portion as a supplemental stock option. Any portion of an option that is not expressly designated as an incentive stock option will be a supplemental stock option. To the extent that an option intended to be granted as an incentive stock option fails to satisfy one or more requirements applicable to incentive stock options, it will be deemed to be a supplemental stock option.

### Other Awards

In addition to stock options, the Stock Incentive Plan authorizes the grant of stock appreciation rights and performance shares. Stock appreciation rights may be granted in tandem with existing stock options or separately from such options. Performance shares enable the Company to condition the grant of shares upon the satisfaction of certain specified milestones.

### Exercise Period

Subject to modification by the Program Administrator, options granted to participants are generally exercisable in 25% annual installments beginning on



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the first anniversary of the date of grant and continuing for each of the next three anniversaries thereafter. Unless previously terminated by our board of directors, the Stock Incentive Plan will terminate on February , 2013. Such termination will have no impact upon options granted prior to the termination date. The maximum term of all options granted under the Stock Incentive Plan is 10 years, provided, however, that any incentive stock option granted to a person who is the beneficial owner of more than 10% of the combined voting power of the Company's capital stock will cease to be exercisable five years after the date such option is granted.

### Exercise Price

Options granted under the Stock Incentive Plan will have an exercise or payment price as established by the Program Administrator, provided that the exercise price of incentive stock options may not be less than the fair market value of the underlying shares on the date of grant. If incentive stock options are granted to a person who is the beneficial owner of more than 10% of the combined voting power of the Company's capital stock, such options shall be granted at a price of not less than 110% of the fair market value of the shares covered by the option. If on the date of grant the Common Stock is listed on a stock exchange (including the American Stock Exchange) or is quoted on the automated quotation system of Nasdaq, the fair market value will be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) on such date. If no such prices are available, the fair market value shall be determined in good faith by the Program Administrator in accordance with generally accepted valuation principles and such other factors as the Program Administrator deems relevant. On \_\_\_\_\_, 2003, the closing sale price of a share of our common stock on the American Stock Exchange was \$\_\_\_\_.

### Payment

Upon exercise of an option granted under the Stock Incentive Plan, the participant will be required to provide the payment price in full by certified or bank cashier's check or, if permitted by the Program Administrator, in shares of our common stock valued at fair market value on the date of exercise, or by a combination of a check and shares. The Program Administrator may, in its sole discretion, permit an optionee to make "cashless exercise" arrangements. In connection with any exercise of options, we will have the right to collect or withhold from any payments under the Stock Incentive Plan all taxes required to be withheld under applicable law.

### Transferability

Options granted under the Stock Incentive Plan generally will be nontransferable, except by will or by the laws of descent and distribution. During the lifetime of a participant, an option generally may be exercised only by the participant and after the participant's death only by the participant's executor, administrator or personal representative. Notwithstanding the foregoing, the Program Administrator may permit the recipient of a supplemental option to transfer such option to a family member or a trust, limited liability company or partnership created for the benefit of a family member.

### Termination of Employment

If a participant ceases to be employed by Medix Resources or any subsidiary for cause, then all options shall terminate immediately. If employment is terminated by Medix Resources or a subsidiary without cause, the options may be exercised, to the extent exercisable on the date of termination, until 90 days after the date of termination. If an optionee voluntarily terminates his or her employment, the options may be exercised, to the extent exercisable on the date of termination, until 30 days after the date of termination.

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If a participant dies or becomes disabled while employed by us or any subsidiary, then all options may be exercised, to the extent exercisable on the date of death or termination due to disability, at any time within twelve months after the date of death or such termination.

### Amendment and Termination

The Stock Incentive Plan may be amended or terminated at any time by our board of directors, except that no amendment may be made without shareholder approval if such approval is required by applicable laws or regulations, and no amendment or revision may alter or impair an outstanding option without the consent of the holder thereof. The Stock Incentive Plan will terminate on February , 2013, unless earlier terminated by our board of directors. No options may be granted after termination, although such termination will not affect the status of any option outstanding on the date of termination.

### Shares Subject to the Plan

A total of 10,000,000 shares of Common Stock (subject to adjustment as described below) may be issued under the Stock Incentive Plan. Any shares delivered pursuant to the Stock Incentive Plan may be authorized and unissued shares or treasury shares.

### Adjustments

The number of shares available for option grants and the shares covered by options will be adjusted equitably for stock splits, stock dividends, recapitalizations, mergers and other changes in our capital stock. Comparable changes will be made to the exercise price of outstanding options. If any option should terminate for any reason without having been exercised in full, the unpurchased shares will again become available for option grants.

### Change In Control

The Stock Incentive Plan provides that all outstanding stock options will become immediately exercisable upon the occurrence of a "change in control event". The Stock Incentive Plan provides in general that a "change in control event" shall be deemed to have occurred if any of the following events occur:

- o the consummation of any merger of Medix Resources in which Medix Resources is not the surviving corporation (expressly excluding from the definition of a change in control a merger in which shareholders of Medix Resources before the transaction continue to own at least one half of the outstanding voting common stock);
- o the consummation of any sale, lease, exchange or other transfer of all or substantially all of the assets of the Company;
- o approval by our shareholders of a plan of liquidation or dissolution of Medix Resources; and
- o any action pursuant to which any person (as defined in Section 13(d) of the Securities Exchange Act of 1934) shall become the beneficial owner of more than 50% of our outstanding voting securities.

### Additional Limitation

No participant may receive incentive stock options that first become exercisable in any calendar year in an amount exceeding \$100,000. In addition, no one person may receive options for more than 4,000,000 shares of our common stock in any calendar year.

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### Federal Income Tax Consequences

**BECAUSE OF THE COMPLEXITY OF THE FEDERAL INCOME TAX LAWS AND THE VARIED APPLICABILITY OF STATE, LOCAL AND FOREIGN INCOME TAX LAWS, THE FOLLOWING DISCUSSION OF TAX CONSEQUENCES IS GENERAL IN NATURE AND RELATES SOLELY TO FEDERAL INCOME AND EMPLOYMENT TAX MATTERS. PARTICIPANTS ARE ADVISED TO CONSULT THEIR PERSONAL TAX ADVISORS BEFORE EXERCISING AN OPTION OR DISPOSING OF ANY STOCK RECEIVED PURSUANT TO THE EXERCISE OF ANY SUCH OPTION. IN ADDITION, THE FOLLOWING SUMMARY IS BASED UPON AN ANALYSIS OF THE INTERNAL REVENUE CODE OF 1986, AS CURRENTLY IN EFFECT, JUDICIAL DECISIONS, ADMINISTRATIVE RULINGS, REGULATIONS AND PROPOSED REGULATIONS, ALL OF WHICH ARE SUBJECT TO CHANGE.**

The Internal Revenue Code distinguishes between incentive stock options and supplemental stock options (the latter also known as non-qualified stock options). A participant's individual tax consequences will depend upon which type of option the participant receives. However, as to both types of options, no income will be recognized to the optionee at the time of the grant of an option, nor will Medix Resources be entitled to a tax deduction at that time.

Upon the exercise of a supplemental stock option, the optionee will recognize compensation income, which is subject to Federal income tax (as well as certain employment taxes and withholding rules) at ordinary income rates, which generally are higher than the tax rates imposed on long-term capital gains. The amount of income recognized will equal the excess of the fair market value of the stock on the exercise date over the exercise price, if any. We generally will be entitled to a tax deduction in an amount equal to the compensation income then recognized by the optionee. If the shares acquired upon such exercise are held for more than one year before disposition, any gain on disposition of such shares will be treated as long-term capital gain.

For regular income tax purposes, an optionee will not recognize any income upon the exercise of incentive stock options. However, as noted below, the excess of the fair market value of the stock on the date of exercise over the exercise price will be taken into account in determining whether the "alternative minimum tax" will apply for the year of exercise. Moreover, under recently proposed regulations, certain Federal employment taxes may apply upon the exercise of incentive stock options after January 1, 2003. If the shares acquired upon exercise of incentive stock options are held for at least two years from the date of the option grant and for at least one year after the shares are acquired, any gain or loss upon the sale of such shares will be treated as long-term capital gain or loss, generally measured by the difference between the sales price of the stock and the exercise price. In general, any disposition of the shares during either of those two-year and one-year holding periods is considered a "disqualifying disposition". In the event of a disqualifying disposition, an optionee will recognize compensation income in the year of disposition in an amount equal to the lesser of (i) the fair market value of the stock on the date of exercise minus the exercise price or (ii) the amount realized on disposition minus the exercise price. The remainder of the gain will be treated as long-term or short-term capital gain, depending upon whether the stock has been held for more than one year. If an optionee makes a disqualifying disposition, we will generally be entitled to a tax deduction equal to the amount of ordinary income recognized by the optionee.

In general, if an optionee in exercising an option tenders shares of our common stock in partial or full payment of the option price, no gain or loss will be recognized on the tender. However, if the tendered shares were previously acquired upon the exercise of an incentive stock option and the tender is within two years from the date the option was granted or one year after the date of exercise of the other option, the tender will be a disqualifying disposition of the tendered shares.

As referred to above, the exercise of an incentive stock option could

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subject the optionee to the alternative minimum tax. The application of the alternative minimum tax to any particular optionee depends upon the particular facts and circumstances which exist with respect to the optionee in the year of exercise. However, as a general rule, the amount by which the fair market value of our common stock on the date of exercise of an option exceeds the exercise price of the option will constitute an item of "adjustment" for purposes of determining the alternative minimum tax that may be imposed. As such, this item will enter into the tax base on which the alternative minimum tax is computed, and may therefore cause the alternative minimum tax to apply in a given year.

### Other Medix Resources Option Plans

In 1994, we adopted our Incentive Stock Option Plan (the "1994 Plan"). A total of 500,000 shares of our common stock initially were reserved for issuance under the 1994 Plan. The purpose of the 1994 Plan was to encourage ownership of our common stock by our employees and to provide additional incentives for our employees to promote the success of our business. The 1994 plan provided solely for the grant of qualified, or incentive, stock options ("ISOs), to employees of Medix Resources and its subsidiaries, including employees who are officers and/or directors. The maximum term of options granted under the 1994 Plan is ten years. All options granted under the 1994 Plan must be granted at a price of at least 100% of fair market value (or 110% of fair market value in the case of 10% shareholders). Options granted to officers and directors are immediately exercisable. Options granted to all other employees are subject to vesting schedules determined at the time of grant. Optionees under the 1994 Plan are prohibited from disposing of shares acquired upon option exercises until two years after the date of option grant and one year after the date of option exercise.

In 1996, we adopted our 1996 Stock Incentive Plan (the "1996 Plan"). A total of 4,000,000 shares of our common stock initially were reserved for issuance under the 1996 Plan. The 1996 plan provided for the grant of non-qualified options ("NQOs"), stock awards and rights to purchase stock to employees, officers, directors and consultants of Medix Resources and its subsidiaries. The maximum term of options granted under the 1994 Plan is ten years and one day. The minimum price for stock options granted under the 1996 Plan is the lesser of our book value per share as of the last day of the preceding fiscal year or 50% fair market value of a share of our common stock on the grant date. Awards and purchases are to be made at the fair market value of a share of our common stock on the grant date. Vesting of stock options is determined by the committee administering the 1996 Plan at the time of grant.

In August 1999, your board approved and authorized our 1999 Stock Option Plan (the "1999 Plan"), which provides for the grant of ISOs and NQOs. The purpose of the 1996 Plan and the 1999 Plan was to enable our company to provide opportunities for certain officers and key employees to acquire a proprietary interest in our company, to increase incentives for such persons to contribute to our performance and further success, and to attract and retain individuals with exceptional business, managerial and administrative talents, who will contribute to our progress, growth and profitability.

Under the terms of the 1999 Plan, all officers and employees of our company are eligible for ISOs. Our company determines in its discretion, which persons will receive ISOs, the applicable exercise price, vesting provisions and the exercise term thereof. The terms and conditions of option grants differ from optionee to optionee and are set forth in the optionees' individual stock option agreement. Such options generally vest over a period of one or more years and expire after up to ten years. In order to qualify for certain preferential treatment under the Code, ISOs must satisfy certain statutory requirements. Options that fail to satisfy those requirements will be deemed NQOs and will not receive preferential treatment under the Code. Upon exercise, shares will be issued upon payment of the exercise price in cash, by delivery of shares of our

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common stock, by delivery of options or a combination of any of these methods. At our 2001 Annual Meeting, our shareholders approved an increase of 3,000,000 shares to 13,000,000 as the amount of total shares of our common stock reserved for issuance under the 1999 Plan.

As of December 31, 2002, we had issued 6,094,560 shares of our common stock upon exercise of options to current or former employees and directors, and had 10,272,750 shares covered by outstanding options held by current or former employees and directors, with exercise prices ranging from \$.25 to \$4.97. Such options have been granted under the 1994 Plan, the 1996 Plan, the 1999 Plan and under options granted outside of our stock option plans.

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under our 1994 Plan, 1996 Plan and 1999 Plan and under stock options granted outside of these plans. These plans were our only equity compensation plans in existence as of December 31, 2002.

Plan Category	(a) Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price Of Outstanding Options, Warrants and Rights	(c) Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Shareholders.....	8,937,250	\$1.13	862,750
Equity Compensation Plans Not Approved by Shareholders.....	1,772,666	\$0.63	0
TOTAL	10,709,916	\$1.05	862,750

### Vote Required

Our proposed 2003 Stock Incentive Plan will be deemed approved if a majority of the votes cast at the special meeting are cast for such proposal, assuming a quorum is present. Your board of directors recommends a vote FOR the approval of the 2003 Stock Incentive Plan, which is designated as Proposal Four on the enclosed proxy card.

### **EXPERTS**

The consolidated financial statements of Medix Resources as of December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001 appearing in our Annual report on Form 10-K for the year ended December 31,

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2001 have been audited by Ehrhardt Keefe Steiner & Hottman P.C., independent auditors, as stated in their report appearing therein, and have been incorporated herein by reference in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of PocketScript, LLC as of December 31, 2001, and for each of the two years in the period ended December 31, 2001 presented herein have been audited by Ehrhardt Keefe Steiner & Hottman P.C., independent auditors, as stated in their report appearing therein, and have been presented herein in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

### OTHER MATTERS

Representatives of Ehrhardt Keefe Steiner & Hottman P.C. are expected to be present at our special meeting with the opportunity to make statements if they so desire.

We know of no matters to be presented at the special meeting other than the matters described in this proxy statement. However, if any other matters do come before the meetings, it is intended that the holders of the proxies will vote on such matters in their discretion.

### WHERE YOU CAN FIND MORE INFORMATION

Medix Resources files reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may read and copy such information at the following locations of the SEC:

Public Reference Room  
450 Fifth Street, N.W.  
Room 1024  
Washington, D.C.  
20539

Midwest Regional Office  
Citicorp Center  
500 West Madison Street  
Suite 1400  
Chicago, Illinois  
60661-2511

Northeast Regional Office  
233 Broadway  
Woolworth Building  
New York, New York 10279

You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, like Medix Resources, who file electronically with the SEC. The address of that site is <http://www.sec.gov>.

You may also inspect copies of this information at the public reference facilities of the American Stock Exchange, located at 86 Trinity Place, New York, New York 10006.

By Order of the Board of Directors

Mark Lerner, Secretary

\_\_\_\_\_, 2003

**INDEX TO FINANCIAL STATEMENTS**

The following index sets forth the consolidated financial statements of Medix Resources and the financial statements of PocketScript LLC included in this prospectus. The consolidated financial statements of Medix Resources are incorporated in this prospectus by reference. See "Incorporation of Certain Information by Reference". PocketScript's historical financial statements are presented in this prospectus on the pages identified in this index.

**Medix Resources, Inc. Audited Year-End Consolidated Financial Statements:**

- (a) Independent Auditors' Report
- (b) Consolidated Balance Sheets as of December 31, 2001 and 2000
- (c) Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999
- (d) Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999
- (e) Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999
- (f) Notes to Consolidated Financial Statements

**Medix Resources, Inc. Unaudited Interim Consolidated Financial Statements:**

- (g) Consolidated Balance Sheets as of September 30, 2002 and December 31, 2001
- (h) Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2002 and 2001
- (i) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and 2001
- (j) Notes to Interim Consolidated Financial Statements

**PocketScript LLC Interim Financial Statements:**

- (k) Independent Auditors' Report
- (l) Balance Sheets as of December 31, 2001 and 2000 and September 30, 2002 (unaudited)
- (m) Statements of Operations for the Years Ended December 31, 2001 and 2000 and for the Nine Months Ended September 30, 2002 and 2001 (unaudited)
- (n) Statement of Changes in Redeemable Preferred Stock and Stockholders' Equity (Deficit) for the Years Ended December 31, 2001 and 2000 and Nine Months Ended September 30, 2002 (unaudited)
- (o) Statements of Cash Flows for the Years Ended December 31, 2001 and 2000 and Nine Months Ended September 30, 2002 and 2001 (unaudited)
- (p) Notes to Financial Statements

**Unaudited Pro Forma Condensed Consolidated Financial Statements**

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(q) Introduction

(r) Combined Balance Sheet as of September 30, 2002

(s) Combined Statement of Operations for the Nine Months Ended September 30, 2002

(t) Combined Statement of Operations for the Year Ended December 31, 2001

(u) Notes to Unaudited Pro Forma Balance Sheet and Statements of Operations

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholders  
Medix Resources, Inc.  
Englewood, CO

We have audited the accompanying consolidated balance sheets of Medix Resources, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medix Resources, Inc. as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced recurring losses and has a working capital deficit, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Ehrhardt Keefe Steiner & Hottman PC

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Ehrhardt Keefe Steiner & Hottman PC

March 19, 2002



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Denver, Colorado

**MEDIX RESOURCES, INC.**

**Consolidated Balance Sheets**

	December 31,	
	2001	2000
<b>Assets</b>		
Current assets		
Cash	\$ 8,000	\$ 1,007,000
Accounts receivable, net	-	49,000
Prepaid expenses and other	344,000	225,000
Total current assets	352,000	1,281,000
Non-current assets		
Software development costs, net	649,000	371,000
Property and equipment, net	365,000	418,000
Intangible assets, net	1,735,000	3,019,000
Total non-current assets	2,749,000	3,808,000
Total assets	\$ 3,101,000	\$ 5,089,000

**Liabilities and Stockholders' Equity**

Current liabilities		
Notes payable	\$ 158,000	\$ 137,000
Accounts payable	851,000	159,000
Accounts payable - related parties	166,000	-
Accrued expenses	450,000	391,000
Accrued payroll taxes, interest and penalties	131,000	200,000
Total current liabilities	1,756,000	887,000

Commitments and contingencies

Stockholders' equity

1996 Preferred stock, 10% cumulative convertible, \$1 par value 488 shares authorized, 155 issued, 1 share outstanding, liquidation preference \$17,000	-	-
1997 convertible preferred stock, \$1 par value 300 shares authorized 167.15 shares issued, zero shares outstanding	-	-
1999 Series A convertible preferred stock, \$1 par value, 300 shares authorized, 300 shares issued, zero shares outstanding	-	-
1999 Series B convertible preferred stock, \$1 par value, 2,000 shares authorized, 1,832 shares issued, 50 shares outstanding, liquidation preference \$50,000	-	-

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1999 Series C convertible stock, \$1 par value, 2,000 shares authorized, 1,995 shares issued, 375 and 875 shares outstanding as of December 31, 2001 and 2000, respectively, liquidation preference \$375,000 and \$875,000	-	1,000
Common stock, \$.001 par value, 100,000,000 shares authorized, 56,651,409 and 46,317,022 issued and outstanding, respectively	56,000	46,000
Dividends payable with common stock	7,000	5,000
Additional paid-in capital	35,341,000	27,573,000
Accumulated deficit	(34,059,000)	(23,423,000)
	-----	-----
Total stockholders' equity	1,345,000	4,202,000
	-----	-----
Total liabilities and stockholders' equity	\$ 3,101,000	\$ 5,089,000
	=====	=====

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Operations**

	For the Years Ended December 31,		
	2001	2000	1999
	-----	-----	-----
Sales			
Revenues	\$ 29,000	\$ 326,000	\$ 24,000
	-----	-----	-----
	29,000	326,000	24,000
	-----	-----	-----
Cost of goods sold			
Direct costs of services	213,000	180,000	2,000
	-----	-----	-----
Total cost of goods sold	213,000	180,000	2,000
	-----	-----	-----
Gross (loss) profit	(184,000)	146,000	22,000
	-----	-----	-----
Operating expenses			
Software research and development costs	1,075,000	685,000	596,000
Selling, general and administrative expenses	5,746,000	5,925,000	3,777,000
Impairment of intangible assets	1,111,000	-	-
	-----	-----	-----
Total operating expenses	7,932,000	6,610,000	4,373,000
	-----	-----	-----
Other income (expense)			
Other income	12,000	163,000	7,000
Interest expense	(104,000)	(43,000)	(204,000)

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Financing costs	(2,428,000)	-	-
	(2,520,000)	120,000	(197,000)
Loss from continuing operations	(10,636,000)	(6,344,000)	(4,548,000)
Discontinued operations			
Discontinued operations	-	929,000	(299,000)
	-	929,000	(299,000)
Net loss	(10,636,000)	(5,415,000)	(4,847,000)
Preferred stock dividends	-	(1,000)	(2,212,000)
Net loss available to common Stockholders	\$ (10,636,000)	\$ (5,416,000)	\$ (7,059,000)
Basic and diluted weighted average common shares outstanding	50,740,356	41,445,345	23,384,737
Basic and diluted (loss) per common share - continuing operations	\$ (0.21)	\$ (0.15)	\$ (0.29)
Basic and diluted income (loss) per common share - discontinued operations	-	0.02	(0.01)
Basic and diluted loss per common share	\$ (0.21)	\$ (0.13)	\$ (0.30)

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statement of Changes in Stockholders' Equity  
For the Years Ended December 31, 2001, 2000 and 1999**

	1996 Preferred Stock		1997 Preferred Stock		1999 Series A Preferred Stock		1999
	Shares	Amount	Shares	Amount	Shares	Amount	Preferred
Balance - December 31, 1998	8.00	\$ -	19.50	\$ -	-	\$ -	\$ -
Issuance of warrants with convertible note payable	-	-	-	-	-	-	-
1999 preferred stock issuances (net of \$15,500 of offering costs)	-	-	-	-	300	-	1,8

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Preferred stock conversions	(4.50)	-	(14.50)	-	(115)	-	(1,0
Repurchase of 1996 preferred stock	(2.50)	-	-	-	-	-	
Conversion of note payable into common stock	-	-	-	-	-	-	
Conversion of redemption payable into common stock	-	-	-	-	-	-	
Exercise of warrants	-	-	-	-	-	-	
Exercise of stock options	-	-	-	-	-	-	
Stock issued for services	-	-	-	-	-	-	
Stock options and warrants issued for services	-	-	-	-	-	-	
Net loss	-	-	-	-	-	-	
Dividends declared	-	-	-	-	-	-	
	-----	-----	-----	-----	-----	-----	-----
Balance - December 31, 1999	1.00	-	5.00	-	185	-	8
Conversion of note payable into common stock	-	-	-	-	-	-	
Warrants issued in settlement	-	-	-	-	-	-	
Common stock issued in connection with ADC merger	-	-	-	-	-	-	
Preferred stock conversions	-	-	(5.00)	-	(185)	-	(7
Exercise of warrants	-	-	-	-	-	-	
Exercise of stock options	-	-	-	-	-	-	
Stock options and warrants issued for services	-	-	-	-	-	-	
Cancellation of shares issued in error	-	-	-	-	-	-	
Net loss	-	-	-	-	-	-	

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Dividends declared	-	-	-	-	-	-
Balance - December 31, 2000	1.00	-	-	-	-	-
Exercise of options and warrants	-	-	-	-	-	-
Warrants and in the money conversion feature issued with convertible note payable	-	-	-	-	-	-
Stock issued on conversion of note payable	-	-	-	-	-	-
Stock and warrants issued in private placement	-	-	-	-	-	-
Preferred stock conversions	-	-	-	-	-	-
Stock issued with equity line	-	-	-	-	-	-
Stock issued in legal settlements	-	-	-	-	-	-
Stock options and warrants issued for services	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-
Balance - December 31, 2001	1.00	\$ -	-	\$ -	-	\$ -

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Cash Flows**

	For the Years Ended December 31,		
	2001	2000	1999
Cash flows from operating activities			
Net loss	\$ (10,636,000)	\$ (5,415,000)	\$ (4,847,000)

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Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	488,000	426,000	243,000
Impairment of intangible assets	1,111,000	-	-
Financing costs	2,428,000	-	238,000
Common stock, options and warrants issued for settlements	149,000	-	-
Common stock, options and warrants issued for services	145,000	376,000	2,231,000
Discontinued operations	-	-	299,000
Gain on sale of staffing business	-	(1,102,000)	-
Change in net assets of discontinued operations	-	857,000	(1,243,000)
Changes in assets and liabilities			
Accounts receivable, net	49,000	(29,000)	2,046,000
Prepaid expenses and other	(119,000)	(49,000)	5,000
Accounts payable and accrued liabilities	988,000	(237,000)	(2,141,000)
Checks written in excess of bank balance	-	-	(72,000)
	-----	-----	-----
	5,239,000	242,000	1,606,000
	-----	-----	-----
Net cash used in operating activities	(5,397,000)	(5,173,000)	(3,241,000)
	-----	-----	-----
Cash flows from investing activities			
Proceeds from sale of divisions	-	500,000	-
Software development costs incurred	(434,000)	(495,000)	-
Purchase of property and equipment	(70,000)	(400,000)	(72,000)
Purchase of software license	-	(720,000)	-
Proceeds from notes receivable	-	500,000	563,000
Business acquisition costs, net of cash acquired	-	(94,000)	-
	-----	-----	-----
Net cash (used in) provided by investing activities	(504,000)	(709,000)	491,000
	-----	-----	-----
Cash flows from financing activities			
Proceeds from issuance of debt and notes payable	1,824,000	178,000	500,000
Advances under financing agreement	-	-	11,272,000
Payments under financing agreement	-	(484,000)	(11,781,000)
Principal payments on debt and notes payable	(303,000)	(125,000)	(289,000)
Issuance of preferred and common stock, net of offering costs	3,012,000	-	4,112,000
Proceeds from the exercise of options and warrants	369,000	6,091,000	150,000
Repurchase of preferred stock	-	-	(25,000)
	-----	-----	-----
Net cash provided by financing activities	4,902,000	5,660,000	3,939,000
	-----	-----	-----
Net (decrease) increase in cash	(999,000)	(222,000)	1,189,000
Cash - beginning of year	1,007,000	1,229,000	40,000
	-----	-----	-----

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Cash - end of year	\$ 8,000	\$ 1,007,000	\$ 1,229,000
	=====	=====	=====

Supplemental disclosure of cash flow information:

Cash paid for:		Interest	
		-----	
2001	\$	42,000	
2000	\$	21,000	
1999	\$	324,000	

Supplemental disclosure of non-cash activity:

Dividends declared payable in common stock were \$2,000, \$1,000 and \$6,000 for December 31, 2001, 2000 and 1999, respectively.

During 2001, 500 shares of the series C preferred stock was converted into 1,000,000 shares of common stock.

During 2001, \$1,500,000 note payable advances under a credit facility and \$40,000 of accrued interest were converted and redeemed into 2,618,066 shares of common stock.

During 2001, the Company issued 90,000 shares of common stock and warrants valued at \$285,000 in connection with settlement of certain legal claims, of which \$137,000 was an adjustment to goodwill related to the Cymedix acquisition.

During 2001, the Company issued options and warrants valued at \$145,000 for services provided.

During 2001, the Company issued 829,168 warrants valued at \$506,000 in connection with a convertible note payable credit facility. The Company also recorded \$75,000 for the value of the in-the-money conversion feature on the debt.

During 2001, shares issued in private placements in connection with its note payable credit facility at below market prices resulted in financing costs of \$448,000.

During 2001, shares issued for conversions and redemptions under the convertible notes payable credit facility at below market prices resulted in financing costs of \$1,286,000.

During 2001, the Company issued warrants in connection with private placements of common stock in connection with its note payable credit facility valued at \$415,000.

During 2001, the Company wrote off old payroll tax liabilities of \$100,000 assumed in the Cymedix acquisition which reduced goodwill.

During 2000, 5.0 units of the 1997 preferred stock, 185 shares of the 1999 Series A preferred stock, 767 shares of the Series B preferred stock, and 1,120 shares of the series C preferred stock were converted into 3,161,342 shares of common stock.

During 2000, the Company acquired the assets and assumed certain liabilities of a business from a related party (Note 4).

During 2000, the Company disposed of the remainder of its staffing business (Note 2).

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During 2000, the Company converted a \$400,000 note payable into 800,000 shares of common stock.

During 1999, the Company issued a \$500,000 convertible note payable with warrants to purchase common stock, of which \$100,000 of principal was converted into 200,000 shares of common stock. The warrant was valued at \$238,000 and recorded as additional interest expense.

During 1999, the Company converted \$635,000 of preferred stock redemption payable into 2,115,241 shares of common stock.

During 1999, 4.50 units of the 1996 preferred stock, 14.50 units of the 1997 preferred stock, 1,015 shares of the 1999 series A preferred stock, and 1,015 shares of the series B preferred stock were converted into 3,161,342 shares of common stock.

See notes to consolidated financial statements.

### MEDIX RESOURCES, INC.

#### Notes to Consolidated Financial Statements

##### **Note 1 - Description of Business and Summary of Significant Accounting Policies**

Medix Resources, Inc. and subsidiary (the Company), main business focus is a suite of fully secure, patented Internet communication software for the healthcare industry. The Company divested its remaining healthcare related staffing businesses in February of 2000 (Note 3).

##### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Medix Resources, Inc. and its subsidiary, Cymedix Lynx Corporation (Cymedix). All intercompany accounts and transactions have been eliminated in consolidation.

##### 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, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers in the United States. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk.

##### Fair Value of Financial Instruments

The carrying amounts of financial instruments including accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair value as of December 31, 2001 and 2000 due to the relatively short maturity of these instruments.

The carrying amounts of notes payable and debt issued approximate their fair value as of December 31, 2001 and 2000 because interest rates on these instruments



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approximate market interest rates.

### Revenue Recognition

We earn revenue as transaction services are provided to our customers through the use of our suite of communication software, and currently do not generate any revenue from the licensing, sale or installation of our suite of communication software.

We recognize revenue is earned when the communication transaction has been completed by the customer, persuasive evidence of the terms of the arrangement exist, our fee is fixed and determinable, and collectibility is reasonably assured. Delivery takes place electronically when the customer has completed the exchange (transmission or receipt) of data. Revenue is charged to the customer on a per transaction basis as each transaction is completed and is billed monthly.

### Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences result primarily from capitalized software development costs, depreciation and amortization, and net operating loss carryforwards.

### Property and Equipment

Property and equipment is stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, ranging from 3 to 7 years.

### Software Development Costs

The Company applies the provisions of Statement of Position 98-1, "Accounting for Costs of Computer Software Developed for Internal Use". The Company accounts for costs incurred in the development of computer software as software research and development costs until the preliminary project stage is completed. Direct costs incurred in the development of software are capitalized once the preliminary project stage is completed, management has committed to funding the project and completion and use of the software for its intended purpose are probable. The Company ceases capitalization of development costs once the software has been substantially completed and is ready for its intended use. Software development costs are amortized over their estimated useful lives of five years. Costs associated with upgrades and enhancements that result in additional functionality are capitalized.

### Financing Costs

The company records as financing costs in its statement of operations amortization of in-the-money conversion features on convertible debt accounted for in accordance with EITF 98-5 and 00-27, amortization of discounts from warrants issued with debt securities in accordance with APB No. 14 and amortization of discounts resulting from other securities issued in connection with debt based on their relative fair values, and any value associated with inducements to convert debt in accordance with FASB 84.

### Intangible assets

Intangible assets are stated at cost, and consist of goodwill, which is being

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amortized using the straight-line method over fifteen years.

The Company reviews its long-lived asset for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows of its acquisition in its assessment of whether or not goodwill has been impaired.

### Reclassifications

Certain amounts in the 2000 and 1999 consolidated financial statements have been reclassified to conform to the 2001 presentation.

### Advertising Costs

The Company expenses advertising costs as incurred.

Advertising expenses were \$23,000, \$36,000 and \$45,000 for the years ended December 31, 2001, 2000 and 1999.

### Basic Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (FAS 128). All dilutive potential common shares have an antidilutive effect on diluted per share amounts and therefore have been excluded in determining net loss per share. The Company's basic and diluted loss per share are equivalent and accordingly only basic loss per share has been presented.

For the years ended December 31, 2001, 2000 and 1999 total stock options, warrants and convertible debt and preferred stock of 14,693,254, 13,767,143 and 23,109,003, were not included in the computation of diluted loss per share because their effect was antidilutive, however, if the company were to achieve profitable operations in the future, they could potentially dilute such earnings.

### Recently Issued Accounting Pronouncements

In July 2001, the FASB issued SFAS Nos. 141 and 142 "Business Combinations" and "Goodwill and other Intangible Assets". Statement 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under the guidance of Statement 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair value base test. Statement 142 is effective for financial statement dates beginning after January 1, 2001. Goodwill will be tested for impairment at the time of adoption and on an annual basis. As allowed under Statement 142, the Company will complete its goodwill impairment test within the first six months of the fiscal year. As a result of Statement 142, the Company will no longer be recognizing approximately \$155,000 in annual amortization expense related to goodwill.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for the Company for fiscal years beginning after June 15, 2002. The Company believes the adoption of this statement will have no material impact on its consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value, less cost to

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sell, whether reported in continuing operations or discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively.

### Note 2 - Going Concern

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business.

### Management's Plan for Continued Existence

The Company has incurred operating losses for the past several years, the majority of which are related to the development of the Company's healthcare connectivity technology and were fully anticipated by management. These losses have produced operating cash flow deficiencies, and negative working capital which raise substantial doubt about its ability to continue as a going concern. Management has secured an equity line of credit, as further described in Note 8, and management is presently in discussions regarding alternative sources of additional equity capital, which would enable the Company to continue to fund operations until such time as revenues from the Company's internet communication products for the healthcare industry will be sufficient to fund operations. Management reports that progress continues with regard to new strategic alliances with major healthcare organizations as well as in advancing the Company's existing alliances from the "pilot program" stage toward the "production contract stage".

### Note 3 - Discontinued Operations

In February 2000, the Company closed on the sale of the assets of its remaining staffing businesses for \$1,000,000. The purchase price was paid with \$500,000 cash at closing and the Company receiving a \$500,000 subordinated note receivable. The note provided for interest at prime plus 1% and was due in May of 2001. The note was repaid on December 29, 2000. This sale was the final step of a plan approved by the board of directors in December 1999 for the Company to divest itself of the staffing businesses and focus its efforts on its internet communication software products for the healthcare industry.

The accompanying financial statements reflect the results of operations of the remaining staffing businesses as a discontinued business segment. The discontinued results of operations include those direct revenues and expenses associated with running the remaining staffing businesses as well as an allocation of corporate costs.

The results of operations of the Company's discontinued remaining staffing businesses are as follows:

	For the Years Ended December 31,	
	2000	1999
Revenue	\$ 1,128,000	\$ 10,812,000
Direct costs of services	927,000	8,472,000
Gross margin	201,000	2,340,000

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Selling, general and administrative	219,000	2,193,000
Interest expense	18,000	446,000
Litigation settlement	137,000	-
-----		
Net loss	\$ (173,000)	\$ (299,000)
=====		

During the fourth quarter of 2000, the Company wrote off unrealizable assets related to the discontinued operations in the amount of \$43,000, and \$322,000 in remaining related liabilities. The net write-off of assets and liabilities totaling \$279,000, less net assets acquired by the purchaser of \$77,000, has been recorded as an increase of \$202,000 to the gain from the disposal of the remaining staffing businesses as of December 31, 2000.

During the first quarter of 2000, the Company reported the following gain on the disposal of the assets of its remaining staffing businesses:

Sales price	\$ 1,000,000
Accounts receivable collection costs	(100,000)
	-----
	900,000
Net assets acquired, liabilities assumed and liabilities written off	202,000
	-----
Gain on disposal of the remaining staffing businesses	1,102,000
Loss from operation of the remaining staffing businesses through the disposal date	(173,000)
	-----
Net gain on disposal of the remaining staffing businesses	\$ 929,000
	=====

Also as previously noted the purchaser did not acquire the Company's accounts receivable as part of the sale. However, in connection with the sale, the purchaser will collect the Company's receivables and remit the proceeds to the Company net of a 10% collection fee. The \$100,000 reflected above represents the Company's estimate of the collection costs to be paid to purchaser for performing this function.

**Note 4 - Acquisition of Assets**

On March 1, 2000, the Company purchased the assets and assumed certain liabilities of Automated Design Concepts, Inc., an entity owned by a director of the Company, for the issuance of 60,400 shares of common stock valued at \$374,000 and a payment of \$100,000. The Company also entered into a two-year lease for \$1,000 per month expiring in February 2002. Assets purchased include cash and accounts receivable.

The purchase was accounted for under the purchase method. The purchase price was allocated to the assets purchased and liabilities assumed based on the fair market values at the date of acquisition as follows:

Cash	\$ 6,000
Accounts receivable	27,000
Goodwill	487,000
Accounts payable	(41,000)

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Accrued liabilities	(5,000)
	-----
	\$ 474,000
	=====

The results of operations have been reflected from the date of acquisition forward. The resulting goodwill is being amortized over 15 years.

During the third quarter of 2001, the Company discontinued operation of its Automated Design Concepts division to focus on its core business and as a cost saving measure. As a result, \$443,000 of impairment expense has been included in Consolidated Statements of Operations for the year ended December 31, 2001. This amount represents the unamortized balance of the investment at the time of discontinuance.

The following table summarizes the unaudited pro forma results of the Company giving effect to the acquisition as if it had occurred on January 1, 2000. The unaudited pro forma information is not necessarily indicative of the results of operations of the Company had this acquisition occurred at the beginning of the years presented, nor is it necessarily indicative of future results.

	For the Years Ended December 31,	
	2000	1999
	-----	-----
Sales	\$ 440,000	\$ 569,000
	=====	=====
Net income (loss)	\$ (5,408,000)	\$ (4,816,000)
	=====	=====
Loss per share	\$ (0.13)	\$ (0.20)
	=====	=====

**Note 5 - Balance Sheet Disclosures**

Software development costs consist of the following:

	December 31,	
	2001	2000
	-----	-----
Software development costs	\$ 929,000	\$ 495,000
Less accumulated amortization	(280,000)	(124,000)
	-----	-----
	\$ 649,000	\$ 371,000
	=====	=====

Annual amortization expense, which is included in costs of services provided was \$156,000 and \$124,000 for the years ended December 31, 2001 and 2000, respectively.

Property and equipment consists of the following:

	December 31,	
	2001	2000
	-----	-----
Furniture and fixtures	\$ 103,000	\$ 91,000
Computer hardware and purchased software	609,000	552,000

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Leasehold improvements	29,000	28,000
	-----	-----
	741,000	671,000
Less property, plant and equipment - accumulated depreciation	(376,000)	(253,000)
	-----	-----
	\$ 365,000	\$ 418,000
	=====	=====

Depreciation expense was \$123,000, \$97,000 and \$86,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Intangible assets consist of the following:

	December 31,	
	-----	
	2001	2000
	-----	
Goodwill acquired through Cymedix acquisition	\$ 2,369,000	\$ 2,332,000
Goodwill acquired through the Automated Design Concepts, Inc. acquisition	-	487,000
License agreement with ZirMed.com	-	720,000
	-----	
	2,369,000	3,539,000
Less accumulated amortization	(634,000)	(520,000)
	-----	
	\$ 1,735,000	\$ 3,019,000
	=====	

Amortization expense was \$209,000, \$205,000, and \$157,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

During the third quarter of 2001, the Company discontinued operation of its Automated Design Concepts, division, and terminated its license agreement with ZirMed.com. As a result, \$1,111,000 of impairment expense has been included in the Consolidated Statements of Operations for the year ended December 31, 2001. This amount represents the unamortized balance of each investment at the time of discontinuance.

Accrued expenses consists of the following:

	December 31,	
	-----	
	2001	2000
	-----	
Accrued payroll and benefits	\$ 294,000	\$ 310,000
Accrued professional fees	57,000	60,000
Accrued license fees	53,000	-
Other accrued expenses	29,000	21,000
Accrued interest	17,000	-
	-----	
	\$ 450,000	\$ 391,000
	=====	

At various times during 2001, the Company was delinquent with payroll tax deposits. At December 31, 2001 and 2000, \$131,000 and \$200,000, respectively was accrued for estimated taxes, interest and penalties. During 2001, the Company wrote off \$100,000 of previously recorded accrued payroll tax liabilities assumed in the Cymedix acquisition as management determined the Company was over accrued and has recorded the write-off as an adjustment to previously recorded goodwill.

**Note 6 - Long-Term Debt**

Long-term debt consists of:

	December 31,	
	2001	2000
Notes payable - finance company, interest accrues at 7%, monthly payments of principal and interest of \$23,730 are payable through July 2002.	\$ 140,000	\$ 115,000
Notes payable - finance company, interest accrues at 7%, monthly payments of principal and interest of \$1,417 are payable through October 2002.	18,000	22,000
	158,000	137,000
Less current portion	(158,000)	(137,000)
	\$ -	\$ -

**Convertible Promissory Note**

In October 1999, the Company raised approximately \$488,000 net of expenses through the issuance of a \$500,000 14% Convertible Promissory Note and warrants to purchase 500,000 shares of the Company's common stock at \$.50 per share. The \$500,000 in principal plus accrued interest was payable on June 28, 2000. The note was convertible into the Company's common stock at a conversion price of \$.50 per share, for the first 90 days outstanding, and at the lower of \$.50 per share or 80% of the lowest closing bid price for the Common Stock during the last five trading days prior to conversion, for the remaining life of the note. The note was secured by the intellectual property of the Company's wholly owned subsidiary Cymedix Lynx Corporation. The warrants were recorded as a discount on the debt valued at \$238,000 using the Black-Scholes option pricing model using assumptions of life of 3 years, volatility of 225%, no dividend payment, and a risk-free rate of 5.5%. The discount was fully amortized at December 31, 1999, as the remaining debt of \$400,000 at December 31, 1999, was converted in January 2000 into 800,000 shares of common stock and the security interest released.

**Convertible Note Payable Credit Facility**

In December 2000, the Company obtained a credit facility under which it issued a convertible promissory note and common stock purchase warrants. The credit facility provided that the Company could draw against this facility in increments as follows: \$750,000 upon closing, which occurred January 10, 2001; \$250,000 within 10 days of an effective registration statement, which occurred February 13, 2001; and \$500,000 draws at the 60th day, 90th day and the 150th day from the effective registration statement. These advances could be made only if the Company's common stock price remained above \$1 for five business days prior to the draw. During the draw down periods, the Company drew \$1,500,000 under the convertible note. Advances under the convertible note bear interest at an annual rate of 10% and provide for semi-annual payments on July 10, 2001 and January 10, 2002. All outstanding balances under this arrangement were converted or redeemed during 2001 into common shares. The note payable balance was convertible at \$.90 per share for up to the first \$750,000 and any remaining balance at \$1.00 per share. The initial \$750,000 draw on this arrangement has an imputed discount recorded, which was valued at \$75,000 for the "in-the-money" conversion feature of the first advance. In addition, the noteholder can force a redemption of the note or any portion thereof, for either cash or stock at the option of the Company, but if for stock, at a redemption price of eighty (80%) percent of the

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Volume Weighted Market Price (as defined) per common share during the twenty Trading Days ending on the day of the notice delivered by the holder.

In connection with this credit facility, the Company also agreed to issue warrants to purchase common stock to the holder of the convertible promissory note. The Company issued 750,000 warrants in connection with drawdowns under the convertible note. The warrants have an exercise price of \$1.75 and terms of two years from the date of issuance. The Company also issued 54,167 warrants to purchase common stock to two finders assisting with the transaction. The finder warrants also have terms of two years and an exercise price of \$1.75.

The Company has imputed values for the 750,000 and 54,168 warrants issued to the provider of the credit facility and the finders using the Black-Scholes Option pricing model. The first 500,000 warrants issued to the provider of the credit facility were valued at \$249,000 and have been treated as a discount on the debt to be amortized over its remaining life. The related 54,168 warrants issued to finders which have been recorded as debt issue costs and amortized over the remaining life of the debt. In connection with the final draw under the credit facility in May, the Company issued 250,000 warrants to the provider of the credit facility. The 250,000 warrants issued to the provider of the credit facility were valued at \$209,000 using the Black-Scholes pricing model and have been treated as a discount on the debt to be amortized over its remaining life. In connection with the final draw under the credit facility, The Company issued warrants to purchase 25,000 shares issued to the finders. The total finder warrants have been valued at \$48,000 using the Black-Scholes option-pricing model, and have been treated as a discount on the debt to be amortized over its remaining life. The values of all warrants issued under this facility were determined using the following assumptions; lives of two years, exercise prices of \$1.75, volatility of 117%, no dividend payment and a risk-free rate of 5.5%.

During February 2001, \$100,000 of the convertible note was converted into 111,111 shares of common stock. During the period April through September, \$900,000 of the note was redeemed. These redemptions were satisfied by the issuance of 1,384,661 shares of common stock. During October 2001, the remaining \$500,000 convertible note was redeemed by the issuance of 1,069,368 shares of common stock. During July 2001, 52,928 shares of common stock was issued as payment of accrued interest of \$40,000 through July 10, 2001. As a result of conversions and redemptions at modified conversion prices \$1,286,000 of financing costs were recorded reflecting the intrinsic value of the share differences from issuable shares at the date the advances were received.

During March 2001, the Company, under an amendment to its convertible note payable credit facility, received \$350,000 from the credit facility provider for the issuance of 636,364 shares of its common stock as a private placement transaction. As a part of this common stock issuance, the Company issued warrants to purchase 636,364 shares of common stock at \$.80 per share with a term of two years from the date of issuance. As a result of the warrant issuance, the Company has recorded financing expense of \$262,000 in the accompanying financial statements, using the Black-Scholes option-pricing model. The company also issued warrants to purchase 63,636 shares of common stock at \$.80 per share with a term of two years to two finders assisting the transaction. The finders warrants have been valued at \$40,000 using the Black-Scholes pricing model and have been included as financing costs in the accompanying financial statements. The calculated values were computed using the following assumptions: lives of 2 years, exercise prices of \$.80, volatility of 117%, no dividend payments and a risk free rate of 5.5%.

During the period May through December 2001, the Company received \$850,000, under a second amendment to the credit facility, for the issuance of 1,235,944 shares of its common stock, in additional private placement transactions. As a part of these common stock issuances, the Company issued warrants to purchase 168,919 shares of common stock at \$1.00 per share with a term of two years from the date



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of issuance. The Company has recorded financing expense of \$113,000 related to the warrant issuance in the accompanying financial statements, using the Black-Scholes option-pricing model. The calculated values were computed using the following assumptions: lives of 2 years, exercise prices of \$.80, volatility of 117%, no dividend payments and a risk free rate of 5.5%.

As a result of shares issued under the private placements at below market prices, which have been treated as a discount on the debt based on their fair market values at issuance, financing costs of \$448,000 have been recorded.

### **Note 7 - Commitments and Contingencies**

#### Operating Leases

The Company leases office facilities in New York, New Jersey, Colorado and California and various equipment under non-cancelable operating leases.

Rent expense for these leases was:

Year Ending December 31, -----	
2001	\$ 396,000
2000	\$ 315,000
1999	\$ 293,000

Future minimum lease payments under these leases are approximately as follows:

Year Ending December 31, -----	
2002	\$ 550,000
2003	413,000
2004	309,000
2005	26,000
	-----
	\$ 1,298,000
	=====

#### Litigation

In the normal course of business, the Company is party to litigation from time to time. The Company maintains insurance to cover certain actions and believes that resolution of such litigation will not have a material adverse effect on the Company.

During the fourth quarter of 1997, an action was filed against the Company in the Eastern District of New York under the caption New York Healthcare, Inc. v. International Nursing Services, Inc., et al. On February 15, 2000, the Company agreed in principle to settle this claim. In connection with the settlement, the Company issued a warrant to purchase 35,000 of the Company's common stock at \$3.96 per share. The Company recorded expense of approximately \$137,000 related to the issuance of the warrant, which has been included in the results of discontinued operations. The warrants were valued using the Black-Scholes pricing model, using assumptions of volatility of 273%, no dividend payments and a risk free rate of 5.5%.

On November 12, 1999, an action was filed in California Superior Court, which has since been removed to the U. S. District Court, Central District of California, against Medix Resources, Inc. and its wholly owned subsidiary, Cymedix Lynx Corporation. As of November 3, 2000, a settlement agreement was reached between

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the Company and the plaintiff whereby the company paid the plaintiff \$66,000 cash, and issued an option to purchase 50,000 of the Company's common stock at \$.25 per share. The Company recorded expense of approximately \$102,000 related to the issuance of the option. The warrants were valued using the Black-Scholes pricing model, using assumptions of volatility of 273%, no dividend payments and a risk free rate of 5.5%.

On June 1, 2000, an action was filed in the District Court of the City and County of Denver, Colorado, against Medix Resources, Inc., and its wholly-owned subsidiary, Cymedix Lynx Corporation, alleging that a predecessor company of Cymedix Lynx Corporation had promised to issue stock options to the plaintiff but had failed to honor that promise. On June 15, 2001, the matter was settled by paying the plaintiff \$35,000 and issuing to him 2 year warrants to purchase 195,000 shares of the Company's common stock at \$.50 per share. The settlement was approved by the court on July 6, 2001. The case has been dismissed with prejudice. The warrants issued in this settlement have been valued at \$137,000 using the Black-Scholes pricing model, using assumptions of volatility of 132%, no dividend payments and a risk-free rate of 5.5%, and have been included as an increase to goodwill in the accompanying financial statements, as a result of an unrecorded liability that existed at the time of the Cymedix merger.

On July 11, 2000, an action was filed in the United States District Court, Southern District of New York, against Medix Resources, Inc., alleging that the Company granted to plaintiff the right to purchase preferred stock convertible into the Company's common stock and warrants to purchase the Company's common stock in connection with the Company's private financings during 1999, and then failed to permit plaintiff to exercise that right. On May 2, 2001, the Company agreed to settle the matter by paying the plaintiff \$20,000 and issuing him a three year warrant (issued over a 18 month period) to purchase 137,500 shares of the Company's common stock at \$.50 per share. The settlement was approved by the Court on May 3, 2001. The case has been dismissed with prejudice. The warrants issued in this settlement have been valued at \$64,000 using the Black-Scholes pricing model, using assumptions of volatility of 132%, no dividend payments, and a risk-free rate of 5.5%, and have been included as an expense in the Consolidated Statement of Operations.

On September 27, 2000, an action was filed in the United States District Court, Eastern District of New York, against Medix Resources, Inc. alleging that the Company failed to properly and fully convert the Company's convertible preferred stock held by one of the Plaintiffs, and had failed to maintain the registration for public sale with the Securities and Exchange Commission of shares underlying warrants held by both Plaintiffs. The Company settled the litigation by issuing to one plaintiff 90,000 shares of the Company's common stock, valued at \$51,000, and extending the exercise period of the warrants of the other plaintiff until December 31, 2003, valued at \$33,000. The shares and warrants issued in this settlement have been valued at \$84,000 using the Black-Scholes pricing model, for the modification to the warrant, using assumptions of a life of 2 years, exercise price of \$1.00, volatility of 132%, no dividend payments and a risk-free rate of 5.5%, and have been included as an expense in the Consolidated Statement of Operations.

On August 7, 2001, a former officer of the Company filed an action in the District Court of Arapahoe County, Colorado, against the Company and its former President and CEO. The plaintiff alleges (1) breach of an employment agreement, a stock option agreement and the related stock option plan, (2) a duty of good faith and fair dealing, and (3) violation of the Colorado Wage Claim Act. Plaintiff's seeks unspecified damages to be determined at jury trial, including interest, punitive damages, plaintiff's attorney fees, and a 50% penalty under the Colorado Wage Claim Act. The Company and its co-defendants have answered the plaintiff's complaint, denying any liability. The court set discovery to be completed by July 31, 2002, and the trial to begin on September 9, 2002. Management of the Company intends to vigorously defend this action, and does not

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expect any resolution of this matter to have a material adverse effect on the Company's financial condition or results of operation. Currently an estimate of possible loss to the Company if unsuccessful in defending this action cannot be made.

On December 17, 2001, Plaintiff, Vision Management Consulting, L.L.C., filed suit against us in the Superior Court of New Jersey, Law Division - Essex County, entitled Vision Management Consulting, L.L.C. v. Medix Resources, Inc., Docket No. ESX-L-11438-01. The complaint alleges breach of contract, unjust enrichment, breach of duty in good faith and fair dealing and misrepresentations by us in connection with a negotiated settlement agreement, which had resulted from claims between the parties arising out of the termination of operations by our Automated Design Concepts division earlier in 2001. Plaintiff seeks unspecified damages to be proven at jury trial, together with attorneys fees, costs of suit and interest on judgement, as well as such further relief as the Court deems just and equitable. We have answered the plaintiff's complaint, denying any liability and setting forth a counterclaim seeking the award to us of our costs of defending this action and such further relief as the Court deems just and proper. Management intends to vigorously defend this action and does not expect any resolution of this matter to have a material adverse effect on the Company's results of operations or financial condition. The Court has appointed a mediator for the case to try to facilitate a settlement between the parties. Currently an estimate of possible loss to the Company if unsuccessful in defending this action cannot be made.

### **Note 8 - Stockholders' Equity**

On March 20, 2000, the Company authorized 2,500,000 shares of preferred stock.

#### **1996 Private Placement**

In July and September 1996, the Company completed a private placement of 244 units, each unit consisting of a share of convertible preferred stock, \$10,000 per unit, \$1 par value ("1996 Preferred Stock"), a warrant to purchase 8,000 shares of the Company's common stock at \$2.50 per share and a unit purchase option to purchase an additional unit at \$10,000 per unit.

During 1998, 18.25 units were converted resulting in the issuance of an additional 939,320 shares of common stock in 1998.

During 1999 4.5 units were converted into 241,072 shares of common stock. Additionally, the Company repurchased from another holder 2.5 units in a negotiated agreement for \$25,000. The Company has 1.0 remaining unit of its 1996 preferred stock outstanding at December 31, 2001 and 2000. The remaining unit may be converted into the Company's common stock including accrued dividends at the lesser of \$1.25 per common share or 75% of the prior five day trading average of the Company's common stock.

#### **1997 Private Placement**

In January and February 1997, the Company completed a private placement of 167.15 Units, each unit consisting of one share of convertible preferred stock, \$10,000 per unit, \$1 par value, "1997 Preferred Stock", and a warrant to purchase 10,000 shares of common stock at \$1.00 per share.

In 1998, 5.0 units were converted resulting in the issuance of 178,950 shares of common stock.

During 1999 14.5 units were converted into 572,694 shares of common stock. During 2000, the remaining 5.0 units were converted into 50,000 shares of common stock.

1999 Private Placement

During 1999, the Company initiated three private placement offerings each consisting of one share of preferred stock (as designated) and warrants to purchase common stock. There are no dividends payable on the preferred stock if a registration statement is filed by a certain date as specified in the offering agreements and remains effective for a two year period. If dividends are payable, the preferred stock will provide for a 10% dividend per annum for each day during which the registration statement is not effective. The preferred shares are also redeemable at the option of the Company after a date as specified in the offering agreements for \$1,000 per share plus any accrued unpaid dividends. In addition, if a registration statement is not effective by the date as specified in the offering agreements the shares may be redeemed at the request of the holder at \$1,000 per share plus any accrued unpaid dividends.

The first private placement consisted of 300 shares of Series A preferred stock each with 1,000 warrants for \$1,000 per unit, which raised total proceeds of \$300,000. The warrants included with each unit entitle the holder to purchase common shares at \$1.00 per share, expiring in October 1, 2000. The preferred shares are currently convertible into common shares at \$.25 per common share through March 1, 2003. During 1999, 115 shares of Series A preferred stock were converted into 460,000 common shares. During 2000, 185 shares of Series A preferred stock were converted into 740,000 common shares. All of the warrants included with the Series A preferred stock were exercised in 2000.

The second private placement consisted of 1,832 shares of Series B preferred stock each with 2,000 warrants for \$1,000 per unit, which raised total proceeds of \$1,816,500 (net of offering costs of \$15,500). The Company also issued a warrant to purchase 50,000 shares of common stock at \$.50, which expires in May 2002, for services rendered in connection with the private placement. The warrants included with each unit entitle the holder to purchase common shares at \$.50 per share, expiring in October 1, 2003. The preferred shares are currently convertible into common shares at \$.50 per common share through October 1, 2003. During 1999, 1,015 shares of Series B preferred stock were converted into 2,030,000 common shares. During 2000, 767 shares of Series B preferred stock were converted into 1,534,000 common shares. The warrants are callable by the Company for \$.01 upon thirty days written notice. The Company has not called any of these warrants as of the date hereof.

The third private placement consisted of 1,995 shares of Series C preferred stock each with 4,000 warrants for \$1,000 per unit, which raised total proceeds of \$1,995,000. The warrants, included with each unit, entitled the holder to purchase common shares at \$.50 per share, expiring in April 1, 2003. The preferred shares are convertible beginning April 1, 2000 into common shares at \$.50 per common share through April 1, 2003. During 2000, 1,120 shares of Series C preferred stock were converted into 2,240,000 common shares. During 2001, 500 shares of Series C preferred stock were converted into 1,000,000 shares of common stock. After April 1, 2000, the warrants are callable by the Company for \$.01 upon thirty days written notice. The Company has not called any of these warrants as of the date hereof.

Equity Line

The Company has entered into an Equity Line of Credit Agreement dated as of June 12, 2001, which provides that the Company can put to the provider, subject to certain conditions, the purchase of common stock of the Company at prices calculated from a formula as defined in the agreement. Under the agreement, the providers of the Equity Line of Credit have committed to advance to the Company funds in an amount of up to \$10,000,000, as requested by the Company, over a 24-month period in return for common stock issued by the Company to the providers. The principal conditions to any such advance, which may be waived,

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are as follows:

o There must be thirteen stock market trading days between any two requests for advances made by the Company.

o The Company can only request an advance if the volume weighted average price of the common stock as reported by Bloomberg L.P. for the day before the request is made is equal to or greater than the volume weighted average price as reported by Bloomberg L.P. for the 22 trading days before a request is made.

o The Company will not be able to receive an advance amount that is greater than 175% of the average daily volume of its common stock over the 40 trading days prior to the advance request multiplied by the purchase price.

The purchase price for each advance will be equal to 91% of the three lowest daily volume weighted average prices during the 22 trading days before a request is made.

The Company will receive the amount requested as an advance within 10 days of its request, subject to satisfying standard closing conditions. The issuance of shares of common stock to the providers in connection with the equity line financing will be exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof. The Company has agreed to register for immediate re-sale the shares being issued to the providers of the Equity Line of Credit before any drawdowns may occur. The Company has registered 9,500,000 shares. The related Registration Statement was declared effective by the SEC on August 6, 2001. The Company has also agreed that its executive officers and directors will not sell any shares of its common stock during the ten trading days following any advance request by the Company.

The Company will pay an aggregate of 7% of each amount advanced under the equity line financing to two parties affiliated with the providers of the Equity Line of Credit for their services relating thereto. In addition, upon the effective date of this Registration Statement registering the securities to be issued under the Equity Line of Credit, the Company issued to those same two parties an aggregate of 198,020 shares of common stock, and on December 9, 2001 (180 days after the date of the Equity Line of Credit Agreement) the Company issued to them an additional 344,827 shares of our common stock shares. In addition, the Company has paid legal fees in an aggregate amount of \$15,000.

During the period August to December 2001, the company received \$1,510,000, net of commissions and escrow fees from nine equity line advances, resulting in the issuance of 2,748,522 shares of common stock. The 542,847 shares issued to finders in connection with the equity line, described above, were valued at \$407,000, additionally the incremental differences of shares issued at below market prices on the line totaled \$391,000, both of which have been presented as a reduction to net proceeds from the advances received.

### Accumulated Deficit

Of the \$34,059,000 cumulative deficit at December 31, 2001 and \$23,423,000 at December 31, 2000, the approximate amount relating to the Company's technology business from inception is \$21,112,000 and \$10,631,000, respectively. In addition, a premium of \$2,332,000 was paid upon the acquisition of Cymedix Lynx in 1998, producing a total investment of \$23,544,000 at December 31, 2001 and \$12,963,000 at December 31, 2000 in the technology to date.

### Stock Options

In May 1988, the Company adopted an incentive stock option plan (ISO), which provides for the grant of options representing up to 100,000 shares of the Company's common stock to officers and employees of the Company upon terms and

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conditions determined by the Board of Directors. Options granted under the plan are generally exercisable immediately and expire up to ten years after the date of grant. Options are granted at a price equal to the market value at the date of grants, or in the case of a stockholder who owns greater than 10% of the outstanding stock of the Company, the options are granted at 110% of the fair market value.

In 1994, the Board of Directors established, the Omnibus Stock Plan of 1994 (1994 Plan) and reserved 500,000 shares of the Company's common stock for grant under terms, which could extend through January 2004. All options and warrants issued under this plan are non-qualified. Grants under the 1994 Plan may be to employees, non-employee directors, and selected consultants to the Company, and may take the form of non-qualified options, not lower than 50% of fair market value. To date, the Company has not issued any options below fair market value at the date of grant.

In 1996, the Board of Directors established the 1996 Stock Option Plan (the "1996 Plan") with terms similar to the 1994 Plan. The Board of Directors of the Company reserved 4,000,000 shares of common stock for issuance under the 1996 Plan.

In August 1999, the Board of Directors established the 1999 Stock Option Plan (the "1999 Plan"), which provides for the grant of incentive stock options ("ISOs") to officers and other employees of the Company and non-qualified options to directors, officers, employees and consultants of the Company. Options granted under the plan are generally exercisable immediately and expire up to ten years after the date of grant. Options are granted at a price equal to the market value at the date of grant. The Board of Directors has reserved 10,000,000 shares of common stock for granting of options under the 1999 Plan.

The following table presents the activity for options outstanding:

	Incentive Stock Options	Non-qualified Stock Options	Weighted Average Exercise Price
	-----	-----	-----
Outstanding - December 31, 1998	3,054,065	1,157,050	\$ 0.35
Granted	5,050,000	662,500	0.31
Forfeited/canceled	(586,188)	(930,366)	0.41
Exercised	-	(256,184)	2.78
	-----	-----	-----
Outstanding - December 31, 1999	7,517,877	633,000	0.32
Granted	2,255,000	110,000	3.82
Forfeited/canceled	(10,000)	-	0.25
Exercised	(3,900,235)	(139,499)	0.28
	-----	-----	-----
Outstanding - December 31, 2000	5,862,642	603,501	1.62
Granted	2,289,000	-	0.71
Forfeited/canceled	(865,000)	(65,834)	3.03
Exercised	(1,267,142)	(173,500)	0.25
	-----	-----	-----
Outstanding - December 31, 2001	6,019,500	364,167	\$ 1.40
	=====	=====	=====

The following table presents the composition of options outstanding and exercisable:

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Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Price*	Life*	Number	Price*
\$.19 - .55	2,723,667	\$ 0.41	7.46	2,601,833	\$ 0.40
\$.60 - 1.88	2,365,000	0.76	0.54	1,943,750	0.73
\$2.25 - 4.97	1,295,000	4.67	6.45	800,000	4.56
Total - December 31, 2001	6,383,667	\$ 1.40	4.69	5,345,583	\$ 1.14

\*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

The Company has issued 110,000 stock options to consultants which have been valued at \$79,000 and recorded as consulting expense, using the Black-Scholes options pricing model. The assumptions used include lives ranging from 2 to 5 years, exercise prices ranging from \$0.67 to \$0.92, volatility of 132%, no dividend payments and a risk free rate of 5.5%.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's option been determined based on the fair value at the grant date for the awards consistent with the provisions of SFAS No. 123, the Corporation's net loss and basic loss per common share would have been changed to the pro forma amounts indicated below:

	For the Years Ended December 31,		
	2001	2000	1999
Net loss - as reported	\$(10,636,000)	\$ (5,415,000)	\$ (4,847,000)
Net loss - pro forma	(12,035,000)	(14,256,000)	(6,136,000)
Basic loss per common share - as reported	(0.21)	(0.13)	(0.30)
Basic loss per common share - pro forma	(0.24)	(0.34)	(0.36)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

	For the Years Ended December 31,		
	2001	2000	1999
Approximate risk free rate	5.50%	5.50%	5.50%
Average expected life	5 years	10 years	10 years
Dividend yield	0%	0%	0%
Volatility	132%	273%	225%
Estimated fair value of total options granted	\$1,399,000	\$8,841,000	\$1,289,000

Warrants

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The Company has an obligation to issue up to 7,000,000 warrants under an agreement with a pharmacy management company for the Company's proprietary software to be interfaced with core medical service providers, in which one of the Company's audit committee members is a related party to the pharmacy management company. The agreement provides for 3,000,000 warrants with an exercise price of \$.30, 3,000,000 warrants with an exercise price of \$.50, and 1,000,000 warrants with an exercise price of \$1.75 all expiring September 8, 2004. The warrants to be issued by the Company are granted in 1,000,000 increments based on certain performance criteria. At December 31, 1999, 1,000,000 of the warrants had been granted but were not issued yet. In connection with the obligation to issue the 1,000,000 warrants earned, the Company recorded expense of \$1,364,000 valued using the Black-Scholes option pricing model, with assumptions of 132% volatility, no dividend yield and a risk-free rate of 5.5%. No warrants were granted during 2000. During 2001, 850,000 of the warrants had been granted but were not issued by December 31, 2001. In connection with the obligation to issue the 850,000 warrants earned, the Company recorded expense of \$590,000 during the third quarter of 2001 valued using the Black-Scholes option pricing model, with assumptions of 132% volatility, no dividend yield and a risk-free rate of 5.5%.

At December 31, 2001, the Company will have the obligation to grant 5,150,000 warrants under the agreement in the future if the performance criteria specified are met.

The Company also issued and modified warrant terms in the settlement of certain litigation (Note 7). These warrants and modifications have been valued at \$234,000 using the Black-Scholes option pricing model. (See assumptions used in Note 7).

The following table presents the activity for warrants outstanding:

	Number of Warrants	Weighted Average Exercise Price
Outstanding - December 31, 1998	3,463,954 \$	1.81
Issued	12,721,000	0.51
Forfeited/canceled	(993,828)	4.84
Exercised	(400,000)	0.31
Outstanding - December 31, 1999	14,791,126	0.53
Issued	35,000	3.96
Forfeited/canceled	(32,506)	0.71
Exercised	(9,352,620)	0.53
Outstanding - December 31, 2000	5,441,000	0.53
Issued	2,066,587	1.12
Forfeited/canceled	(36,000)	0.80
Exercised	(22,000)	0.19
Outstanding - December 31, 2001	7,449,587 \$	0.69

All of the outstanding warrants are exercisable and have a weighted average remaining contractual life of 2.31 years.



**Note 9 - Income Taxes**

As of December 31, 2000, the Company has net operating loss (NOL) carryforwards of approximately \$21,800,000, which expire in the years 2000 through 2021. The utilization of the NOL carryforward is limited to \$469,000 on an annual basis for net operating loss carryforwards generated prior to September 1996, due to an effective change in control, which occurred as a result of the 1996 private placement. As a result of the significant sale of securities during 1999, the Company's net operating loss carryforwards will be further limited in the future to an annual amount of \$231,000 due to those changes in control. The Company also has a deferred tax liability of approximately \$221,000 related to capitalized software development costs. The Company has concluded it is currently more likely than not that it will not realize its net deferred tax asset and accordingly has established a valuation allowance of approximately \$7,400,000 and \$5,000,000, respectively. The change in the valuation allowance for 2001 and 2000 was approximately \$2,413,000 and \$1,668,000, respectively.

**Note 10 - Employee Benefit Plan**

Effective March 25, 1997, the Company adopted a defined contribution retirement savings plan, which covers all employees age 21 or older with one thousand hours of annual service. Matching contributions are made by the Company at \$0.25 for each \$1 that the employee contributes up to 8% of compensation during 1998.

The Company has certain violations under the plan, which are considered reportable transactions. The Company was delinquent in filing a complete Form 5500, and was notified by the Department of Labor to complete its filing. The Company has complied in filing the Form 5500 within the specified time period, however, the Company could be subject to certain penalties as a result.

The Company's matching contributions vest to the participant according to the following vesting schedule:

Years of Service -----	
1	10%
2	20%
3	30%
4	40%
5	60%
6	80%
7	100%

**Note 11 - Related Party Transactions**

Prior to being elected to the board of directors of the Company in 1999, a company affiliated with one of the Company's directors, entered into agreements with us to provide executive search services and sales and marketing service to us. In connection with those agreements, the Company issued a 3-year option to acquire up to 25,000 shares of the Company's common stock at an exercise price of \$.55 per share. An expense of approximately \$13,000 related to the issuance of the option was recorded. The Company paid the related company approximately \$51,000 and \$152,000 during 2001 and 2000, respectively. The Company also entered into an agreement with the affiliated company for rental space, use of clerical employees and to pay a portion of utility and telephone costs. Rent expense for 2001 and 2000 was approximately \$111,000 and \$93,000, respectively.

During 2000, the Company paid two companies affiliated with another of the

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Company's directors \$118,000 for services and related expenses and approximately \$66,000 for software development and web-site hosting and development services and purchase of computer equipment. The Company also acquired a business from a director of the Company for \$474,000 in 2000 (Note 4).

The Company also has an obligation to issue warrants to a pharmacy management company in which a member of the Company's audit committee is a related party, if certain performance criterion are met in the future (Note 7).

The Company has a consulting agreement with one of the Company's directors to assist with marketing of the Company's products. The Company paid the director \$0 and \$52,000 for such consulting services in 2001 and 2000, respectively.

During July 2001, the Company received \$136,000 as a short-term advance from a related party, \$50,000 of which was repaid during August 2001. An additional \$30,000 and \$50,000 was advanced to the company by the related party during September and December 2001, leaving an outstanding balance of \$166,000 at December 31, 2001. The entire amount was repaid during February 2002.

### **Note 12 - Subsequent Events**

The Company entered into a secured convertible loan agreement with a Company, dated February 19, 2002, pursuant to which we borrowed \$1,000,000 from WellPoint Health Networks Inc. The loan becomes payable on February 19, 2003, if not converted into our common stock. The loan earns annual interest at a floating rate of 300 basis points over prime, as it is adjusted from time to time, which is also payable at maturity and may be converted into common stock. Conversion into common stock is at the option of either WellPoint or Medix at a contingent conversion price. The conversion price will be either (i) at the price at which additional shares are sold to other private placement investors if Medix obtains written commitments for at least an additional \$4,000,000 of equity by the close of business on September 30, 2002, from persons not affiliates of WellPoint, and if such sales are closed by the maturity date of the loan, or (ii) at a price equal to 80% of the then-current Fair Market Value (as defined below) if Medix is unable to obtain a written commitment for the additional equity investment by the close of business on September 30, 2002 or close the sales by the maturity date. For this purpose, "Fair Market Value" shall be the average closing price of Medix common stock for the twenty trading days ending on the day prior to the day of the conversion. The Company will be required to record financing costs during the first quarter of 2002 associated with this loan agreement as a result of the in-the-money conversion feature totalling approximately \$70,000. The loan is secured by the grant of a security interest in all Medix's intellectual property, including its patent, copyrights and trademarks. While Medix can cure a default in the repayment of the loan at the fixed maturity date by the forced conversion of the loan into its common stock, a cross default, breach of representation or warranty, and bankruptcy or similar event of default will trigger the foreclosure provision of the security agreement.

### **Note 13 - Summarized Quarterly Results (Unaudited)**

The following table presents unaudited operating results for each quarter within the two most recent years. The Company believes that all necessary adjustments consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the following quarterly results when read in conjunction with the financial statements. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full fiscal year.

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	First Quarter (4)	Second Quarter	Third Quarter (2)	Fourth Quarter (3), (
	-----	-----	-----	-----
December 31, 2000				
Revenues	\$ 64,000	\$ 126,000	\$ 104,000	\$ 32,000
Operating expenses	1,054,000	2,011,000	1,455,000	2,090,000
Gross profit (loss)	61,000	106,000	31,000	(52,000)
Loss from continuing operations	(981,000)	(1,849,000)	(1,380,000)	(2,134,000)
Gain (loss) from discontinued operations	650,000	-	-	279,000
Net income (loss)	(331,000)	(1,849,000)	(1,380,000)	(1,855,000)
Basic earnings (loss) per share (1)	(0.01)	(0.04)	(0.03)	(0.02)
Diluted earnings (loss) per share (1)	(0.01)	(0.04)	(0.03)	(0.02)
December 31, 2001				
Revenues	\$ 30,000	\$ -	\$ -	\$ (1,000)
Operating expenses	2,190,000	1,427,000	3,053,000	1,261,000
Gross profit (loss)	25,000	(28,000)	(5,000)	(176,000)
Loss from continuing operations	(2,259,000)	(1,635,000)	(3,183,000)	(2,912,000)
Net income (loss)	(2,259,000)	(1,635,000)	(3,183,000)	(2,912,000)
Basic earnings (loss) per share (1)	(0.05)	(0.03)	(0.06)	(0.07)
Diluted earnings (loss) per share (1)	(0.05)	(0.03)	(0.06)	(0.07)

- (1) Earnings per share are computed independently for each quarter and the full year based upon respective average shares outstanding. Therefore, the sum of the quarterly net earnings per share amounts may not equal the annual amounts reported.
- (2) Included in third quarter 2001 operating expense is \$1,111,000 of expenses related to the impairment of intangible assets. (Note 4)
- (3) Included in fourth quarter 2001 operating loss is \$1,022,000 in financing costs. (Notes 6 and 8)
- (4) During the first quarter of 2000, the Company closed on the sale of assets of its remaining staffing business and discontinued these operations. (Note 3)
- (5) During the fourth quarter of 2000, the Company wrote off unrealizable assets related to the discontinued operations, and adjusted remaining liabilities settled for less than recorded amounts. (Note 3)

**MEDIX RESOURCES, INC.**

**Consolidated Balance Sheets**

	September 30, 2002	December 31, 2001
	(Unaudited)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents .....	\$ 267,000	\$ 8,000
Accounts receivable, trade .....	1,000	--
Prepaid expenses and other .....	240,000	344,000
	-----	-----
Total current assets .....	508,000	352,000
Software development costs, net .....	1,024,000	649,000

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Property and equipment, net .....	335,000	365,000
Goodwill, net .....	1,735,000	1,735,000
	-----	-----
Total assets .....	\$ 3,602,000	\$ 3,101,000
	=====	=====

**Liabilities and Stockholders' Equity**

Current liabilities		
Notes payable .....	\$ 17,000	\$ 158,000
Convertible notes payable .....	1,000,000	--
Advance from related party .....	50,000	
Accounts payable .....	567,000	851,000
Accounts payable-related parties .....	130,000	166,000
Accrued expenses .....	407,000	450,000
Deferred revenue .....	155,000	--
Accrued payroll taxes interest and penalties ..	131,000	131,000
	-----	-----
Total current liabilities .....	2,457,000	1,756,000
	-----	-----
Stockholders' equity		
1996 Preferred stock, 10% cumulative convertible, \$1 par value; 488 shares authorized; 155 shares issued; 1 share outstanding .....	--	--
1999 Series B convertible preferred stock, \$1 par value; 2,000 shares authorized; 1,832 shares issued; 50 shares outstanding .....	--	--
1999 Series C convertible preferred stock, \$1 par value; 2,000 shares authorized; 1,995 shares issued; 100 and 375 shares outstanding .....	--	--
Common stock, \$.001 par value; 100,000,000 authorized; 65,842,599 and 56,651,409 issued and outstanding .....	66,000	56,000
Dividends payable with common stock .....	8,000	7,000
Additional paid-in capital .....	39,848,000	35,341,000
Accumulated deficit .....	(38,777,000)	(34,059,000)
	-----	-----
Total stockholders' equity .....	1,145,000	1,345,000
	-----	-----
Total liabilities and stockholders' equity .....	\$ 3,602,000	\$ 3,101,000
	=====	=====

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Unaudited Consolidated Statements of Operations**

For the Three Months Ended September 30, 2002	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2002	For the Nine Months Ended September 30, 2001
--	--	---	---

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Revenues .....	\$ --	\$ --	\$ 10,000	\$ 30,000
Direct costs of services .....	103,000	5,000	495,000	38,000
Gross margin .....	(103,000)	(5,000)	(485,000)	(8,000)
Software research and development costs .....	153,000	348,000	533,000	947,000
Selling, general and administrative expenses .....	1,422,000	1,594,000	3,390,000	4,611,000
Impairment of intangible Assets	--	1,111,000	--	1,111,000
Net loss from operations .....	(1,678,000)	(3,058,000)	(4,408,000)	(6,677,000)
Other income .....	2,000	11,000	7,000	11,000
Financing Costs .....	(43,000)	(121,000)	(246,000)	(346,000)
Interest expense .....	(13,000)	(15,000)	(71,000)	(64,000)
Net loss .....	\$ (1,732,000)	\$ (3,183,000)	\$ (4,718,000)	\$ (7,076,000)
Net loss per common share .....	\$ (0.03)	\$ (0.06)	\$ (0.08)	\$ (0.14)
Weighted average shares outstanding .....	63,767,646	51,267,407	60,698,928	49,308,780

Had the Company adopted FAS 142 as of January 1, 2001, the historical amounts previously reported would have been adjusted to the following:

Net (loss) as reported	\$ (3,183,000)	\$ (7,076,000)
Add back: Goodwill amortization	39,000	121,000
Adjusted net loss	\$ (3,144,000)	\$ (6,955,000)
Basic and diluted loss per share as reported	\$ (0.06)	\$ (0.14)
Goodwill amortization	\$ --	\$ --
Adjusted loss per share	\$ (0.06)	\$ (0.14)

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See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Unaudited Consolidated Statements of Cash Flows**

	For the Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities		
Net loss .....	\$(4,718,000)	\$(7,076,000)
Adjustments to reconcile net income (loss) to net cash flows (used in) provided by operating activities		
Depreciation and amortization .....	238,000	375,000
Amortization of discount and warrants-convertible debt .....	70,000	374,000
Options and warrants issued in conjunction with stock issuance, services and for litigation settlements, respectively .....	177,000	503,000
Options and warrants issued in for consulting services .....	92,000	--
Write off of unrecoverable intangible assets, net	--	1,111,000
Write off of leasehold improvements .....	7,000	--
Net changes in current assets and current liabilities	589,000	1,130,000
Net cash flows (used in) provided by operating activities .....	(3,545,000)	(3,583,000)
Cash flows from investing activities		
Software development costs incurred .....	(522,000)	(366,000)
Purchase of property and equipment .....	(69,000)	(66,000)
Net cash flows (used in) investing activities ....	(591,000)	(432,000)
Cash flows from financing activities		
Advances received on convertible note .....	1,000,000	1,500,000
Advances from related party .....	50,000	--
Proceeds from short term borrowings-related parties ..	155,000	--
Repayment of short term borrowings-related parties ...	(191,000)	--
Payments on capital leases and debt .....	(208,000)	(130,000)
Proceeds from the issuance of common stock, net of offering costs .....	3,474,000	1,481,000
Net proceeds from exercise of options and warrants ...	115,000	230,000
Net cash flows provided by (used in) financing activities .....	4,395,000	3,081,000
Net increase (decrease) in cash and cash equivalents ...	259,000	(934,000)
Cash and cash equivalents at beginning of period .....	8,000	1,007,000
Cash and cash equivalents at end of period .....	\$ 267,000	\$ 73,000

Non-cash and investing and financing activities for the nine months ended September 30,

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2002:

Options and warrants valued at \$92,000 for services provided.  
Options valued at \$132,000 as financing costs issued to an officer for past financial support.  
An accrued liability of \$590,000 for warrants earned in 2001 was satisfied by issuing the warrants.  
Warrants issued to related party in connection with advances provided valued at \$45,000.  
In-the-money conversion feature on convertible debt valued at \$70,000.  
Financed insurance policies of \$65,000 by issuing a note payable.

Non-cash and investing and financing activities for the nine months ended September 30, 2001:

Conversion of preferred stock into common stock.  
Conversion of \$1,000,000 note payable into 1,618,477 shares of common stock.  
Financed insurance policies of \$3,000 by issuing a note payable.

See notes to consolidated financial statements.

### MEDIX RESOURCES, INC.

#### Notes to Unaudited Consolidated Financial Statements

##### Note 1 - Summary of Significant Accounting Policies

The consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The unaudited consolidated financial statements as of September 30, 2002 have been derived from audited financial statements. The unaudited consolidated financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended December 31, 2001. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2002.

##### Cost of Services Provided

Cost of services provided includes amortization of software development costs on projects ready for their intended use, license and data service fees.

##### Note 2 - Goodwill

	September 30, 2002
Goodwill acquired through the Cymedix acquisition	\$ 2,369,000
Less accumulated amortization	(634,000)
	-----
	\$ 1,735,000
	=====

The Company has completed step one, impairment review of FAS 142, effective January 1, 2002, and has determined that the fair value of that goodwill associated with its Cymedix reporting unit using a discounted cash flow method

had no impairment.

**Note 3 - Equity Transactions**

The Company received proceeds of \$114,750 from the exercise of stock options resulting in the issuance of 315,000 shares of common stock during the first three quarters of 2002.

Equity Line

The Company had entered into an Equity Line of Credit Agreement dated as of June 12, 2001, which was terminated by the mutual agreement of the parties on August 6, 2002. During the period January to April 2002, the Company received \$972,000, net of commissions and escrow fees from eight equity line advances, resulting in the issuance of 1,954,715 shares of common stock.

Warrants

As of February 18, 2002, the Company executed a Amended and Restated Common Stock Purchase Warrant obligating the Company to issue up to 7,000,000 warrants under an agreement with a pharmacy management company for the Company's proprietary software to be interfaced with core medical service providers, in which one of the Company's audit committee members is a related party to the pharmacy management company. The agreement provides for 3,000,000 warrants with an exercise price of \$.30, 3,000,000 warrants with an exercise price of \$.50, and 1,000,000 warrants with an exercise price of \$1.75 all expiring September 8, 2004. The right to exercise the warrants are earned in increments based on certain performance criteria. At September 30, 2002, 1,850,000 of the warrants had been earned.

The Company has the obligation to provide 5,150,000 warrants under the Amended and Restated Common Stock Purchase Warrant in the future if the performance criteria specified are met.

The agreement provides for a total of 5,150,000 remaining warrants under five performance criteria categories which can be earned in any order or concurrently. Had all of the remaining performance criteria been met at September 30, 2002, the fair value of the related warrants and resulting expense would have been approximately \$ \$1,691,000, using the Black-Scholes option pricing model, with assumptions of 121% volatility, no dividend yield and a risk-free rate of 5.5%.

Convertible Loan

The Company entered into a secured convertible loan agreement dated February 19, 2002 with WellPoint Health Networks Inc. in which a member of the Company's audit committee is a related party, pursuant to which we borrowed \$1,000,000. The loan would have become payable on February 19, 2003, if not converted into our common stock. The loan earned annual interest at a floating rate of 300 basis points over prime, as it is adjusted from time to time, which was also payable at maturity and may be converted into common stock. Conversion into common stock was at the option of either WellPoint or Medix at a contingent conversion price. The Company recorded financing costs during the first quarter of 2002 associated with this loan agreement as a result of the in-the-money conversion feature totaling \$70,000. The loan was secured by the grant of a security interest in all Medix's intellectual property, including its patent, copyrights and trademarks. Medix converted the principal of and interest accrued on the note into 2,405,216 common shares on October 9, 2002. The security interest in Medix's intellectual property was also released.

The Company received a \$50,000 advance from a director of the Company, during



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July 2002. The advance allows for conversion into 125,000 shares of the Company's common stock. The Company also issued 125,000 warrants, exercisable at \$.50 per share in connection with the advance. This advance was converted into 125,000 shares of common stock subsequent to September 30, 2002. The warrants and number of conversion shares are identical to those offered under the private placements.

### Private Placements

During April 2002, the Company initiated a private placement of its \$.001 par value common stock. A total of 3,452,500 units were placed, each consisting of one share of common stock and one warrant. Subscribers purchased each unit for \$.40 and are entitled to exercise warrant rights to purchase one share of the common stock of the company at a purchase price of \$.0.50 per share for a five year period on or after September 1, 2002 and prior to September 1, 2007. The Company received a total of \$1,381,000 from this private placement. The Company has committed to register the above underlying shares in a registration statement with the Securities and Exchange Commission within 90 days of completion of the offering. Subsequently, some of these subscribers holding warrants to purchase 1,770,000 shares of common stock, have agreed to amend the exercise period of their warrants from July 1, 2003 to December 31, 2008

During July 2002, the Company initiated a second private placement of its \$.001 par value common stock. A total of 3,600,000 units were placed during the period July to October 2002, each consisting of one share of common stock and one warrant. Subscribers purchased each unit for \$.40 and are entitled to exercise warrant rights to purchase one share of the common stock of the company at a purchase price of \$.0.50 per share for a five year period on or after January 1, 2003 and prior to January 1, 2008. The Company received a total of \$1,440,000 from this private placement. The Company has committed to register the above underlying shares in a registration statement with the Securities and Exchange Commission within 90 days of completion of the offering.

### Note 4 - Stock Options

During the first nine months of 2002, the Company granted options to purchase 1,918,500 shares at exercise- prices of \$.38 to \$.94 per share to current employees and directors and consultants of the Company, under the Company's 1999 Stock Option Plan. During the first nine months of 2002, 315,000 stock options were exercised.

### Note 5 - Related Party Transactions

The Company received advances from a related party in 2001 that totaled \$166,000 at December 31, 2001. The entire amount was repaid during February 2002. During July and August 2002, the Company received advances that totaled \$130,000 from a related party.

The Company also received an advance of \$50,000 from a member of the board of directors during July 2002, which was converted subsequent to September 30, 2002 into 125,000 shares of common stock. The Company also issued 125,000 warrants, exercisable at \$.50 per share in connection with the advance. The warrants and number of conversion shares are identical to those offered under the private placements.

The Company has also entered into transactions and agreements with Wellpoint Health Networks, Inc., in which a member of the Company's audit committee is a related party. (See Note 3, Warrants and Convertible Loan.)

**Note 6 - Litigation**

August 7, 2001, a former officer of the Company filed an action, entitled Barry J. McDonald v. Medix Resources, Inc., f/k/a International Nursing Services, Inc., and John Yeros, CN 01CV2119, in the District Court of Arapahoe County, Colorado, against the Company and its former President and CEO. The plaintiff alleged (1) breach of an employment agreement, a stock option agreement and the related stock option plan, (2) a duty of good faith and fair dealing, and (3) violation of the Colorado Wage Claim Act. On August 13, 2002, we reached an agreement in principal with the plaintiff to settle the litigation by paying plaintiff \$25,000 on or before October 1, 2002, with no admission of liability on our part. This settlement agreement has been signed and the \$25,000 was paid during September 2002.

On December 17, 2001, Vision Management Consulting, L.L.C., filed suit against us in the Superior Court of New Jersey, Law Division - Essex County, in an action entitled Vision Management Consulting, L.L.C. v. Medix Resources, Inc., Docket No. ESX-L-11438-01. The complaint filed by Vision alleged breach of contract, unjust enrichment, breach of the duty of good faith and fair dealing and misrepresentation on the part of Medix in connection with our performance under a negotiated settlement agreement which we had entered into to resolve certain claims that existed between the parties and that arose out of the termination of operations of our Automated Design Concepts division earlier in 2001. On August 12, 2002, we reached an agreement in principal with Vision to settle this litigation by payment from us to Vision of \$55,000, to be paid over the next three months, with no admission of liability on our part. The settlement agreement has been signed and \$32,000 of the settlement amount was paid during September 2002.

**Subsequent Events - Acquisition Letter of Intent**

On October 30, 2002, the Company announced that it has entered into a non-binding Letter of Intent with PocketScript, LLC. Under the Letter of Intent, Medix would purchase all of the assets of PocketScript and related companies, subject to the completion of satisfactory due diligence on the part of both companies and negotiation and execution of definitive documents by December 20, 2002. If consummated, Medix would issue its convertible preferred stock to PocketScript, convertible into 12 million shares of common stock, subject to a downward adjustment if a certain closing value is not realized. In addition, Medix would issue up to \$4 million in additional convertible preferred stock if certain business enhancement events occur within six months of the closing of the acquisition. The sale of any stock issued by Medix would be restricted for periods from 3 to 24 months after closing. Medix must also pay to PocketScript \$100,000 on or before October 31, 2002. Medix will also enter into employment or consulting agreements with key PocketScript employees, and will be required to raise \$1 million prior to closing. Finally, PocketScript will obtain the termination of a right of first refusal held by a third party.

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholders  
PocketScript, LLC  
Mason, Ohio

We have audited the accompanying balance sheets of PocketScript, LLC (formerly PocketScript, Inc.) as of December 31, 2001 and 2000, and the related statements of operations, changes in redeemable preferred stock stockholders' equity and

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cash flows for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PocketScript, LLC (formerly PocketScript, Inc.) as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has experienced recurring losses and has a working capital deficit, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Ehrhardt Keefe Steiner & Hottman PC

-----  
Ehrhardt Keefe Steiner & Hottman PC

February 5, 2003  
Denver, Colorado

### POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)

#### Balance Sheets

	December 31,		September 30,
	2001	2000	2002
			(unaudited)
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ -	\$ 153,621	\$ 10,027
Accounts receivable, net	-	5,055	18,427
Prepaid expenses and other	-	11,302	20
Total current assets	-	169,978	28,474
<b>Non-current assets</b>			
Property and equipment, net	2,020,057	2,650,818	303,632
Other assets	77,029	59,200	27,029

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Total non-current assets	2,097,086	2,710,018	330,661
Total assets	\$2,097,086	\$2,879,996	\$ 359,135

**Liabilities and Stockholders' (Members) Deficit**

Current liabilities			
Convertible debentures	\$ -	\$2,131,000	\$ -
Notes payable	1,890,400	-	250,000
Bank overdraft	5,643	-	-
Accounts payable	2,148,326	1,184,731	20,730
Accounts payable - related parties	-	-	329,981
Accrued expenses	1,311,873	539,543	208,579
Total current liabilities	5,356,242	3,855,274	809,290
Notes payable, less current portion	-	-	1,364,689
Total liabilities	5,356,242	3,855,274	2,173,979
Commitments and contingencies			
Redeemable convertible cumulative preferred stock, \$0.01 par value:			
Series A- 0% rate, authorized shares - 8,000,000, issued and outstanding shares - 3,680,702 and 2,256,023 at December 31, 2001 and 2000, respectively, with liquidation preferences aggregating \$5,521,208 (2001) and \$3,380,658 (2000)	5,521,208	3,380,658	-
Series B1- 8% rate, authorized shares - 2,379,795, issued and outstanding shares - 2,054,795 at December 31, 2001 and 2000 with liquidation preferences aggregating \$3,342,193 (2001) and \$3,102,193 (2000)	3,260,000	3,020,000	-
Series B2- 8% rate, authorized shares - 9,620,205, no shares issued and outstanding	-	-	-
Equity (deficit)			
Members capital, 100 units issued and outstanding at September 30, 2002	-	-	1,000
Common stock, \$.001 par value, 50,000,000 shares authorized, 10,000,000 shares issued and outstanding at September 30, 2002 (unaudited) December 31, 2001 and 2000, respectively	100,000	100,000	-
Additional paid-in capital	999,852	849,852	8,880,060
Accumulated deficit	(13,140,216)	(8,325,788)	(10,695,904)

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Total stockholders' (members) deficit	(12,040,364)	(7,375,936)	(1,814,844)
Total liabilities and stockholders' (members) deficit	\$2,097,086	\$2,879,996	\$ 359,135

See notes to consolidated financial statements.

**POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)**

**Statements of Operations**

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2001	2000	2002	2001
				(Unaudited)
Sales				
Revenues	\$ 597,505	\$ 81,439	\$ 135,159	\$ 597,505
Operating expenses				
Selling, general and administrative expenses	3,933,270	6,467,412	485,998	3,522,095
Software research and development costs	1,032,214	1,144,895	45,925	1,032,214
Total operating expenses	4,965,484	7,612,307	531,923	4,554,309
Other income (expense)				
Financing costs	(150,000)	(290,926)	-	(150,000)
Interest expense	(59,976)	(121,128)	(38,791)	(59,676)
Other income	3,527	53,097	-	3,202
Total other income (expense)	(206,449)	(358,957)	(38,791)	(206,474)
Net loss before reorganization items	(4,574,428)	(7,889,825)	(435,555)	(4,163,278)
Reorganization Items				
Discharge of liabilities	-	-	3,915,324	-
Reorganization expenses	-	-	(470,847)	-
Write-off of assets	-	-	(564,610)	-
Total gain from reorganization items	-	-	2,879,867	-
Net income (loss)	(4,574,428)	(7,889,825)	2,444,312	(4,163,278)
Dividend on preferred stock	(240,000)	(20,000)	-	(180,000)
Net income (loss) applicable to common stockholders (LLC members)	\$ (4,814,428)	\$ (7,909,825)	\$ 2,444,312	\$ (4,343,278)

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	=====	=====	=====	=====
Basic and diluted income (loss) per share (LLC unit)	\$ (0.48)	\$ (0.79)	\$24,443.12	\$ (0.43)
Weighted average shares (LLC units) outstanding	10,000,000	10,000,000	100	10,000,000

See notes to consolidated financial statements.

**POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)**

**Statement of Changes in Redeemable Preferred Stock and Stockholders' Equity (Deficit)  
For the Years Ended December 31, 2001, 2000 and 1999**

	Redeemable Preferred Stock					
	Series A		Series B-1		Series B-2	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1999	-	\$ -	-	\$ -	-	\$ -
Issuance of stock options to consultants	-	-	-	-	-	-
Issuance of warrants	-	-	-	-	-	-
Issuance of redeemable convertible preferred stock	1,700,600	2,550,115	2,054,795	3,000,000	-	-
Distribution to stockholder	-	-	-	-	-	-
Dividend on redeemable convertible preferred stock	-	-	-	20,000	-	-
Conversion of debentures	555,423	830,543	-	-	-	-
Net loss	-	-	-	-	-	-
Balance at December 31, 2000	2,256,023	3,380,658	2,054,795	3,020,000	-	-
Conversion of debentures	1,424,679	2,140,550	-	-	-	-
Dividend on redeemable convertible preferred stock	-	-	-	240,000	-	-
Issuance of warrants	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Balance at December 31, 2001	3,680,702	5,521,208	2,054,295	3,260,000	-	-
Retirement of preferred stock (unaudited)	-	-	(2,054,795)	(3,260,000)	-	-

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Net income (unaudited)	-	-	-	-	-
Bankruptcy reorganization and Conversion to LLC (unaudited)	(3,680,702)	(5,521,208)	-	-	-
Balance at September 30, 2002 (unaudited)	-	\$ -	-	\$ -	-

See notes to consolidated financial statements.

**POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)**

**Statements of Cash Flows**

	For the Years Ended		For the Nine Months	
	December 31,		Ended September 30,	
	2001	2000	2002	2001
	(Unaudited)			
Cash flows from operating activities				
Net loss	\$ (4,574,428)	\$ (7,889,825)	\$ 2,444,312	\$ (4,163,278)
Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation and amortization	740,798	288,085	151,815	555,598
Issuance of stock options and warrants for services	150,000	540,652	-	150,000
Interest on convertible debt	9,550	93,543	-	9,550
Reorganization items	-	-	(3,350,614)	-
Changes in operating assets and liabilities				
Accounts receivable, net	5,055	(5,055)	(18,427)	5,055
Prepaid expenses and other	11,302	(61,302)	49,980	11,302
Accounts payable and accrued liabilities	1,735,925	1,642,764	559,335	1,617,221
Net cash used in operating activities	(1,921,798)	(5,391,138)	(163,599)	(1,814,552)
Cash flows from investing activities				
Purchase of intangible assets	(17,829)	-	-	(17,829)
Purchase of property and equipment	(110,037)	(2,935,278)	-	(82,076)
Net cash used in investing activities	(127,866)	(2,935,278)	-	(99,905)
Cash flows from financing activities				
Bank overdraft	5,643	-	(5,643)	-
Proceeds from issuance of convertible debentures	-	2,868,000	-	-

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Proceeds from issuance of preferred stock	-	5,550,115	-	
Proceeds from notes payable	1,890,400	1,500,000	179,269	1,890,400
Repayment of notes payable	-	(1,600,000)	-	-
	-----	-----	-----	-----
Net cash provided by financing activities	1,896,043	8,318,115	173,626	1,890,400
	-----	-----	-----	-----
Net (decrease) increase in cash	(153,621)	(8,301)	(10,027)	(24,057)
Cash - beginning of year	153,621	161,922	-	153,621
	-----	-----	-----	-----
Cash - end of year	\$ -	\$ 153,621	\$ 10,027	\$ 129,564
	=====	=====	=====	=====
Deemed distribution on debt assumption	\$ -	\$ 100,000	\$ -	\$ 100,000
	=====	=====	=====	=====
Dividend on redeemable convertible preferred stock	\$ 240,000	\$ 20,000	\$ -	\$ 180,000
	=====	=====	=====	=====
Convertible notes payable converted to redeemable series A preferred stock	\$ 2,131,000	\$ 818,000	\$ -	\$ 818,000
	=====	=====	=====	=====
Redeemable preferred Series B-1 stock retired	\$ -	\$ -	\$3,260,000	\$ -
	=====	=====	=====	=====
Licensed software returned for repurchase of B-1 preferred stock	\$ -	\$ -	\$1,000,000	\$ -
	=====	=====	=====	=====
Debt forgiveness in reorganization items	\$ -	\$ -	\$ 564,610	\$ -
	=====	=====	=====	=====
Equipment write-off in reorganization items	\$ -	\$ -	\$3,915,224	\$ -
	=====	=====	=====	=====

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Notes to Consolidated Financial Statements**

**Note 1 - Description of Business and Summary of Significant Accounting Policies**

PocketScript, LLC (formerly PocketScript, Inc.) (the Company) was incorporated in Ohio on November 5, 1999. The Company and Way Over The Line, LLC (WOTL) are related parties as an officer and shareholder of the Company is the owner of WOTL. The Company provides technology that allows physicians to issue prescriptions electronically through the use of a handheld computer that is linked wirelessly to the pharmacist and others involved in the prescription workflow.

PocketScript, Inc. was originally incorporated as an S Corporation and subsequently converted into an Ohio C Corporation in 2000 and became a Delaware C Corporation through a merger with a Delaware Corporation established for the purpose of the merger. In 2002 after emergence from bankruptcy, PocketScript,



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LLC, purchased the assets of PocketScript, Inc. Because the business operations have remained intact, the accompanying financial statements have been presented as that of a continuous business enterprise.

### Unaudited Interim Financial Statements

The September 30, 2002 and 2001 financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, operating results and cash flows for those interim periods. The results of operations for the nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results expected for an entire year.

### 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, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers in the United States. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk.

### Fair Value of Financial Instruments

The carrying amounts of financial instruments including accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values due to the relatively short maturity of these instruments.

The carrying amounts of debt issued approximate their fair value because interest rates on these instruments approximate market interest rates.

### Revenue Recognition

The Company defers the recognition of all revenue until collectibility is probable, persuasive evidence of an arrangement exists, and the price of the products or services being sold is fixed and determinable. Revenue will be generated principally through pharmacy benefits managers, pharmacies and pharmaceutical manufacturers based on a transaction fee for each prescription processed or based upon a monthly fee in lieu of transaction fees. These fees will be recognized upon the occurrence of the transaction or ratably over the service period. Revenue will also be generated from the sale of software licenses and the sale or lease of hardware. The software licenses and leased hardware revenue will be recognized ratably over the term of the license or lease beginning after the software and hardware have been delivered and installed and the title and risks of ownership have been passed to the customer. Revenue from the sale of hardware will be recognized upon shipment of the product. The Company will also earn fees from data compilation and distribution, which will be recognized as earned. Revenue from Internet advertising contracts will be recognized ratably over the service period, with incremental revenues (as determined by customer usage) recognized on a per transaction basis. No revenue will be recognized that is subject to a refund or the performance of a future obligation.

### Income Taxes

Effective January 1, 2000, the Company changed its status from an S corporation

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to a C Corporation for tax purposes. Income taxes are provided based on the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS 109). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company's net deferred tax assets are fully reserved for by a valuation allowance.

Subsequent to the purchase of the Company's assets through Chapter 11, bankruptcy proceedings those assets and secured liabilities were acquired in 2002 by PocketScripts, LLC, accordingly no provision for income taxes has been included in the accompanying financial statements.

### Property and Equipment

Property and equipment is stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets of 3 years.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company evaluates the fair value of such assets compared to their carrying values in accordance with SFAS No. 144, to determine whether any impairment is required.

### Financing Costs

The company records as financing costs in its statement of operations amortization of in-the-money conversion features on convertible debt accounted for in accordance with EITF 98-5 and 00-27, amortization of discounts from warrants issued with debt securities in accordance with APB No. 14 and amortization of discounts resulting from other securities issued in connection with debt based on their relative fair values, and any value associated with inducements to convert debt in accordance with FASB 84.

### Research and Development Costs

The Company expenses research and development costs as incurred.

### Advertising Costs

The Company expenses advertising costs as incurred.

Advertising expenses were \$50,192 and \$92,862 for the years ended December 31, 2001 and 2000, and \$100 (unaudited) and \$50,192 (unaudited), for the nine-months ended September 30, 2002 and 2001, respectively.

### Basic Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (FAS 128). All dilutive potential common shares have an antidilutive effect on diluted per share amounts and therefore have been excluded in determining net loss per share. The Company's basic and diluted loss per share are equivalent and accordingly only basic loss per share has been presented.

The weighted average LLC units outstanding as a result of the Company's emergence from bankruptcy and conversion to an LLC in 2002 has been retroactively adjusted as if they were outstanding at January 1, 2002.

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For the years ended December 31, 2001 and 2000, and the period ended September 30, 2001 (unaudited) total stock options, warrants and convertible debt and preferred stock of 8,298,946 were not included in the computation of diluted loss per share because their effect was antidilutive, however, if the Company were to achieve profitable operations in the future, they could potentially dilute such earnings. The Company had no dilutive securities outstanding at September 30, 2002.

### Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for years beginning after June 15, 2002. The Company believes the adoption of this statement will have no material impact on its financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. The Company believes that the adoption of this statement will have no material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption of this statement to have a material effect on the Company's financial statements.

In November 2002, the FASB published interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company is currently evaluating what effect the adoption of this statement will have the Company's financial statements. The Company does not expect the adoption of this statement to have a material effect on the Company's

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financial statements.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based compensation. In addition, SFAS 148 amends the disclosure provision of SFAS 123 to require more prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation on reported net income. The effective date for this Statement is for fiscal years ended after December 15, 2002. The Company does not expect the adoption of this statement to have a material effect on the Company's financial statements.

### **Note 2 - Chapter 11 Bankruptcy Reorganization and Emergence**

In February 2002, the Company filed a voluntary petition for Chapter 11 with the bankruptcy court. In late February 2002 the Company filed a motion to sell substantially all of its assets free and clear of liens to an entity represented by an organized group of secured creditors (the "Secured Creditor Group") for an amount (\$1,600,000), which approximated the balances owed to the secured creditor group and certain fees associated with the Chapter 11 proceedings. The court ordered a federally supervised auction of the Company's assets on March 27, 2002. No competing bids were received and the court entered an order to sell the assets to the Secured Creditor Group. The entity, which purchased the assets, was PocketScripts, LLC whose members were also stockholders of PocketScripts, LLC (formerly PocketScript, Inc.)

In connection with the bankruptcy proceedings and the Company's emergence, assets that were not recovered from off-site locations were written-off totaling \$564,610, professional fees and other associated costs of \$470,847 were incurred, and unsecured liabilities of \$3,460,324 and secured liabilities of \$455,000 belonging to creditors outside of the Secured Creditor Group were discharged.

### **Note 3 - Management's Plans**

The Company has incurred operating losses for the past several years resulting in a accumulated deficit at September 30, 2002 of \$(10,695,904) (unaudited). These losses have produced operating cash flow deficiencies, and negative working capital, which raise substantial doubt about its ability to continue as a going concern.

In December of 2002, the company entered into a definitive merger agreement to be acquired by Medix Resources, Inc. (Medix) through the issuance of Medix preferred stock, which is convertible into common shares. Management plans include the raising of capital once the acquisition is completed. The acquisition is dependent upon a successful stockholders vote by Medix stockholders. If the acquisition is not consummated and the subsequent capital is not raised, the Company may be unable to continue in existence. The accompanying financial statements do not include any adjustments as a result of this uncertainty.

### **Note 4 - Related Party Transactions**

In 1999, the Company purchased certain intellectual property, including trademarks, servicemarks and other intangible assets, from WOTL in which two shareholders received common stock valued at \$9,200 for their development and assignment of this intellectual property.

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In 2000, the Company assumed a note payable from a bank of \$100,000, which was assigned to the Company from WOTL. In connection with this assumption of debt for a related party the Company has recorded a deemed distribution to owners of \$100,000 due to the common control relationship.

The Company paid WOTL for certain management and programming services provided, with total expense for the years ended December 31, 2001 and 2000 and the nine-months ended September 30, 2002 and 2001 of \$32,500 and \$32,500, \$32,500 (unaudited) and \$45,925 (unaudited), respectively.

The Company paid a law firm for legal services, in which the Company's general counsel and CFO have an ownership interest, totaling \$14,227, \$43,877, \$15,000, and \$11,727 for the years ended December 31, 2001, 2000 and the nine months ended September 30, 2002 (unaudited) and 2001 (unaudited).

### Note 5 - Balance Sheet Disclosures

Property and equipment consists of the following:

	December 31,		September 30,
	2001	2000	2002
			(unaudited)
Furniture and fixtures	\$ 168,182	\$ 165,745	\$ 607,262
Computer hardware and purchased software	2,880,758	2,773,158	-
	3,048,940	2,938,903	607,262
Less property, plant and equipment - accumulated depreciation	(1,028,883)	(288,085)	(303,630)
	\$ 2,020,057	\$ 2,650,818	\$ 303,632

Depreciation expense was \$740,798 and \$288,085 for the years ended December 31, 2001 and 2000, and \$151,815 and \$555,598 for the nine-months ended September 30, 2002 (unaudited) and 2001 (unaudited), respectively.

In January 2002, \$1,000,000 of previously purchased software was returned to a strategic partner in return for the retirement of all Series B-1 preferred stock.

Accrued expenses consists of the following:

	December 31,		September 30,
	2001	2000	2002
			(unaudited)
Accrued payroll and benefits	\$ 713,127	\$ 539,543	\$ 170,079
Other accrued expenses	598,746	-	38,500
	\$ 1,311,873	\$ 539,543	\$ 208,579
	\$ 1,311,873	\$ 539,543	\$ 208,579

At various times during 2002, the Company was delinquent with payroll tax

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deposits. At September 30, 2002, \$20,000 was accrued for estimated taxes, interest and penalties.

### Note 6 - Notes Payable

On September 12, 2000, the Company entered into a credit facility with a strategic partner. The facility allowed the Company to borrow up to \$1,500,000 at an interest rate equal to the prime rate plus 2%. The Company borrowed \$1,500,000 and repaid the balance during 2000 from proceeds received under the Series B-1 preferred stock offering (Note 9). This facility was canceled on December 19, 2001.

Notes payable consist of the following:

	December 31,		September 30,
	2001	2000	2002
			(unaudited)
Note payable to a bank, interest at 9%, due April 2001, currently in default. Collateralized by substantially all assets. Guaranteed by certain shareholders.	\$ 250,000	\$ -	\$ 250,000
Note payable to a bank, interest at 9%, due April 2001, in default at December 31, 2001. Collateralized by substantially all assets. Guaranteed by certain shareholders.	350,000	-	-
Note payable to a bank, interest at prime plus 5% default rate (9.75% at December 31, 2001 and September 30, 2002), due June 2001, in default at December 31, 2001. Collateralized by substantially all assets. Guaranteed by certain shareholders.	340,000	-	-
Note payable to a corporation, interest at bank prime plus 5% default rate (9.75% at December 31, 2001 and September 30, 2002), due June 2001, in default at December 31, 2001. Collateralized by substantially all assets.	100,000	-	-
Notes payable to corporations, interest at prime plus 2% (6.75% at December 31, 2001), due May 2001, in default at December 31, 2001. Collateralized by substantially all assets.	455,000	-	-
Notes payable to stockholders, interest at prime plus 5% default rate (9.75% at December 31, 2001 and September 30, 2002), due June 2001, in default at December 31, 2001. Collateralized by substantially all assets.	395,400	-	-
Notes payable to secured creditors,			

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interest accrues at 10% until January 1, 2004 when the balance of accrued interest is payable in full and thereafter interest is payable monthly until maturity at September 30, 2005. Collateralized by substantially all assets.

	-	-	1,364,689
	1,890,400	-	1,614,669
Less current portion	(1,890,400)	-	(250,000)
	-	-	1,364,689
	\$ -	\$ -	\$ 1,364,689
	=====	=====	=====

Remaining maturities under notes payable are as follows:

Period Ended September 30,	Amount
2003	\$ 250,000
2004	-
2005	1,314,689
	\$1,614,669
	=====

### **Note 7 - Convertible Debentures**

In June 2000, the Company completed a \$1,000,000 convertible debenture offering. Each debenture is automatically convertible into one share of redeemable convertible preferred stock upon the earliest of (i) the closing of an offering by the Company of \$5,000,000 or more of a new series of preferred stock, (ii) the sale of the Company or (iii) January 8, 2001. The debentures are initially convertible at a maximum price of \$5.00 per share or 200,000 shares, subject to a discount based on the timing of future equity issuances escalating from 12.5%-50% through January 8, 2001, with a minimum conversion price of \$1.50. After January 8, 2001, the debentures are convertible at \$1.50 per share. The debentures accrue interest at a rate of 8% per annum, payable monthly in additional convertible debentures. In January 2001 a total of \$1,000,000 representing all convertible debentures plus accrued interest was converted into 694,767 shares of Series A redeemable convertible preferred stock. There was no in-the money conversion feature associated with the issuance of these convertible notes payable as the value of the common stock was deemed to be \$1.50 based on conversion rates of recent redeemable convertible preferred stock issued.

The Company also issued a \$1,000,000 convertible debenture to a strategic partner in June 2000 in conjunction with a services agreement. Each debenture is automatically convertible into one share of redeemable convertible preferred stock upon the events described in the preceding paragraph. The debentures are convertible at a price of \$1.50 per share or 666,666 shares. The debentures accrue interest at a rate of 8% per annum, payable monthly in additional convertible debentures. In January 2001 a total of \$1,000,000 representing the convertible debenture plus accrued interest was converted into 694,767 shares of Series A redeemable convertible preferred stock. There was no in-the money conversion feature associated with the issuance of these convertible notes payable as the value of the common stock was deemed to be \$1.50 based on conversion rates of recent redeemable convertible preferred stock issued.

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On September 15, 2000, the Company completed an \$868,000 convertible debenture offering. Each debenture is automatically convertible into one share of redeemable convertible preferred stock upon the earliest of (i) the closing of an offering by the Company of \$10,000,000 or more of a new series of preferred stock, (ii) the sale of the Company or (iii) March 25, 2001. The debentures are convertible at a price of \$1.50 per share, or 578,667 shares, after March 25, 2001 or upon a sale. Upon a qualified offering, the conversion price will be equal to the per share price of the new stock issuance, less a 25% discount. Under the terms of the agreement, the discounted conversion price will range from \$1.50-\$1.75 per share. Should the per share price of the new stock issuance be less than \$1.50, the conversion price will be equal to the per share price of the new issuance. The debentures accrue interest at a rate of 8% per annum, payable monthly in additional convertible notes. A total of \$818,000 convertible debentures plus accrued interest was converted into 555,423 shares of Series A redeemable convertible preferred stock in accordance with the agreement on December 19, 2000. In March 2001 a total of \$50,000 representing the remaining convertible debenture plus accrued interest was converted into 35,145 shares of Series A redeemable convertible preferred stock.

### **Note 8 - Commitments and Contingencies**

#### Operating Leases

The Company leased office space under non-cancelable operating leases and is currently renting office space under a month-to-month lease. Rent expense for these leases was:

Year Ending December 31,  
-----

2001	\$	214,241
2000	\$	163,873

Nine Months Ending  
September 30, (unaudited)  
-----

2002	\$	61,500
2001	\$	152,170

### **Note 9 - Redeemable Convertible Preferred Stock**

In February 2000, the Company issued Series A redeemable convertible preferred stock, which has the same voting rights as the common stock of the Company. Each share of preferred stock is convertible, at the option of the holder, into common stock at an initial per share price of \$1.50. This price may be adjusted proportionately to any common stock activity to avoid dilution upon conversion. The Company has reserved shares of its authorized but unissued common stock for the full number of shares of common stock issuable on the conversion of all outstanding preferred shares. At the Company's discretion, preferred shares may automatically be converted into shares of common stock upon the closing of a public offering in which the gross proceeds exceed \$20,000,000.

In January 2000, the Company issued 1,533,932 shares of Series A preferred stock for \$2,300,115. Under the terms of a separate agreement with a strategic partner, the Company sold 166,668 shares of Series A redeemable convertible preferred stock for \$250,000 in December 2000.

In December 2000, the Company issued 2,054,795 shares of Series B-1 redeemable convertible preferred stock for \$3,000,000. The preferred stock carries an 8%



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cumulative dividend. Each share of preferred stock is convertible, at the option of the holder, into common stock at an initial per share price of \$1.50. This price may be adjusted proportionately to any common stock activity to avoid dilution upon conversion. The Company has reserved shares of its authorized but unissued common stock for the full number of shares of common stock issuable on the conversion of all outstanding preferred shares. At the Company's discretion, preferred shares may automatically be converted into shares of common stock upon the closing of a public offering in which the gross proceeds exceed \$30,000,000. The Company recorded preferred dividends of 240,000, \$20,000 and \$180,000 for the years ended December 31, 2001 and 2000 and the nine-months ended September 30, 2002.

After January 2005, the Company shall, at the option of any holder, redeem shares of preferred stock by paying the shareholder a price calculated in accordance with the shareholder agreement. In the event of any voluntary or involuntary liquidation of the Company, before any distribution of payment is made to the holders of common stock, the holders of preferred stock are entitled to receive an amount equal to \$1.50 per share, plus the amount of any declared and unpaid dividends. Any assets remaining after such payments to preferred shareholders shall be distributed pro rata among all shareholders.

Each holder of preferred stock is entitled to such number of votes equal to the number of shares of common stock into which all of such holder's preferred stock is convertible.

In January 2002, the Series B-1 redeemable convertible stock was retired by agreement of the parties. In connection with the retirement, the Company returned previously purchased software of with a purchased cost of \$1,000,000 as consideration for the return of the preferred shares. The difference between the carrying value of the purchased software of \$1,000,000 and the value of the preferred stock including cumulative accrued dividends of \$3,260,000 was recorded as an increase to additional paid-in-capital of \$2,260,000.

### **Note 10 - Stockholders' Equity**

#### Common Stock

Effective January 1, 2000, the Company's Articles of Incorporation were amended resulting in one class of voting common stock. Prior to January 1, 2000, there were two classes of common stock - voting Class A stock and nonvoting Class B. Accordingly, all references in the financial statements related to share amounts, including information concerning stock option plans, have been adjusted retroactively to reflect this.

#### Stock Split

The Company declared a 100 for 1 stock split effective January 1, 2000. The Company subsequently declared a 10-for-1 stock split effective June 8, 2000. Accordingly, all references in the financial statements related to share amounts, including information concerning stock option plans, have been adjusted retroactively to reflect the stock splits.

Effective January 1, 2000, the Board of Directors formalized the Employee Stock Option Plan (the Plan). The Plan provides for the issuance of up to 3,000,000 common shares in connection with the issuance of nonqualified and incentive stock options. The Company's Board of Directors determines eligibility. The exercise price of the options is generally the fair market value at the date of grant. Options under the plan generally vest over three years, or earlier in the event of a change in control, as defined.

#### Stock Options

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The Company follows the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation." Accordingly, no compensation cost has been recognized for the stock option plan. The Company uses the Black-Scholes option-pricing model to estimate fair value of options and warrants granted. Had compensation cost for the Company's warrant issuances and stock options issued to employees in 2000 been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Corporation's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	December 31,	
	2001	2000
Net loss - as reported	\$ (4,574,453)	\$ (7,889,825)
Net loss - pro forma	\$ (4,574,453)	\$ (10,420,090)
Basic loss per share - as reported	\$ (0.48)	\$ (0.79)
Basic loss per share - pro forma	\$ (0.48)	\$ (1.04)

Employee stock options outstanding were as follows:

	Option Shares	Weighted- Average Exercise Price
	-----	-----
Balance at January 1, 2000	-	\$ -
Options Granted	2,038,530	0.69
	-----	-----
Balance at December 31, 2000 and 2001	2,038,530	\$ 0.69
	=====	=====

During 2000, the Company granted 1,656,530 options at \$0.50 per share and 382,000 options at \$1.50 per share. Employee options exercisable totaled 1,339,280 at December 31, 2001. The fair value of option grants in 2000 was \$2,530,265 using the Black-Scholes option pricing model, with assumptions of 300% and 100% volatility, expected lives of seven years, no dividend yield and a risk-free rate of 5.5%.

### Stock Options to Consultants

In April 2000, the Company issued 196,500 options to purchase common stock to an outside consultant at an exercise price of \$1.50 per share. These options were fully vested as of June 30, 2000 and expire June 30, 2007. The fair value of these options of \$249,726 were expensed, with fair value estimated using the Black-Scholes option pricing model, with assumptions of 100% volatility, expected lives of seven years, no dividend yield and a risk-free rate of 5.5%.

All outstanding stock options were eliminated as part of the Company's Chapter 11 bankruptcy proceeding (Note 2).

### Stock Warrants

During 2000, the Company issued 228,919 warrants to outside consultants in connection with the convertible debentures and the redeemable convertible preferred stock issuances. Each warrant entitles the holder to purchase one share of Series A redeemable convertible preferred stock at a price of \$1.50, subject to adjustments in certain events as defined in the agreement. The warrants are exercisable immediately. The Company recorded financing charges of

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\$290,926 related to the issuance of these warrants. The fair value of the warrants was estimated using the Black-Scholes option-pricing model, with assumptions of 100% volatility, expected lives of seven years, no dividend yield and a risk-free rate of 5.5%.

On April 12, 2001, associated with borrowings of \$150,000, \$150,000 and \$100,000 from three shareholders, the Company issued 37,500, 37,500 and 25,000 warrants to the three shareholders, respectively. Each warrant entitles the holder to purchase one share of the Company's common stock at a price of \$0.01 per share, subject to adjustments in certain events as defined in the agreement. The warrants are exercisable immediately and expire 90 days after \$5 million in venture capital financing is raised. These warrants have been valued at \$150,000, or \$1.50 per option share which equals the estimated value of the underlying common stock, based on conversion rates of recent redeemable preferred stock issued.

The following table presents the activity for stock purchase warrants:

	Shares	Exercise Price	Expiration Date
	-----	-----	-----
Balance at January 1, 1999	-	\$ -	-
Issuances	228,919	1.50	February 7, 2007 - June 30, 2007
	-----	-----	
Balance at December 31, 2000	228,919	1.50	February 7, 2007 - June 30, 2007
Issuances	100,000	1.50	*
	-----	-----	
Balance at December 31, 2001	328,919	\$ 1.50	February 7, 2007 - June 30, 2007 and *
	=====	=====	

\* 90 days after raising \$5,000,000 in venture capital.

All warrants were eliminated as part of the Company's Chapter 11 bankruptcy proceeding (Note 2).

### UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### Introduction

The following unaudited pro forma condensed consolidated financial information gives effect to the PocketScript merger under the purchase method of accounting. These pro forma statements are presented for illustrative purposes only. The pro forma adjustments are based upon available information and assumptions that we believe are reasonable. The pro forma condensed consolidated financial statements do not purport to represent what the consolidated results of operations or financial position of Medix Resources would actually have been if the PocketScript merger had in fact occurred on the dates that we refer to below, nor do they purport to project the results of operations or financial position of Medix Resources for any future period or as of any date, respectively.

Under the purchase method of accounting, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair market values. The excess of the purchase price, including estimated fees and

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expenses related to the merger, over the net assets acquired is classified as goodwill on the accompanying unaudited pro forma condensed consolidated balance sheet.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2002, was prepared by combining the historical cost balance sheet at September 30, 2002 for Medix Resources with the historical cost balance sheet at September 30, 2002, for PocketScript, giving effect to the merger as though it had been completed on September 30, 2002.

The unaudited pro forma condensed consolidated statements of operations for the periods presented were prepared by combining Medix Resources' statements of operations for the nine months ended September 30, 2002 and the year ended December 31, 2001 with PocketScript's statements of operations for the same periods, giving effect to the merger as though it had occurred on January 1, 2001. These unaudited pro forma condensed consolidated financial statements do not give effect to any restructuring costs or to any potential cost savings or other operating efficiencies that could result from the merger.

The historical financial statements of Medix Resources for the year ended December 31, 2001 are derived from audited consolidated financial statements and for the nine months ended September 30, 2002 are derived from unaudited condensed consolidated financial statements of Medix Resources, all of which are presented elsewhere in this proxy statement. The historical financial statements of PocketScript for the year ended December 31, 2001 are derived from audited consolidated financial statements and for the nine months ended September 30, 2002 are derived from unaudited condensed consolidated financial statements of PocketScript, all of which are presented elsewhere in this proxy statement.

### Unaudited Pro Forma Combined Balance Sheet As of September 30, 2002

	Medix (1)	PocketScript (2)	Total
	-----	-----	-----
Assets			
Cash and cash equivalents	\$ 267,000	\$ 10,027	\$ 277,027
Accounts receivable, trade	1,000	18,427	19,427
Prepaid expenses and other	240,000	20	240,020
	-----	-----	-----
Total current assets	508,000	28,474	536,474
Software development costs, net	1,024,000	-	1,024,000
Property and equipment, net	335,000	303,632	638,632
Other assets	-	27,029	27,029
Customer contracts	-	-	-
Purchased technology	-	-	-
Goodwill, net	1,735,000	-	1,735,000
	-----	-----	-----
Total assets	\$3,602,000	\$ 359,135	\$3,961,135
	=====	=====	=====
Liabilities and Stockholders' Equity			
Notes payable	\$ 17,000	\$ 250,000	\$ 267,000
Convertible notes payable	1,000,000	-	1,000,000
Advance from related party	50,000	-	50,000
Accounts payable	567,000	20,730	587,730
Accounts payable-related parties	130,000	329,981	459,981

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Accrued expenses	407,000	170,079	577,079
Deferred revenue	155,000	38,500	193,500
Accrued payroll taxes, interest, and penalties	131,000	-	131,000
Total current liabilities	2,457,000	809,290	3,266,290
Long-term debt	-	1,364,689	1,364,689
Total liabilities	-	2,173,979	4,630,979
Commitments and contingency			
Stockholders' equity			
Common stock, \$.001 par value; 100,000,000 authorized; 65,842,599 issued and outstanding.	66,000	1,000	67,000
Dividends payable with common stock	8,000	-	8,000
Preferred stock	-	-	-
Additional paid-in capital	39,848,000	8,880,060	48,728,060
Accumulated deficit	(38,777,000)	(10,695,904)	(49,472,904)
Total stockholders' equity	1,145,000	(1,814,844)	(669,844)
Total liabilities and stockholders' equity	\$3,602,000	\$ 359,135	\$3,961,135

**Unaudited Pro Forma Combined Statement of Operations  
For the Nine Months Ended September 30, 2002**

	Medix (1)	PocketScript (2)	Total
Sales	\$ 10,000	\$ 135,159	\$ 145,159
Revenues	10,000	135,159	145,159
Operating expenses			
Amortization of software costs and license fees	495,000	-	495,000
Software research and development costs	533,000	45,925	578,925
Selling, general and administrative expenses	3,390,000	485,998	3,875,998
Impairment of assets	-	-	-
Total operating expenses	4,418,000	531,923	4,949,923
Income (loss) from operations	(4,408,000)	(396,764)	(4,804,764)
Other income (expense)			
Other income	7,000		7,000
Interest expense	(71,000)	(38,791)	(109,791)

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Financing costs	(246,000)	-	(246,000)
Reorganization gain	-	2,879,867	2,879,867
	-----	-----	-----
Net (loss) income	\$ (4,718,000)	\$ 2,444,312	\$ (2,273,688)
	=====	=====	=====
Extraordinary item - forgiveness of debt income	-	-	-
	-----	-----	-----
Net loss after extraordinary item	\$ (4,718,000)	\$ 2,444,312	\$ (2,273,688)
	=====	=====	=====
Dividend on preferred stock	-	-	-
	-----	-----	-----
Net (loss) income applicable to common stockholders	\$ (4,718,000)	\$ 2,444,312	\$ (2,273,688)
	=====	=====	=====
Basic and diluted loss per common share	\$ (0.08)		
	=====		
Weighted average pro forma shares outstanding - basic and diluted	60,698,928		
	=====		

**Unaudited Pro Forma Combined Statement of Operations  
For the Year Ended December 31, 2001**

	Medix(1)	PocketScript (2)	Total
	-----	-----	-----
Sales	\$ 29,000	\$ 597,505	\$ 626,505
	-----	-----	-----
Revenues	29,000	597,505	626,505
	-----	-----	-----
Operating expenses			
Amortization of software costs and license fees	213,000	-	213,000
Software research and development costs	1,075,000	1,032,214	2,107,214
Selling, general and administrative expenses	5,746,000	3,933,270	9,679,270
Impairment of assets	1,111,000	-	1,111,000
	-----	-----	-----
Total operating expenses	8,145,000	4,965,484	13,110,484
	-----	-----	-----
Income (loss) from operations	(8,116,000)	(4,367,979)	(12,483,979)
	-----	-----	-----
Other income (expense)			
Other income	12,000	3,202	15,202
Interest expense	(104,000)	(59,676)	(163,676)
Financing costs	(2,428,000)	(150,000)	(2,578,000)
	-----	-----	-----

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Net loss	\$ (10,636,000)	\$ (4,574,453)	\$ (15,210,453)
	=====	=====	=====
Extraordinary item	-	-	-
	-----	-----	-----
Net loss after extraordinary item	\$ (10,636,000)	\$ (4,574,453)	\$ (15,210,453)
	=====	=====	=====
Dividend on preferred stock	-	(240,000)	(240,000)
	-----	-----	-----
Net loss applicable to common stockholders	\$ (10,636,000)	\$ (4,814,453)	\$ (15,450,453)
	=====	=====	=====
Basic and diluted loss per common share	\$ (0.21)		
	=====		
Weighted average pro forma shares outstanding - basic and diluted	50,740,356		
	=====		

**Notes to Unaudited Pro Forma Balance Sheet and Statements of Operations**

1. Reflects the September 30, 2002 and December 31, 2001 balances filed by Medix Resources, Inc. (Medix) on Forms 10-K and 10-Q.
2. Reflects the balances from the historical financial statements of the acquiree, PocketScript, LLC (PocketScript) at September 30, 2002 and December 31, 2001.
3. To record the merger consideration and purchase price allocation in connection with the acquisition. Medix paid an initial deposit of \$100,000 in connection with the merger; additionally Medix is to issue 12,000,000 shares of preferred stock subject to certain adjustments and additional contingent payment consideration of up to \$4,000,000 in common stock for future performance criteria being satisfied. The preliminary purchase price allocation below does not include any contingent consideration or transaction fees and expenses. The value of the preferred stock is based upon the 12,000,000 initial shares being issued which are convertible into one share of Medix common stock, using a common share price of \$.60 for Medix common stock. The purchase price allocation is as follows:

Consideration:	
Cash	\$ 100,000
Preferred Stock	7,200,000
Assumed Liabilities	2,175,000
	-----
Total consideration	\$9,475,000
	-----

Purchase Price Allocation:	
Current Assets	\$ 28,500
Fixed Assets	350,000
Customer Contracts	162,000
Purchased Technology	3,500,000
Goodwill	5,434,500

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Total assets acquired \$9,475,000

The acquired intangible assets are amortized over their estimated useful lives of five years for Customer Contracts and four years for Purchased Technology. The purchase price allocation is based on preliminary information obtained from an outside valuation being performed and is subject to finalization and adjustment.

- 4. To adjust the balance of capitalized software development costs abandoned at September 30, 2002, and recorded the related impairment balances for the nine-month period ended September 30, 2002 and the year ended December 31, 2001.
- 5. To remove the historical depreciation and amortization and record the depreciation
- 6. and amortization for the assets acquired based on the purchase price allocation described in note 3 above.
- 7. To remove the gain from PocketScript Chapter 11 bankruptcy reorganization.

Annex A

MERGER AGREEMENT

dated as of December 19, 2002

among

PS PURCHASE CORP.,

MEDIX RESOURCES, INC.,

POCKETSCRIPT, LLC,

and

STEPHEN S. BURNS

MERGER AGREEMENT dated as of December 19, 2002 (this "Agreement"), among (i) POCKETSCRIPT, LLC, an Ohio limited liability company (the "Company"), (ii) MEDIX RESOURCES, INC., a Colorado corporation ("Medix"), (iii) PS Purchase Corp., a Delaware corporation (the "Merger Sub"), and a wholly-owned subsidiary of Medix, and (iii) STEPHEN S. BURNS, ("Burns " or the "Representative").

WITNESSETH:

WHEREAS, the parties to this Agreement desire to effect a strategic



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business combination;

WHEREAS, Burns owns approximately 25% of the issued and outstanding Units (as hereinafter defined) of the Company;

WHEREAS, in furtherance of the foregoing, upon the terms and subject to the conditions of this Agreement and in accordance with Chapter 1705 of the Ohio Revised Code (the "Ohio Statute"), the Merger Sub will merge with and ----- into the Company in accordance with the provisions of the Ohio Statute, with the Company as the surviving corporation;

WHEREAS, the Board of Directors of Medix and the sole Manager of the Company has approved and determined that this Agreement, and the transactions contemplated herein, including the Merger (as hereinafter defined), are advisable, fair to, and in the best interests of, their respective corporations and stockholders; and

WHEREAS, the Board of Directors of Medix and the sole Manager of the Company has resolved to recommend adoption and approval of the Merger, this Agreement and the transactions contemplated herein to the stockholders of Medix and the members of the Company (the "Members"), respectively, and has ----- determined that the Merger, this Agreement, and the transactions contemplated hereby are fair to such stockholders or Members, as the case may be, and to recommend that the stockholders of Medix and the Members, approve and adopt the Merger, this Agreement and the transactions contemplated herein.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements contained in this Agreement and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I.

General

Section 1.1. The Merger.

Upon the terms and subject to the conditions of this Agreement, and in accordance with the Ohio Statute and the Delaware General Corporation Law (the "DGCL"), at the Effective Time (as hereinafter defined), the Merger Sub ----- shall be merged with and into the Company (the "Merger"). As a result of the ----- Merger, the separate existence of the Merger Sub shall cease and the Company shall continue as the surviving corporation of the Merger (the "Surviving ----- Corporation"). The corporate existence of the Company, with all its purposes, ----- rights, privileges, franchises, powers and objects, shall continue unaffected and unimpaired by the Merger and, as the Surviving Corporation, it shall be governed by the laws of the State of Ohio.

Section 1.2. Effective Time; Closing.

As promptly as practicable after the satisfaction or waiver of the conditions set forth in Articles VII, VIII and IX hereof, the parties hereto shall cause the Merger to be consummated by filing the Certificate of Merger with the Secretary of State of the State of Ohio and by making all other

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filings or recordings required under the Ohio Statute and the DGCL in connection with the Merger, in such form as is required by, and executed in accordance with the relevant provisions of, the Ohio Statute or such other applicable Law. The date and time when the Merger shall become effective is hereinafter referred to as the "Effective Time". The closing of the Merger

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and the transactions contemplated hereby (the "Closing") shall be held at

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10:00 a.m., local time, at the offices of Moses & Singer LLP, located at 1301 Avenue of the Americas, New York, New York 10019, on a date mutually agreed to by the parties hereto (the "Closing Date").  
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At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the Ohio Statute. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all of the property, rights, privileges, powers and franchises of the Company and the Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities, obligations, restrictions, disabilities and duties of the Company and the Merger Sub shall become the debts, liabilities, obligations, restrictions, disabilities and duties of the Surviving Corporation.

Section 1.3. Articles of Organization.  
-----

The Certificate of Merger shall provide that the Articles of Organization of the Company as amended and restated as set forth in such Certificate of Merger shall become the Articles of Organization of the Surviving Corporation, until the same shall thereafter be altered, amended or repealed in accordance with applicable law or such Articles of Organization.

Section 1.4. Operating Agreement.  
-----

The Certificate of Merger shall provide that the Operating Agreement of the Company in effect immediately prior to the Effective Time shall become the Operating Agreement of the Surviving Corporation, until the same shall thereafter be altered, amended or repealed in accordance with applicable law, the Articles of Organization of the Surviving Corporation or such Operating Agreement.

Section 1.5. Directors, Managers and Officers.  
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The Certificate of Merger shall provide that from and after the Effective Time, until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified in accordance with applicable law, (i) the directors of the Merger Sub at the Effective Time shall become the Managers of the Surviving Corporation, and (ii) the officers of the Merger Sub at the Effective Time shall become the officers of the Surviving Corporation.

Section 1.6. Taking of Necessary Action; Further Assurances.  
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Prior to the Effective Time, and subject to the terms and conditions provided herein, the parties hereto shall take, or cause to be taken (as the case may be), all such action as may be necessary or appropriate in order to effectuate the Merger as provided in this Agreement as expeditiously as reasonably practicable.

ARTICLE II.

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### Effect of Merger on Capital Stock

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#### Section 2.1. Merger Consideration

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Subject to adjustment pursuant to Article III and the Contingent Payments (as hereinafter defined) upon the attainment of certain Qualifying Events (as hereinafter defined) pursuant to Article IV below, the initial consideration (the "Initial Merger Consideration") payable in the Merger with

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respect to all voting units and non-voting Units issued and outstanding at the Effective Time and all securities convertible into or exercisable or exchangeable for Units of the Company shall be Twelve Million (12,000,000) shares (subject to adjustment as provided in Section 3.2 hereof) of Medix common stock, \$.001 par value per share (the "Common Stock"). The Initial

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Merger Consideration together with the Contingent Payments are hereinafter referred to as the "Merger Consideration".

#### Section 2.2. Conversion.

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At the Effective Time, by virtue of the Merger and without any action on the part of Medix, the Merger Sub, the Company or the holders of any of the following securities:

(a) Each unit of ownership interests in the Company (each a "Unit" and  
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collectively, the "Units") issued and outstanding immediately prior to the

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Effective Time shall be canceled and shall by virtue of the Merger and without any action on the part of the holder thereof be converted automatically into the right to receive with respect to each holder of a Unit, the Per Unit Merger Consideration (as hereinafter defined), subject to adjustment pursuant to Article III below, upon the surrender of the certificates representing such Member's Units in the manner set forth in Section 2.3. All such Units, when so converted, shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing Units shall cease to have any rights with respect thereto, except the right to receive such number of shares of Common Stock into which Units Company have been converted. The "Per Unit Merger Consideration" shall mean, One Hundred Twenty Thousand

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(\$120,000) shares of Common Stock (subject to adjustment as provided in Section 3.2 hereof) for each Unit issued and outstanding at the Effective Time and exchanged in the Merger.

(b) Each share of common stock, \$.01 par value per share, of the Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become one validly issued, fully paid and nonassessable voting unit of the Surviving Corporation and shall constitute the only issued and outstanding ownership interest in the Surviving Corporation.

(c) If after the date hereof and prior to the Effective Time, Medix shall have declared a stock split (including a reverse split) of Common Stock or a dividend payable in Common Stock or effected any recapitalization or reclassification of its common stock or any other similar transaction, then the Per Unit Merger Consideration shall be appropriately adjusted to reflect such stock split, dividend, recapitalization, reclassification or similar transaction.

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(d) At the Effective Time, each option, warrant or other right or security to purchase, convert, exchange or otherwise receive a Unit in the Company shall be canceled and cease to exist.

Section 2.3. Exchange of Certificates.  
-----

(a) As soon as reasonably practicable after the Effective Time, Medix and the Surviving Corporation shall mail (or cause a designated agent to mail) to each holder of record of Units reflected on the books and records of the Company (i) a letter of transmittal (which letter shall specify that delivery shall be effected, and risk of loss and title to the certificates representing the Units shall pass, only upon delivery to Medix or an agent designated by Medix a properly executed assignment and letter of transmittal and shall be in such form and have such other provisions as Medix may reasonably specify), and (ii) instructions for use in effecting the assignment of the Units in exchange for certificates representing shares of Common Stock.

(b) Upon the delivery to Medix or an agent designated by Medix of such assignment and letter of transmittal, duly executed, and such other documents as may reasonably be required by Medix, the holder, subject to the escrow arrangements provided for in Section 2.3(d) below, will be entitled to receive certificates representing the number of whole shares of Common Stock to be issued in respect of the Units surrendered.

(c) No certificate or scrip representing fractional shares of Common Stock shall be issued upon the surrender for exchange of Units, and such fractional share interests will not entitle the owner thereof to vote or to any rights as a stockholder of Medix. All fractional shares of Common Stock that a holder of Units would otherwise be entitled to receive as a result of the Merger shall be rounded to the nearest whole number of shares.

(d) If a certificate for Common Stock is to be sent to a Person other than the Person in whose name the Units surrendered for exchange are registered, it shall be a condition of the exchange that the Person requesting such exchange shall pay to Medix any transfer or other taxes required by reason of the delivery of such certificate to a Person other than the registered holder of the certificate surrendered, or shall establish to the satisfaction of Medix that such tax has been paid or is not applicable. "Person" shall mean

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any individual, corporation, partnership (general or limited), limited liability company, limited liability partnership, trust, joint venture, joint-stock company, syndicate, association, entity, unincorporated organization or government or any political subdivision, agency or instrumentality thereof. Notwithstanding the foregoing, the shares of Common Stock constituting the Initial Merger Consideration (the "Escrow Shares")

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shall be deposited into an escrow account (the "Escrow Account") pursuant to

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an escrow agreement (the "Escrow Agreement"), among Medix, the Representative

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and the escrow agent (the "Escrow Agent") in form and substance reasonably

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satisfactory to the parties thereto. The Escrow Agent shall be a bank or trust company with capital and surplus exceeding \$500,000,000 reasonably satisfactory to Medix and the Representative. The Escrow Shares shall (i) secure the obligations with respect to any adjustments or indemnification obligations under this Agreement; (ii) insure compliance with all applicable Law restricting the transfer or distribution of such shares and (iii) provide for the Escrow Shares to be released in accordance with the terms and conditions set forth in the Escrow Agreement which shall provide for timely

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release of such number of Escrow Shares permitted to be sold in accordance with the schedule for sale of shares set forth in the Escrow Agreement.

(e) The shares of Common Stock issued in exchange for the Units in accordance with the terms hereof shall constitute satisfaction and payment in full satisfaction of all of Medix's or the Surviving Corporation's obligations under this Agreement with respect to the Initial Merger Consideration and all rights pertaining to such Units, and the Representative, in his individual capacity and, on behalf of the Members, hereby waives and releases Medix and the Surviving Corporation from any and all claims or liabilities relating to such exchange or arising out of the further disposition of such shares of Common Stock.

### Section 2.4. Dividends and Distributions.

-----

No dividends or other distributions that are declared or made after the Effective Time with respect to Common Stock payable to holders of record thereof after the Effective Time shall be paid to a Member entitled to receive certificates representing Common Stock until such Member has properly surrendered such Member's certificates representing Units. Upon such surrender, there shall be paid to the Member in whose name the certificates representing such Common Stock shall be issued any dividends which shall have become payable with respect to such Common Stock between the Effective Time and the time of such surrender, without interest. After such surrender, there shall also be paid to the Member in whose name the certificates representing such Common Stock shall be issued any dividend on such Common Stock that shall have a record date subsequent to the Effective Time and prior to such surrender and a payment date after such surrender; provided that such

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dividend payments shall be made on such payment dates. In no event shall the Member entitled to receive such dividends be entitled to receive interest on such dividends.

### Section 2.5. No Liability.

-----

None of Medix, the Merger Sub, the Company or the Surviving Corporation shall be liable to any Person in respect of any Common Stock or any dividends or distributions with respect thereto, in each case delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. If any certificate shall not have been surrendered prior to six (6) months after the Effective Time, any such Common Stock, dividends or distributions in respect thereof or such cash shall, to the extent permitted by applicable law, be delivered to Medix, upon demand, and any Members who have not theretofore complied with the provisions of this Article II shall thereafter look only to Medix for satisfaction of their claims for such Common Stock, dividends or distributions in respect thereof or such cash.

### Section 2.6. Withholding Rights.

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The Surviving Corporation shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any Member such amounts as it is required to deduct and withhold with respect to the making of such payment under the Internal Revenue Service Code of 1986, as amended (the "Code") (as hereinafter defined) and the rules and regulations

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promulgated thereunder, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by the Surviving Corporation, such withheld amounts shall be treated for all purposes of this Agreement as

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having been paid to the Member in respect of which such deduction and withholding was made by the Surviving Corporation.

Section 2.7. Closing of Company Unit Journal.  
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At the Effective Time, the Unit journal of the Company shall be closed and no transfer of Units shall thereafter be made. If, after the Effective Time, assignment of Units are presented to the Surviving Corporation, they shall, when accompanied by proper documentation, be exchanged for the Pro Rata Merger Consideration for the Units represented thereby in the manner provided in this Article II and any dividends or distributions payable pursuant to Section 2.4.

ARTICLE III.

Adjustments to Merger Consideration  
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Section 3.1. Closing Balance Sheet.  
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For the purpose of determining the adjustment, if any, to the Initial Merger Consideration, as soon as practicable (but in any event within ninety (90) days) after the Closing Date (as hereinafter defined), the Surviving Corporation shall deliver to the Representative an audited balance sheet of the Company prepared on an accrual basis as of the Closing Date (the "Closing

Balance Sheet"). The Closing Balance Sheet shall be accompanied by a report

or reports thereon of Medix's independent certified public accountants that the Closing Balance Sheet presents fairly the financial position of the Company on the Closing Date in conformity with GAAP applied on a consistent basis.

Section 3.2. Adjustment  
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The Initial Merger Consideration shall be decreased, dollar-for-dollar, by the amount by which the sum of (i) the amount of the aggregate indebtedness set forth on Schedule 3.2 of the Company Disclosure Letter, (ii)

the amount, if any, by which (A) the Company's current liabilities (accounts payable and accrued expenses) and any outstanding indebtedness, other than (x) the indebtedness set forth on Schedule 3.2 of the Company Disclosure

Letter, (y) \$100,000 paid to the Company by Medix relating to certain prepaid programming and (z) the \$100,000 in expenses referred to in Section 10.8, exceeds (B) the sum of the Company's current assets (including cash, cash equivalents, accounts receivables that are less than ninety (90) days past due and prepaid expenses) and deposits, as determined in conformity with GAAP applied on a consistent basis in accordance with the Company's historical practices and as reflected on the Closing Balance Sheet and (iii) the amount paid to dissenting Members that demand fair cash value for their Units under the Ohio Statute, is greater than Fifty Thousand Dollars (\$50,000). The amount of any adjustment required pursuant to this Section 3.2 shall be effected by a reduction in the shares of Common Stock constituting the Initial Merger Consolidation as determined based upon an assumed price of \$0.50 per share of Common Stock. The "Company Disclosure Letter" shall mean

the Company disclosure schedules delivered by the Company to Medix concurrently with the execution and delivery of this Agreement. The Company Disclosure Letter shall include specific references to each provision of this

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Agreement to which information contained in the Company Disclosure Letter is intended to apply.

### Section 3.3. Acceptance of Closing Balance Sheet

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Following the delivery of the Closing Balance Sheet, the Surviving Corporation will allow the Representative reasonable access during regular business hours to all work papers, books and records and all additional information used in preparing the Closing Balance Sheet and will make the officers, employees and independent certified public accountants reasonably available to discuss with the Representative such papers, books, records and information. The Representative shall, within thirty (30) days following receipt of the Closing Balance Sheet, notify the Surviving Corporation of its acceptance of the Closing Balance Sheet or that the Closing Balance Sheet does not present fairly the financial position of the Company at such date stating in detail the specific items or amounts in dispute. If such notification is not given within such thirty (30) day period, then the Closing Balance Sheet shall be deemed to be the Closing Balance Sheet upon which the Adjusted Initial Merger Consideration (as hereinafter defined) shall be determined.

### Section 3.4. Dispute Resolution

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In the event that the Representative notifies the Surviving Corporation that the Closing Balance Sheet does not present fairly the financial position of the Company and the Surviving Corporation does not agree with the Representative's claim, the Representative and the Surviving Corporation shall meet and use their respective reasonable best efforts to resolve the items or amounts in dispute. If the Representative and the Surviving Corporation are unable to reach an agreement within thirty (30) days after receipt of the Representative's notification, a mutually acceptable nationally-recognized accounting firm (the "Accounting Referee") will review

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the disputed items or amounts and compute the Adjusted Initial Merger Consideration. In reviewing the Closing Balance Sheet, the Accounting Referee shall consider only the items or amounts in dispute (and to the extent required, any other items or amounts necessary to derive the disputed items or amounts). Such determination shall be made within thirty (30) days after the date on which the Accounting Referee is selected and shall be binding on the parties. The fees, costs and expenses of the Accounting Referee shall be borne by the party that is furthest from the Accounting Referee's final determination.

### Section 3.5. Adjusted Initial Merger Consideration.

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Within ten (10) days following the acceptance by the Representative of the Closing Balance Sheet or resolution of any Closing Balance Sheet dispute, Medix shall be entitled to have released from the Escrow Account or set-off against and the Members hereby agree to surrender for cancellation and release from the Escrow Agreement or set-off against the number of shares of Common Stock equal to the amount, on a dollar-for-dollar basis, (based on the Average Closing Price as of the Closing Date) that current liabilities exceeds current assets by an amount greater than \$50,000 as finally determined in accordance with this Article III. The Initial Merger Consideration as adjusted pursuant to this Article III is hereinafter referred to as the "Adjusted Initial Merger Consideration".

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### Section 3.6. Payment of Liabilities.

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On the Closing Date, Medix shall cause the Surviving Corporation to pay in full all of the indebtedness set forth in Schedule 3.2 of the Company Disclosure Letter, excluding the indebtedness to KeyBank National Association.

ARTICLE IV.

Contingent Consideration  
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Section 4.1. Qualifying Events.  
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In addition to the Initial Merger Consideration, the Members shall be entitled to receive contingent consideration upon the attainment of certain performance criteria or milestones (each, a "Qualifying Event") as set forth

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below (each a "Contingent Payment" and collectively, the "Contingent

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Payments"). The number of shares of Common Stock to be issued and delivered upon the achievement of each Qualifying Event shall be determined by dividing \$1,000,000 by the average closing price of Common Stock, as listed on the American Stock Exchange ("AMEX"), for the period commencing on the Closing

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Date to the date of satisfaction of the applicable Qualifying Event (the "Contingent Payment Price").  
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(a) Telcom Contingent Payment. The Members shall be entitled to receive an aggregate of \$1,000,000 of Common Stock if the Surviving Corporation (which for purposes of this Section 4.1 shall include the Surviving Corporation, Medix and their respective affiliates) executes and delivers a marketing or strategic alliance agreement with a national telecommunication company set forth on Schedule 4.1 (such Schedule 4.1 may be amended by Medix and Burns

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upon their mutual consent, such consent not to be unreasonably withheld) within six (6) months of the Closing Date. Such agreement must be satisfactory in form and substance to the Surviving Corporation in its reasonable discretion and must include a minimum term of one (1) year and the potential of generating material revenue for the Surviving Corporation if the Surviving Corporation performs its obligations under the agreement.

(b) Hardware Vendor Contingent Payment. The Members shall be entitled to receive an aggregate of \$1,000,000 of Common Stock if the Surviving Corporation executes and delivers a strategic development, marketing or distribution agreement with a national handheld vendor set forth on Schedule

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4.1 within six (6) months of the Closing Date. Such agreement must be

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satisfactory in form and substance to the Surviving Corporation in its reasonable discretion and must include, without limitation, material performance obligations on the part of such vendor, a term of at least one (1) year, and the potential of generating material revenue for the Surviving Corporation if Surviving Corporation performs its obligations under the agreement.

(c) RxHub Contingent Payment. The Members shall be entitled to receive an aggregate of \$1,000,000 of Common Stock if within one (1) year from the date on which the public announcement is made that PocketScript Express launched the RxHub System, not less than five thousand (5,000) physicians shall have executed an average of at least two hundred fifty (250) electronic



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prescriptions utilizing the RxHub System.

(d) Pharmaceutical Company Contingent Payment. The Members shall be entitled to receive an aggregate of \$1,000,000 of Common Stock if the Surviving Corporation executes and delivers a marketing or strategic alliance agreement with a national pharmaceutical company set forth on Schedule 4.1

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within six (6) months of the Closing Date. Such agreement must be satisfactory in form and substance to the Surviving Corporation in its reasonable discretion and must include, without limitation, material performance obligations on the part of the Pharmaceutical Company, a minimum term of one (1) year, and the potential of generating material revenue for the Surviving Corporation if the Surviving Corporation performs its obligations under the agreement.

Section 4.2. Maximum Amount of Contingent Payments.  
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In no event and under no circumstances shall the aggregate amount of Contingent Payment payable pursuant to this Article IV exceed \$4,000,000 in value as determined based on the applicable Contingent Payment Price.

Section 4.3. Delivery of Contingent Payments  
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Medix shall deliver to the Escrow Agent for deposit into the Escrow Account the number of shares of Common Stock calculated in accordance with this Article IV within thirty (30) days of satisfying the milestone applicable to each respective Qualifying Event. The shares of Common Stock issued and delivered in connection with the satisfaction of the applicable Qualifying Event and deposited in the Escrow Account shall be released in accordance with the terms and conditions of the Escrow Agreement. Upon issuance and delivery of the Common Stock relating to the Contingent Payments, such issuance shall constitute satisfaction and payment in full of all of Medix's or the Surviving Corporation's obligations under this Agreement with respect to the Contingent Payment in question and the Representative, in his individual capacity and on behalf of the Members, hereby waives and releases Medix and the Surviving Corporation from any and all claims or liabilities relating to such Contingent Payment or arising out of the further disposition of such shares of Common Stock.

ARTICLE V.

Representation and Warranties of  
the Company and Burns  
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The Company and Burns, in his individual capacity and as Representative of the Members pursuant to Section 8.16 below, jointly and severally, represent and warrant to Medix and the Merger Sub as follows:

Section 5.1. Title - Member  
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Each Member is the beneficial and record owner of, and has good and valid title to, the number, percentage and class of Units (both voting and non-voting) set forth opposite such Member's name on Schedule 5.1 of the

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Company Disclosure Letter, with the full power and authority to vote such Units and to transfer and otherwise dispose of such Units free and clear of all security interests, judgments, liens, pledges, adverse claims, charges, escrows, options, warrants, rights of first refusal, rights of first offer, mortgages, indentures, security interests, or other agreements, arrangements,

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encumbrances or defects of any kind or character (collectively, "Encumbrances"). The Units are such Member's only voting, equity or other financial instrument (including, but not limited to, any right to receive distributions or profits from the Company) in the Company. Except as described on Schedule 5.1 of the Company Disclosure Letter, there are no

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agreements or understandings between any Member and any other Person with respect to the voting, sale or other disposition of any Member's Units or any other matter relating to the Company.

### Section 5.2. Authority - Burns.

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Burns has full and absolute legal right, power and authority to execute and deliver each of the Merger Documents (as hereinafter defined) to which Burns is a party, and to perform his obligations contemplated thereby. This Agreement has been validly executed and delivered by Burns, and constitutes a valid and binding obligation of Burns enforceable against him in accordance with its terms. Each other Merger Document executed by Burns, when executed and delivered in accordance with the provisions hereof, shall be a valid and binding obligation of Burns, enforceable against him in accordance with its respective terms. As used herein, the term "Merger Documents" shall mean collectively the following: (i) this Agreement, (ii) the Employment Agreement (as hereinafter defined), (iii) the Escrow Agreement, (iv) the Registration Rights Agreement (as hereinafter defined), (v) the Voting Agreement (as hereinafter defined) and (vi) each other agreement, certificate or other instrument delivered herewith.

### Section 5.3. Organization; Power - Company.

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The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Ohio, has all requisite power and authority to own, lease and operate the assets, properties and rights used to carry on the business, operations and affairs of the Company as now being conducted and to execute and deliver the Merger Documents to which it is a party, to perform its obligations thereunder and to consummate the transactions contemplated thereby.

### Section 5.4. Authority - Company.

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The Company has taken all limited liability company action necessary to authorize the execution and delivery of the Merger Documents to which the Company is a party, the performance of its obligations thereunder and the consummation of the transactions contemplated thereby (other than with respect to the Merger, the approval and adoption of this Agreement and the transactions contemplated hereby by the Members of the Company in accordance with applicable law and the Company's Articles of Organization and Operating Agreement and the filing and recordation of appropriate merger documents as required by the Ohio Statute). This Agreement has been executed and delivered by one or more managers or officers of the Company in accordance with such authorization and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. Each Merger Document and each other document or instrument contemplated thereby, when executed and delivered in accordance with the provisions thereof, shall be a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

### Section 5.5. Qualifications.

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The Company is qualified in all jurisdictions wherein the character of the property owned or leased or the nature of the activities conducted by it makes such qualification necessary. Schedule 5.5 of the Company Disclosure Letter sets forth a list of all such jurisdictions.

Section 5.6. No Conflict.

The execution and delivery by the Company and Burns of the Merger Documents to which it or he is a party, consummation of the transactions contemplated thereby, and their compliance with the provisions thereof, will not (i) violate or conflict with the Company's articles of organization or operating agreement, each as amended to the date hereof; (ii) violate, constitute a default (whether with notice, lapse of time, or both), conflict with, or give rise to any right of termination, cancellation, or acceleration under any agreement, indenture, note, bond, mortgage, deed of trust, lease, security, license, permit, or instrument to which the Company or Burns is a party, or to any of their respective assets are subject; (iii) result in the imposition of any Encumbrance on any of the assets of the Company; (iv) violate or conflict with any Laws (as hereinafter defined); or (v) require any consent, approval or other action of, notice to, or filing with any Person, except for those that have been obtained or made. "Laws" means all laws, rules, regulations, ordinances, orders, judgments, injunctions, decrees and other legislative, administrative or judicial restrictions.

Section 5.7. Capitalization.

(a) Schedule 5.7 of the Company Disclosure Letter sets forth all Units of the Company, including the names of the holders thereof and the number, percentage and class held by each. All of the issued and outstanding Units of the Company are duly authorized, validly issued, fully paid and nonassessable. Except for the Units listed on Schedule 5.7 of the Company Disclosure Letter there are no other membership, equity, voting or profit-sharing interests, rights or securities of or with respect to the Company.

(b) Except as set forth on Schedule 5.7 of the Company Disclosure Letter, there are no outstanding (i) securities convertible into or exchangeable for Units or any other equity interests of the Company, (ii) options, warrants or other rights to purchase or otherwise acquire from the Company or any equity owner thereof Units or any other equity interests of the Company or securities convertible into or exchangeable for Units or any other equity interests of the Company, (iii) contracts, agreements or commitments, relating to the issuance by the Company of any Units or any other equity interests of the Company, any convertible or exchangeable securities, or any options, warrants or other rights to acquire Units or any other equity interests of the Company, or (iv) voting trusts, voting agreements, proxies or other agreements, instruments or understandings with respect to the voting, issuance, redemption, transfer or other disposition of the Units or any other equity interests of the Company to which the Company or any equity owner is a party. No Person has the right to nominate or elect directors or managers of the Company except through the ownership of units of Units. There are no preemptive rights and, except with respect to the Units listed on Schedule 5.7 of the Company Disclosure Letter, there are no contracts, agreements or understandings (whether written or oral) providing for the

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sharing of profits, revenues or other distributions or payments from the Company.

Section 5.8. Subsidiaries; Investments.  
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The Company does not, directly or indirectly, own, have the power to vote or to exercise a controlling influence with respect thereto, through management contract or otherwise, nor does it have the right to acquire any equity interest or other interest in, any corporation, partnership, joint venture, or other Person, nor has it made, nor has it any commitments to make, any loans or guarantees to any Person.

Section 5.9. Financial Information.  
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(a) Schedule 5.9 of the Company Disclosure Letter sets forth the unaudited  
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balance sheet (the "Balance Sheet") of the Company for the seven (7) month  
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period ended November 30, 2002 (the "Balance Sheet Date") and the related  
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statements of income for the period then ended, including any footnotes thereto (all of the foregoing being hereafter collectively referred to as the "Financial Statements").  
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(b) The Financial Statements referred to above fairly present the financial position of the Company as of the dates indicated and the results of operations and cash flows of the Company and for the periods indicated on an accrual basis. The Financial Statements have been prepared in accordance with GAAP consistently applied throughout the periods covered thereby and in accordance with the books and records of the Company maintained in accordance with historical practice. The Financial Statements are complete and correct and consistent with the books and records of the Company. The assets and accounts receivable set forth in the Financial Statements are the result of bona fide transactions or claims in the Ordinary Course of Business. "Ordinary Course of Business" shall mean the ordinary course of business of  
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the Company consistent with past practice and custom, including with respect to quantity, quality and frequency.

Section 5.10. Absence of Undisclosed Liabilities.  
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(a) The Company does not have any loss or liability in excess of \$5,000 individually or \$10,000 in the aggregate of any nature, whether or not accrued, absolute, contingent, determined or determinable or any loss contingency, which is not disclosed or provided for on the Balance Sheet or required under GAAP to be disclosed on the Balance Sheet, and there is no basis or event for or relating to any present or future action, suit, proceeding, charge, claim or demand giving rise to any such loss or liability. All reserves established by the Company on the Balance Sheet are adequate to cover any loss or liability of the Company.

(b) Except as set forth on Schedule 3.2 of the Company Disclosure Letter,  
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the Company has repaid in full all indebtedness or other obligations of the Company for borrowed money, evidence of which has been delivered to Medix.

Section 5.11. No Consent or Approval Required.  
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Except as set forth on Schedule 5.11 of the Company Disclosure Letter,  
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no consent, waiver, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority, or any other Person, is required for the valid authorization, execution and delivery by the Company and Burns of the Merger Documents to which it or he is a party or for the consummation of the transactions contemplated thereby, including but not limited to, the consent of creditors with respect to any loans or other indebtedness of the Company and under Office Leases (as hereinafter defined).

### Section 5.12. Changes. -----

Except as set forth on Schedule 5.12 of the Company Disclosure Letter,  
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since the Balance Sheet Date there has not been any:

- (i) material adverse change in the business, assets, properties, rights, affairs, operations, financial condition or prospects of the Company or any deviation from historical accounting and other practices in connection with the maintenance of the Company's books and records;
- (ii) damage, destruction or loss, whether or not covered by insurance, affecting the assets, properties or business of the Company;
- (iii) declaration or payment of any dividend or distribution in respect of the Units of the Company, or any direct or indirect redemption, purchase or other acquisition of any of such Units or any issuance of any securities by the Company;
- (iv) increase in or prepayment of the compensation payable or to become payable by the Company to any of its Members, directors, managers, officers, employees, consultants or agents, or the making of any bonus payment or similar arrangement (including without limitation any change-in-control or "golden parachute" agreement or understanding) or adoption, amendment, modification or termination of any bonus, incentive, stock option, profit-sharing, severance or other plan, agreement or commitment for the benefit of the Members, directors, managers, officers or employees of the Company or any action with respect to any other Company Benefit Plan (as hereinafter defined);
- (v) cancellation or write-off of any indebtedness or other obligation due to the Company;
- (vi) obligation or liability (whether absolute, accrued, contingent or otherwise and whether due or to become due) created or incurred, or any transaction, contract or commitments entered into, by the Company other than such items created or incurred in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000 in the aggregate;
- (vii) change in the manner in which the Company bills its clients, handles its accounts or otherwise deals with clients but excluding variable end user agreements and any changes involving amounts less than \$5,000;
- (viii) waiver, cancellation or release of any rights or claims of the Company except in the Ordinary Course of Business and consistent with past practices and for fair value, or any lapse or other loss of a right of the Company to use its assets;
- (ix) sale, lease, license, assignment or transfer of assets of the Company

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except in the Ordinary Course of Business and consistent with past practices;

(x) commitments for capital expenditures by the Company in excess of \$5,000 in the aggregate;

(xi) change in the Ordinary Course of Business and consistent with past practice, with respect to the payment of accounts payable or other current liabilities and the collection of accounts receivable, including, without limitation, any acceleration or deferral of the payment or collection thereof, as applicable;

(xii) grant of a security interest or other Encumbrance in any of the assets, properties or rights of the Company;

(xiii) change in the articles of organization, operating agreement or other governing documents of the Company, except as contemplated by the Merger Documents;

(xiv) transactions with any affiliated Person;

(xv) to the Company's and Burn's best knowledge, any material change in the Laws or regulations governing the Company and its business, operations, affairs, assets, properties or rights;

(xvi) any material adverse change in the Company's cash, cash equivalents or marketable securities or other liquid assets reflected in the Financial Statements;

(xvii) any license or sublicense of any rights under or with respect to any Intellectual Property (as hereinafter defined) other than in the Ordinary Course of Business;

(xviii) other events or conditions of any character which materially adversely affect, or could materially adversely affect, the business, operations, affairs, assets, properties or rights of the Company; and

(xix) any commitment, agreement, arrangement or understanding (whether written or oral) to do any of the foregoing.

Section 5.13. Contracts.  
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(a) Schedule 5.13 of the Company Disclosure Letter sets forth a list of all  
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written or oral contracts, agreements, understandings, licenses, commitments and other instruments (including all amendments, modifications or extensions relating thereto) to which the Company is a party or by which any of its assets, properties or rights are bound, other than contracts or agreements involving amounts not in excess of \$5,000 annually (each a "Contract" and  
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collectively, the "Contracts"). Except for the Contracts set forth on  
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Schedule 5.13 of the Company Disclosure Letter, there are no other contracts,  
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agreements, understandings, licenses, commitments or other instruments relating to the Company and its business, operations and affairs.

(b) With respect to each Contract listed on Schedule 5.13 of the Company  
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Disclosure Letter:

(i) each Contract is legal, valid binding, enforceable and in full force

and effect;

(ii) each Contract will continue to be legal, valid, binding, enforceable and in full force and effect on identical terms following the consummation of the transactions contemplated by the Merger Documents;

(iii) the Company is not in breach or default or alleged to be in breach or default under any of the Contracts, and the Company has no notice or knowledge of any state of facts which would, with or without the giving of notice or lapse of time or both, constitute a default thereunder;

(iv) to the Company's and Burn's best knowledge, the other parties to each Contract are not in breach or default or alleged to be in breach or default thereunder and no event has occurred which with the lapse of time would constitute or breach or default or permit termination, modification or acceleration under any Contract;

(v) no party to a Contract has repudiated any provision of any such Contract;

(vi) the Company has furnished to Medix a correct and complete copy of each Contract (including any amendments, modifications or renewals relating thereto); and

(vii) each Contract involving amounts in excess of \$5,000 annually is established in a written instrument executed and delivered by the parties thereto.

(c) No products or services leased or sold by the Company is subject to any warranty, guaranty or indemnity that is not included in the standard terms of sale or lease of the Company in the Ordinary Course Business. The Company has provided Medix true and complete copies of all sales or purchase orders or standard terms of sale or lease used by the Company.

(d) All products or services sold, leased or provided by the Company prior to the Closing, conform in all material respects to contractual commitments, express or implied warranties, specifications, and quality standards established by the Company. The Company has no liability for replacement or repair of any products or services sold or leased except as may arise in the Ordinary Course of Business. No product liability claims have been asserted or threatened against the Company or any of its products or services and the Company and Burns are not aware of any events or circumstances that could reasonably be expected to result in a product liability claim.

Section 5.14. Employee Benefit Plans.

(a) Schedule 5.14 of the Company Disclosure Letter hereto contains a true

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and complete list of (i) each plan, program, policy, payroll practice, contract, agreement or other arrangement, or commitment therefore, providing for compensation, severance, termination pay, performance awards, stock or stock-related awards, fringe benefits or other employee benefits of any kind, whether formal or informal, funded or unfunded, written or oral, and whether or not legally binding, which is now or previously has been sponsored, maintained, contributed to or required to be contributed to the Company by or pursuant to which the Company has any liability, contingent or otherwise, including, but not limited to, any "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (each, a "Company Benefit Plan"); and (ii) each management,

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employment, bonus, option, equity (or equity related), severance, consulting,

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non-compete, confidentiality or similar agreement or contract, pursuant to which the Company has any liability, contingent or otherwise, between the Company and any current, former or retired employee, officer, consultant, independent contractor, agent or director of the Company (an "Employee")

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(each, an "Employee Agreement"). Neither the Company nor any ERISA Affiliate

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(as defined in 2.13(b)) currently sponsors, maintains, contributes to, or is required to contribute to, nor has the Company ever sponsored, maintained, contributed to or been required to contribute to, or incurred any liability to, (i) any "multiemployer plan" (as defined in ERISA Section 3(37)) or (ii) any Company Benefit Plan which provides, or has any liability to provide, life insurance, medical, severance or other employee welfare benefits to any Employee upon his or her retirement or termination of employment, except as required by Section 4980B of the Code.

(b) An "ERISA Affiliate" is defined as (i) any entity that is a member of a

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controlled group with the Company, as described in Section 414(b) of the Code, or that is under common control with the Company, for the purposes of Section 414(c) of the Code or ERISA Section 4001(a)(14); (ii) any entity that is part of an affiliated service group with the Company as described in Section 414(m) of the Code; or (iii) any entity that is required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code.

(c) The Company has made available to Medix current, accurate and complete copies of all documents embodying or relating to each Company Benefit Plan and each Employee Agreement, including all amendments thereto, trust or funding agreements relating thereto (if any), the three most recent annual reports (Series 5500 and related schedules) required under ERISA, summary annual reports, the most recent determination letter received from the Internal Revenue Service (the "IRS"), the most recent summary plan

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description (with all material modifications), if the Company Benefit Plan is funded, the most recent annual and periodic accounting of Company Benefit Plan assets, and all material communications to any Employee or Employees relating to any Company Benefit Plan or Employee Agreement.

(d) With respect to each Company Benefit Plan (i) the Company and each ERISA Affiliate, if any, has performed all obligations required to be performed by it under each Company Benefit Plan and Employee Agreement and neither the Company nor any ERISA Affiliate is in default under or in violation of, any Company Benefit Plan, (ii) each Company Benefit Plan has been established and maintained in accordance with its terms and in compliance with all applicable laws, statutes, orders, rules and regulations, including but not limited to ERISA and the Code, including without limiting the foregoing, the timely filing of all required reports, documents and notices, where applicable, with the IRS and the Department of Labor (the "Department"); (iii) each Company Benefit Plan intended to qualify under

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Section 401 of the Code is, and since its inception has been, so qualified and a determination letter has been issued by the IRS to the effect that each such Company Benefit Plan is so qualified and that each trust forming a part of any such Company Benefit Plan is exempt from tax pursuant to Section 501 (a) of the Code and no circumstances exist which would adversely affect this qualification or exemption; (iv) no "prohibited transaction," within the meaning of Section 4975 of the Code or Section 406 of ERISA, has occurred with respect to any Company Benefit Plan; (v) no action or failure to act and no transaction or holding of any asset by, or with respect to, any Company Benefit Plan has or may subject the Company or any ERISA Affiliate or any fiduciary to any tax, penalty or other liability, whether by way of indemnity



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or otherwise; (vi) there are no actions, proceedings, arbitrations, suits or claims pending, or to the best knowledge of the Company and any ERISA Affiliate threatened or anticipated (other than routine claims for benefits) against the Company or any ERISA Affiliate or any administrator, trustee or other fiduciary of any Company Benefit Plan with respect to any Company Benefit Plan or Employee Agreement, or against any Company Benefit Plan or against the assets of any Company Benefit Plan; (vii) no event or transaction has occurred with respect to any Company Benefit Plan that would result in the imposition of any tax under Chapter 43 of Subtitle D of the Code; (viii) each Company Benefit Plan can be amended, terminated or otherwise discontinued without liability to the Company or any ERISA Affiliate; (ix) no Company Benefit Plan is under audit or investigation by the IRS, the Department or the Pension Benefit Guaranty Corporation (the "PBGC"), and to

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the best knowledge of the Company and any ERISA Affiliate, no such audit or investigation is pending or threatened.

(e) The execution of, and performance of the transactions contemplated in, this Agreement and the other Merger Documents will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Benefit Plan or Employee Agreement that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligations to fund benefits with respect to any Employee.

(f) With respect to each Company Benefit Plan (other than a multiemployer plan) which is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA ("Pension Plan"), hereto, (i) no steps have been taken

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to terminate any Pension Plan now maintained or contributed to, no termination of any Pension Plan has occurred pursuant to which all liabilities have not been satisfied in full, no liability under Title IV of ERISA has been incurred by the Company or any ERISA Affiliate which has not been satisfied in full, and no event has occurred and no condition exists that could reasonably be expected to result in the Company or any ERISA Affiliate incurring a liability under Title IV of ERISA or could constitute grounds for terminating any Pension Plan; (ii) no proceeding has been initiated by the PBGC to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; (iii) each Pension Plan which is subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code, has been maintained in compliance with the minimum funding standards of ERISA and the Code and no such Pension Plan has incurred any "accumulated funding deficiency," as defined in Section 412 of the Code and Section 302 of ERISA, whether or not waived; (iv) neither the Company nor any ERISA Affiliate has sought nor received a waiver of its funding requirements with respect to any Pension Plan and all contributions payable with respect to each Pension Plan have been timely made; (v) no reportable event, within the meaning of Section 4043 of ERISA, and no event described in Section 4062 or 4063 of ERISA, has occurred with respect to any Pension Plan; and (vi) the present value of all accrued benefits of each Pension Plan, determined on a plan termination basis using the actuarial assumptions established by the PBGC as in effect on the date of determination, does not as of the date hereof and will not as of the Closing Date exceed the fair market value of the assets (which for this purpose shall not include any accrued but unpaid contributions) of such Pension Plan.

Section 5.15. Labor Relations; Employees.

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The Company employs a total of 14 employees (including managers, officers and contract employees) in connection with its business, operations and affairs, and the names, positions, time devoted to the business, length

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of employment with the Company, current salaries and benefits of such employees are set forth on Schedule 5.15 of the Company Disclosure Letter.

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The employees set forth on Schedule 5.15 of the Company Disclosure Letter

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constitute all of the individuals used in connection with the Company's business, operations and affairs in the Ordinary Course of Business. Except as set forth on Schedule 5.15 of the Company Disclosure Letter:

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- (a) no employees or group of employees have attempted to conduct an election for a collective bargaining unit;
  - (b) during the preceding five (5) year period, the Company has not been subject to any administrative or judicial restrictions relating to labor and employment practices;
  - (c) there is no unfair labor practices complaint or other complaint relating to employee matters against the Company pending before the National Labor Relations Board or any other governmental authority;
  - (d) there is no labor strike, dispute, slowdown or stoppage pending or threatened against the Company;
  - (e) the Company is not delinquent in payments to any of its employees for any compensation, benefits or reimbursements;
  - (f) the Company is not a party or bound by any collective bargaining agreement;
  - (g) the Company has not been cited under the U.S. Occupational Safety and Health Act or any other applicable Law relating to harassment and discrimination, as a result of the Company's work environment or conditions or of any of its employees and neither the Company nor Burns is aware of any events or circumstances that could reasonably be expected to constitute or result in a harassment or discrimination claim or a hostile work environment;
  - (h) no employee, contract employee or consultant is subject to any confidentiality, non-disclosure or non-compete agreement with a third party or any other restrictions with respect to such persons duties or activities for the Company or in connection with or relating to the Company's business, operations and affairs; and
  - (i) each employee, contract employee and consultant of the Company has executed and delivered confidentiality and work-for hire agreements and such agreements are in full force and effect and an enforceable obligation against each such employee, contract employee or consultant.

Section 5.16. Compliance with Laws; Governmental Authorizations.

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Schedule 5.16 of the Company Disclosure Letter sets forth a summary of

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all Federal, state, local and foreign governmental, regulatory or agency licenses, permits, orders, authorizations, certifications and approvals necessary or required by applicable Law for the business, operations and affairs of the Company as currently conducted (collectively, the "Permits").

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The Company has at all times complied with all applicable Laws, including but not limited to the Health Insurance Portability and Accountability Act of 1996. The Company has obtained Permits necessary to conduct the business, operations and affairs of the Company as presently conducted. The Permits

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are valid and in full force and effect and the Company has at all times complied with all requirements or conditions relating to the Permits. There have been no violations of such Permits and such Permits are, and will continue to be after the consummation of the transactions contemplated in the Merger Documents, valid and in full force and effect. True and complete copies of all Permits and all amendments, extensions and modifications thereto have been delivered to Medix.

Section 5.17. Insurance.  
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(a) Schedule 5.17 of the Company Disclosure Letter sets forth a list of all -----  
policies of insurance held by the Company, specifying the insurer, amount of coverage, type of insurance and policy number. The Company has delivered to Medix correct and complete copies of all summaries and descriptions of such policies.

(b) Except as set forth on Schedule 5.17 of the Company Disclosure Letter:  
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(i) all due premiums have been paid and are not subject to adjustment; no claims are pending thereunder; and no notice of cancellation or termination has been received with respect to any such policy;

(ii) such policies will not terminate or be subject to adjustment as a result of the transactions contemplated by the Merger Documents;

(iii) the amounts and types of coverage under such policies are customary in the Company's industry to insure against the risk relating to the assets, properties, business and operations of the Company; and

(iv) such insurance complies in all respects, including, but not limited to, the amount and type of coverage required by any applicable Law, Permit or third party contract.

Section 5.18. Title to Assets.  
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(a) Except as set forth in Schedule 5.18 of the Company Disclosure Letter, -----  
the Company has good and marketable title to, or a valid leasehold interest in, all of the assets, properties, interests in assets or properties (whether real, personal or mixed) or rights which are reflected on the Balance Sheet, free and clear of all Encumbrances.

(b) The Company has delivered to Medix a list, attached as Schedule 5.18 of -----  
the Company Disclosure Letter, of all assets and properties of the Company relating to or used in connection with the business, operations and affairs of the Company, in each case whether owned or leased. Such list identifies all items by type, amount, make and model, indicates leased items, and, for all items (including vehicles) on which the manufacturer has inscribed a serial number, by serial number. Schedule 5.18 of the Company Disclosure

Letter also includes the net book value and original cost of each item. All of the assets listed on Schedule 5.18 of the Company Disclosure Letter are in -----

good working order and condition, normal wear and tear excepted, and, to the best knowledge of the Company and Burns, are free from defects, which would cause the assets to fail. Each asset is substantially fit for the purposes for which it is utilized. The assets and properties listed on Schedule 5.18

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of the Company Disclosure Letter constitute substantially all of the Company's right, title and interest in and to the assets, properties, interests in assets and properties and rights (of every kind and description and wherever located), used or owned by the Company relating to or in connection with its business, operations and affairs as currently conducted and as proposed to be conducted after consummation of the transactions contemplated by the Merger Documents.

Section 5.19. Litigation.  
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Except as set forth on Schedule 5.19 of the Company Disclosure Letter,  
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there are no (i) actions, suits, claims, investigations, administrative or other proceedings by or before any governmental authority, arbitrator, mediator or other dispute resolution Person or court, whether at law or in equity, whether civil or criminal in nature, pending or threatened against the Company or any of its assets, properties, interests in assets of properties or rights, or (ii) judgments, decrees, injunctions or orders of any governmental authority, arbitrator, mediator or other dispute resolution Person or court against or binding upon or threatened against the Company or any of its assets, properties, interests in assets of properties or rights, or questioning the validity or enforceability of any of the Merger Documents and the transactions contemplated thereby. The Company is not in default under any such judgment, decree, injunction or order. The Company has delivered to Medix correct and complete copies of all documents and correspondence relating to, or a description of, any of the matters described in this Section 5.19.

Section 5.20. Related Party Transactions.  
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Except as set forth on Schedule 5.20 of the Company Disclosure Letter  
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and except for compensation to regular employees of the Company in the Ordinary Course of Business, during the preceding three (3) year period, no current or former Member, manager, director, officer, employee or holder of any securities of the Company, or a member of the immediate family of any such Person or any entity directly or indirectly controlled by any of the foregoing, has been (i) a party, either directly or indirectly, to any transaction with or received any compensation, economic gain or other benefits (whether or not financial benefits) from the Company; (ii) the direct or indirect owner of an interest (other than non-affiliated holdings in publicly held entities) in any business that is or was a competitor, supplier or customer of the Company; or (iii) to the Company's and Burn's best knowledge, the recipient of any compensation, economic gain or other benefits (whether or not financial benefits) from any business entity, or any person employed by, or any stockholder or partner of, or otherwise affiliated with, such business entity, that is a client, supplier, vendor or competitor of the Company. All such transactions listed on Schedule 5.20 of the Company  
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Disclosure Letter are no less favorable than would be available if contracting with an independent third party.

Section 5.21. Real Property.  
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(a) The Company neither owns any real property nor has any interest in any real property, and is not obligated under or a party to any option, right of first refusal or other contractual right to purchase, acquire, sell or dispose of any parcel of real property.

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(b) Schedule 5.21 of the Company Disclosure Letter sets forth a complete  
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and correct list of all real property leased by the Company ("Leased Real  
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Property"). Medix has complete and correct copies of all leases relating to  
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such Leased Real Property (each an "Office Lease" and collectively, the  
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"Office Leases") and all existing or proposed amendments or modifications  
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thereto. The Company is not a lessor, sublessor or grantor under any  
contract granting to another Person any right to the possession, use,  
occupancy or enjoyment or any parcel of Leased Real Property.

(c) Except as set forth on Schedule 5.21 of the Company Disclosure Letter:  
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- (i) all improvements on the Leased Real Property are in good operating condition and repair (ordinary wear and tear excepted), and there does not exist any condition which interferes with the use thereof;
- (ii) to the Company's knowledge, the Leased Real Property and the operation and maintenance thereof do not violate any material Laws;
- (iii) each Office Lease is in full force and effect, as amended or modified, all rent and other sums and charges payable thereunder are current, and no rent has been paid more than one month in advance;
- (iv) no notice of default or termination under any Office Lease is outstanding, no termination event or condition or uncured default on the part of the tenant named therein, or the lessor thereunder, exists under any Office Lease and, to the Company's knowledge, no event has occurred and no condition exists which, with the giving of notice or the lapse of time or both, would constitute a default or termination event or condition under any Office Lease, and all Office Leases are as of the date hereof, and will continue to be, after the consummation of the transactions contemplated herein or in the Merger Documents, in full force and effect and do now and will then constitute legal, valid and binding obligations of the parties thereto;
- (v) the tenant named in the Office Lease has not advanced any amounts to or on behalf of the lessor thereunder for which the tenant has not been reimbursed, the tenant has not sublet the premises demised therein or any portion thereof, nor has the tenant assigned, by operation of law or otherwise, any of the Office Leases or any portion thereof;
- (vi) the lessor under each Office Lease has no charge, lien, claim, defense or offset of any kind under any Office Lease or otherwise against the Company;
- (vii) there are covenants of "quiet enjoyment" in the Office Leases, and the leasehold estate under, and leasehold interest in, each Office Lease is held free and clear of any Encumbrance or other matter affecting title thereto; and
- (viii) the Company is in full and complete possession of the premises described under each Office Lease and is fully occupying the same and conducting business therefrom.

Section 5.22. Tax Matters.  
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(a) All Federal, foreign, state and local Tax (as hereinafter defined) returns, declarations, reports, claims and information statements, informational returns, including any schedule, attachment or amendment relating thereto (collectively "Returns") for the Company for periods ending

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on or before the Closing Date have been or will be filed by their respective due dates, including any extensions thereof. All of the Company's Federal, state, local and foreign Tax liabilities, if any, as shown to be due on such Tax Returns for all periods prior to the Closing Date, have been paid or will be paid in full to the appropriate taxing authorities by the Company on or before the Closing Date. All such Tax Returns filed through the date hereof are true and correct and do not omit any items of income or claim any deduction or exclusion, which is or may be subject to challenge. The Company shall have made the entity classification election pursuant to Treasury Regulation 301.7701-3 to be treated as "corporation" under the Code and such election shall be effective as of the Closing Date. The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any person employed by the Company as a full, part-time or contract employee or otherwise.

(b) In addition, (i) the Company has not waived any statute of limitations affecting any Tax liability or agreed to any extension of time during which a Tax assessment or deficiency assessment may be made; (ii) there are no pending Tax audits of any Returns of the Company, and no material unresolved questions or claims concerning the Company's Tax liability; (iii) the Company has made full provision on its books and records and full provision will be made on the Closing Balance Sheet for all Taxes payable for any periods that end on or before the Closing Date for which no Return has yet been filed and for periods which begin on or before the Closing Date and end after the Closing Date to the extent such Taxes are attributable to the portion of the periods ending on the Closing Date; (iv) the Company has not accrued or otherwise incurred any liability for any Federal, state, local or foreign Taxes, except in the Ordinary Course of Business and consistent with past practice; and (v) the Company has never been a party to any Tax sharing agreement or arrangement with any Person. The Company has delivered to Medix correct and complete copies of all Tax Returns and examination reports since the date of its organization.

(c) For purposes of this Agreement, "Tax" or "Taxes" means, with respect to

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any Person, (i) all income or franchise taxes (including any tax on or based upon net income, or gross income, or income as specially defined, or earnings, profits, selected items of income, earnings or profits) or net worth or capital stock value and all gross receipts, sales, use, ad valorem, transfer, franchise, license, registration, withholding, payroll, employment, excise, severance, stamp, occupation, premium, real property, personal property, windfall profits taxes, alternative or add-on minimum taxes, customs duties or other taxes, fees, assessments or charges or any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority (domestic or foreign) on such Person and (ii) any liability for the payment of any amount of the type described in the immediately preceding clause (i) as a result of being a "transferee" (within the meaning of Section 6901 of the Code or similar provision of the Code or of any other applicable law) of any Person, including, but not limited to, as a member of an affiliated, consolidated or combined group.

Section 5.23. Intellectual Property.  
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(a) Schedule 5.23 of the Company Disclosure Letter contains a correct and

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complete list of all (i) patents, trademarks, trademark applications, trade names, service marks, service mark applications, or copyrights, and to the extent registered, the registration numbers, which are used or owned by the Company, (ii) applications, filings and other formal actions pursuant to Federal, state, local and foreign laws taken by the Company to perfect or record its interest in the Intellectual Property, and (iii) other Intellectual Property of the Company used in connection with or relating to its business, operations and affairs. The Company owns or has the right to use or bring infringement actions with respect to all Intellectual Property listed on Schedule 5.23 of the Company Disclosure Letter. The Company has

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not received any notice of any adversely held Intellectual Property or of any claim of any other Person relating to any Intellectual Property of the Company.

(b) All of the patents, copyrights, trademarks, trade names and service marks listed on Schedule 5.23 of the Company Disclosure Letter are valid and

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protectable, properly registered and in full force and effect and are not subject to any taxes or fees. The Company (i) has not licensed, assigned or granted to any Person rights of any nature to use any Intellectual Property; (ii) is not obligated to pay royalties to anyone for use of the Intellectual Property of a third party; and (iii) does not market, sell or use any product, service or information that violates or infringes any Intellectual Property of a third party. No current or former member, manager, officer, director, investor, lender, employee, consultant or independent contractor of the Company has any interests in or rights to any Intellectual Property owned or used by the Company. Neither the Company nor any current or former employee, consultant or agent has disclosed any material non-public information relating to Intellectual Property to any third party, except pursuant to a non-disclosure agreement.

(c) There is no pending or threatened claim or litigation against the Company contesting the right to use its Intellectual Property, asserting the misuse of any thereof, or asserting the infringement or other violation of any Intellectual Property of a third party. No third party has infringed or violated any Intellectual Property of the Company. The Company has taken reasonable security measures to protect the secrecy, confidentiality and value of its Intellectual Property, including but not limited to, client lists and information, trade secrets, proprietary processes, models, formulae, designs, improvements, systems, inventions, know-how, and other confidential and proprietary information. Schedule 5.23 of the Company

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Disclosure Letter contains a list of all Intellectual Property licensed by the Company (excluding off-the-shelf software), including all software used by the Company (excluding off-the-shelf software), and in the case of customized software, the vendor and the party providing support therefore.

(d) Neither the execution, delivery or performance of the Merger Documents nor the consummation of the transactions contemplated thereby, will (i) breach, violate or conflict with any instrument or agreement governing any Intellectual Property, (ii) cause the forfeiture or termination or give rise to a right of forfeiture or termination of any Intellectual Property, or (iii) in any way impair the right of the Company to use, sell, license or dispose of or to bring any action for the infringement of, any Intellectual Property or portion thereof.

(e) Medix has received a copy, or a description, of the Intellectual Property listed on Schedule 5.23 of the Company Disclosure Letter.

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(f) As used herein, the term "Intellectual Property" shall mean all

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patents, patent applications, trademarks, trademark applications, trade names, service marks, service mark applications, logos, slogans, copyrights, copyright applications, franchises, inventions, models, databases, systems, processes, formulae, trade secrets, know-how, customer lists or account information, computer software, programs, algorithms codes and any other confidential, proprietary or technical information (whether or not subject to patent or copyright protection).

Section 5.24. Accounts Receivable; Clients and Vendors.

(a) Except as set forth on Schedule 5.24 of the Company Disclosure Letter,

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all accounts and notes due and uncollected as reflected on the Balance Sheet (i) have arisen from bona fide transactions in the Ordinary Course of Business and consistent with past practice of the Company and represent valid obligations due to the Company; (ii) are enforceable in accordance with their respective terms; (iii) are not subject to deduction, set-off or counterclaim; and (iv) will be collected in accordance with their respective terms in their recorded amounts. Schedule 5.24 of the Company Disclosure

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Letter lists any obligor who, together with all of its affiliates, owed accounts and notes due and uncollected as reflected on the Balance Sheet, in an aggregate amount of \$5,000 or more.

(b) Except as set forth on Schedule 5.24 of the Company Disclosure Letter,

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as of the date hereof there is (i) no account debtor or note debtor delinquent in its payment by more than ninety (90) days; (ii) to the best knowledge of the Company and Burns, no account debtor or note debtor is insolvent or bankrupt; (iii) no account receivable or note receivable has been pledged to any third party; or (iv) no claim, refusal or threatened refusal to pay, or any rights of set-off against, any accounts or notes receivable of the Company.

(c) Since January 1, 2002, no client listed on Schedule 5.24 of the Company

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Disclosure Letter has cancelled or otherwise terminated or threatened to cancel or otherwise terminate its relationship with the Company or has during such period decreased or threatened to decrease, modify, or limit, its business relationship with the Company in any material respect.

Section 5.25. Guaranties.

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The Company is not a guarantor or otherwise liable for any debt, liability or other obligation of any other Person (the "primary obligor") in

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any manner, whether directly or indirectly, and including any obligation, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such liability, debt or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such liability, debt or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such liability, debt or other obligation or (d) as an account party in respect of any letter of credit issued to support such liability, debt or other obligation.



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Section 5.26. Environmental Matters.  
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(a) The Company has obtained all Permits which are required under all Federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, concessions, grants, franchises, agreements or governmental restrictions relating to the environment or the release of any materials into the environment (collectively, "Environmental Laws"). The

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Company is in compliance with the terms and conditions of all such Permits and are also in compliance and has at all times complied with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any Environmental Law applicable to the Company and its business, operations, affairs, assets, properties or operations or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder.

(b) The Company (i) has not handled, stored or released any pollutants, contaminants, toxic or hazardous substances, materials, wastes, constituents, compounds, chemicals, natural or manmade elements or forces (including, without limitation, petroleum or any by-products or fractions thereof, any form of natural gas, lead, asbestos and asbestos-containing materials, building construction materials and debris, polychlorinated biphenyls ("PCBs") and PCB-containing equipment, radon, and other radioactive elements, ionizing radiation, electromagnetic field radiation and other non-ionizing radiation, sonic forces and other natural forces, infectious, carcinogenic, mutagenic or etiologic agents, pesticides, defoliants, explosives, flammables, corrosives and urea formaldehyde foam insulation) that are regulated by any Environmental Laws (collectively, "Hazardous Substances");

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(ii) is not and will not be liable or responsible for clean-up costs, remedial work or damages in connection with the handling, storage or release by the Company of any Hazardous Substance prior to the Closing Date; and  
(iii) has not received any claim for clean-up costs, remedial work or damages from any Person or Federal, state or local government or any agency or political subdivision thereof, in connection with the handling, storage or release by the Company of any Hazardous Substance.

(c) The Company has not been assessed and is not liable for, subject to or have been assessed or threatened, with respect to any claims, judgments, damages, penalties, fines, liens, costs or expenses in connection with any Environmental Laws or suffered any diminution in value, restrictions or loss of use of any owned or leased property as a result of Environmental Laws.

Section 5.27. Records.  
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All records, books, minutes, and other records and information relating to the Company are complete and correct and reflect accurately all corporate actions, issuances of Units and other securities and other actions taken by or on behalf of the Company.

Section 5.28. Bank Accounts; Powers of Attorney.  
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Schedule 5.28 of the Company Disclosure Letter sets forth a list of (i)  
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the name of each bank in which the Company has an account, safe deposit box, or lock box, and the names of all persons authorized to draw thereon, or to have access thereto, and (ii) the names of all persons holding powers of attorney from the Company and a summary statement of the terms thereof.

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Section 5.29. Brokers and Finders.  
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No Person acting on behalf or under the authority of the Company or any Member is or will be entitled to any broker's, finder's, or similar fee or commission in connection with the transactions contemplated hereby.

Section 5.30. Investment Representations and Warranties.  
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Each of the Investment Letters and the Affiliates Letters (as such terms are hereinafter defined) are true and correct in all respects.

Section 5.31. Disclosure.  
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None of the Merger Documents or other materials referred to herein, or furnished to Medix by or on behalf of the Company or Burns, contains any untrue statement of a material fact by the Company or Burns or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading.

ARTICLE VI.

Representations and Warranties of Medix and the Merger Sub  
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Each of Medix and the Merger Sub hereby represents and warrants to the Company as follows:

Section 6.1. Organization; Powers.  
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Each of Medix and the Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Each of Medix and the Merger Sub has all requisite corporate power and authority to execute and deliver the Merger Documents to which it is a party, to perform its obligations thereunder and to consummate the transactions contemplated thereby.

Section 6.2. Authority.  
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Each of Medix and the Merger Sub has taken all corporate action necessary to authorize its execution and delivery of the Merger Documents to which it is a party, the performance of its obligations thereunder, and its consummation of the transactions contemplated thereby (other than with respect to the Merger, the approval and adoption of this Agreement and the transactions contemplated hereby by the stockholders of Medix, in accordance with applicable law and Medix's certificate of incorporation and by-laws and the filing and recordation of appropriate merger documents as required by the Ohio Statute). This Agreement has been executed and delivered by one or more officers of each of Medix and Merger Sub in accordance with such authorization and constitutes a valid and binding obligation of each of Medix and Merger Sub, enforceable against Medix or Merger Sub in accordance with its terms. Each Merger Document and each other document or instrument contemplated thereby, when executed and delivered in accordance with the provisions thereof, shall be a valid and binding obligation of each of Medix and Merger Sub, enforceable against Medix or Merger Sub in accordance with its terms.

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Section 6.3. No Conflict.  
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The execution and delivery by each of Medix and Merger Sub of the Merger Documents to which it is a party, consummation of the transactions contemplated thereby, and its compliance with the provisions thereof, will not (i) violate or conflict with the certificate of incorporation or by-laws, each as amended to the date hereof, of each of Medix and the Merger Sub (ii) violate, constitute a default (whether with notice, lapse of time, or both), conflict with, or give rise to any right of termination, cancellation, or acceleration under any agreement, indenture, note, bond, mortgage, deed of trust, lease, security, license, permit, or instrument to which either Medix or the Merger Sub is a party, or to which it or any of their respective assets are subject; or (iii) result in the imposition of any Encumbrance on any asset of either Medix or Merger Sub; or (iv) violate or conflict with any Laws.

Section 6.4. Litigation.  
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There are no (i) actions, suits, claims, investigations, administrative or other proceedings by or before any governmental authority, arbitrator, mediator or other dispute resolution Person or court, whether at law or in equity, whether civil or criminal in nature, pending or threatened against Medix or the Merger Sub, or any of their assets, properties, interests in assets of properties or rights, or (ii) judgments, decrees, injunctions or orders of any governmental authority, arbitrator, mediator or other dispute resolution Person or court against or binding upon or threatened against Medix or the Merger Sub or any of their assets, properties, interests in assets of properties or rights, or questioning the validity or enforceability of any of the Merger Documents and the transactions contemplated thereby. Medix or the Merger Sub is not in default under any such judgment, decree, injunction or order. Medix or the Merger Sub has delivered to the Company correct and complete copies of all documents and correspondence relating to, or a description of, any of the matters described in this Section 6.4.

Section 6.5. No Consent or Approval Required.  
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No consent, waiver, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority, or any other Person, is required for the valid authorization, execution and delivery by Medix or the Merger Sub of the Merger Documents to which it is a party or for the consummation of the transactions contemplated thereby that has not been obtained, except for (i) applicable requirements under the Securities Act and Exchange Act (as hereinafter defined); (ii) state securities and "blue sky" laws; (iii) applicable requirements of AMEX; (iv) filings and recordings of appropriate Merger Documents as required by the Ohio Statute; and (v) approval by the stockholders of Medix, in accordance with applicable Law and Medix's certificate of incorporation and by-laws.

Section 6.6. Common Stock.  
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Except for obtaining the approval of the stockholders of Medix for the Merger and the issuance of shares of Common Stock as Merger Consideration, the Common Stock issuable in connection with the Initial Merger Consideration are duly authorized by all necessary action and will be when issued and sold in accordance with the terms of this Agreement, validly issued, fully paid and non-assessable and free and clear of all Taxes and Encumbrances. The shares of Common Stock issuable in connection with Contingent Payments upon satisfaction of the applicable Qualifying Event are duly authorized by all

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necessary action and will be when issued and sold in accordance with the terms of this Agreement validly issued, fully paid and non-accessible and free and clear of all Taxes and Encumbrances. The shares of Common Stock have been issued in compliance with all applicable agreements, instruments or Laws, including but not limited to, the Securities Act of 1933 (the "Securities Act") and applicable state securities or "blue sky" laws. The

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"Medix Disclosure Letter" shall mean the Medix disclosure schedules delivered

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by Medix to the Company currently with the execution and delivered of this Agreement. The Medix Disclosure Letter shall include references to each provision of this Agreement to which information contained in the Medix Disclosure Letter is intended to apply.

### Section 6.7. Medix Reports and Financial Statements.

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(a) Medix has filed all forms, reports, statements and other documents required to be filed by Medix with the Securities and Exchange Commission ("SEC") since September 30, 2002 (the "Medix Reports"), each of which has

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complied in all material respects with the applicable requirements of the Securities Act, and the rules and regulations promulgated thereunder, and the Securities Exchange Act of 1934 (the "Exchange Act"), and the rules and

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regulations promulgated thereunder, each as in effect on the date so filed. None of the Medix Reports (including any financial statements or schedules included or incorporated by reference therein) contained when filed any untrue statement of a material fact or omitted or omits to state a material fact required to be stated or incorporated by reference therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) All of financial statements of Medix included in the Medix Reports have been prepared in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of Medix and its subsidiaries at the respective dates thereof and the consolidated results of its operations and changes in cash flows for the periods indicated (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(c) There are no liabilities of Medix or any of its subsidiaries of any kind whatsoever, whether or not accrued and whether or not contingent or absolute, that are material to Medix and its subsidiaries, taken as a whole, other than (i) liabilities disclosed or provided for in the consolidated balance sheet of Medix and its subsidiaries at September 30, 2002, including the notes thereto; (ii) liabilities disclosed in the Medix Reports; (iii) liabilities incurred on behalf of Medix under this Agreement and the contemplated Merger; and (iv) liabilities incurred in the Ordinary Course of Business consistent with past practice since September 30, 2002.

### Section 6.8. Disclosure.

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None of the Merger Documents or other materials referred to herein furnished to the Company by Medix or the Merger Sub or the Medix Reports, contain any untrue statement of a material fact or omits to state a material fact required in order to the make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading, and such statements remain true and complete in all material respects as of the date of this Agreement.

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ARTICLE VII.

Conditions to Closing of Each Party  
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The obligations of each party to perform this Agreement are subject to the following conditions precedent:

Section 7.1.           Legal Action.  
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No temporary restraining order, preliminary injunction, or permanent injunction or other order preventing the consummation of the transactions contemplated by the Merger Documents shall have been issued by any Federal, state or local court or any administrative or regulatory agency or commission or other governmental authority or agency (domestic or foreign) and remain in effect. Each party agrees to use its best efforts to have any such order or injunction lifted.

Section 7.2.           Legislation.  
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No Federal, state, local or foreign Law shall have been enacted which prohibits, restricts or delays the consummation of the transactions contemplated hereby, by the Merger Documents, or any of the conditions to the consummation of such transactions.

Section 7.3.           Escrow Agreement.  
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Each of Medix, the Representative (as attorney-in-fact for the Members pursuant to Section 8.17) and the Escrow Agent shall have executed and delivered the Escrow Agreement in form and substance reasonably satisfactory to the parties thereto. The Escrow Agreement shall provide for the release of shares of Common Stock received as Merger Considerations as follows: 3,000,000 shares on the three month anniversary of the Closing Date, an additional 2,000,000 shares on the six month anniversary of the Closing Date and an additional 1,000,000 shares on each three month anniversary of the Closing Date thereafter with any remaining shares of Common Stock held in the Escrow Account released 24 months after the Closing Date; (iii) permit, subject to compliance with applicable Law, including but not limited to, the Securities Act and state securities and blue sky laws, the unrestricted sale of shares of Common Stock received by the Members as Contingent Payments as follows: 1/3 upon receipt, 1/3 on the three month anniversary of the date of the applicable Qualifying Event and the final 1/3 on the six month anniversary of the applicable Qualifying Event; and (iv) otherwise be in form and substance satisfactory to the parties thereto.

Section 7.4.           Registration Rights Agreement.  
-----

Medix and the Representative (as attorney-in-fact for the Members pursuant to Section 8.17) shall have executed and delivered a registration rights agreement (the "Registration Rights Agreement") which shall (i) provide for the registration (and maintenance thereof) of all of the shares of Common Stock received as Merger Consideration and (ii) permit, subject to compliance with applicable Law, including but not limited to, the Securities Act and state securities and blue sky laws, the unrestricted sale of shares of Common Stock received by the Members as the Initial Merger Consideration in accordance with the terms and conditions of the Escrow Agreement.

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Section 7.5. Employment Agreements.  
-----

The Company, Medix and each of Burns and Kowitz shall have executed and delivered an employment agreement in form and substance satisfactory to the parties thereto (each, an "Employment Agreement" and collectively, the "Employment Agreements"), and each such Employment Agreement shall be in full force and effect and an enforceable obligation against the Surviving Corporation, Burns and Kowitz as of the Closing Date.

ARTICLE VIII.  
Conditions to Closing of Medix and the Merger Sub  
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The obligation of the Medix and the Merger Sub to pay the Merger Consideration and perform this Agreement are subject to the following conditions precedent:

Section 8.1. Company Approval.  
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The Members of the Company by resolutions or consents duly adopted shall have approved the Merger and the execution, delivery and performance of the Merger Documents to which it or they are a party, the transactions contemplated thereby and compliance with the provisions thereof by the Company and Medix shall have received a certificate signed by the Secretary of the Company, that such resolutions or consents are in full force and effect and are all the resolutions adopted in connection with the execution, delivery and performance of the Merger Documents to which it or they are a party and the transactions contemplated thereby.

Section 8.2. Key Employees- Employment Agreements.  
-----

Medix, the Company and Burns shall have identified the key employees of the Company and the Company and each such key employee shall have executed and delivered employment agreements in form and substance satisfactory to Medix, and each such employment agreement shall be in full force and effect and an enforceable obligation against such employee as of the Closing Date.

Section 8.3. Due Diligence.  
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Medix and the Merger Sub shall have completed an examination of the financial, accounting, business and legal records of the Company and such examination shall be satisfactory to Medix and the Merger Sub and its counsel in their reasonable discretion.

Section 8.4. Representations and Warranties.  
-----

On the Closing Date, (i) the representations and warranties of the Company and the Representative contained in this Agreement or the Company Disclosure Letter delivered pursuant hereto shall be true and correct with the same effect as though made on and as of the Closing Date and (ii) the documents and information required to be delivered to Medix or the Merger Sub by the Company and Burns (in his individual capacity and as the Representative on behalf of the Members) under the Merger Documents are true and correct as of the Closing Date with the same effect as though made on and as of the Closing Date and there have been no amendments, modifications or changes to such documents or information that have not been disclosed to Medix or the Merger Sub, and Medix shall have received a certificate signed

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by an authorized officer of the Company, as to the Company, to that effect, and a certificate from Burns, as to Burns, to that effect.

Section 8.5. Performance of Obligations.  
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The Company and Burns (in his individual capacity and as Representative on behalf of the Members) shall have performed all the covenants, agreements and obligations contained in this Agreement to be performed or complied with by the Company and Burns on or prior to the Closing Date, and the Medix shall have received a certificate signed by an authorized officer of the Company, as to the Company, to that effect, and a certificate from Burns, as to Burns, to that effect.

Section 8.6. Certified Copies.  
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Medix shall have received such certified copies or other copies of such documents as it or its counsel may reasonably request, including, but not limited to, a certificate signed by the Secretary of the Company, dated as of the Closing Date and certifying: (a) that attached thereto is a true and complete copy of the articles of organization of the Company, as in effect on the date of such certification; (b) that attached thereto is a certificate of existence from the Secretary of State of the State of Ohio, along with foreign qualifications, from the applicable jurisdictions, both as of a recent date; (c) that attached thereto is a true and complete copy of the operating agreement of the Company as in effect on the date of such certification; (d) that attached thereto is a true and complete copy of the resolutions or consents authorizing the execution of the Merger Documents and the transactions contemplated thereby, and such resolutions constitute all resolutions relating to such transactions and have not been amended or modified as of the Closing Date; and (e) to the incumbency and specimen signature of each officer or Manager of the Company executing any of the Merger Documents, and any certificate or instrument furnished pursuant thereto.

Section 8.7. Opinion of Counsel.  
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The Purchaser shall have received an opinion of Katz, Teller, Brant and Hild, counsel for the Company, dated the Closing Date and addressed to the Purchaser covering matters as to authorization, enforceability and other matters customary for the transactions contemplated by this Agreement and otherwise in form reasonably satisfactory to Medix.

Section 8.8. Consents and Approvals.  
-----

The Company shall have made all registrations, filings and applications, given all notices and obtained all governmental or other third party consents, transfers, approvals, orders, qualifications and waivers necessary or desirable for the consummation of the transactions contemplated by the Merger Documents, including but not limited to all consents, assignments or notices under any contracts or agreements, Office Leases and Permits (including all state boards of pharmacology) and the Vendor Services Agreement between Express Scripts, Inc. and the Company, dated July 21, 2002, the RxHub POC Provider Pilot Participation Agreement between RxHub and the Company, dated June 28, 2002 and the Point of Care Alliance Agreement between Medco Health Solutions, Inc., and the Company dated June 28, 2002, and the Company shall deliver to Medix copies of all such registrations, filings, applications, notices, consents, transfers, approvals, orders, qualifications and waivers in form and substance satisfactory to Medix.

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Section 8.9. Absence of Changes.  
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No event, occurrence, fact, condition, change, development or effect shall exist or have occurred or come to exist or been threatened that, individually or in the aggregate, has had or resulted in or could be expected to become or result in a material adverse effect on the business, assets, operations, results, financial condition or prospects of the Company, and Medix shall have received a certificate signed by an authorized officer of the Company to that effect.

Section 8.10. Repayment or Conversion of Indebtedness.  
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Except as set forth on Schedule 8.11 of the Company Disclosure Letter,  
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all of the Members of the Company shall have converted any loans made to the Company into Units of the Company prior to the Effective Time and the Company shall have repaid in full all indebtedness or other obligations for borrowed money. Medix shall have received evidence of such conversion or repayment in form and substance satisfactory to Medix, including delivery to Medix of payoff letters.

Section 8.11. Release of Security Interests.  
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Except with respect to Encumbrances securing the indebtedness set forth in Schedule 3.2 of the Company Disclosure Letter, all Encumbrances relating  
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to the assets, properties, interests in assets or properties and rights of the Company shall have been terminated and released and Medix shall have received confirmation of release of any security interests, pledges or other Encumbrances in form and substance satisfactory to Medix.

Section 8.12. General Release.  
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Each of the Members of the Company shall have executed and delivered to Medix a general release in form and substance satisfactory to Medix releasing Medix, the Surviving Corporation and their respective affiliates, effective as of the Closing Date, from all liabilities and obligations of any kind whatsoever, other than liabilities and obligations under this Agreement or the other Merger Documents.

Section 8.13. Purchaser Approvals.  
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Medix shall have obtained all necessary filings, approvals, consents and waivers to effect the transactions contemplated by the Merger Documents, including but not limited to, any approvals, consents or filing under the Securities Act, the Exchange Act, the rules and regulations under AMEX and the approval of the stockholders of Medix relating to the execution, delivery and performance of this Agreement and the Merger.

Section 8.14. Rights of First Refusal.  
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All rights of first refusal, or similar rights, held by any Person with respect to the Company, shall have expired without exercise. Medix shall have received evidence of such expiration in form and substance satisfactory to Medix.



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Section 8.15. Reorganization; Operating Agreement.  
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(a) The Company and Way Over the Line, LLC, a limited liability company, shall have merged or otherwise combined or consolidated their respective businesses, operations and assets with the Company as the surviving entity. Medix shall have received evidence of such merger, combination or consolidation in form and substance satisfactory to Medix.

(b) The Company shall have amended and restated its operating agreement (the "Operating Agreement") in form and substance satisfactory to Medix and  
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such amended and restated Operating Agreement shall be in full force and effect as of the Effective Time.

Section 8.16. Appointment of Representative.  
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Each of the Members shall have appointed Stephen S. Burns as the representative of the Members (the "Representative"), to act as  
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attorney-in-fact and representative for all purposes under the Merger Documents and the transactions contemplated thereby, with the right in such capacity to do any and all things and to execute any and all documents in such Member's place and stead in connection with the Merger Documents and the transactions contemplated thereby. Medix shall have received evidence of such appointment in form and substance satisfactory to Medix.

Section 8.17. Investment Letters; Affiliate Letters  
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(a) Each of the Members shall have executed and delivered an investment letter (the "Investment Letter") in form and substance satisfactory to Medix.  
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(b) Each "affiliate" of the Company as such term is defined under Section 145 of the Securities Act shall have executed and delivered to Medix an affiliate agreement (the "Affiliate Agreements") in form and substance  
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satisfactory to Medix.

Section 8.18. Kowitz Non-Competition Agreement.  
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The Company and Kowitz shall have executed and delivered a non-competition agreement (the "Non-Competition Agreement") in form and  
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substance satisfactory to Medix.

Section 8.19. Dissenters' Rights.  
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Members holding not less than ninety-five percent (95%) of the outstanding Units of the Company shall have voted in favor of the Merger and waived any and all dissenters' rights or rights to demand fair cash value under the Ohio Statute.

Section 8.20. Voting Agreement.  
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Each of Medix, Burns, Kowitz and such other Members as Medix may determine in its sole discretion shall have executed and delivered a voting

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agreement (the "Voting Agreement") and such Voting Agreement shall be in form  
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and substance satisfactory to Medix.

Section 8.21. Fairness Opinion.  
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Medix shall have received, at its own cost and expense, an opinion dated as of the Closing Date from a firm selected by Medix in its sole discretion to the effect that, as of such date, the Merger is fair to Medix's stockholders from a financial point of view and such opinion shall not have been withdrawn.

Section 8.22. Non-Compete Agreements.  
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The Company and each of Mike Bell, James Shrider, Richard East, Dan Gibbons, and Martin Rucidlo shall have executed and delivered non-compete and confidentiality agreements in form and substance satisfactory to Medix, and each such agreement shall be in full force and effect and an enforceable obligation against each such person as of the Closing Date.

Section 8.23. Audited Financial Statements.  
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Medix shall have obtained, at its own cost and expense, audited Financial Statements of the Company prior to the Closing Date.

Section 8.24. Acceptance by Counsel.  
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The sufficiency of all agreements, documents and certificates delivered hereunder and related proceedings shall be reasonably accepted to Moses & Singer LLP, counsel to Medix and the Merger Sub.

ARTICLE IX.

Conditions to the Closing of the Company and Burns  
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The obligation of the Company and Burns to perform this Agreement is subject to the following conditions precedent:

Section 9.1. Representations and Warranties.  
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On the Closing Date, (i) the representations and warranties of Medix and the Merger Sub contained in this Agreement or the Medix Disclosure Letter delivered pursuant hereto shall be true and correct with the same effect as though made on and as of the Closing Date and (ii) the documents and information required to be delivered to the Company by Medix or the Merger Sub under the Merger Documents are true and correct as of the Closing Date with the same effect as though made on and as of the Closing Date and there have been no amendments, modifications or changes to such documents or information that have not been disclosed to the Company, and the Company shall have received a certificate signed by an authorized officer of Medix and a certificate from an authorized officer of the Merger Sub, as to the Merger Sub, to that effect.

Section 9.2. Performance of Obligations.  
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Each of Medix and the Merger Sub shall have performed all the

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covenants, agreements and obligations contained in this Agreement to be performed or complied with by Medix or the Merger Sub on or prior to the Closing Date, and the Company shall have received a certificate signed by an authorized officer of Medix as to Medix, to that effect, and a certificate from an authorized officer of the Merger Sub, as to the Merger Sub, to that effect.

### Section 9.3. Certified Copies.

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The Company shall have received such certified copies or other copies of such documents as it or its counsel may reasonably request, including, but not limited to, a certificate signed by the Secretary of each of Medix and the Merger Sub, dated as of the Closing Date and certifying: (a) that attached thereto is a true and complete copy of the certificate of incorporation of Medix or the Merger Sub, as the case may be, as in effect on the date of such certification; (b) that attached thereto is a long-form good standing certificate from the Secretary of State of Colorado and Delaware, as applicable; (c) that attached thereto is a true and complete copy of the by-laws of Medix or the Merger Sub, as the case may be, as in effect on the date of such certification; (d) that attached thereto is a true and complete copy of the resolutions authorizing the execution of the Merger Documents and the transactions contemplated thereby by each of the Board of Directors of Medix and the Merger Sub and such resolutions constitute all resolutions relating to such transactions and have not been amended or modified as of the Closing Date; and (e) to the incumbency and specimen signature of each officer of Medix or the Merger Sub executing any of the Merger Documents, and any certificate or instrument furnished pursuant hereto.

### Section 9.4. Financing

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Medix shall have raised not less than \$1 million in additional financing since October 25, 2002.

### Section 9.5. Consents and Approvals.

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Each of Medix and the Merger Sub shall have made all applicable registrations, filings and applications, given all notices and obtained all governmental, administrative, regulatory or other third party consents, transfers, approvals, orders, qualifications and waivers necessary or desirable for the consummation of the transactions contemplated by the Merger Documents and shall deliver to the Company copies of all such registrations, filings, applications, notices, consents, transfers, approvals, order qualifications and waivers in form and substance satisfactory to the Company and Burns thereto.

### Section 9.6. Opinion of Counsel.

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The Purchaser shall have received an opinion of Moses & Singer LLP, counsel for Medix and the Merger Sub, dated the Closing Date and addressed to the Company and the Representative covering matters as to authorization, enforceability and other matters customary for the transactions contemplated by this Agreement and otherwise in form reasonably satisfactory to the Company.

### Section 9.7. Absence of Changes.

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No event, occurrence, fact, condition, change, development or effect

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shall exist or have occurred or come to exist or been threatened that, individually or in the aggregate, has had or resulted in or could be expected to become or result in a material adverse effect on the business, assets, operations, results, financial condition or prospects of Medix, and the Company shall have received a certificate signed by an authorized officer of Medix to that effect.

Section 9.8. Acceptance by Counsel.  
-----

The sufficiency of all agreements, documents and certificates delivered hereunder and related proceedings shall be reasonably acceptable to Katz, Teller, Brant & Hild, counsel to the Company.

ARTICLE X.

Covenants and Agreements  
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Section 10.1. Filings and Consents.  
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Each of the Company, Burns, Medix and the Merger Sub shall cooperate and use their respective best efforts to make all registrations, filings and applications, to give all notices and to obtain all governmental, administrative, regulatory or other third party consents, transfers, approvals, orders, qualifications and waivers necessary or desirable for the consummation of the transactions contemplated by the Merger Documents and the applicable party shall deliver to the other party copies of all such registrations, filings, applications, notices, consents, and waivers.

Section 10.2. Access to Records and Properties of the Company.  
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From and after the date hereof until the Closing, the Company shall afford, and Burns shall cause the Company to afford, (a) to Medix and its authorized representatives, including, but not limited to, its counsel and accountants, free and full access at all reasonable times to the personnel, assets, business, properties, books, records (including Tax Returns filed and in preparation) of the Company in order that Medix may have full opportunity to make such due diligence investigation as it may desire to make of the affairs of the Company; and (b) to the accountants of Medix, free and full access at all reasonable times to the books, data and records of Seeskin, Paas, Blackburn & Co., the Company's independent certified public accountants. The investigation contemplated by this Section shall not affect or otherwise diminish or obviate in any respect any of the representations and warranties of the Company and Burns contained in this Agreement or the indemnification obligations pursuant to Article XII.

Section 10.3. Conduct of Business.  
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From the date of this Agreement to the Closing Date, and except as otherwise contemplated by this Agreement, the Company and Burns covenant and agree to operate the Company's business, operation and affairs only in the Ordinary Course of Business and consistent with past practice and use their best efforts to preserve and maintain the Company's business, assets, properties, rights, relationships with suppliers, customers, clients, employees, agents and others having business dealings with the Company. Without limiting the generality of the foregoing, except as otherwise contemplated by this Agreement, during the period from the date of this Agreement to the Closing Date, without the prior written consent of Medix, the Company will not, and Burns will cause the Company not to:

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(a) create, incur or assume any debt, liability or obligation, direct or indirect, whether accrued, absolute, contingent or otherwise, relating to the Company, other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(b) cause the Company, to assume, guarantee, endorse or otherwise become responsible (whether directly, indirectly, contingently or otherwise) for the obligations of, or make any loans or advances to, any other Person, other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(c) waive or release any rights of value relating to the Company, or cause the Company to cancel, compromise, release or assign any indebtedness owed to them or any claims held by them, other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(d) transfer, sell, assign or otherwise convey any of the assets, properties, interests in assets or properties or rights of the Company, other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(e) mortgage, pledge, subject to any lien, claim or charge or otherwise Encumber any of the assets, properties, interests in assets or properties or rights of the Company or in any way create or consent to the creation of any title condition affecting such assets, properties, interests or rights other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(f) with respect to the managers, directors, officers or employees of the Company:

(i) increase the rate or terms of compensation payable or to become payable to any of them;

(ii) pay or agree to pay any pension, retirement allowance or other employee benefit not required or permitted by any existing plan, agreement or arrangement to any of them;

(iii) commit to any additional pension, profit sharing, bonus, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, severance pay, retirement or other employee benefit plan, agreement or arrangement, or increase the rate or terms of any such plan, agreement or arrangement which now exists, to the extent applicable to any of them; or

(iv) enter into any employment or severance agreement with or for the benefit of them;

(g) enter into or terminate any lease or make any change in any lease, other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(h) make or become obligated to make any capital expenditures relating to the Company or enter into any commitments therefore, other than in the Ordinary Course of Business and consistent with past practice, but in no event greater than \$5,000;

(i) make any alteration in the manner of keeping the books, accounts or records of the Company, or in the accounting practices therein reflected, except as required by applicable Law or GAAP;

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(j) the Company shall not (i) change or amend its articles of organization or operating agreement; (ii) issue any Units or other equity interests in the Company, or issue or sell any securities convertible into or exchangeable for or carrying the right to, or options with respect to, or warrants to purchase or rights to subscribe to, any Units or other equity interests in the Company or enter into any agreement obligating the Company to undertake any of the foregoing; or (iii) pay any dividends or distributions with respect to any membership or other equity interests in the Company;

(k) take any action that would cause any representation or warranty herein to be untrue; or

(l) commit or agree to take any of the foregoing actions.

Section 10.4. Efforts to Consummate.  
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Subject to the terms and conditions provided herein, the parties hereto shall use their respective reasonable best efforts to take or cause to be taken all action and do or cause to be done all things reasonably necessary, proper or advisable to consummate and make effective, as soon as reasonably practicable, the transactions contemplated by the Merger Documents, including, but not limited to, the obtaining of all consents, authorizations, orders and approvals of any Person, required in connection with the consummation of the transactions contemplated by the Merger Documents.

Section 10.5. Negotiation With Others.  
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(a) Negotiation. From and after the date hereof, until the earlier of the  
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Closing Date or the termination of this Agreement pursuant to Article XI, the Company, Burns and Kowitz will not, and Burns will cause the Company not to, directly or indirectly (through representatives, agents or otherwise): (i) solicit, initiate discussions or engage in negotiations with any Person (whether such negotiations are initiated by the Company, Burns, Kowitz or otherwise), concerning the possible acquisition, recapitalization or reorganization (whether by way of merger, reorganization, purchase of equity interests, purchase of indebtedness, purchase of assets or otherwise) of the Company (collectively, a "Transaction"); (ii) provide information with  
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respect to the Company to any Person, relating to a Transaction with the Company; or (iii) enter into any agreement or understanding with any Person, concerning a Transaction with the Company. If the Company, Burns or Kowitz receives any unsolicited offer or proposal to enter into negotiations relating to a Transaction or for any information concerning the Company, or any of the assets, properties or rights of the Company, the Company, Burns or Kowitz, as the case may be, shall promptly notify Medix of such offer or proposal, the identity of the Person making such offer or proposal and the terms of such offer or proposal (including without limitation, the purchase price and financing therefore).

(b) Disposition of Securities; Solicitation; Voting. From and after the  
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date hereof, each of Burns and Kowitz shall, (i) refrain from transferring, selling or assigning to any Person or agreeing in any manner to transfer, sell or assign to any Person or pledge, Encumber, deposit in a voting trust or grant a proxy with respect to any Units or other securities of the Company presently or hereafter owned or controlled by Burns or Kowitz; (ii) refrain from soliciting or entering into any agreement or arrangement with any Person with respect to any transfer, sale or assignment of any Units or other

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securities of the Company; and (iii) vote any Units, including the Units currently, or hereafter owned or controlled by Burns or Kowitz in favor of the Merger and the transactions contemplated by the Merger Documents at every meeting of the Members of the Company called therefore and at every adjournment thereof (or in connection with any written action in lieu of any such meeting) and against any other merger, consolidation, sale of assets, reorganization, recapitalization, liquidation or winding-up of the Company at every meeting of members of the Company called therefore and at every adjournment thereof (or in connection with any written action in lieu of any such meeting). At the request of Medix, Burns and Kowitz shall execute and deliver such agreements or instruments necessary or desirable to further effect this Section 10.5(b), including but not limited to irrevocable voting proxies or a voting agreements.

(c) Breach of Sections 10.5(a) or 10.5(b). The parties hereto recognize

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and acknowledge that a breach by the Company, Burns or Kowitz, as the case may be, of Section 10.5(a) or 10.5(b) hereof, respectively, will cause irreparable and material loss and damage for Medix, the amount of which is not readily determinable, and that, in addition to any remedy Medix may have in damages by an action at law, it shall be entitled to the issuance of an injunction restraining any such breach or any other remedy at law or in equity for any such breach.

Section 10.6. Supplements to the Company Disclosure Letter.

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From time to time prior to the Closing, the Company and Burns will promptly supplement or amend the Company Disclosure Letter with respect to any matter hereafter arising, which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in the Company Disclosure Letter. No supplement or amendment of the Company Disclosure Letter made pursuant to this Section 10.6 shall be deemed to constitute a cure of any breach of any representation of or warranty made by the Company and Burns pursuant to this Agreement or constitute a waiver of any such breach or consent to any such breach by Medix or the Merger Sub.

Section 10.7. Notice of Developments.

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The Company and Burns shall give prompt written notice to Medix:

(a) any development adversely affecting the business, assets, properties, rights, liabilities, financial condition, operations, results of operations, affairs or future prospects of the Company; and

(b) any development affecting the ability of the Company, Burns, or any other Member to consummate the transactions contemplated by the Merger Documents;

provided, however, no disclosure by the Company and Burns pursuant to this

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Section 10.7 shall be deemed to supplement or amend the Company Disclosure Letter hereto or to constitute a cure of any representation of or warranty made by the Company or Burns pursuant to this Agreement or constitute a waiver of any such breach or consent to any such breach by Medix.

Section 10.8. Fees and Expenses.

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Medix and the Members shall bear their own respective fees and expenses incurred in connection with the preparation for and consummation of the

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transactions contemplated by the Merger Documents. Medix shall pay up to a maximum of One Hundred Thousand Dollars (\$100,000) of the Company's fees and expenses incurred in connection with the preparation for and consummation of the transactions contemplated by the Merger Documents.

### Section 10.9. Required Payments.

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The Company shall have paid its respective accrued aggregate annual amounts required under ERISA, the Code and/or by contract to be contributed to any Assumed Benefit Plans (including any premiums), along with any interest, penalties or late charges, fully with respect to 2001 and 2002 fiscal years and provision for such amounts are reflected on the Balance Sheet.

### Section 10.10. Non-Compete.

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(a) Burns agrees that, during the Non-Compete Period (as defined below), he shall not engage in any activities or provide any services or products either on his own behalf or for the benefit or on behalf of any other business organization or Person (whether as principal, partner, member, officer, director, stockholder, agent, joint venturer consultant creditor, lender, guarantor, surety, investor or otherwise) which are in direct or indirect competition with or similar to the business, products and services of Medix, the Surviving Corporation or any of their respective direct or indirect, subsidiaries, divisions, partnerships, limited liability companies, joint ventures and affiliates, (collectively, the "Group") in the United States or

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Canada. Each of Burns and Medix, expressly declares that the territorial and time limitations contained in this Section are reasonable and are properly and necessarily required for the adequate protection of the business, operations, intellectual property and goodwill of Medix and the Surviving Corporation and are given as an integral part of the Merger, but for which Medix and the Merger Sub would not have entered into this Agreement. If such territorial or time limitations, or any portions thereof, are deemed to be unreasonable by a court of competent jurisdiction, whether due to passage of time, change of circumstances or otherwise, each of Burns, Medix and the Surviving Corporation agrees to a reduction of said territorial and/or time limitations to such areas and/or periods of time as said court shall deem reasonable. As used herein, the term "Non-Compete Period" means a five (5)

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year period commencing on the Closing Date.

(b) Burns agrees that, during the Non-Compete Period, he will not directly or indirectly, in one or a series of transactions (i) service, supervise the service of, recruit, solicit or otherwise induce, persuade or influence any stockholder, lender, director, officer, employee, sales agent, joint venturer, investor, lessor, supplier, customer, client, agent, representative or any other Person which has a business relationship with Medix, Surviving Corporation or any other member of the Group to discontinue, reduce, or modify such employment, agency or business relationship with Medix, the Surviving Corporation or the Group, or (ii) seek to employ, retain or engage or employ, retain, engage or employ or cause any business organization in direct or indirect competition with or similar to Medix, the Surviving Corporation or the Group to seek to employ, retain or engage or employ, retain, engage or employ any person or agent who is then retained, engaged or employed by Medix, the Surviving Corporation or any other member of the Group.

(c) The non-competition and non-solicitation provisions contained herein are in addition to, and not in limitation of, any rights that Medix or the Surviving Corporation may have by other contract, law or otherwise.



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(d) Burns acknowledges that the remedy at law for any breach of this Section 10.10 may be inadequate. Accordingly, Burns agrees that, upon any such breach of this Section 10.10, Medix, the Surviving Corporation or any other member of the Group shall, in addition to all other available remedies (including, without limitation, seeking an injunction or other equitable relief), be entitled to injunctive relief without having to prove the inadequacy of the remedies available at law and without being required to post bond or other security.

(e) The failure of Medix, the Surviving Corporation or any other member of the Group at any time to require performance by Burns of any provision hereunder shall in no way affect the right of Medix, the Surviving Corporation or any member of the Group thereafter to enforce the same, and the waiver by Medix, the Surviving Corporation or any member of the Group of a breach of any provision of this Section 10.10 shall not operate as or be construed a waiver of any subsequent breach thereof.

(f) Burns acknowledges and agrees that the covenants and restrictions contained in this Section 10.10 are separate and distinct from any other contractual obligations the Executive may have with respect to the subject matter of Section 10.10 and are in connection with the sale by Burns of his controlling interest in the Company.

(g) Each of Medix, the Surviving Corporation and any other member of the Group acknowledges and agrees that the remedies for any breach by Burns of the provisions of this Section 10.10 shall be exclusively against Burns and shall not constitute a claim against the Company or the Members or constitute an indemnification claim pursuant to Article 12 of this Agreement.

Section 10.11. Further Assurances.  
-----

At any time or from time to time after the Closing, Burns (in his individual capacity and as Representative on behalf of the Members) and the Company shall, at the request of Medix and without additional consideration, execute and deliver any further instruments or documents and take any such further action as Medix may reasonably request in order to consummate the transactions contemplated in the Merger Documents.

ARTICLE XI.

Termination  
-----

This Agreement may be terminated at any time prior to the Closing, as follows:

(a) by the mutual written consent of Medix on the one hand, and the Company and Burns on the other;

(b) on or after the Termination Date (as hereinafter defined) by either the Company and Burns or Medix, as the case may be, if the conditions set forth in Articles VII, VIII and IX hereof shall not have been met by the applicable party;

(c) by Medix, if Medix shall have determined, in its sole discretion, that the transactions contemplated by the Merger Documents have become inadvisable or impracticable by reason of the institution of any litigation, proceeding or investigation to restrain or prohibit the consummation of such transactions or which questions the validity or legality of the transactions contemplated by the Merger Documents; or

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(d) by Medix, if any Law shall have been enacted which, in its sole discretion, impairs the conduct or operation of the Company as presently conducted and as contemplated to be conducted; or

(e) by the Company and Burns or Medix, if the closing price of the Common Stock on the AMEX is less than \$0.50 per share for five (5) consecutive trading days].

provided, however, that if such termination shall result from the breach of  
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any representation, warranty, covenant or agreement by any party to this Agreement, such party shall be fully liable for any and all damages, costs and expenses (including, but not limited to, reasonable counsel fees) sustained or incurred by any other party as a result of such breach. As used herein, the term "Termination Date" shall mean April 1, 2003. Any  
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termination pursuant to this Article XII (other than a termination pursuant to paragraph (a) hereof) shall be effected by written notice from the party or parties so terminating to the other parties hereto.

ARTICLE XII.

Indemnification  
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Section 12.1. Definitions.  
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As used in this Article XII, the following terms shall have the following meanings:

(a) "Claim" means a claim, demand, action, suit, proceeding or cause of  
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action, in each case (i) whether made, occurring or threatened before or after the Closing Date; (ii) whether or not disclosed or known prior to the Closing Date; and (iii) whether made by any governmental or quasi-governmental authority or private Person.

(b) "Losses" shall mean any and all losses, damages, deficiencies, costs,  
-----

liabilities, expenses (including but not limited to, interest, penalties and reasonable attorneys', accountants' and other professional fees and disbursements), payments to avoid penalties (whether in settlement or otherwise) and assessments, sustained, suffered or incurred by any Indemnified Person, directly or indirectly whether or not involving any Third Party Claim (as defined below).

Section 12.2. Indemnification.  
-----

(a) Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16) shall, and, if this Agreement shall have been terminated prior to Closing, Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16) and the Company shall jointly and severally, indemnify, defend and hold harmless Medix and, if the Closing shall have occurred, the Surviving Corporation and each of their respective affiliates, shareholders, officers, directors, employees, and agents, from and against any and all Losses assessed, incurred or sustained by or against any of them relating to, in connection with or arising out of (i) any misrepresentation, inaccuracy or breach of any representation or warranty made by the Company or Burns contained in any Merger Document, the Company Disclosure Letter or any schedule, certificate or other writing delivered in connection any of the foregoing; (ii) any

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breach or failure of observance or performance of any covenant, agreement or commitment made by the Company or Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16) in any Merger Document; (iii) any Taxes relating to periods ending on or before the Closing Date and any Taxes relating to the Merger Consideration or the exchange of Units; (iv) any amounts paid to dissenting Members that demand fair cash value for their Units under the Ohio Statute (to the extent not otherwise provided for pursuant to Section 3.2 above) or (v) any Claims or obligations of any kind or nature relating to the Company, the business, operations or affairs of the Company or any of the assets, properties, interests in assets or properties or rights of the Company which were existing at or as of the Closing Date or arising in whole or in part out of any acts, transactions, conditions, circumstances or facts which occurred or existed on or prior to the Closing Date, whether or not then known or knowable.

(b) Medix shall indemnify, defend and hold harmless the Members and Burns, and if this Agreement shall have been terminated prior to Closing, the Company and Burns, from and against any and all Losses assessed, incurred or sustained by or against any of them with respect to or arising out of (i) any misrepresentation, inaccuracy or breach of any representation or warranty made by Medix or the Merger Sub contained in any Merger Document, Medix Disclosure Letter or any schedule, certificate or other writing delivered in connection any of the foregoing, or (ii) any breach or failure of observance or performance of any covenant, agreement or commitment made by Medix or the Merger Sub hereunder.

Section 12.3. Assertion of Claims.  
-----

No Claim shall be brought against a party (the "Indemnifying Person")  
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under Sections 12.2(a) or 12.2(b) and a party (the "Indemnified Person")  
-----  
shall not be entitled to receive any payment with respect thereto, unless the Indemnified Persons, or any of them, shall have given the Indemnifying Persons written notice of the existence of any such Claim in accordance with this 12.3; provided, however, that no delay or failure to give such notice on  
-----  
the part of the Indemnified Person shall relieve the Indemnifying Persons from any obligation hereunder unless (and then solely to the extent) the Indemnifying Person is materially prejudiced thereby. Upon the giving of such written notice as aforesaid, the Indemnified Persons, or any of them, shall have the right to commence legal proceedings for the enforcement of their rights under Sections 12.2(a) or 12.2(b) hereof.

Section 12.4. Notice and Defense of Third Party Claims.  
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The obligations and liabilities of the Indemnifying Persons with respect to Claims resulting from the assertion of liability by third parties (each, a "Third Party Claim") shall be subject to the following terms and  
-----  
conditions:

(a) The Indemnified Persons shall give written notice to the Indemnifying Persons within fifteen (15) days from the receipt of any Third Party Claim which might give rise to a Claim by the Indemnified Persons against the Indemnifying Persons based on the indemnity agreement contained in Sections 12.2(a) or 12.2(b) hereof, stating the nature and basis of said Third Party Claim, and the amount of such Claim to the extent known; provided, however, that no delay or failure to give such notice on the part

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of the Indemnified Person shall relieve the Indemnifying Persons from any obligation hereunder unless (and then solely to the extent) the Indemnifying Persons is materially prejudiced thereby. Such notice shall be accompanied by copies of all relevant documentation with respect to such Third Party Claim, including, but not limited to, any summons, complaint or other pleading, which may have been served, or written demand, or other document or other instrument.

(b) Medix and, after the Effective Time, the Surviving Corporation shall have the sole right and obligation, at their sole expense, to defend against, negotiate, settle or otherwise deal with any Third Party Claim with respect to which they are the Indemnified Persons or Indemnifying Persons and to be represented by counsel of their own choice, and Medix and the Surviving Corporation will not admit any liability or settle, compromise, pay or discharge the same without the consent of Burns, which consent shall not be unreasonably withheld; provided, however, that Burns may participate in any

-----  
proceeding with counsel of his choice and at his expense. In the event Medix and the Surviving Corporation fail to defend against, negotiate, settle or otherwise deal with such Third Party Claim as provided above in this Section 12.4, then Burns shall have the right to defend against, negotiate, settle or otherwise deal with the Third Party Claim in such manner as it deems appropriate.

Section 12.5. Right of Set-Off.  
-----

It is expressly acknowledged and agreed that Medix and the Surviving Corporation may, but shall not be required to, satisfy all or any portion of any Loss it may have hereunder against the Members by set-off against or deduction from any Merger Consideration deposited in the Escrow Account pursuant to and in accordance with the procedures set forth in the Escrow Agreement.

Section 12.6. Remedies Cumulative.  
-----

The remedies provided for in this Article XII shall be cumulative and shall not preclude assertion by any party hereunder of any other rights or the seeking of any other remedies at law or in equity against any other party.

Section 12.7. Survival of Representations; Limitation on Liability.  
-----

Notwithstanding anything to the contrary in this Agreement, the respective obligations and liabilities of the Company and Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16), on the one hand, and Medix and the Surviving Corporation, on the other hand, under this Article XII shall be subject to the following limitations:

(a) The representations and warranties of the Company and Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16) contained in this Agreement shall survive the Closing until the second anniversary of the Closing Date (the "Indemnification Expiration

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Date") for purposes of this Article XII; provided that Claims relating to

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(i) Sections 5.1, 5.2, 5.3 and 5.4 shall survive indefinitely and (ii) all agreements and covenants contained herein shall survive indefinitely until, by their terms, they are no longer operative.

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(b) Neither Medix nor the Surviving Corporation may assert any Claim for and in no event shall the Company and Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16), have any liability for, indemnification hereunder, unless the aggregate amount of the Losses for all such Claims for indemnification asserted against Company and Burns (in his individual capacity and as Representative on behalf of the Members pursuant to Section 8.16), exceeds One Hundred Thousand Dollars (\$100,000), in which event, the Members shall be liable for all such amounts in excess of Fifty Thousand Dollars (\$50,000).

(c) The aggregate liability of the Members in respect of Section 12.2 shall not exceed three (3) million shares of Common Stock, but in no event more than the number of shares of Common Stock held in the Escrow Account.

ARTICLE XIII.

Miscellaneous  
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Section 13.1. Parties in Interest.  
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This Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and assigns. Anything contained in the preceding sentence to the contrary notwithstanding, neither this Agreement nor any of the rights, interests or obligations, hereunder shall be assigned by the Company or Burns without the prior written consent of Medix.

Section 13.2. Entire Agreement; Amendments.  
-----

This Agreement and the other writings and agreements referred to herein or delivered pursuant hereto contain the entire understanding of the parties with respect to its subject matter, including but not limited to, the Letter Agreement dated as of October 25, 2002 (the "Letter Agreement"), between the Company and Medix. This Agreement and such other writings and agreements referred to herein supersede all prior agreements and understandings between the parties with respect to their subject matter, including but not limited to the Letter Agreement. This Agreement may be amended only by a written instrument duly executed by the parties hereto, and any condition to a party's obligations hereunder may only be waived in writing by such party.

Section 13.3. Public Disclosure.  
-----

Each of the parties to this Agreement hereby agrees with the other parties hereto that, except as may be required to comply with applicable Law, no press release or similar public announcement or communication will be made or caused to be made concerning the proposed or intended execution, or the execution or performance of this Agreement unless specifically approved in advance and in writing by the Company and Medix. The Company and Medix agree that any public announcement required by applicable Law shall only be made after reasonable notice to Medix (in the case of notice by the Company) or to the Company (in the case of notice by Medix).

Section 13.4. Gender.  
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Any reference to the masculine gender shall be deemed to include the feminine and neuter genders unless the context otherwise requires.

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Section 13.5.       Waivers.  
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Any party to this Agreement may, by written notice to the other parties hereto, waive any provision of this Agreement. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

Section 13.6.       Notices.  
-----

All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if sent by nationally-recognized overnight courier, by telecopy, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to the Company or Burns:

PocketScript, LLC  
4770 Duke Drive, Suite 201  
Mason, Ohio 45040  
Tel: (513) 701-6001  
Fax: (513) 701-6076  
Attention: Stephen S. Burns

with a copy to:

Katz, Teller, Brant & Hild  
2400 Chemed Center  
255 East Fifth Street  
Cincinnati, Ohio 45202-4724  
Tel: (513) 721-4532  
Fax: (513) 721-7120  
Attention: Robert Brant

if to Medix:

Medix Resources, Inc.  
420 Madison Avenue  
Suite 1830  
New York, New York 10170  
Tel: (212) 697-2509  
Fax: (212) 681-9817  
Attention: Darryl R. Cohen

with a copy to:

Moses & Singer LLP  
1301 Avenue of the Americas, 40th Floor  
New York, New York 10019  
Tel: (212) 554-7800  
Fax: (212) 554-7700  
Attention: Dean R. Swagert, Jr., Esq.;

or to such other address as the party to whom notice is to be given may have furnished to the other parties in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of international overnight courier, upon receipt of confirmation of delivery, (d) in the case of telecopy

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transmission, when received, and (e) in the case of mailing, on the third business day following posting.

Section 13.7. Counterparts.  
-----

This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement. Delivery of an executed counterpart by facsimile shall be equally as effective as delivery of a manually executed counterpart.

Section 13.8. Headings.  
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The section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 13.9. Construction.  
-----

The parties have participated jointly in the negotiation and drafting of this Agreement. The language used in this Agreement shall be deemed the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party. In the event of any ambiguity or question of intent or interpretation, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of authorship of any provision of this Agreement. Any reference to any Federal, state, local, or foreign statute or Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation. The parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty, or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the party has not breached shall not detract from or mitigate the fact that such party is in breach of the first representation, warranty, or covenant.

Section 13.10. Incorporation of Appendices, Exhibits and Schedules.  
-----

The exhibits, appendices and schedules identified or referred to in this Agreement are incorporated herein by reference and made a part hereof.

Section 13.11. Severability.  
-----

Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

Section 13.12. Governing Law.  
-----

This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be

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performed within such state without giving effect to the principles of conflict of laws.

Section 13.13. Arbitration.  
-----

All disputes between the Company (prior to the Effective Time) and Burns on the one hand and Medix (and after the Effective Time, the Surviving Corporation) on the other hereunder shall be settled by arbitration before a panel consisting of three (3) arbitrators pursuant to the commercial arbitration rules of the American Arbitration Association, in New York, New York; provided, however, that any award pursuant to such arbitration shall be

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accompanied by a written opinion of the arbitrators giving the reasons for the award. One (1) arbitrator shall be selected by each of Burns, on the one hand, and Medix, on the other, and the third arbitrator shall be selected by the other two (2) arbitrators. Any other rules regarding the selection process shall be made pursuant to the rules of such Association. The award rendered by the arbitrators shall be conclusive and binding upon the parties hereto, and judgment upon the award may be entered in any court having jurisdiction thereof or application may be made to such court for a judicial acceptance of the award and an order of enforcement. Each party shall pay its own expenses of arbitration and the expenses of the arbitrators (including his/her compensation) shall be equally shared; except that if any matter of dispute raised by a party or any defense or objection thereto was unreasonable, the arbitrator may assess, as part of his/her award, all or any part of the arbitration expenses (including reasonable attorneys' fees and expenses) of the other party and of the arbitrator against the party raising such unreasonable matter of dispute or defense or objection thereto. Nothing herein set forth shall prevent Burns on the one hand and Medix on the other from settling any dispute by mutual agreement at any time.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have duly executed and delivered this Merger Agreement on the date first above written.

PS PURCHASE CORP.,  
a Delaware corporation

By: \_\_\_\_\_ S/ Darryl Cohen

Name: Darryl Cohen  
Title: CEO Medix Resources

MEDIX RESOURCES, INC.,  
a Colorado corporation

By: \_\_\_\_\_ S/ Darryl Cohen

Name: Darryl Cohen  
Title: CEO Medix Resources

POCKETSCRIPT, LLC,  
an Ohio limited liability company

By: S / Stephen S. Burns



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-----  
Name: Stephen S. Burns  
Title: CEO

Individually and as Representative on  
behalf of the Members pursuant to Section  
8.16

S / Stephen S. Burns  
-----

Name: Stephen S. Burns

AGREED AND ACCEPTED:  
for purposes of Section 10.5 only

S / Mick Kowitz  
-----

Name: Mick Kowitz

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### DEFINITIONS

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The following terms used in this Agreement are found in the following Sections:

Term	Section or Location
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Accounting Referee	1.11 (d)
Acquisition	Preamble
Adjusted Closing Date Payment Agreement	1.11 (e) Preamble
AMEX	1.11 (b)
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Average Closing Price	1.11 (b)
Balance Sheet	2.8 (a)
Balance Sheet Date	2.8 (a)
Bill of Sale	2.2
Claim	9.1 (a)
Closing	1.13
Closing Balance Sheet	1.11 (a)
Closing Convertible Preferred Stock	1.10
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Code	1.1 (e)
Common Stock	1.11 (b)
Company	Preamble
Company Benefit Plan	2.13 (a)
Consulting Agreement	5.3
Contingent Convertible Preferred Stock	1.10
Contingent Payments	1.10
Controlling Member	Preamble
Convertible Preferred Stock	1.10
Department	2.13 (d)
Employee	2.13 (a)
Employee Agreement	2.13 (a)
Employee Handbook	2.14 (h)
Employment Agreement	5.2 (a)
Employment Agreements	5.2 (a)
Encumbrances	2.17 (a)
Environmental Laws	2.25 (a)
ERISA	2.13 (a)
ERISA Affiliate	2.13 (b)
Exchange Act	5.16
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Financial Statements	2.8 (a)
GAAP	1.9 (g)
Group	7.12 (a)
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PBGC	2.13 (d)
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Permits	1.1 (g)
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SEC	7.13 (c)
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Tax	2.21 (c)
Taxes	2.21 (c)
Termination Date	8.1
Third Party Claim	9.4
Transaction	7.5 (a)
Transfer Taxes	5.15
Working Capital	1.11 (b)

[Form of Proxy Card]

MEDIX RESOURCES, INC.  
420 Lexington Ave., Suite 1830  
New York, New York 10170

PROXY FOR SPECIAL MEETING OF SHAREHOLDERS  
\_\_\_\_\_, 2003

The undersigned hereby appoints each of Darryl Cohen, Patrick Jeffries and Mark W. Lerner, as proxy and attorney-in-fact for the undersigned, with full power of substitution, to vote on behalf of the undersigned at a special meeting of the Company's shareholders to be held on \_\_\_\_\_, 2003 and at any adjournment(s) or postponement(s) thereof, all shares of the Common Stock, \$.001 par value, of Medix Resources, Inc. (the "Company") standing in the name of the undersigned or which the undersigned may be entitled to vote as follows:

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" ITEMS 1, 2, 3 AND 4.** In their discretion, the proxies are hereby authorized to vote upon such other business as may properly come before the

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special meeting or any adjournments or postponements thereof, hereby revoking any proxy or proxies heretofore given by the undersigned. **THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.**

- 1.To approve the Merger Agreement among the Company, its PS Purchase Corp. subsidiary, PocketScript, LLC and Stephen S. Burns and the merger described therein.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

- 2. To approve the proposed amendment to the Company's Articles of Incorporation to increase the number of shares of the Company's Common Stock authorized for issuance from 125 million to 175 million.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

- 3. To approve the reincorporation merger agreement providing for the merger of the Company into its wholly-owned Delaware subsidiary, effecting the reincorporation of the Company as a Delaware corporation.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

- 4. To approve the proposed 2003 Stock Incentive Plan.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

Please sign exactly as name appears at left:

Signature:

-----

Second Signature (if held jointly):

-----

Date:

-----

When shares are held by joint tenants, both must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in the corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

**PLEASE MARK, SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

Annex B

Escrow Agreement

(to be furnished by amendment)

Annex C

**AGREEMENT AND PLAN OF MERGER**



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OF

**MEDIX RESOURCES, INC.**

(A Colorado corporation)

INTO

**MEDIX RESOURCES, INC.**

(A Delaware corporation)

FIRST: Medix Resources, Inc., a corporation organized under the laws of the State of Colorado (the "Merging Corporation"), shall merge with and into its wholly-owned subsidiary, Medix Resources, Inc., a corporation organized under the laws of the State of Delaware (the "Surviving Corporation"), and the Surviving Corporation shall assume the liabilities and obligations of the Merging Corporation.

SECOND: The presently issued and outstanding shares of capital stock of the Merging Corporation shall be converted on a one-for-one basis into shares of the capital stock, of the same class and series of the Surviving Corporation.

THIRD: The presently issued and outstanding shares of the common stock, \$0.001 par value, of the Surviving Corporation, issued to the Merging Corporation, shall be cancelled.

FOURTH: The authorized capital of the Surviving Corporation shall remain unchanged following the merger.

FIFTH: The Certificate of Incorporation of the Surviving Corporation, shall remain the Certificate of Incorporation of the Surviving Corporation.

SIXTH: The by-laws of the Surviving Corporation shall remain the by-laws of the Surviving Corporation.

SEVENTH: The directors and officers of the Surviving Corporation shall remain the directors and officers of the Surviving Corporation and shall serve until their successors are elected and have qualified.

EIGHTH: The officers of each corporation party to the merger shall be and hereby are authorized to do all acts and things necessary and proper to effect the merger.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Plan of Merger as of the \_\_\_\_\_ day of \_\_\_\_\_, 2003.

MEDIX RESOURCES, INC. (a Colorado corporation)

By:

Darryl Cohen  
Chief Executive Officer

MEDIX RESOURCES, INC. (a Delaware corporation)

By:

Darryl Cohen  
Chief Executive Officer

Annex D

**RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**MEDIX RESOURCES, INC.**

Medix Resources, Inc. (the "Corporation"), a Delaware corporation, hereby certifies as follows:

1. The name of the Corporation is Medix Resources, Inc.
2. The original certificate of incorporation of the Corporation was filed with the Secretary of State of Delaware on February 10, 2003.
3. This restated certificate of incorporation of the Corporation has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware by the favorable vote of the holders of a majority of the outstanding stock entitled to vote thereon and a majority of the outstanding stock of each class entitled to vote thereon as a class.
4. This restated certificate of incorporation amends, restates and integrates the provisions of the certificate of incorporation of the Corporation.
5. The text of the certificate of incorporation of the Corporation is hereby amended, restated and integrated to read in its entirety as follows:

ARTICLE I  
NAME

The name of the Corporation is Medix Resources, Inc.

ARTICLE II  
REGISTERED OFFICE AND AGENT

The address, including street, number, city, and county, of the registered office of the Corporation in the State of Delaware is 1013 Centre Road, City of Wilmington 19805, County of New Castle; and the name of the registered agent of the Corporation in the State of Delaware at such address is Corporation Service Company.

ARTICLE III  
PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

ARTICLE IV  
CAPITAL STOCK

Section 1. Classes and Shares Authorized. The total number of shares of Common Stock that the Corporation shall have authority to issue is One Hundred Seventy-Five Million (175,000,000) shares of Common Stock, \$0.001 par value per share. The total number of shares of Preferred Stock that the Corporation shall have authority to issue is Two Million Five Hundred Thousand (2,500,000) shares

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of Preferred Stock, \$1.00 par value per share.

Section 2. Preferred Stock. Shares of Preferred Stock may be divided into such series as may be established from time to time by the Board of Directors. The Board of Directors from time to time may fix and determine the relative rights and preferences of the shares of any series so established.

### Section 3. Common Stock.

- (a) After the requirements with respect to preferential dividends on the Preferred Stock, if any, shall have been met, and after the corporation shall have complied with all the requirements, if any, with respect to the setting aside of sums as sinking funds or redemption or purchase accounts, and subject further to any other conditions which may be fixed in accordance with the provisions of Section 2 of this Article IV, then, and not otherwise, the holders of Common Stock shall be entitled to receive such dividends as may be declared from time to time by the Board of Directors of the corporation paid out any funds legally available therefor.
- (b) After distribution in full of the preferential amount if any, to be distributed to the holders of the Preferred Stock in the event of voluntary or involuntary liquidation, distribution or sale of assets, dissolution, or winding-up of the corporation, the holders of the Common Stock shall be entitled to receive all of the remaining assets of the Corporation, tangible and intangible, of whatever kind available for distribution to stockholders, ratably in proportion to the number of shares of the Common Stock held by them respectively.
- (c) Except as may otherwise be required by law, each holder of the Common Stock shall have one vote in respect of each share of the Common Stock held by him on all matters voted upon by the stockholders.

Section 4. General Provisions. The capital stock of the Corporation may be issued for money, property, services rendered, labor done, cash advanced to or on behalf of the Corporation, or for any other assets of value in accordance with an action of the Board of Directors, whose judgment as to the value of the assets received in return for said stock shall be conclusive, and said stock, when issued, shall be fully paid and nonassessable.

### Section 5. 1996 Preferred Stock.

#### I. Designation and Amount.

378 shares of the authorized shares of Preferred Stock of the Company are hereby designated "1996 Preferred Stock" (the "1996 Preferred Stock"). All shares of 1996 Preferred Stock shall rank prior, as to both payment of dividends and as to distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, to all of the Company's now or hereafter issued common stock (the "Common Stock"), and any other series of capital stock of the Company, other than the 12% Cumulative Convertible Preferred Stock, that is not, by its terms, senior to or pari passu with the 1996 Preferred Stock, and shall rank junior to the 12% Cumulative Convertible Preferred Stock of the Company.

#### II. Dividends.

- (1) The registered owners of each share of 1996 Preferred Stock shall be entitled to receive out of assets of the Company legally available therefor, dividends at the rate of 10% per annum, calculated on the amount of the Liquidation Value of such share, which rate shall be 18%

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per annum for each day after the 180th day following the issuance of such share and prior to the date on which a registration statement under the Securities Act of 1993 (the "Act") registering the Common Stock of the Company into which such share of 1996 Preferred Stock is convertible first becomes effective. Dividends shall accrue without interest and be cumulative and shall be payable to the registered owners of 1996 Preferred Stock out of assets of the Company legally available therefore, quarterly in arrears on the last day of each fiscal quarter of the Company. Dividends shall be payable to shareholders of record on the fifteenth day immediately preceding such dividend payment date, or if such day is not a business day, on the immediately preceding business day.

- (2) So long as any share of 1996 Preferred Stock is outstanding, the Company shall not (a) declare or pay any dividend or make any other distribution (other than dividends payable solely in Common Stock or other capital stock ranking junior as to dividend rights to the 1996 Preferred Stock) on the Common Stock or any other class or series of capital stock of the Company ranking, as to dividends, junior to the 1996 Preferred Stock, or set funds aside therefor, or (b) purchase, redeem or otherwise acquire any of the Common Stock, or any other class of capital stock of the Company ranking junior as to dividends to the 1996 Preferred Stock (other than in exchange for Common Stock or other class of capital stock ranking junior as to dividends to the 1996 Preferred Stock) or set funds aside therefor.
- (3) If at any time any dividend on any capital stock of the Company ranking senior as to dividends to the 1996 Preferred Stock ("Senior Dividend Stock") shall be in default, in whole or in part, then no dividend shall be paid or declared and set apart for payment on the 1996 Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock shall have been paid or declared and set apart for payment. No dividends shall be paid or declared and set apart for payment on the 1996 Preferred Stock or on any capital stock ranking pari passu with the 1996 Preferred Stock in the payment of dividends (the "Parity Dividend Stock") for any period unless a pro rata dividend has been, or contemporaneously is, paid or declared and set apart for payment on the Parity Dividend Stock or the 1996 Preferred Stock, as the case may be, so that the amount of dividends paid or declared and set aside for payment per share on the 1996 Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of 1996 Preferred Stock and the Parity Dividend Stock bear to each other. Notwithstanding the foregoing, the Company agrees, to the extent that there are funds legally available therefore, to declare all outstanding Senior Dividend Stock and Parity Dividend Stock as may be necessary to permit the payment of the full dividends payable with respect to the 1996 Preferred Stock.
- (4) Subject to the foregoing provisions, the holders of Common Stock, the Parity Dividend Stock and each other class of capital stock of the Company which is junior as to dividends to the 1996 Preferred Stock shall be entitled to receive, as and when declared by the Board of Directors out of the remaining assets of the Company legally available therefor, such dividends (payable in cash, capital shares or otherwise) as the Board of Directors may from time to time determine.
- (5) Any reference to "distribution" contained in this Section II shall not be deemed to include any distribution made in connection with any liquidation, dissolution, or winding up of the Company.

### III. Liquidation.

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- (1) In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, then out of the assets of the Company before any distribution or payment to the holders of the Common Stock or any other class of capital stock of the Company ranking junior as to liquidation preferences to the 1996 Preferred Stock, but after distribution to and subject to the rights of holders of capital stock of the Company ranking senior as to liquidation rights to the Preferred Stock, the holders of the 1996 Preferred Stock shall be paid the Liquidation Value of the 1996 Preferred Stock then outstanding and the holders of the 1996 Preferred Stock shall be entitled to no other or further distribution.
- (2) The Liquidation Value of the 1996 Preferred Stock shall be \$10,000 per share plus the amount of any dividends which have accrued thereon to the close of business on the date of such liquidation, dissolution or winding up and remain unpaid, whether or not such dividends have been earned or declared.
- (3) After payment in full to the holders of (a) any capital stock ranking senior as to liquidation rights to the 1996 Preferred Stock, (b) the 1996 Preferred Stock and (c) any class of stock hereafter issued that ranks on a parity as to liquidation rights with the 1996 Preferred Stock, of the sums which such holders are entitled to receive in such case, the remaining assets of the Company shall be distributed among and paid to the holders of the Common Stock and any other class of capital stock of the Company ranking junior to the 1996 Preferred Stock.
- (4) If the assets of the Company available for distribution to its shareholders shall be insufficient to permit payment in full to the holders of the 1996 Preferred Stock and all other series of preferred shares ranking equally as to liquidation preferences with the 1996 Preferred Stock of sums which such holders are entitled to receive, then all of the assets available for distribution to such holders shall be distributed among and paid to such holders ratably in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full.
- (5) The consolidation or merger of the Company with any other corporation or corporations or a sale of all or substantially all of the assets of the Company shall not be deemed a liquidation, dissolution or winding up of the Company within the meaning of this Section III.

#### IV. Redemption.

- (1) If on July 1, 1998 (a) a registration statement under the Act registering the Common Stock of the Company into which the 1996 Preferred Stock is convertible was not effective or (b) the Common Stock of the Company was not then traded on a national securities exchange (including NASDAQ National Market System, the NASDAQ Small Cap Market, the New York Stock Exchange or the American Stock Exchange, but excluding the NASDAQ Bulletin Board or other NASDAQ listings), the Company shall, at the written election of the holder of any outstanding shares of 1996 Preferred Stock received on or before July 31, 1998, redeem such shares of 1996 Preferred Stock at the redemption price per share of \$10,000 plus any accrued and unpaid paid dividends thereon, whether or not declared, to the date of redemption.
- (2) The redemption price for any shares of 1996 Preferred Stock to be redeemed hereunder shall be payable in cash, out of funds legally available therefore, as soon as practicable after July 31, 1998. If the Company has insufficient funds legally available to pay the redemption price of all of

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the shares of 1996 Preferred Stock tendered for redemption, the Company shall redeem as many shares as it has funds legally available therefore pro rata among the shareholders tendering 1996 Preferred Stock for redemption and shall continue to be obligated to redeem the remaining shares tendered for redemption when and as funds become legally available therefore, subject to the right of any tendering shareholder to withdraw its election to have such shares redeemed. Any election to have any shares of 1996 Preferred Stock redeemed pursuant hereto shall be accompanied with the certificates representing the shares being tendered for redemption.

### V. Voting Rights.

The holders of the 1996 Preferred Stock shall have no voting rights except as required by law.

### VI. Conversion; Anti-dilution Provisions.

The holders of the 1996 Preferred Stock shall have no right to convert their shares into Common Stock.

### Section 6. 1999 Series C Convertible Preferred Stock.

#### I. Designation and Amount.

Two Thousand (2,000) shares of the authorized shares of Preferred Stock of the Company are hereby designated "1999 Series C Convertible Preferred Stock" (the "Series C Preferred"). All shares of Series C Preferred shall rank prior, as to both payment of dividends and as to distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, to all of the Company's now or hereafter issued common stock (the "Common Stock"), and any other series of capital stock of the Company, other than the 1996 Preferred Stock, that is not, by its terms, senior to or pari passu with the Series C Preferred, and shall rank junior in all respects to the 1996 Preferred Stock.

#### II. Dividends.

- (1) Except as specifically described herein, the registered owners of the Series C Preferred shall not be entitled to receive any dividends. If a registration statement under the Securities Act of 1933, as amended (the "Act"), registering the shares of Common Stock of the Company into which the Series C Preferred is convertible is not declared effective by March 31, 2000, or if any such registration statement ceases to be effective at any time prior to the second anniversary of the date on which such registration statement first becomes effective, the registered owners of each share of Series C Preferred shall be entitled to receive out of assets of the Company legally available therefor, dividends for any period during such two-year period and after March 31, 2000, during which such registration statement is not effective, at the rate of ten percent (10%) per annum, for each day during which the registration statement is not effective. Dividends shall be calculated on the amount of the Liquidation Value (as set forth below) of each share. Dividends, if any as provided hereunder, shall accrue without interest and be cumulative and shall be payable to the registered owners of Series C Preferred out of assets of the Company legally available therefore, quarterly in arrears on the last day of each fiscal quarter of the Company. Dividends shall be payable to shareholders of record on the fifteenth day immediately preceding such dividend payment date, or if such day is not a business day, on the immediately preceding business day.
- (2) So long as any share of Series C Preferred is outstanding, the Company shall not (a) declare or pay any dividend or make any other distribution

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(other than dividends payable solely in Common Stock or other capital stock ranking junior as to dividend rights to the Series C Preferred) on the Common Stock or any other class or series of capital stock of the Company ranking, as to dividends, junior to the Series C Preferred, or set funds aside therefor, or (b) purchase, redeem or otherwise acquire, any of the Common Stock, or any other class of capital stock of the Company ranking junior as to dividends to the Series C Preferred (other than in exchange for Common Stock or other class of capital stock ranking junior as to dividends to the Series C Preferred) or set funds aside therefor.

- (3) If at any time any dividend on any capital stock of the Company ranking senior as to dividends to the Series C Preferred ("Senior Dividend Stock") shall be in default, in whole or in part, then no dividend shall be paid or declared and set apart for payment on the Series C Preferred unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock shall have been paid or declared and set apart for payment. No dividends shall be paid or declared and set apart for payment on the Series C Preferred or on any capital stock ranking pari passu with the Series C Preferred in the payment of dividends (the "Parity Dividend Stock") for any period unless a pro rata dividend has been, or contemporaneously is, paid or declared and set apart for payment on the Parity Dividend Stock or the Series C Preferred, as the case may be, so that the amount of dividends paid or declared and set aside for payment per share on the Series C Preferred and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Series C Preferred and the Parity Dividend Stock bear to each other. Notwithstanding the foregoing, the Company agrees, to the extent that there are funds legally available therefore, to declare all outstanding Senior Dividend Stock and Parity Dividend Stock as may be necessary to permit the payment of the full dividends payable with respect to the Series C Preferred.
- (4) Subject to the foregoing provisions, the holders of Common Stock, the Parity Dividend Stock and each other class of capital stock of the Company which is junior as to dividends to the Series C Preferred shall be entitled to receive, as and when declared by the Board of Directors out of the remaining assets of the Company legally available therefor, such dividends (payable in cash, capital shares or otherwise) as the Board of Directors may from time to time determine.
- (5) Any reference to "distribution" contained in this Section II shall not be deemed to include any distribution made in connection with any liquidation, dissolution, or winding up of the Company.

### III. Liquidation.

- (1) In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, then out of the assets of the Company before any distribution or payment to the holders of the Common Stock or any other class of capital stock of the Company ranking junior as to liquidation preferences to the Series C Preferred, but after distribution to and subject to the rights of holders of capital stock of the Company ranking senior as to liquidation rights to the Series C Preferred, the holders of the shares of Series C Preferred then outstanding shall be paid the Liquidation Value of the shares of Series C Preferred then outstanding and such holders shall be entitled to no other or further distribution.
- (2) The Liquidation Value of each share of the Series C Preferred shall be \$1,000 per share plus the amount of any dividends which have accrued thereon to the close of business on the date of such liquidation,

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dissolution or winding up and remain unpaid, whether or not such dividends have been earned or declared.

- (3) After payment in full to the holders of (a) any capital stock ranking senior as to liquidation rights to the Series C Preferred, (b) the Series C Preferred and (c) any class of stock hereafter issued that ranks on a parity as to liquidation rights with the Series C Preferred, of the sums which such holders are entitled to receive in such case, the remaining assets of the Company shall be distributed among and paid to the holders of the Common Stock and any other class of capital stock of the Company ranking junior to the Series C Preferred.
- (4) If the assets of the Company available for distribution to its shareholders shall be insufficient to permit payment in full to the holders of the Series C Preferred and all other series of preferred shares ranking equally as to liquidation preferences with the Series C Preferred of sums which such holders are entitled to receive, then all of the assets available for distribution to such holders shall be distributed among and paid to such holders ratably in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full.
- (5) The consolidation or merger of the Company with any other corporation or corporations or a sale of all or substantially all of the assets of the Company shall not be deemed a liquidation, dissolution or winding up of the Company within the meaning of this Section III.

### IV. Redemption.

- (1) If on March 31, 2000 a registration statement under the Act registering the Common Stock of the Company into which the Series C Preferred is convertible was not effective, the Company shall, at the written election of the registered owner of any outstanding shares of Series C Preferred received on or before March 31, 2000, redeem such shares of Series C Preferred at the redemption price per share of \$1,000 plus any accrued and unpaid dividends thereon, whether or not declared, to the date of redemption.
- (2) The redemption price for any shares of Series C Preferred to be redeemed hereunder shall be payable in cash, out of funds legally available therefore, as soon as practicable after March 31, 2000. If the Company has insufficient funds legally available to pay the redemption price of all of the shares of Series C Preferred tendered for redemption, the Company shall redeem as many shares as it has legally available therefore pro rata among the shareholders tendering Series C Preferred for redemption and shall continue to be obligated to redeem the remaining shares tendered for redemption when and as funds become legally available therefore, subject to the right of any tendering shareholder to withdraw its election to have such shares redeemed. Any election to have any shares of Series C Preferred redeemed pursuant hereto shall be accompanied with the certificates representing the shares being tendered for redemption.
- (3) At the option of the Company, the shares of the Series C Preferred may be redeemed by the Company, in whole or in part, at any time, at a redemption price of \$1,000 per share, plus any accrued and unpaid dividends thereon, whether or not declared, to the date of redemption, if the holders of the shares to be redeemed are given at least thirty (30) days notice of such redemption in writing.

### V. Voting Rights.



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The holders of the Series C Preferred shall have no voting rights except as required by law.

### VI. Conversion; Anti-Dilution Provisions.

The holders of the Series C Preferred shall have no right to convert their shares into Common Stock.

### ARTICLE V VOTING

Cumulative voting in the election of directors is no authorized.

### ARTICLE VI PREEMPTIVE RIGHTS

Shareholders of the corporation shall not have preemptive rights to acquire unissued or treasury shares of the corporation or securities convertible into such shares or carrying a right to subscribe to or acquire such shares.

### ARTICLE VII BOARD OF DIRECTORS

Section 1. Board of Directors; Number. The governing board of the corporation shall be known as the Board of Directors, and the number of directors may from time to time be increased or decreased in such manner as shall be provided in the Bylaws of the corporation, provided that the number of directors shall not be reduced to less than three unless the outstanding shares are held of record by fewer than three shareholders in which case there need only be as many directors as there are shareholders.

Section 2. Classification of Directors. The Board of Directors shall be divided into three classes, Class 1, Class 2, and Class 3, each class to be as nearly equal in number as possible. The term of office of Class 1 directors shall expire at the first annual meeting of shareholders following their election, that of Class 2 directors shall expire at the second annual meeting following their election, and the Class 3 directors shall expire at the third annual meeting following their election. At each annual meeting after such classification, a number of directors equal to the number of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting. No classification of directors shall be effective prior to the first annual meeting of shareholders. Notwithstanding the foregoing and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class to elect one or more directors of the Company, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of shareholders.

### Section 3. Nomination of Directors.

- (a) Nominations for the election of directors may be made by the Board of Directors, by a committee of the Board of Directors, or by any shareholder entitled to vote for the election of directors. Nominations by shareholders shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation, not less than 14 days nor more than 50 days prior to any meeting of the shareholders called for the election of directors; provided, however, that if less than 21

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days' notice of the meeting is given to shareholders, such written notice shall be delivered or mailed, as prescribed, to the Secretary of the Corporation not later than the close of the seventh day following the day on which notice of the meeting was mailed to shareholders.

- (b) Each notice under subsection (a) shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, and (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee.
- (c) The chairman of the shareholders' meeting, may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 4. Certain Powers of the Board of Directors. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

- (a) to manage and govern the corporation by majority vote of members present at any regular or special meeting at which a quorum shall be present, to make, alter, or amend the Bylaws of the corporation at any regular or special meeting, to fix the amount to be reserved as working capital over and above its capital stock paid in, to authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation, and to designate one or more committees, such committee to consist of two or more of the directors of the corporation, which, to the extent provided in the resolution or in the Bylaws of the corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the corporation (such committee or committees shall have such name or names as may be stated in the Bylaws of the corporation or as may be determined from time to time to time by resolutions adopted by the Board of Directors);
- (b) to sell, lease, exchange, or otherwise dispose of all or substantially all of the property and assets of the corporation in the ordinary course of its business upon such terms and conditions as the Board of Directors may determine with out vote or consent of the shareholders;
- (c) to sell, pledge, lease, exchange, liquidate, or otherwise dispose of all or substantially all of the property or assets of the corporation, including its goodwill, if not in the ordinary course of its business, upon such terms and conditions as the Board of Directors may determine; provided, however, that such transaction shall be authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon; and provided, further, that any such transaction with any substantial shareholder or affiliate of the corporation shall be authorized or ratified by the affirmative vote of the holders of at least two-thirds of the shares entitled to vote thereon at a shareholders' meeting duly called for that purpose, unless such transaction is with any subsidiary of the corporation or is approved by the affirmative vote of a majority or the continuing directors of the corporation, or is authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon;
- (d) to merge, consolidate, or exchange all of the issued or outstanding shares of one or more classes of the corporation upon such terms and

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conditions as the Board of Directors may authorize; provided, however, that such merger, consolidation or exchange shall be approved or ratified by the affirmative vote of the holders of at least a majority of the shares entitled to vote thereon at a shareholders' meeting duly called for that purpose, or authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon; and provided, further, that any such merger, consolidation, or exchange with any substantial shareholder or affiliate of the corporation shall be authorized or ratified by the affirmative vote of the holders of at least two-thirds of the shares entitled to vote thereon at a shareholders' meeting duly called for that purpose, unless such merger, consolidation, or exchange is with any subsidiary of the corporation or is approved by the affirmative vote of a majority of the continuing directors of the corporation, or is authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon; and

- (e) to distribute to the shareholders of the corporation without the approval of the shareholders, in partial liquidation, out of stated capital or capital surplus of the corporation, a portion of the corporation's assets, in cash or in property, so long as the partial liquidation is in compliance with applicable law.
- (f) as used in this Section 5, the following terms shall have the following meanings:
  - (i) an "affiliate" shall mean any person or entity which is an affiliate within the meaning of Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended:
  - (ii) a "continuing director" shall mean a director who was elected before the substantial shareholder or affiliates of the corporation which is to be a party to a proposed transaction within the scope of subsections (c) and (d) of this Section 5 became such a substantial shareholder or affiliate of the corporation, as the case may be, or is designated at or prior to his first election or appointment to the Board of Directors by the affirmative vote of a majority of the Board of Directors who are continuing directors;
  - (iii) a "subsidiary" shall mean any corporation in which the corporation owns the majority of each class of equity security; and
  - (iv) a "substantial shareholder" shall mean any person or entity which is the beneficial owner, within the meaning of Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, of 10% or more of the outstanding capital stock of the corporation.

### ARTICLE VIII CONFLICTS OF INTEREST

#### Section 1. Related Party Transactions.

- (a) No contract or transaction between the corporation and one or more of its directors, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers or have a financial interest shall be void or voidable solely for that reason or

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solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes, approves, or ratifies the contract or transaction or solely because his or their votes are counted for such purpose if:

- (i) the material facts as to his relationship of interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes, approves, or ratifies the contract or transaction by the affirmative vote of the majority of the disinterested directors, even though the disinterested directors are less than a quorum; or
  - (ii) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically authorized, approved, or ratified in good faith by a vote of the shareholders; or
  - (iii) the contract or transaction is fair as to the corporation as of the time it is authorized, approved, or ratified by the Board of Directors, a committee thereof, or the shareholders.
- (b) Common or disinterested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes, approves, or ratifies the contract or transaction.

Section 2. Corporate Opportunities. The officers, directors, and other members of management of the corporation shall be subject to the doctrine of corporate opportunities only insofar as it applies to business opportunities in which the corporation has expressed an interest as determined from time to time by resolution of the Board of Directors. When such areas of interest are delineated, all such business opportunities within such areas of interest which come to the attention of the officers, directors, and other members of management of the corporation shall be disclosed promptly to the corporation and made available to it. The Board of Directors may reject any business opportunity presented to it, and thereafter any officer, director, or other member of management may avail himself of such opportunity. Until such time as the corporation, through its Board of Directors, has designated an area of interest, the officers, directors, and other members of management of the corporation shall be free to engage in such areas of interest or their own. The provisions hereof shall not limit the rights of any officer, director, or other member of management of the corporation to continue a business existing prior to the time that such area of interest is designated by the corporation, nor shall they be construed to release any employee of the corporation (other than an officer, director, or member of management) from any duties which such employee may have to the corporation.

### ARTICLE IX LIABILITY OF DIRECTORS

A director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

### ARTICLE X

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### INDEMNIFICATION

For purposes of this Article X, a "Proper Person" means any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he is or was a director, officer, employee, fiduciary or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any foreign or domestic profit or nonprofit corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company, or other enterprise or employee benefit plan. The corporation shall indemnify any Proper Person against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding if it is determined by the groups set forth in Section 4 of this Article that he conducted himself in good faith and that he reasonably believed (1) in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation's best interests, or (ii) in all other cases (except criminal cases), that his conduct was at least not opposed to the corporation's best interests, or (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. A Proper Person will be deemed to be acting in his official capacity while acting as a director, officer, employee or agent on behalf of this corporation and not while acting on this corporation's behalf for some other entity.

No indemnification shall be made under this Article X to a Proper Person with respect to any claim, issue or matter in connection with a proceeding by or in the right of a corporation in which the Proper Person was adjudged liable to the corporation or in connection with any proceeding charging that the Proper Person derived an improper personal benefit, whether or not involving action in an official capacity, in which he was adjudged liable on the basis that he derived an improper personal benefit. Further, indemnification under this Section in connection with a proceeding brought by or in the right of the corporation shall be limited to reasonable expenses, including attorneys' fees, incurred in connection with the proceeding.

The corporation shall indemnify any Proper Person who was wholly successful, on the merits or otherwise, in defense of any action, suit, or proceeding as to which he was entitled to indemnification under this Article X against expenses (including attorneys' fees) reasonably incurred by him in connection with the proceeding without the necessity of any action by the corporation other than the determination in good faith that the defense has been wholly successful.

The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person seeking indemnification did not meet the standards of conduct described in his Article X Entry of judgment by consent as part of a settlement shall not be deemed an adjudication of liability.

Except where there is a right to indemnification as set forth in this Article or where indemnification is ordered by a court, any indemnification shall be made by the corporation only as authorized in the specific case upon a determination by a proper group that indemnification of the Proper Person is permissible under the circumstances because he has met the applicable standards of conduct set forth in this Article. This determination shall be made by the board of directors by a majority vote of those present at a meeting at which a

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quorum is present, which quorum shall consist of directors not parties to the proceeding ("Quorum"). If a Quorum cannot be obtained, the determination shall be made by a majority vote of a committee of the board of directors not parties to the proceeding, except that directors who are parties to the proceeding may participate in the designation of directors for the committee. If a Quorum of the board of directors cannot be obtained and the committee cannot be established, or even if a Quorum is obtained or the committee is designated and a majority of the directors constituting such Quorum or committee so directs, the determination shall be made by (1) independent legal counsel selected by a vote of the board of directors or the committee in the manner specified in this paragraph, or, if a Quorum of the full board of directors cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full board (including directors who are parties to the action) or (ii) a vote of the shareholders.

Any Proper Person may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction for mandatory indemnification under this Article, including indemnification for reasonable expenses incurred to obtain court-ordered indemnification. If the court determines that such Proper Person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standards of conduct set forth in this Article or was adjudged liable in the proceeding, the court may order such indemnification as the court deems proper except that if the Proper Person has been adjudged liable, indemnification shall be limited to reasonable expenses incurred in connection with the proceeding and reasonable expenses incurred to obtain court-ordered indemnification.

Reasonable expenses (including attorneys' fees) incurred in defending an action, suit or proceeding as described in Section 1 may be paid by the corporation to any Proper Person in advance of the final disposition of such action, suit or proceeding upon receipt of (1) a written affirmation of such Proper Person's good faith belief that he has met the standards of conduct prescribed by this Article X (ii) a written undertaking, executed personally or on the Proper Person's behalf, to repay such advances if it is ultimately determined that he did not meet the prescribed standards of conduct (the undertaking shall be an unlimited general obligation of the Proper Person but need not be secured and may be accepted without reference to financial ability to make repayment), and (iii) a determination is made by the proper group (as described in this Article X) that the facts as then known to the group would not preclude indemnification. Determination and authorization of payments shall be made in the same manner specified in this Article X.

### ARTICLE XI ARRANGEMENTS WITH CREDITORS

Whenever a compromise or arrangement is proposed by the corporation between it and its creditors or any class of them, an/or between the corporation and its shareholders or any class of them, any court of equitable jurisdiction may on summary application by the corporation or by a majority of its shareholders, or on the application of any receiver or receivers appointed for the corporation, or on the application of trustees in dissolution, order a meeting of the creditors or class of creditors and/or of the shareholders or class of shareholders of the corporation, as the case may be, to be notified in such manner as the court decides. If a majority in number representing at least three fourths in the dollar amount owed to the creditors or class of creditors and/or the holders of the majority of the stock or class of stock of the corporation, as the case may be, agrees to any compromise or arrangement and/or to any reorganization of the corporations as a consequence of such compromise or arrangement, then said compromise or arrangement and/or said reorganization

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shall, if sanctioned by the court to which the application has been made, be binding upon all the creditors or class of creditors and/or on all the shareholders or class of shareholders of the corporation, as the case may be, and also on the corporation.

ARTICLE XII  
SHAREHOLDERS' MEETINGS

Shareholders' meetings may be held at such time and place as may be stated or fixed in accordance with the Bylaws. At all shareholders' meetings, one third of all shares entitled to vote shall constitute a quorum.

ARTICLE XIII  
DISSOLUTION

Section 1. Procedure. The corporation shall be dissolved upon the affirmative vote of the holders of at least a majority of the shares entitled to vote thereon at a meeting duly called for that purpose, or when authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon.

Section 2. Revocation. The corporation shall revoke voluntary dissolution proceedings upon the affirmative vote of the holders of at least a majority of the shares entitled to vote at a meeting duly called for that purpose, or when authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon.

ARTICLE XIV  
MISCELLANEOUS

Meetings of stockholders may be held within or without the State of Delaware as the By-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-laws of the corporation. The election of directors need not be by written ballot unless the By-laws so provide. The Board of Directors of the corporation is authorized and empowered from time to time in its discretion to make, alter, amend or repeal the By-laws of the corporation.

Notwithstanding anything herein to the contrary, the number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the outstanding stock of the corporation entitled to vote generally irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Medix Resources, Inc. has caused this certificate to be signed by Mark Lerner, its Executive Vice President and Chief Financial Officer, on the \_\_\_ day of \_\_, 2003.

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Mark Lerner,  
Executive Vice President and Chief Financial

Officer

Annex E

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BYLAWS  
OF  
MEDIX RESOURCES, INC.  
A Delaware Corporation

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BY-LAWS

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OF

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MEDIX RESOURCES, INC.

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..... (a Delaware corporation)

ARTICLE I

Offices

The principal office of the corporation shall be designated from time to time by the corporation and may be within or outside of Delaware.

The corporation may have such other offices, either within or outside Delaware, as the board of directors may designate or as the business of the corporation may require from time to time.

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The registered office of the corporation required by the Delaware General Corporation Law to be maintained in Delaware may be, but need not be, identical with the principal office, and the address of the registered office may be changed from time to time by the board of directors.

### ARTICLE II

#### Shareholders

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held on the date and at a time fixed by the board of directors of the corporation (or by the president in the absence of action by the board of directors).

Section 2. Special Meetings. Unless otherwise prescribed by statute, special meetings of the shareholders may be called for any purpose by the president or by the board of directors. The president shall call a special meeting of the shareholders if the corporation receives one or more written demands for the meeting, stating the purpose or purposes for which it is to be held, signed and dated by holders of shares representing at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

Section 3. Place of Meeting. The board of directors may designate any place, either within or outside Delaware, as the place for any annual meeting or any special meeting called by the board of directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or outside Delaware, as the place for such meeting. If no designation is made, or if a special meeting is called other than by the board, the place of meeting shall be the principal office of the corporation.

Section 4. Notice of Meeting. Written notice stating the place, date, and hour of the meeting shall be given not less than ten nor more than sixty days before the date of the meeting, except that (i) if the number of authorized shares is to be increased, at least thirty days' notice shall be given, or (ii) any other longer notice period is required by the Delaware General Corporation Law. Notice of a special meeting need not include a description of the purpose or purposes of the meeting except the purpose or purposes shall be stated with respect to (i) an amendment to the certificate of incorporation of the corporation: (ii) a merger or share exchange in which the corporation is a party and, with respect to a share exchange, in which the corporation's shares will be acquired, (iii) a sale, lease, exchange or other disposition, other than in the usual and regular course of business, of all or substantially all of the property of the corporation or of another entity which this corporation controls, in each case with or without the goodwill, (iv) a dissolution of the corporation, or (v) any other purpose for which a statement of purpose is required by the Delaware General Corporation Law. Notice shall be given personally or by mail, private carrier, telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at the direction of the president, the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed and if in a comprehensible form, such notice shall be deemed to be given and effective when deposited in the United States mail, addressed to the shareholder at his address as it appears in the corporation's current record of shareholders, with postage prepaid. If notice is given other than by mail, and provided that such notice is in a comprehensible form, the notice is given and effective on the date received by the shareholder.

If requested by the person or persons lawfully calling such meeting, the secretary shall give notice thereof at corporate expense. No notice need

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be sent to any shareholder if three successive notices mailed to the last known address of such shareholder have been returned as undeliverable until such time as another address for such shareholder is made known to the corporation by such shareholder. In order to be entitled to receive notice of any meeting, a shareholder shall advise the corporation in writing of any change in such shareholder's mailing address as shown on the corporation's books and records.

When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time or place of such meeting is announced before adjournment at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business, which may have been transacted at the original meeting. If the adjournment is for more than 30 days, or if a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting as of the new record date.

A shareholder may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such shareholder. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, by attending a meeting either in person or by proxy, a shareholder waives objection to lack of notice or defective notice of the meeting unless the shareholder objects at the beginning of the meeting to the holding of the meeting or the transaction of business at the meeting because of lack of notice or defective notice. By attending the meeting, the shareholder also waives any objection to consideration at the meeting of a particular matter not within the purpose or purposes described in the meeting notice unless the shareholder objects to considering the matter when it is presented.

Section 5. Fixing of Record Date. For the purpose of determining shareholders entitled to (i) notice of or vote at any meeting of shareholders or any adjournment thereof, (ii) receive distributions or share dividends, or (iii) demand a special meeting, or to make a determination of shareholders for any other proper purpose, the board of directors may fix a future date as the record date for any such determination of shareholders, such date in any case to be not more than sixty days, and, in case of a meeting of shareholders, not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed by the directors, the record date shall be the date on which notice of the meeting is mailed to shareholders, or the date on which the resolution of the board of directors providing for a distribution is adopted, as the case may be. When a determination of shareholders entitled to vote at any meeting of shareholders is made as provided in this Section, such determination shall apply to any adjournment thereof unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 30 days after use dire fixed for the original meeting.

Notwithstanding the above, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date a writing upon which the action is taken is first received by the corporation. The record date for determining shareholders entitled to demand a special meeting shall be the date of the earliest of any of the demands pursuant to which the meeting is called.

Section 6. Voting Lists. The secretary shall make, at the earlier of ten days before each meeting of shareholders or two business days after notice of the meeting has been given, a complete list of the shareholders entitled to be given notice of such meeting or any adjournment thereof. The list shall be arranged by voting groups and within each voting group by class or series

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of shares, shall be in alphabetical order within each class or series, and shall show the address of and the number of shares of each class or series held by each shareholder. For the period beginning the earlier of ten days prior to the meeting or two business days after notice of the meeting is given and continuing through the meeting and any adjournment thereof, this list shall be kept on file at the principal office of the corporation, or at a place (which shall be identified in the notice) in the city where the meeting will be held. Such list shall be available for inspection on written demand by any shareholder (including for the purpose of this Section 6 any holder of voting trust certificates) or his agent or attorney during regular business hours and during the period available for inspection. The original stock transfer books shall be prima facie evidence as to the shareholders entitled to examine such list or to vote at any meeting of shareholders.

Any shareholder, his agent or attorney may copy the list during regular business hours and during the period it is available for inspection, provided (i) the demand is for a purpose reasonably related to the demanding shareholder's interest as a shareholder, (ii) the shareholder describes with reasonable particularity the purpose and the records the shareholder desires to inspect, (iii) the records are directly connected with the described purpose, and (iv) the shareholder pays a reasonable charge covering the costs of labor and material for such copies, not to exceed the estimated cost of production and reproduction.

Section 7. Recognition Procedure for Beneficial Owners. The board of directors may adopt by resolution a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of such shareholder are held for the account of a specified person or persons. The resolution may set forth (1) the types of nominees to which it applies, (ii) the rights or privileges that the corporation will recognize in a beneficial owner, which may include rights and privileges other than voting, (iii) the form of certification and the information to be contained therein, (iv) if the certification is with respect to a record date, the time within which the certification must be received by the corporation, (v) the period for which the nominee's use of the procedure is effective, and (vi) such other provisions with respect to the procedure as the board deems necessary or desirable. Upon receipt by the corporation of a certificate complying with the procedure established by the board of directors, the persons specified in the certification shall be deemed, for the purpose or purposes set forth in the certification, to be the registered holders of the number of shares specified in place of the shareholder making the certification.

Section 8. Quorum and Manner of Acting. One-third of the votes entitled to be cast on a matter by a voting group shall constitute a quorum of that voting group for action on the matter. If less than one-third of such votes are represented at a meeting, a majority of the votes so represented may adjourn the meeting from time to time without further notice, for a period not to exceed 30 days for any one adjournment. If a quorum is present at such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, unless the meeting is adjourned and a new record date is set for the adjourned meeting.

Section 9. Proxies. At all meetings of shareholders, a shareholder may vote by proxy by signing an appointment form or similar writing, either personally or by his duly authorized attorney-in-fact. A shareholder may also appoint a proxy by transmitting or authorizing the transmission of a telegram, teletype, or other electronic transmission providing a written statement of the appointment to the proxy, a proxy solicitor, proxy support service

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organization, or other person duly authorized by the proxy to receive appointments as agent for the proxy, or to the corporation. The transmitted appointment shall set forth or be transmitted with written evidence from which it can be determined that the shareholder transmitted or authorized the transmission of the appointment. The proxy appointment form or similar writing, shall be filed with the secretary of the corporation before or at the time of the meeting. The appointment of a proxy is effective when received by the corporation and is valid for eleven months unless a different period is expressly provided in the appointment form or similar writing.

Any complete copy, including an electronically transmitted facsimile, of an appointment of a proxy may be substituted for or used in lieu of the original appointment for any purpose for which the original appointment could be used.

Revocation of a proxy does not affect the right of the corporation to accept the proxy's authority unless (1) the corporation had notice that the appointment was coupled with an interest and notice that such interest is extinguished is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment, or (ii) other notice of the revocation of the appointment is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. Other notice of revocation may, in the discretion of the corporation, be deemed to include the appearance at a shareholders' meeting of the shareholder who granted the proxy and his voting in person on any matter subject to a vote at such meeting.

The death or incapacity of the shareholder appointing a proxy does not affect the right of the corporation to accept the proxy's authority unless notice of the death or incapacity is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment.

The corporation shall not be required to recognize an appointment made irrevocable if it has received a writing revoking the appointment signed by the shareholder (including a shareholder who is a successor to the shareholder who granted the proxy) either personally or by his attorney-in-fact, notwithstanding that the revocation may be a breach of an obligation of the shareholder to another person not to revoke the appointment.

Subject to Section 11 and any express limitation on the proxy's authority appearing on the appointment form, the corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment.

Section 10. Voting Shares. Each outstanding share, regardless of class, shall be entitled to one vote, and each fractional share shall be entitled to a corresponding fractional vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by the certificate of incorporation as permitted by the Delaware General Corporation Law. Cumulative voting shall not be permitted in the election of directors or for any other purpose.

Section 11. Corporation's Acceptance of Votes. If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and give it effect as the act of the shareholder. If the name signed on a vote, consent, waiver, proxy appointment or proxy appointment revocation does not correspond to the name

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of a shareholder, the corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and to give it effect as the act of the shareholder if:

- (i) the shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;
- (ii) the name signed purports to be that of an administrator, executor, guardian or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (iii) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (iv) the name signed purports to be that of a pledgee, beneficial owner or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (v) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries, and the person signing appears to be acting on behalf of all the co-tenants or fiduciaries; or
- (vi) the acceptance of the vote, consent, waiver, proxy appointment or proxy appointment revocation is otherwise proper under rules established by the corporation that are not inconsistent with this Section 11.

The corporation is entitled to reject a vote, consent, waiver, proxy appointment or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

Neither the corporation nor its officers nor any agent who accepts or rejects a vote, consent, waiver, proxy appointment or proxy appointment revocation in good faith and in accordance with the standards of this Section is liable in damages for the consequences of the acceptance or rejection.

Section 12. Informal Action by Shareholders. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof and received by the corporation. Such consent shall have the same force and effect as a unanimous vote of the shareholders and may be stated as such in any document. Action taken under this Section 12 is effective as of the date the last writing necessary to effect the action is received by the corporation, unless all of the writings specify a different effective date, in which case such specified date shall be the effective date for such action. If any shareholder revokes his consent as provided for herein prior to what would otherwise be the effective date, the action proposed in the consent shall be invalid. The record date for determining shareholders entitled to take action without a meeting is the date the corporation first receives a writing upon which the action is taken.

Any shareholder who has signed a writing describing and consenting to action taken pursuant to this Section 12 may revoke such consent by a writing signed by the shareholder describing the action and stating that the shareholder's prior consent thereto is revoked, if such writing is received by the corporation before the effectiveness of the action.

Section 13. Meetings by Telecommunication. Any or all of the shareholders may participate in an annual or special shareholders' meeting by, or the

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meeting may be conducted through the use of, any means of communication by which all persons participating in the meeting may hear each other during the meeting. A shareholder participating in a meeting by this means is deemed to be present in person at the meeting.

### ARTICLE III

#### Board of Directors

Section 1. General Powers. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of its board of directors, except as otherwise provided in the Delaware General Corporation Law or the certificate of incorporation.

Section 2. Number, Qualification and Tenure. The number of the directors shall be fixed by resolution of the board of directors from time to time and may be increased or decreased by resolution adopted by the board of directors from time to time, but no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors shall be natural persons at least eighteen years old but need not be residents of the State of Delaware or shareholders of the corporation. The board of directors shall be elected at the annual meeting of the shareholders or at a special meeting called for that purpose. Each director shall be elected to hold office until the next annual meeting of shareholders and until the director's successor is elected and qualified.

Section 3. Vacancies. Any director may resign at any time by giving written notice to the corporation. Such resignation shall take effect at the time the notice is received by the corporation unless the notice specifies a later effective date. Unless otherwise specified in the notice of resignation, the corporation's acceptance of such resignation shall not be necessary to make it effective. Any vacancy on the board of directors may be filled by the affirmative vote of a majority of the shareholders or the board of directors. If the directors remaining in office constitute fewer than a quorum of the board, the directors may fill the vacancy by the affirmative vote of a majority of all directors remaining in office. If elected by the directors, the director shall hold office until the next annual shareholders' meeting at which directors are elected. If elected by the shareholders, the director shall hold office for the unexpired term of his predecessor in office; except that, if the director's predecessor was elected by the directors to fill a vacancy, the director elected by the shareholders shall hold office for the unexpired term of the last predecessor elected by the shareholders.

Section 4. Regular Meetings. A regular meeting of the board of directors shall be held without notice immediately after and at the same place as the annual meeting of shareholders. The boards of directors may provide by resolution the time and place, either within or outside Delaware, for the holding of additional regular meetings without other notice.

Section 5. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or outside Delaware, as the place for holding any special meeting of the board of directors called by them.

Section 6. Notice. Notice of any special meeting shall be given at least one day prior to the meeting by written notice either personally delivered or mailed to each director at his business address, or by notice transmitted by telegraph, telex, electronically transmitted facsimile or other form of wire

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or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (1) three days after such notice is deposited in the United States mail, properly addressed, with postage prepaid, or (ii) the date shown on the return receipt, if mailed by registered or certified mail return receipt requested. If notice is given by telex, electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent, and with respect to a telegram, such notice shall be deemed to be given and to be effective when the telegram is delivered to the telegraph company. If a director has designated in writing one or more reasonable addresses or facsimile numbers for delivery of notice to him, notice sent by mail, telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication shall not be deemed to have been given or to be effective unless sent to such addresses or facsimile numbers, as the case may be.

A director may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such director. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, a director's attendance at or participation in a meeting waives any required notice to him of the meeting unless at the beginning of the meeting, or promptly upon his later arrival, the director objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum. A majority of the number of directors fixed by the board of directors pursuant to Section 2 or, if no number is fixed, a majority of the number in office immediately before the meeting begins, shall constitute a quorum for the transaction of business at any meeting of the board of directors.

If less than such a majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, for a period not to exceed thirty days at any one adjournment.

Section 8. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 9. Compensation. By resolution of the board of directors, any director may be paid any one or more of the following: his expenses, if any, of attendance at meetings, a fixed sum for attendance at each meeting, a stated salary as director, or such other compensation as the corporation and the directory may reasonably agree upon. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 10. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors or committee of the board at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (1) the director objects at the beginning of the meeting, or promptly upon his arrival, to the holding of the meeting or the transaction of business at the meeting and does not thereafter vote for or assent to any action taken at the meeting, (ii) the director contemporaneously requests that his dissent or abstention as to any specific action taken be entered in the minutes of the meeting, or (iii) the director causes written notice of his dissent or abstention as to any specific action to be received by the presiding officer of the meeting before its adjournment or by the corporation promptly after the adjournment of the meeting. A



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director may dissent to a specific action at a meeting, while assenting to others. The right to dissent to a specific action taken at a meeting of the board of directors or a committee of the board shall not be available to a director who voted in favor of such action.

Section 11. Committee. By resolution adopted by a majority of all the directors in office when the action is taken, the board of directors may designate from among its members an executive committee and one or more other committees, and appoint one or more members of the board of directors to serve on them. To the extent provided in the resolution, each committee shall have all the authority of the board of directors, provided that no committee shall have any authority over matters, which, under the Delaware General Corporation Law, may only be considered by the Board of Directors and not by any committee thereof.

Section 12. Other Sections. Sections 4, 5, 6, 7, 8 and 12 of Article III, which govern meetings, notice, waiver of notice, quorum, voting requirements and action without a meeting of the board of directors, shall apply to committees and their members appointed under this Section 11.

Neither designation of any such committee, the delegation of authority to such committee, nor any action by such committee pursuant to its authority shall alone constitute compliance by any member of the board of directors or a member of the committee in question with his responsibility to conform to the standard of care set forth in Article III, Section 14 of these bylaws.

Section 13. Informal Action by Directors. Any action required or permitted to be taken at a meeting of the directors or any committee designated by the board of directors may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the directors entitled to vote with respect to the action taken. Such consent shall have the same force and effect as a unanimous vote of the directors or committee members and may be stated as such in any document. Unless the consent specifies a different effective date, action taken under this Section 12 is effective at the time the last director signs a writing describing the action taken, unless, before such time, any director has revoked his consent by a writing signed by the director and received by the president or the secretary of the corporation.

Section 14. Telephonic Meetings. The board of directors may permit any directors (or any member of a committee designated by the board) to participate in a regular or special meeting of the board of directors or a committee thereof through the use of any means of communication by which all directors participating in the meeting can hear each other during the meeting. A director participating in a meeting in this manner is deemed to be present in person at the meeting.

Section 15. Standard of Care. A director shall perform his duties as a director, including without limitation his duties as a member of any committee of the board, in good faith, in a manner he reasonably believes to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In performing his duties, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by the persons herein designated. However, he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause such reliance to be unwarranted. A director shall not be liable to the corporation or its shareholders for any action he takes or omits to take as a director if, in connection with such action or omission, he performs his duties in compliance with this Section 14.

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The designated persons on whom a director is entitled to rely are (1) one or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matter presented, (ii) legal counsel, public accountant, or other person as to matters which the director reasonably believes to be within such person's professional or expert competence, or (iii) a committee of the board of directors on which the director does not serve if the director reasonably believes the committee merits confidence.

### ARTICLE IV

#### Officers and Agents

Section 1. General. The officers of the corporation shall be a president, one or more vice presidents, a secretary and a treasurer, each of whom shall be a natural person eighteen years of age or older. The board of directors or an officer or officers authorized by the board may appoint such other officers, assistant officers, committees and agents, including a chairman of the board, assistant secretaries and assistant treasurers, as they may consider necessary. The board of directors or the officer or officers authorized by the board shall from time to time determine the procedure for the appointment of officers, their term of office, their authority and duties and their compensation. One person may hold more than one office. In all cases where the duties of any officer, agent or employee are not prescribed by the bylaws or by the board of directors, such officer, agent or employee shall follow the orders and instructions of the president of the corporation.

Section 2. Appointment and Term of Office. The officers of the corporation shall be appointed by the board of directors at each annual meeting of the board held after each annual meeting of shareholders. If the appointment of officers is not made at such meeting or if an officer or officers are to be appointed by another officer or officers of the corporation, such appointments shall be made as soon thereafter as conveniently may be. Each officer shall hold office until the first of the following occurs: his successor shall have been duly appointed and qualified, his death, his resignation, or his removal in the manner provided in Section 3.

Section 3. Resignation and Removal. An officer may resign at any time by giving written notice of resignation to the corporation. The resignation is effective when the notice is received by the corporation unless the notice specifies a later effective date.

Any officer or agent may be removed at any time with or without cause by the board of directors or an officer or officers authorized by the board. Such removal does not affect the contract rights, if any, of the corporation or of the person so removed. The appointment of an officer or agent shall not in itself create contract rights.

Section 4. Vacancies. A vacancy in any office, however occurring, may be filled by the board of directors, or by the officer or officers authorized by the board, for the unexpired portion of the officer's term. If an officer resigns and his resignation is made effective at a later date, the board of directors, or officer or officers authorized by the board, may permit the officer to remain in office until the effective date and may fill the pending vacancy before the effective date if the board of directors or officer or officers authorized by the board provide that the successor shall not take office until the effective date. In the alternative, the board of directors, or officer or officers authorized by the board of directors, may remove the officer at any time before the effective date and may fill the resulting vacancy.

Section 5. President. Subject to the direction and supervision of the board

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of directors, the president shall be the chief executive officer of the corporation, and shall have general and active control of its affairs and business and general supervision of its officers, agents and employees. Unless otherwise directed by the board of directors, the president shall attend in person or by substitute appointed by him, or shall execute on behalf of the corporation written instruments appointing a proxy or proxies to represent the corporation at, all meetings of the stockholders of any other corporation in which the corporation holds any stock. On behalf of the corporation, the president may in person or by substitute or by proxy execute written waivers of notice and consents with respect to any such meetings. At all such meetings and otherwise, the president in person or by substitute or proxy, may vote the stock held by the corporation, execute written consents and other instruments with respect to such stock, and exercise any and all rights and powers incident to the ownership of said stock, subject to the instructions, if any, of the board of directors. The president shall have custody of the treasurer's bond, if any.

Section 6. Vice Presidents. The vice presidents shall assist the president and shall perform such duties as may be assigned to them by the president or by the board of directors. In the absence of the president, the vice president, if any (or, if more than one, the vice presidents in the order designated by the board of directors, or if the board makes no such designation, the vice president designated by the president, or if neither the board nor the president makes any such designation, the senior vice president as determined by first election to that office), shall have the powers and perform the duties of the president.

Section 7. Secretary. The secretary shall (1) prepare and maintain as permanent records the minutes of the proceedings of the shareholders and the board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation, and a record of all waivers of notice of meetings of shareholders and of the board of directors or any committee thereof, (ii) see that all notices are duly given in accordance with the provisions of these bylaws and as required by law, (iii) serve as custodian of the corporate records and of the seal of the corporation and affix the seal to all documents when authorized by the board of directors, (iv) keep at the corporation's registered office or principal place of business a record containing the names and addresses of all shareholders in a form that permits preparation of a list of shareholders arranged by voting group and by class or series of shares within each voting group, that is alphabetical within each class or series and that shows the address of, and the number of shares of such class or series held by, each shareholder, unless such a record shall be kept at the office of the corporation's transfer agent or registrar, (v) maintain at the corporation's principal office the originals or copies of the corporation's certificate of incorporation, bylaws, minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting for the past three years, all written communications within the past three years to shareholders as a group or the holders of any class or series of shares as a group, a list of the names and business addresses of the current directors and officers, a copy of the corporation's most recent corporate report filed with the Secretary of State and financial statements showing in reasonable detail the corporation's assets and liabilities and results of operations for the last three years, (vi) have general charge of the stock transfer books of the corporation, unless the corporation has a transfer agent, (vii) authenticate records of the corporation, and (viii) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the president or by the board of directors. Assistant secretaries, if any, shall have the same duties and powers, subject to supervision by the secretary. The directors and/or shareholders may however respectively designate a person

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other than the secretary or assistant secretary to keep the minutes of their respective meetings.

Any books, records, or minutes of the corporation may be in written form or in any form capable of being converted into written form within a reasonable time.

Section 8. Treasurer. The treasurer shall be the principal financial officer of the corporation, shall have the care and custody of all funds, securities, evidences of indebtedness and other personal property of the corporation and shall deposit the same in accordance with the instructions of the board of directors. He shall receive and give receipts and acquittances for money paid in on account of the corporation, and shall pay out of the corporation's funds on hand all bills, payrolls and other just debts of the corporation of whatever nature upon maturity. He shall perform all other duties incident to the office of the treasurer and, upon request of the board, shall make such reports to it as may be required at any time. He shall, if required by the board, give the corporation a bond in such sums and with such sureties as shall be satisfactory to the board, conditioned upon the faithful performance of his duties and for the restoration to the corporation of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation. He shall have such other powers and perform such other duties as may from time to time be prescribed by the board of directors or the president. The assistant treasurers, if any, shall have the same powers and duties, subject to the supervision of the treasurer.

The treasurer keep complete books and records of account as required by the Delaware General Corporation Law, prepare and file all local, state and federal tax returns, prescribe and maintain an adequate system of internal audit and prepare and furnish to the president and the board of directors statements of account showing the financial position of the corporation and the results of its operations.

### ARTICLE V

#### Stock

Section 1. Certificates. The board of directors shall be authorized to issue any of its classes of shares with or without certificates. The fact that the shares are not represented by certificates shall have no effect on the rights and obligations of shareholders. If the shares are represented by certificates, such shares shall be represented by consecutively numbered certificates signed, either manually or by facsimile, in the name of the corporation by one or more persons designated by the board of directors. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nonetheless be issued by the corporation with the same effect as if he were such officer at the date of its issue. Certificates of stock shall be in such form and shall contain such information consistent with law as shall be prescribed by the board of directors. If shares are not represented by certificates, within a reasonable time following the issue or transfer of such shares, the corporation shall send the shareholder a complete written statement of all of the information required to be provided to holders of uncertificated shares by the Delaware General Corporation Law.

Section 2. Consideration for Shares. Certificated or uncertificated shares shall not be issued until the shares represented thereby are fully paid. The board of directors may authorize the issuance of shares for consideration consisting of any tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed or other

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securities of the corporation. Future services shall not constitute payment or partial payment for shares of the corporation. The promissory note of a subscriber or an affiliate of a subscriber shall not constitute payment or partial payment for shares of the corporation unless the note is negotiable and is secured by collateral, other than the shares being purchased, having a fair market value at least equal to the principal amount of the note. The corporation may place in escrow shares issued in consideration of a promissory note, or make other arrangement to restrict transfer of the shares issued for any such consideration, and may credit the distributions in respect of the shares against the purchase price until the note is paid, or the payments are received. If the note is not paid, the shares escrowed or restricted or the distributions credited may be cancelled in whole or part. For purposes of this Section 2, "promissory note" means a negotiable instrument on which there is an obligation to pay independent of collateral and does not include a non-recourse note.

Section 3. Lost Certificates. In case of the alleged loss, destruction or mutilation of a certificate of stock, the board of directors may direct the issuance of a new certificate in lieu thereof upon such terms and conditions in conformity with law as the board may prescribe. The board of directors may in its discretion require an affidavit of lost certificate and/or bond in such form and amount and with such surety as it may determine before issuing a new certificate.

Section 4. Transfer of Shares. Upon surrender to the corporation or to a transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and receipt of such documentary stamps as may be required by law and evidence of compliance with all applicable securities laws and other restrictions, the corporation shall issue a new certificate to the person entitled thereto, and cancel the old certificate. Every such transfer of stock shall be entered on the stock books of the corporation, which shall be kept at its principal office or by the person and the place designated by the board of directors.

Except as otherwise expressly provided in Article 11, Sections 7 and 11, and except for the assertion of dissenters' rights to the extent provided in the Delaware General Corporation Law, the corporation shall be entitled to treat the registered holder of any shares of the corporation as the owner thereof for all purposes, and the corporation shall not be bound to recognize any equitable or other claim to, or interest in, such shares or rights deriving from such shares on the part of any person other than the registered holder, including without limitation any purchaser, assignee or transferee of such shares or rights deriving from such shares, unless and until such other person becomes the registered holder of such shares, whether or not the corporation shall have either actual or constructive notice of the claimed interest of such other person.

Section 5. Transfer Agent, Registrars and Paving Agents. The board may at its discretion appoint one or more transfer agents, registrars and agents for making payment upon any class of stock, bond, debenture or other security of the corporation. Such agents and registrars may be located either within or outside Delaware. They shall have such rights and duties and shall be entitled to such compensation as may be agreed.

### ARTICLE VI

#### Indemnification of Certain Persons

Section 1...General Indemnification. The provisions of this Article VI and Article VII shall apply except to the extent inconsistent with the terms of the corporation's certificate of incorporation. For purposes of

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Article VI, a "Proper Person" means any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he is or was a director, officer, employee, fiduciary or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any foreign or domestic profit or nonprofit corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company, or other enterprise or employee benefit plan. The corporation shall indemnify any Proper Person against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding if it is determined by the groups set forth in Section 4 of this Article that he conducted himself in good faith and that he reasonably believed (1) in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation's best interests, or (ii) in all other cases (except criminal cases), that his conduct was at least not opposed to the corporation's best interests, or (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. A Proper Person will be deemed to be acting in his official capacity while acting as a director, officer, employee or agent on behalf of this corporation and not while acting on this corporation's behalf for some other entity.

No indemnification shall be made under this Article VI to a Proper Person with respect to any claim, issue or matter in connection with a proceeding by or in the right of a corporation in which the Proper Person was adjudged liable to the corporation or in connection with any proceeding charging that the Proper Person derived an improper personal benefit, whether or not involving action in an official capacity, in which he was adjudged liable on the basis that he derived an improper personal benefit. Further, indemnification under this Section in connection with a proceeding brought by or in the right of the corporation shall be limited to reasonable expenses, including attorneys' fees, incurred in connection with the proceeding.

Section 1. Right to Indemnification. The corporation shall indemnify any Proper Person who was wholly successful, on the merits or otherwise, in defense of any action, suit, or proceeding as to which he was entitled to indemnification under Section 1 of this Article VI against expenses (including attorneys' fees) reasonably incurred by him in connection with the proceeding without the necessity of any action by the corporation other than the determination in good faith that the defense has been wholly successful.

Section 2. Effect of Termination of Action. The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person seeking indemnification did not meet the standards of conduct described in Section 1 of this Article VI. Entry of judgment by consent as part of a settlement shall not be deemed an adjudication of liability, as described in Section 2 of this Article VI.

Section 3. Groups Authorized to Make Indemnification Determination. Except where there is a right to indemnification as set forth in Section 1 or 2 of this Article or where indemnification is ordered by a court in Section 5, any indemnification shall be made by the corporation only as authorized in the specific case upon a determination by a proper group that indemnification of the Proper Person is permissible under the circumstances because he has met the applicable standards of conduct set forth in Section 1 of this Article. This determination shall be made by the board of directors by a majority vote of those present at a meeting at which a quorum is present, which quorum

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shall consist of directors not parties to the proceeding ("Quorum"). If a Quorum cannot be obtained, the determination shall be made by a majority vote of a committee of the board of directors not parties to the proceeding, except that directors who are parties to the proceeding may participate in the designation of directors for the committee. If a Quorum of the board of directors cannot be obtained and the committee cannot be established, or even if a Quorum is obtained or the committee is designated and a majority of the directors constituting such Quorum or committee so directs, the determination shall be made by (1) independent legal counsel selected by a vote of the board of directors or the committee in the manner specified in this Section 4, or, if a Quorum of the full board of directors cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full board (including directors who are parties to the action) or (ii) a vote of the shareholders.

Section 4. Court-Ordered Indemnification. Any Proper Person may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction for mandatory indemnification under Section 2 of this Article, including indemnification for reasonable expenses incurred to obtain court-ordered indemnification. If the court determines that such Proper Person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standards of conduct set forth in Section 1 of this Article or was adjudged liable in the proceeding, the court may order such indemnification as the court deems proper except that if the Proper Person has been adjudged liable, indemnification shall be limited to reasonable expenses incurred in connection with the proceeding and reasonable expenses incurred to obtain court-ordered indemnification.

Section 5. Advance of Expenses. Reasonable expenses (including attorneys' fees) incurred in defending an action, suit or proceeding as described in Section 1 may be paid by the corporation to any Proper Person in advance of the final disposition of such action, suit or proceeding upon receipt of (1) a written affirmation of such Proper Person's good faith belief that he has met the standards of conduct prescribed by Section 1 of this Article VI, (ii) a written undertaking, executed personally or on the Proper Person's behalf, to repay such advances if it is ultimately determined that he did not meet the prescribed standards of conduct (the undertaking shall be an unlimited general obligation of the Proper Person but need not be secured and may be accepted without reference to financial ability to make repayment), and (iii) a determination is made by the proper group (as described in Section 4 of this Article VI) that the facts as then known to the group would not preclude indemnification. Determination and authorization of payments shall be made in the same manner specified in Section 4 of this Article VI.

### ARTICLE VII

#### Provision of Insurance

By action of the board of directors, notwithstanding any interest of the directors in the action, the corporation may purchase and maintain insurance, in such scope and amounts as the board of directors deems appropriate, on behalf of any person who is or was a director, officer, employee, fiduciary or agent of the corporation, or who, while a director, officer, employee, fiduciary or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any other foreign or domestic corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company or other enterprise or employee benefit plan, against any liability asserted against, or incurred by, him in that capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability

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under the provisions of Article VI or applicable law. Any such insurance may be procured from any insurance company designated by the board of directors of the corporation, whether such insurance company is formed under the laws of Delaware or any other jurisdiction of the United States or elsewhere, including any insurance company in which the corporation has an equity interest or any other interest, through stock ownership or otherwise.

ARTICLE VIII.....

### Miscellaneous

Section 1. Seal. The corporate seal of the corporation shall be circular in form and shall contain the name of the corporation and such other words as shall be required by law.

Section 2. Fiscal Year. The fiscal year of the corporation shall be as established by the board of directors.

Section 3. Amendments. The board of directors shall have power, to the maximum extent permitted by the Delaware General Corporation Law, to make, amend and repeal the bylaws of the corporation at any regular or special meeting of the board unless the shareholders, in making, amending or repealing a particular bylaw, expressly provide that the directors may not amend or repeal such bylaw. The shareholders also shall have the power to make, amend or repeal the bylaws of the corporation at any annual meeting or at any special meeting called for that purpose.

Section 4. Gender. The masculine gender is used in these bylaws as a matter of convenience only and shall be interpreted to include the feminine and neuter genders as the circumstances indicate.

Section 5. Conflicts. In the event of any irreconcilable conflict between these bylaws and either the corporation's certificate of incorporation or applicable law, the latter shall control.

Section 6. Definitions. Except as otherwise specifically provided in these bylaws, all terms used in these bylaws shall have the same definition as in the Delaware General Corporation Law.

Annex F

### **MEDIX RESOURCES, INC.**

#### **2003 STOCK INCENTIVE PLAN**

1. Purposes. This 2003 Stock Incentive Plan (the "Program") is intended to secure for Medix Resources, Inc. (the "Corporation"), its direct and indirect present and future subsidiaries, including without limitation any entity which the Corporation reasonably expects to become a subsidiary (the "Subsidiaries"), and its shareholders, the benefits arising from ownership of the Corporation's common stock, par value \$.001 per share (the "Common Stock"), by those selected directors, officers, key employees and consultants of the Corporation and the Subsidiaries who are most responsible for future growth. The Program is designed to help attract and retain superior individuals for positions of substantial responsibility with the Corporation and the Subsidiaries and to provide these persons with an additional incentive to contribute to the success of the Corporation and the Subsidiaries.

2. Elements of the Program. In order to maintain flexibility in the award



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of benefits, the Program is comprised of four parts -- the Incentive Stock Incentive Plan ("Incentive Plan"), the Supplemental Stock Incentive Plan ("Supplemental Plan"), the Stock Appreciation Rights Plan ("SAR Plan") and the Performance Share Plan ("Performance Share Plan"). Copies of the Incentive Plan, Supplemental Plan, SAR Plan, Performance Share Plan and Non-Employee Director Stock Incentive Plan are attached hereto as Parts I, II, III, IV and V, respectively. Each such plan is referred to herein as a "Plan" and all such plans are collectively referred to herein as the "Plans." The term "Plans" shall also refer to the Program in its entirety, including the General Provisions. The grant of an option or other award under one of the Plans shall not be construed to prohibit the grant of an option or other award under any of the other Plans.

3. Applicability of General Provisions. Unless any of the Plans specifically indicates to the contrary, all Plans shall be subject to the general provisions of the Program set forth below under the heading "General Provisions of the Stock Incentive Plan" (the "General Provisions").

### GENERAL PROVISIONS OF THE STOCK INCENTIVE PLAN

Article 1. Administration. The Plans shall be administered by the Board of Directors of the Corporation (the "Board" or the "Board of Directors") or any duly created committee appointed by the Board and charged with the administration of the Plans. To the extent required in order to satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), such committee shall consist solely of "Outside Directors" (as defined herein). The Board, or any duly appointed committee, when acting to administer the Plans, is referred to as the "Plan Administrator". Any action of the Plan Administrator shall be taken by majority vote at a meeting or by unanimous written consent of all members without a meeting. No Plan Administrator or member of the Board of the Corporation shall be liable for any action or determination made in good faith with respect to the Plans or with respect to any option or other award granted pursuant to the Plans. For purposes of the Plans, the term "Outside Director" shall mean a director who (a) is not a current employee of the Corporation or the Subsidiaries; (b) is not a former employee of the Corporation or the Subsidiaries who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the then current taxable year; (c) has not been an officer of the Corporation or the Subsidiaries; and (d) does not receive remuneration (which shall be deemed to include any payment in exchange for goods or services) from the Corporation or the Subsidiaries, either directly or indirectly, in any capacity other than as a director, except as otherwise permitted under Code Section 162(m) and the regulations thereunder.

Article 2. Authority of Plan Administrator. Subject to the other provisions of this Program, and with a view to effecting its purpose, the Plan Administrator shall have the authority: (a) to construe and interpret the Plans; (b) to define the terms used herein; (c) to prescribe, amend and rescind rules and regulations relating to the Plans; (d) to determine the persons to whom options, stock appreciation rights and performance shares shall be granted under the Plans; (e) to determine the time or times at which options, stock appreciation rights and performance shares shall be granted under the Plans; (f) to determine the number of shares subject to any option or stock appreciation right under the Plans and the number of shares to be awarded as performance shares under the Plans as well as the option price, and the duration of each option, stock appreciation right and performance share, and any other terms and conditions of options, stock appreciation rights and performance shares; and (g) to make any other determinations necessary or advisable for the administration of the Plans and to do everything necessary or appropriate to administer the Plans. All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in the Plans and on their legal representatives, heirs and beneficiaries.

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Article 3. Maximum Number of Shares Subject to the Plans. The maximum aggregate number of shares issuable pursuant to the Plans shall be [\_\_\_\_\_]1 shares of Common Stock. No one person participating in the Plans may receive options or other awards for more than 750,0002 shares of Common Stock in any calendar year. All such shares may be issued under any of the Plans which is part of the Program. If any of the options (including incentive stock options) or stock appreciation rights granted under the Plans expire or terminate for any reason before they have been exercised in full, the unissued shares subject to those expired or terminated options and/or stock appreciation rights shall again be available for purposes of the Program. If the performance objectives associated with the grant of any performance shares are not achieved within the specified performance objective period or if the performance share grant terminates for any reason before the performance objective date arrives, the shares of Common Stock associated with such performance shares shall again be available for the purposes of the Plans. Any shares of Common Stock delivered pursuant to the Plans may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Article 4. Eligibility and Participation. All directors (including non-employee directors), officers, employees and consultants of the Corporation and the Subsidiaries shall be eligible to participate in the Plans, except that only employees shall be eligible to participate in the Incentive Plan. The term "employee" shall include any person who has agreed to become an employee and the term "consultant" shall include any person who has agreed to become a consultant.

Article 5. Effective Date and Term of the Program. The Program shall become effective immediately upon approval of the Program by the Board of Directors of the Corporation, subject to approval of the Program by the shareholders of the Corporation within twelve months after the date of approval of the Program by the Board of Directors. The Program shall continue in effect for a term of ten years from the date that the Program is adopted by the Board of Directors, unless sooner terminated by the Board of Directors of the Corporation.

Article 6. Adjustments. In the event that the outstanding shares of Common Stock of the Corporation are hereafter increased, decreased, changed into or exchanged for a different number or kind of shares or securities through merger, consolidation, combination, exchange of shares, other reorganization, recapitalization, reclassification, stock dividend, stock split or reverse stock split (an "Adjustment Event"), an appropriate and proportionate adjustment shall be made by the Plan Administrator in the maximum number and kind of shares as to which options, stock appreciation rights and performance shares may be granted under the Plans A corresponding adjustment changing the number or kind of shares allocated to unexercised options, stock appreciation rights and performance shares, or portions thereof, which shall have been granted prior to any such Adjustment Event shall likewise be made. Any such adjustment in outstanding options or stock appreciation rights shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option or stock appreciation right but with a corresponding adjustment in the price for each share or other unit of any security covered by the option or stock appreciation right. In making any adjustment pursuant to this Article 6, any fractional shares shall be disregarded.

Article 7. Termination and Amendment of Plans and Awards. No options, stock appreciation rights or performance shares shall be granted under any of the Plans after the termination of such Plan. The Plan Administrator may at any time amend or revise the terms of any of the Plans or of any outstanding option, stock appreciation right or performance share issued under such Plan, provided, however, that (a) any shareholder approval required by applicable law or regulation (including without limitation Section 422 of the Code) shall be obtained and (b) no amendment, suspension or termination of any of the Plans or

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of any outstanding option, stock appreciation right or performance share shall, without the consent of the person who has received such option or other award, impair any of that person's rights or obligations under such option or other award.

Article 8. Privileges of Stock Ownership. Notwithstanding the exercise of any option granted pursuant to the terms of the Plans or the achievement of any performance objective specified in any performance share granted pursuant to the terms of the Performance Share Plan, no person shall have any of the rights or privileges of a shareholder of the Corporation in respect of any shares of stock issuable upon the exercise of his or her option or achievement of his or her performance objective until certificates representing the shares of Common Stock covered thereby have been issued and delivered. No adjustment shall be made for dividends or any other distributions for which the record date is prior to the date on which any stock certificate is issued pursuant to the Plans.

Article 9. Reservation of Shares of Common Stock. During the term of the Program, the Corporation will at all times reserve and keep available such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of the Program.

Article 10. Tax Withholding. The exercise of any option, stock appreciation right or performance share is subject to the condition that, if at any time the Corporation shall determine, in its discretion, that the satisfaction of withholding tax or other withholding liabilities under any state or federal law is necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase of shares pursuant thereto, then, in such event, the exercise of the option, stock appreciation right or performance share or the elimination of the risk of forfeiture relating thereto shall not be effective unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Corporation.

Article 11. Employment; Service as a Director or Consultant. Nothing in the Program gives to any person any right to continued employment by the Corporation or the Subsidiaries or to continued service as a director or consultant of the Corporation or the Subsidiaries or limits in any way the right of the Corporation or the Subsidiaries at any time to terminate or alter the terms of that employment or service.

Article 12. Investment Letter; Lock-Up Agreement; Restrictions on Obligation of the Corporation to Issue Securities; Restrictive Legend. Any person acquiring or receiving Common Stock or other securities of the Corporation pursuant to the Plans, as a condition precedent to receiving the shares of Common Stock or other securities, may be required by the Plan Administrator to submit a letter to the Corporation (a) stating that the shares of Common Stock or other securities are being acquired for investment and not with a view to the distribution thereof and (b) providing other assurances determined by the Corporation to be necessary or appropriate in order to assure that the issuance of such shares is exempt from any applicable securities registration requirements. The Corporation shall not be obligated to sell or issue any shares of Common Stock or other securities pursuant to the Plans unless, on the date of sale and issuance thereof, the shares of Common Stock or other securities are either registered under the Securities Act of 1933, as amended, and all applicable state securities laws, or exempt from registration thereunder. All shares of Common Stock and other securities issued pursuant to the Plans shall, if determined to be necessary by the Plan Administrator, bear a restrictive legend summarizing any restrictions on transferability applicable thereto, including those imposed by federal and state securities laws.

Article 13. Covenant Against Competition. The Plan Administrator shall have the right to condition the award to an employee of the Corporation or the Subsidiaries of any option, stock appreciation right or performance share under

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the Plans upon the recipient's execution and delivery to the Corporation of an agreement not to compete with the Corporation and its Subsidiaries during the recipient's employment and for such period thereafter as shall be determined by the Plan Administrator. Such covenant against competition shall be in a form satisfactory to the Plan Administrator.

Article 14. Rights Upon Termination of Employment, Service as a Consultant or Service as a Director. Notwithstanding any other provision of the Plans, any benefit granted to an individual who has agreed to become an employee of, or consultant to, the Corporation or any Subsidiary or to become an employee of or consultant to any entity which the Corporation reasonably expects to become a Subsidiary, shall immediately terminate if the Plan Administrator determines, in its sole discretion, that such person or entity, as the case may be, will not become such employee, consultant or Subsidiary. If a recipient ceases to be employed by or to provide services as a consultant or director to the Corporation or any Subsidiary, or a corporation or a parent or subsidiary of such corporation issuing or assuming a stock option in a transaction to which Section 424(a) of the Code applies:

(a) because of termination by the Company or a Subsidiary without cause, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until 90 days after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all Naked Rights (as defined in the Stock Appreciation Rights Plan) not payable on the date of termination and all performance share awards still subject to the achievement of performance objectives shall terminate immediately;

(b) because of termination by the Company or a Subsidiary for cause, all options and other awards shall lapse immediately on the date of such termination;

(c) because of voluntary termination at the election of the recipient, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until 30 days after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all Naked Rights (as defined in the Stock Appreciation Rights Plan) not payable on the date of termination and all performance share awards still subject to the achievement of performance objectives shall terminate immediately; and

(d) because of death or disability, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until twelve months after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all other awards (including all Naked Rights and performance shares still subject to the achievement of performance objectives) shall terminate immediately.

No exercise permitted by this Article 14 shall entitle an optionee or his or her personal representative, executor or administrator to exercise any portion of any option or stock appreciation right beyond the extent to which such option or stock appreciation right is exercisable pursuant to the Program on the date the recipient's employment or service terminates.

Article 15. Non-Transferability. Options and other awards granted under the Plans may not be sold, pledged, assigned or transferred in any manner by the recipient otherwise than by will or by the laws of descent and distribution and shall be exercisable (a) during the recipient's lifetime only by the recipient

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and (b) after the recipient's death only by the recipient's executor, administrator or personal representative, provided, however, that the Plan Administrator may permit the recipient of a supplemental option granted pursuant to Part II of the Program to transfer such options to a family member or a trust, limited liability company or partnership created for the benefit of family members, subject to such conditions as the Plan Administrator shall determine to be appropriate. In the case of such a transfer, the transferee's rights and obligations with respect to the applicable options shall be determined by reference to the recipient and the recipient's rights and obligations with respect to the applicable options had no transfer been made. The recipient shall remain obligated pursuant to Articles 10 and 12 hereunder if required by applicable law.

Article 16. Change in Control.<sup>3</sup> All options granted pursuant to the Plans shall become fully exercisable upon the occurrence of a Change in Control Event. As used in the Plans, a "Change in Control Event" shall be deemed to have occurred if any of the following events occur:

(a) the consummation of any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Common Stock would be converted into cash, securities or other property, other than (i) a merger of the Corporation in which the holders of the shares of Common Stock immediately prior to the merger own more than fifty percent (50%) of the common stock of the surviving corporation immediately after the merger; or

(b) the consummation of any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation, other than to a subsidiary or affiliate; or

(c) an approval by the shareholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation; or

(d) any action pursuant to which any person (as such term is defined in Section 13(d) of the Exchange Act), corporation or other entity (other than any person who owns more than ten percent (10%) of the outstanding Common Stock on the date of adoption of this Program by the Board of Directors, the Corporation or any benefit plan sponsored by the Corporation or any of its subsidiaries) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of shares of capital stock entitled to vote generally for the election of directors of the Corporation ("Voting Securities") representing more than fifty (50%) percent of the combined voting power of the Corporation's then outstanding Voting Securities (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board shall determine that such person so becoming such beneficial owner shall not constitute a Change in Control.

Article 17. Merger or Asset Sale. For purposes of the Plans, a merger or consolidation which would constitute a Change in Control Event pursuant to Article 16 and a sale of assets which would constitute a Change in Control Event pursuant to Article 16 are hereinafter referred to as "Article 17 Events". In the event of an Article 17 Event, each outstanding option shall be assumed or an equivalent benefit shall be substituted by the entity determined by the Board of Directors of the Corporation to be the successor corporation. However, in the event that any such successor corporation does not agree in writing, at least 15 days prior to the anticipated date of consummation of such Article 17 Event, to assume or so substitute each such option, then each option not so assumed or substituted shall be deemed to be fully vested and exercisable 15 days prior to the anticipated date of consummation of such Article 17 Event. If an option is

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not so assumed or subject to such substitution, the Plan Administrator shall notify the holder thereof in writing or electronically that (a) such holder's option shall be fully exercisable until immediately prior to the consummation of such Article 17 Event and (b) such holder's option shall terminate upon the consummation of such Article 17 Event. For purposes of this Article 17, an option shall be considered assumed if, following consummation of the applicable Article 17 Event, the option confers the right to purchase or receive, for each share of Common Stock subject to the option immediately prior to the consummation of such Article 17 Event, the consideration (whether stock, cash or other securities or property) received in such Article 17 Event by holders of Common Stock for each share of Common Stock held on the effective date of such Article 17 Event (and, if holders of Common Stock are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in such Article 17 Event is not solely common stock of such successor, the Plan Administrator may, with the consent of such successor corporation, provide for the consideration to be received in connection with such option to be solely common stock of such successor equal in fair market value to the per share consideration received by holders of Common Stock in the Article 17 Event.

Article 18. Method of Exercise. Any optionee may exercise his or her option from time to time by giving written notice thereof to the Corporation at its principal office together with payment in full for the shares of Common Stock to be purchased. The date of such exercise shall be the date on which the Corporation receives such notice. Such notice shall state the number of shares to be purchased. The purchase price of any shares purchased upon the exercise of any option granted pursuant to the Plans shall be paid in full at the time of exercise of the option by certified or bank cashier's check payable to the order of the Corporation or, if permitted by the Plan Administrator, by shares of Common Stock, provided that such shares have been owned by the optionee for more than six months on the date of surrender to the Corporation, or by a combination of a check and shares of Common Stock. The Plan Administrator may, in its sole discretion, permit an optionee to make "cashless exercise" arrangements, to the extent permitted by applicable law, and may require optionees to utilize the services of a single broker selected by the Plan Administrator in connection with any cashless exercise. No option may be exercised for a fraction of a share of Common Stock. If any portion of the purchase price is paid in shares Common Stock, those shares shall be valued at their then Fair Market Value as determined by the Plan Administrator in accordance with Section 4 of the Incentive Plan.

Article 19. Ten-Year Limitations. Notwithstanding any other provision of the Plans, (a) no option or other award may be granted pursuant to the Plans more than ten years after the date on which the Plans were adopted by the Board of Directors and (b) any option or award granted under the Plans shall, by its terms, not be exercisable more than ten years after the date of grant.

Article 20. Sunday or Holiday. In the event that the time for the performance of any action or the giving of any notice is called for under the Plans within a period of time which ends or falls on a Sunday or legal holiday, such period shall be deemed to end or fall on the next day following such Sunday or legal holiday which is not a Sunday or legal holiday.

Article 21. Applicable Option Plan. In the event that a stock option is granted pursuant to the Program and the Plan Administrator does not specify whether such option has been granted pursuant to the Incentive Plan or the Supplemental Plan, such option shall be deemed to be granted pursuant to the Supplemental Plan.

**PART I**

**INCENTIVE STOCK INCENTIVE PLAN**

The following provisions shall apply with respect to options granted by the Plan Administrator pursuant to Part I of the Program:

Section 1. General. This Incentive Stock Incentive Plan ("Incentive Plan") is Part I of the Corporation's Program. The Corporation intends that options granted pursuant to the provisions of the Incentive Plan will qualify and will be identified as "incentive stock options" within the meaning of Section 422 of the Code. Unless any provision herein indicates to the contrary, this Incentive Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant incentive stock options to purchase Common Stock to any employee of the Corporation or its Subsidiaries. The terms and conditions of options granted under the Incentive Plan may differ from one another as the Plan Administrator shall, in its discretion, determine, as long as all options granted under the Incentive Plan satisfy the requirements of the Incentive Plan.

Section 3. Duration of Options. Each option and all rights thereunder granted pursuant to the terms of the Incentive Plan shall expire on the date determined by the Plan Administrator, but in no event shall any option granted under the Incentive Plan expire later than ten years from the date on which the option is granted. Notwithstanding the foregoing, any option granted under the Incentive Plan to any person who owns more than 10% of the combined voting power of all classes of stock of the Corporation or any Subsidiary shall expire no later than five years from the date on which the option is granted.

Section 4. Purchase Price. The option price with respect to any option granted pursuant to the Incentive Plan shall not be less than the Fair Market Value of the shares on the date of the grant of the option; except that the option price with respect to any option granted pursuant to the Incentive Plan to any person who owns more than 10% of the combined voting power of all classes of stock of the Corporation shall not be less than 110% of the Fair Market Value of the shares on the date the option is granted. For purposes of the Plans, the phrase "Fair Market Value" shall mean the fair market value of the Common Stock on the date of grant of an option or other relevant date. If on such date the Common Stock is listed on the American Stock Exchange or another stock exchange or is quoted on the automated quotation system of Nasdaq, the Fair Market Value shall be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) of a share Common Stock on such date. If no such closing sale price or bid and asked prices are available, the Fair Market Value shall be determined in good faith by the Plan Administrator in accordance with generally accepted valuation principles and such other factors as the Plan Administrator reasonably deems relevant.

Section 5. Maximum Amount of Options in Any Calendar Year. The aggregate Fair Market Value (determined as of the time the option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any employee during any calendar year (under the terms of the Incentive Plan and all incentive Stock Incentive Plans of the Corporation and the Subsidiaries) shall not exceed \$100,000.

Section 6. Exercise of Options. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted options, incentive stock options may only be exercised to the following extent during the following periods of time:

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During -----	Maximum Percentage of Shares Covered by Option Which May be Purchased -----
First 12 months after grant	0
First 24 months after grant	25%
First 36 months after grant	50%
First 48 months after grant	75%
Beyond 48 months after grant	100%

Section 7. Failure to Satisfy Applicable Requirements. To the extent that an option intended to be granted pursuant to the provisions of this Incentive Plan fails to satisfy one or more requirements of this Incentive Plan, it shall be deemed to be a supplemental stock option granted pursuant to the Supplemental Plan set forth as Part II of the Program.

PART II

SUPPLEMENTAL STOCK INCENTIVE PLAN

The following provisions shall apply with respect to options granted by the Plan Administrator pursuant to Part II of the Program:

Section 1. General. This Supplemental Stock Incentive Plan ("Supplemental Plan") is Part II of the Corporation's Program. Any option granted pursuant to this Supplemental Plan shall not be an incentive stock option as defined in Section 422 of the Code. Unless any provision herein indicates to the contrary, this Supplemental Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant supplemental stock options to any person eligible under Article 4 of the General Provisions. The terms and conditions of options granted under this Supplemental Plan may differ from one another as the Plan Administrator shall, in its discretion, determine as long as all options granted under this Supplemental Plan satisfy the requirements of this Supplemental Plan.

Section 3. Duration of Options. Each option and all rights thereunder granted pursuant to the terms of this Supplemental Plan shall expire on the date determined by the Plan Administrator, but in no event shall any option granted under this Supplemental Plan expire later than ten years from the date on which the option is granted.

Section 4. Purchase Price. The option price with respect to any option granted pursuant to this Supplemental Plan shall be determined by the Plan Administrator at the time of grant. In the absence of such a determination, the option price of any such option shall equal the Fair Market Value of one share of Common Stock, as determined pursuant to Part I of this Program.

Section 5. Exercise of Options. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted options, supplemental stock options may only be exercised to the following extent during the following periods of time:



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During -----	Maximum Percentage of Shares Covered by Option Which May be Purchased -----
First 12 months after grant	0
First 24 months after grant	25%
First 36 months after grant	50%
First 48 months after grant	75%
Beyond 48 months after grant	100%

**PART III**

**STOCK APPRECIATION RIGHTS PLAN**

Section 1. General. This Stock Appreciation Rights Plan ("SAR Plan") is Part III of the Corporation's Program.

Section 2. Terms and Conditions. The Plan Administrator may grant stock appreciation rights to any person eligible under Article 4 of the General Provisions. Stock appreciation rights may be granted either in tandem with supplemental stock options or incentive stock options as described in Section 4 of this SAR Plan or as naked stock appreciation rights as described in Section 5 of this SAR Plan.

Section 3. Mode of Payment. At the discretion of the Plan Administrator, payments to recipients upon exercise of stock appreciation rights may be made in (a) cash by bank check, (b) shares of Common Stock having a Fair Market Value (determined in the manner provided in Section 4 of the Incentive Plan) equal to the amount of the payment, (c) a note in the amount of the payment containing such terms as are approved by the Plan Administrator or (d) any combination of the foregoing in an aggregate amount equal to the amount of the payment.

Section 4. Stock Appreciation Right in Tandem with Supplemental or Incentive Stock Option. A SAR granted in tandem with a supplemental stock option or an incentive stock option (in either case, an "Option") shall be on the following terms and conditions:

(a) Each SAR shall relate to a specific Option or portion of an Option granted under the Supplemental Stock Incentive Plan or Incentive Stock Incentive Plan, as the case may be, and may be granted by the Plan Administrator at the same time that the Option is granted or at any time thereafter prior to the last day on which the Option may be exercised.

(b) A SAR shall entitle a recipient, upon surrender of the unexpired related Option, or a portion thereof, to receive from the Corporation an amount equal to the excess of (i) the Fair Market Value (determined in accordance with Section 4 of the Incentive Plan) of the shares of Common Stock which the recipient would have been entitled to purchase on that date pursuant to the portion of the Option surrendered over (ii) the amount which the recipient would have been required to pay to purchase such shares upon exercise of such Option.

(c) A SAR shall be exercisable only for the same number of shares of Common Stock, and only at the same times, as the Option to which it relates. SARs shall be subject to such other terms and conditions as the

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Plan Administrator may specify.

(d) A SAR shall lapse at such time as the related Option is exercised or lapses pursuant to the terms of the Program. On exercise of the SAR, the related Option shall lapse as to the number of shares exercised.

Section 5. Naked Stock Appreciation Right. SARs granted by the Plan Administrator as naked stock appreciation rights ("Naked Rights") shall be subject to the following terms and conditions:

(a) The Plan Administrator may award Naked Rights to recipients for periods not exceeding ten years. Each Naked Right shall represent the right to receive the excess of the Fair Market Value of one share of Common Stock (determined in accordance with Section 4 of the Incentive Plan) on the date of exercise of the Naked Right over the Fair Market Value of one share of Common Stock (determined in accordance with Section 4 of the Incentive Plan) on the date the Naked Right was awarded to the recipient.

(b) Unless otherwise provided by the Plan Administrator at the time of award or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted Naked Rights, Naked Rights may only be exercised to the following extent during the following periods of employment or service as a consultant or director:

During -----	Maximum Percentage of Naked Rights Which May Be Exercised -----
First 12 months after award	0%
First 24 months after award	25%
First 36 months after award	50%
First 48 months after award	75%
Beyond 48 months after award	100%

(c) The Naked Rights solely measure and determine the amounts to be paid to recipients upon exercise as provided in Section 5(a). Naked Rights do not represent Common Stock or any right to receive Common Stock. The Corporation shall not hold in trust or otherwise segregate amounts which may become payable to recipients of Naked Rights; such funds shall be part of the general funds of the Corporation. Naked Rights shall constitute an unfunded contingent promise to make future payments to the recipient and shall not reduce the number of shares of Common Stock available under the Program.

### PART IV

#### PERFORMANCE SHARE PLAN

Section 1. General. This Performance Share Plan ("Performance Share Plan") is Part IV of the Corporation's Program. Unless any provision herein indicates to the contrary, this Performance Share Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant performance shares to any person eligible under Article 4 of the General Provisions. Each performance share grant shall confer upon the recipient thereof

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the right to receive a specified number of shares of Common Stock of the Corporation contingent upon the achievement of specified performance objectives within a specified performance objective period including, but not limited to, the recipient's continued employment or status as a consultant through the period set forth in Section 5 of this Performance Share Plan. At the time of an award of a performance share, the Plan Administrator shall specify the performance objectives, the performance objective period or periods and the period of duration of the performance share grant. Any performance shares granted under this Plan shall constitute an unfunded promise to make future payments to the affected person upon the completion of specified conditions.

Section 3. Mode of Payment. At the discretion of the Plan Administrator, payments of performance shares may be made in (a) shares of Common Stock, (b) a check in an amount equal to the Fair Market Value (determined in the manner provided in Section 4 of the Incentive Plan) of the shares of Common Stock to which the performance share award relates, (c) a note in the amount specified above in Section 3(b) containing such terms as are approved by the Plan Administrator or (d) any combination of the foregoing in the aggregate amount equal to the amount specified above in Section 3(b).

Section 4. Performance Objective Period. The duration of the period within which to achieve the performance objectives shall be determined by the Plan Administrator. The period may not be more than ten years from the date that the performance share is granted. The Plan Administrator shall determine whether performance objectives have been met with respect to each applicable performance objective period. Such determination shall be made promptly after the end of each applicable performance objective period, but in no event later than 90 days after the end of each applicable performance objective period. All determinations by the Plan Administrator with respect to the achievement of performance objectives shall be final, binding on and conclusive with respect to each recipient.

Section 5. Vesting of Performance Shares. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted performance shares, the Corporation shall pay to the recipient on the date set forth in Column 1 below ("Vesting Date") the percentage of the recipient's performance share award set forth in Column 2 below.

Column 1 Vesting Date -----	Column 2 Percentage -----
1 year from Date of Grant	25%
2 years from Date of Grant	25%
3 years from Date of Grant	25%
4 years from Date of Grant	25%

- 
- 1 To be resolved: the number of shares to be subject to the plan.
  - 2 This is an arbitrary number; the important point is to insert a maximum number of shares for individual grants.
  - 3 We should discuss whether you want all options to accelerate upon a change in control.
  - 4 We should discuss whether this vesting schedule is acceptable to you.

**MEDIX RESOURCES, INC.**

**2003 STOCK INCENTIVE PLAN**

1. Purposes. This 2003 Stock Incentive Plan (the "Program") is intended to secure for Medix Resources, Inc. (the "Corporation"), its direct and indirect present and future subsidiaries, including without limitation any entity which the Corporation reasonably expects to become a subsidiary (the "Subsidiaries"), and its shareholders, the benefits arising from ownership of the Corporation's common stock, par value \$.001 per share (the "Common Stock"), by those selected directors, officers, key employees and consultants of the Corporation and the Subsidiaries who are most responsible for future growth. The Program is designed to help attract and retain superior individuals for positions of substantial responsibility with the Corporation and the Subsidiaries and to provide these persons with an additional incentive to contribute to the success of the Corporation and the Subsidiaries.
2. Elements of the Program. In order to maintain flexibility in the award of benefits, the Program is comprised of four parts -- the Incentive Stock Incentive Plan ("Incentive Plan"), the Supplemental Stock Incentive Plan ("Supplemental Plan"), the Stock Appreciation Rights Plan ("SAR Plan") and the Performance Share Plan ("Performance Share Plan"). Copies of the Incentive Plan, Supplemental Plan, SAR Plan, Performance Share Plan and Non-Employee Director Stock Incentive Plan are attached hereto as Parts I, II, III, IV and V, respectively. Each such plan is referred to herein as a "Plan" and all such plans are collectively referred to herein as the "Plans." The term "Plans" shall also refer to the Program in its entirety, including the General Provisions. The grant of an option or other award under one of the Plans shall not be construed to prohibit the grant of an option or other award under any of the other Plans.
3. Applicability of General Provisions. Unless any of the Plans specifically indicates to the contrary, all Plans shall be subject to the general provisions of the Program set forth below under the heading "General Provisions of the Stock Incentive Plan" (the "General Provisions").

**GENERAL PROVISIONS OF THE STOCK INCENTIVE PLAN**

Article 1. Administration. The Plans shall be administered by the Board of Directors of the Corporation (the "Board" or the "Board of Directors") or any duly created committee appointed by the Board and charged with the administration of the Plans. To the extent required in order to satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), such committee shall consist solely of "Outside Directors" (as defined herein). The Board, or any duly appointed committee, when acting to administer the Plans, is referred to as the "Plan Administrator". Any action of the Plan Administrator shall be taken by majority vote at a meeting or by unanimous written consent of all members without a meeting. No Plan Administrator or member of the Board of the Corporation shall be liable for any action or determination made in good faith with respect to the Plans or with respect to any option or other award granted pursuant to the Plans. For purposes of the Plans, the term

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"Outside Director" shall mean a director who (a) is not a current employee of the Corporation or the Subsidiaries; (b) is not a former employee of the Corporation or the Subsidiaries who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the then current taxable year; (c) has not been an officer of the Corporation or the Subsidiaries; and (d) does not receive remuneration (which shall be deemed to include any payment in exchange for goods or services) from the Corporation or the Subsidiaries, either directly or indirectly, in any capacity other than as a director, except as otherwise permitted under Code Section 162(m) and the regulations thereunder.

Article 2. Authority of Plan Administrator. Subject to the other provisions of this Program, and with a view to effecting its purpose, the Plan Administrator shall have the authority: (a) to construe and interpret the Plans; (b) to define the terms used herein; (c) to prescribe, amend and rescind rules and regulations relating to the Plans; (d) to determine the persons to whom options, stock appreciation rights and performance shares shall be granted under the Plans; (e) to determine the time or times at which options, stock appreciation rights and performance shares shall be granted under the Plans; (f) to determine the number of shares subject to any option or stock appreciation right under the Plans and the number of shares to be awarded as performance shares under the Plans as well as the option price, and the duration of each option, stock appreciation right and performance share, and any other terms and conditions of options, stock appreciation rights and performance shares; and (g) to make any other determinations necessary or advisable for the administration of the Plans and to do everything necessary or appropriate to administer the Plans. All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in the Plans and on their legal representatives, heirs and beneficiaries.

Article 3. Maximum Number of Shares Subject to the Plans. The maximum aggregate number of shares issuable pursuant to the Plans shall be 10,000,000 shares of Common Stock. No one person participating in the Plans may receive options or other awards for more than 4,000,000 shares of Common Stock in any calendar year. All such shares may be issued under any of the Plans which is part of the Program. If any of the options (including incentive stock options) or stock appreciation rights granted under the Plans expire or terminate for any reason before they have been exercised in full, the unissued shares subject to those expired or terminated options and/or stock appreciation rights shall again be available for purposes of the Program. If the performance objectives associated with the grant of any performance shares are not achieved within the specified performance objective period or if the performance share grant terminates for any reason before the performance objective date arrives, the shares of Common Stock associated with such performance shares shall again be available for the purposes of the Plans. Any shares of Common Stock delivered pursuant to the Plans may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Article 4. Eligibility and Participation. All directors (including non-employee directors), officers, employees and consultants of the Corporation and the Subsidiaries shall be eligible to participate in the Plans, except that only employees shall be eligible to participate in the Incentive Plan. The term "employee" shall include any person who has agreed to become an employee and the term "consultant" shall include any person who has agreed to become a consultant.

Article 5. Effective Date and Term of the Program. The Program shall become effective immediately upon approval of the Program by the Board of Directors of the Corporation, subject to approval of the Program by the shareholders of the Corporation within twelve months after the date of

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approval of the Program by the Board of Directors. The Program shall continue in effect for a term of ten years from the date that the Program is adopted by the Board of Directors, unless sooner terminated by the Board of Directors of the Corporation.

Article 6. Adjustments. In the event that the outstanding shares of Common Stock of the Corporation are hereafter increased, decreased, changed into or exchanged for a different number or kind of shares or securities through merger, consolidation, combination, exchange of shares, other reorganization, recapitalization, reclassification, stock dividend, stock split or reverse stock split (an "Adjustment Event"), an appropriate and proportionate adjustment shall be made by the Plan Administrator in the maximum number and kind of shares as to which options, stock appreciation rights and performance shares may be granted under the Plans A corresponding adjustment changing the number or kind of shares allocated to unexercised options, stock appreciation rights and performance shares, or portions thereof, which shall have been granted prior to any such Adjustment Event shall likewise be made. Any such adjustment in outstanding options or stock appreciation rights shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option or stock appreciation right but with a corresponding adjustment in the price for each share or other unit of any security covered by the option or stock appreciation right. In making any adjustment pursuant to this Article 6, any fractional shares shall be disregarded.

Article 7. Termination and Amendment of Plans and Awards. No options, stock appreciation rights or performance shares shall be granted under any of the Plans after the termination of such Plan. The Plan Administrator may at any time amend or revise the terms of any of the Plans or of any outstanding option, stock appreciation right or performance share issued under such Plan, provided, however, that (a) any shareholder approval required by applicable law or regulation (including without limitation Section 422 of the Code) shall be obtained and (b) no amendment, suspension or termination of any of the Plans or of any outstanding option, stock appreciation right or performance share shall, without the consent of the person who has received such option or other award, impair any of that person's rights or obligations under such option or other award.

Article 8. Privileges of Stock Ownership. Notwithstanding the exercise of any option granted pursuant to the terms of the Plans or the achievement of any performance objective specified in any performance share granted pursuant to the terms of the Performance Share Plan, no person shall have any of the rights or privileges of a shareholder of the Corporation in respect of any shares of stock issuable upon the exercise of his or her option or achievement of his or her performance objective until certificates representing the shares of Common Stock covered thereby have been issued and delivered. No adjustment shall be made for dividends or any other distributions for which the record date is prior to the date on which any stock certificate is issued pursuant to the Plans.

Article 9. Reservation of Shares of Common Stock. During the term of the Program, the Corporation will at all times reserve and keep available such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of the Program.

Article 10. Tax Withholding. The exercise of any option, stock appreciation right or performance share is subject to the condition that, if at any time the Corporation shall determine, in its discretion, that the satisfaction of withholding tax or other withholding liabilities under any state or federal law is necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase of shares pursuant thereto, then, in such event, the exercise of the option, stock appreciation right or performance share or the elimination of the risk of forfeiture relating

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thereto shall not be effective unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Corporation.

Article 11. Employment; Service as a Director or Consultant. Nothing in the Program gives to any person any right to continued employment by the Corporation or the Subsidiaries or to continued service as a director or consultant of the Corporation or the Subsidiaries or limits in any way the right of the Corporation or the Subsidiaries at any time to terminate or alter the terms of that employment or service.

Article 12. Investment Letter; Lock-Up Agreement; Restrictions on Obligation of the Corporation to Issue Securities; Restrictive Legend. Any person acquiring or receiving Common Stock or other securities of the Corporation pursuant to the Plans, as a condition precedent to receiving the shares of Common Stock or other securities, may be required by the Plan Administrator to submit a letter to the Corporation (a) stating that the shares of Common Stock or other securities are being acquired for investment and not with a view to the distribution thereof and (b) providing other assurances determined by the Corporation to be necessary or appropriate in order to assure that the issuance of such shares is exempt from any applicable securities registration requirements. The Corporation shall not be obligated to sell or issue any shares of Common Stock or other securities pursuant to the Plans unless, on the date of sale and issuance thereof, the shares of Common Stock or other securities are either registered under the Securities Act of 1933, as amended, and all applicable state securities laws, or exempt from registration thereunder. All shares of Common Stock and other securities issued pursuant to the Plans shall, if determined to be necessary by the Plan Administrator, bear a restrictive legend summarizing any restrictions on transferability applicable thereto, including those imposed by federal and state securities laws.

Article 13. Covenant Against Competition. The Plan Administrator shall have the right to condition the award to an employee of the Corporation or the Subsidiaries of any option, stock appreciation right or performance share under the Plans upon the recipient's execution and delivery to the Corporation of an agreement not to compete with the Corporation and its Subsidiaries during the recipient's employment and for such period thereafter as shall be determined by the Plan Administrator. Such covenant against competition shall be in a form satisfactory to the Plan Administrator.

Article 14. Rights Upon Termination of Employment, Service as a Consultant or Service as a Director. Notwithstanding any other provision of the Plans, any benefit granted to an individual who has agreed to become an employee of, or consultant to, the Corporation or any Subsidiary or to become an employee of or consultant to any entity which the Corporation reasonably expects to become a Subsidiary, shall immediately terminate if the Plan Administrator determines, in its sole discretion, that such person or entity, as the case may be, will not become such employee, consultant or Subsidiary. If a recipient ceases to be employed by or to provide services as a consultant or director to the Corporation or any Subsidiary, or a corporation or a parent or subsidiary of such corporation issuing or assuming a stock option in a transaction to which Section 424(a) of the Code applies:

- (a) because of termination by the Company or a Subsidiary without cause, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until 90 days after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all Naked

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Rights (as defined in the Stock Appreciation Rights Plan) not payable on the date of termination and all performance share awards still subject to the achievement of performance objectives shall terminate immediately;

- (b) because of termination by the Company or a Subsidiary for cause, all options and other awards shall lapse immediately on the date of such termination;
- (c) because of voluntary termination at the election of the recipient, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until 30 days after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all Naked Rights (as defined in the Stock Appreciation Rights Plan) not payable on the date of termination and all performance share awards still subject to the achievement of performance objectives shall terminate immediately; and
- (d) because of death or disability, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until twelve months after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all other awards (including all Naked Rights and performance shares still subject to the achievement of performance objectives) shall terminate immediately.

No exercise permitted by this Article 14 shall entitle an optionee or his or her personal representative, executor or administrator to exercise any portion of any option or stock appreciation right beyond the extent to which such option or stock appreciation right is exercisable pursuant to the Program on the date the recipient's employment or service terminates.

Article 15. Non-Transferability. Options and other awards granted under the Plans may not be sold, pledged, assigned or transferred in any manner by the recipient otherwise than by will or by the laws of descent and distribution and shall be exercisable (a) during the recipient's lifetime only by the recipient and (b) after the recipient's death only by the recipient's executor, administrator or personal representative, provided, however, that the Plan Administrator may permit the recipient of a supplemental option granted pursuant to Part II of the Program to transfer such options to a family member or a trust, limited liability company or partnership created for the benefit of family members, subject to such conditions as the Plan Administrator shall determine to be appropriate. In the case of such a transfer, the transferee's rights and obligations with respect to the applicable options shall be determined by reference to the recipient and the recipient's rights and obligations with respect to the applicable options had no transfer been made. The recipient shall remain obligated pursuant to Articles 10 and 12 hereunder if required by applicable law.

Article 16. Change in Control. All options granted pursuant to the Plans shall become fully exercisable upon the occurrence of a Change in Control Event. As used in the Plans, a "Change in Control Event" shall be deemed to have occurred if any of the following events occur:

- (a) the consummation of any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Common Stock would be converted into cash, securities or other property, other than (i) a merger of



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the Corporation in which the holders of the shares of Common Stock immediately prior to the merger own more than fifty percent (50%) of the common stock of the surviving corporation immediately after the merger; or

- (b) the consummation of any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation, other than to a subsidiary or affiliate; or
- (c) an approval by the shareholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation; or
- (d) any action pursuant to which any person (as such term is defined in Section 13(d) of the Exchange Act), corporation or other entity (other than any person who owns more than ten percent (10%) of the outstanding Common Stock on the date of adoption of this Program by the Board of Directors, the Corporation or any benefit plan sponsored by the Corporation or any of its subsidiaries) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of shares of capital stock entitled to vote generally for the election of directors of the Corporation ("Voting Securities") representing more than fifty (50%) percent of the combined voting power of the Corporation's then outstanding Voting Securities (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board shall determine that such person so becoming such beneficial owner shall not constitute a Change in Control.

Article 17. Merger or Asset Sale. For purposes of the Plans, a merger or consolidation which would constitute a Change in Control Event pursuant to Article 16 and a sale of assets which would constitute a Change in Control Event pursuant to Article 16 are hereinafter referred to as "Article 17 Events". In the event of an Article 17 Event, each outstanding option shall be assumed or an equivalent benefit shall be substituted by the entity determined by the Board of Directors of the Corporation to be the successor corporation. However, in the event that any such successor corporation does not agree in writing, at least 15 days prior to the anticipated date of consummation of such Article 17 Event, to assume or so substitute each such option, then each option not so assumed or substituted shall be deemed to be fully vested and exercisable 15 days prior to the anticipated date of consummation of such Article 17 Event. If an option is not so assumed or subject to such substitution, the Plan Administrator shall notify the holder thereof in writing or electronically that (a) such holder's option shall be fully exercisable until immediately prior to the consummation of such Article 17 Event and (b) such holder's option shall terminate upon the consummation of such Article 17 Event. For purposes of this Article 17, an option shall be considered assumed if, following consummation of the applicable Article 17 Event, the option confers the right to purchase or receive, for each share of Common Stock subject to the option immediately prior to the consummation of such Article 17 Event, the consideration (whether stock, cash or other securities or property) received in such Article 17 Event by holders of Common Stock for each share of Common Stock held on the effective date of such Article 17 Event (and, if holders of Common Stock are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in such Article 17 Event is not solely common stock of such successor, the Plan Administrator may, with the consent of such successor corporation, provide for the consideration to be received in connection with such option to be solely common stock of such successor equal in fair market value to

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the per share consideration received by holders of Common Stock in the Article 17 Event.

Article 18. Method of Exercise. Any optionee may exercise his or her option from time to time by giving written notice thereof to the Corporation at its principal office together with payment in full for the shares of Common Stock to be purchased. The date of such exercise shall be the date on which the Corporation receives such notice. Such notice shall state the number of shares to be purchased. The purchase price of any shares purchased upon the exercise of any option granted pursuant to the Plans shall be paid in full at the time of exercise of the option by certified or bank cashier's check payable to the order of the Corporation or, if permitted by the Plan Administrator, by shares of Common Stock, provided that such shares have been owned by the optionee for more than six months on the date of surrender to the Corporation, or by a combination of a check and shares of Common Stock. The Plan Administrator may, in its sole discretion, permit an optionee to make "cashless exercise" arrangements, to the extent permitted by applicable law, and may require optionees to utilize the services of a single broker selected by the Plan Administrator in connection with any cashless exercise. No option may be exercised for a fraction of a share of Common Stock. If any portion of the purchase price is paid in shares Common Stock, those shares shall be valued at their then Fair Market Value as determined by the Plan Administrator in accordance with Section 4 of the Incentive Plan.

Article 19. Ten-Year Limitations. Notwithstanding any other provision of the Plans, (a) no option or other award may be granted pursuant to the Plans more than ten years after the date on which the Plans were adopted by the Board of Directors and (b) any option or award granted under the Plans shall, by its terms, not be exercisable more than ten years after the date of grant.

Article 20. Sunday or Holiday. In the event that the time for the performance of any action or the giving of any notice is called for under the Plans within a period of time which ends or falls on a Sunday or legal holiday, such period shall be deemed to end or fall on the next day following such Sunday or legal holiday which is not a Sunday or legal holiday.

Article 21. Applicable Option Plan. In the event that a stock option is granted pursuant to the Program and the Plan Administrator does not specify whether such option has been granted pursuant to the Incentive Plan or the Supplemental Plan, such option shall be deemed to be granted pursuant to the Supplemental Plan.

### PART I

#### INCENTIVE STOCK INCENTIVE PLAN

The following provisions shall apply with respect to options granted by the Plan Administrator pursuant to Part I of the Program:

Section 1. General. This Incentive Stock Incentive Plan ("Incentive Plan") is Part I of the Corporation's Program. The Corporation intends that options granted pursuant to the provisions of the Incentive Plan will qualify and will be identified as "incentive stock options" within the meaning of Section 422 of the Code. Unless any provision herein indicates to the contrary, this Incentive Plan shall be subject to the General Provisions of the Program.

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Section 2. Terms and Conditions. The Plan Administrator may grant incentive stock options to purchase Common Stock to any employee of the Corporation or its Subsidiaries. The terms and conditions of options granted under the Incentive Plan may differ from one another as the Plan Administrator shall, in its discretion, determine, as long as all options granted under the Incentive Plan satisfy the requirements of the Incentive Plan.

Section 3. Duration of Options. Each option and all rights thereunder granted pursuant to the terms of the Incentive Plan shall expire on the date determined by the Plan Administrator, but in no event shall any option granted under the Incentive Plan expire later than ten years from the date on which the option is granted. Notwithstanding the foregoing, any option granted under the Incentive Plan to any person who owns more than 10% of the combined voting power of all classes of stock of the Corporation or any Subsidiary shall expire no later than five years from the date on which the option is granted.

Section 4. Purchase Price. The option price with respect to any option granted pursuant to the Incentive Plan shall not be less than the Fair Market Value of the shares on the date of the grant of the option; except that the option price with respect to any option granted pursuant to the Incentive Plan to any person who owns more than 10% of the combined voting power of all classes of stock of the Corporation shall not be less than 110% of the Fair Market Value of the shares on the date the option is granted. For purposes of the Plans, the phrase "Fair Market Value" shall mean the fair market value of the Common Stock on the date of grant of an option or other relevant date. If on such date the Common Stock is listed on the American Stock Exchange or another stock exchange or is quoted on the automated quotation system of Nasdaq, the Fair Market Value shall be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) of a share Common Stock on such date. If no such closing sale price or bid and asked prices are available, the Fair Market Value shall be determined in good faith by the Plan Administrator in accordance with generally accepted valuation principles and such other factors as the Plan Administrator reasonably deems relevant.

Section 5. Maximum Amount of Options in Any Calendar Year. The aggregate Fair Market Value (determined as of the time the option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any employee during any calendar year (under the terms of the Incentive Plan and all incentive Stock Incentive Plans of the Corporation and the Subsidiaries) shall not exceed \$100,000.

Section 6. Exercise of Options. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted options, incentive stock options may only be exercised to the following extent during the following periods of time:

During -----	Maximum Percentage of Shares Covered by Option Which May be Purchased -----
First 12 months after grant	0

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First 24 months after grant	25%
First 36 months after grant	50%
First 48 months after grant	75%
Beyond 48 months after grant	100%

Section 7. Failure to Satisfy Applicable Requirements. To the extent that an option intended to be granted pursuant to the provisions of this Incentive Plan fails to satisfy one or more requirements of this Incentive Plan, it shall be deemed to be a supplemental stock option granted pursuant to the Supplemental Plan set forth as Part II of the Program.

**PART II**

**SUPPLEMENTAL STOCK INCENTIVE PLAN**

The following provisions shall apply with respect to options granted by the Plan Administrator pursuant to Part II of the Program:

Section 1. General. This Supplemental Stock Incentive Plan ("Supplemental Plan") is Part II of the Corporation's Program. Any option granted pursuant to this Supplemental Plan shall not be an incentive stock option as defined in Section 422 of the Code. Unless any provision herein indicates to the contrary, this Supplemental Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant supplemental stock options to any person eligible under Article 4 of the General Provisions. The terms and conditions of options granted under this Supplemental Plan may differ from one another as the Plan Administrator shall, in its discretion, determine as long as all options granted under this Supplemental Plan satisfy the requirements of this Supplemental Plan.

Section 3. Duration of Options. Each option and all rights thereunder granted pursuant to the terms of this Supplemental Plan shall expire on the date determined by the Plan Administrator, but in no event shall any option granted under this Supplemental Plan expire later than ten years from the date on which the option is granted.

Section 4. Purchase Price. The option price with respect to any option granted pursuant to this Supplemental Plan shall be determined by the Plan Administrator at the time of grant. In the absence of such a determination, the option price of any such option shall equal the Fair Market Value of one share of Common Stock, as determined pursuant to Part I of this Program.

Section 5. Exercise of Options. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted options, supplemental stock options may only be exercised to the following extent during the following periods of time:

	Maximum Percentage of Shares Covered by Option Which May be Purchased
During -----	-----

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First 12 months after grant	0
First 24 months after grant	25%
First 36 months after grant	50%
First 48 months after grant	75%
Beyond 48 months after grant	100%

### PART III

#### STOCK APPRECIATION RIGHTS PLAN

Section 1. General. This Stock Appreciation Rights Plan ("SAR Plan") is Part III of the Corporation's Program.

Section 2. Terms and Conditions. The Plan Administrator may grant stock appreciation rights to any person eligible under Article 4 of the General Provisions. Stock appreciation rights may be granted either in tandem with supplemental stock options or incentive stock options as described in Section 4 of this SAR Plan or as naked stock appreciation rights as described in Section 5 of this SAR Plan.

Section 3. Mode of Payment. At the discretion of the Plan Administrator, payments to recipients upon exercise of stock appreciation rights may be made in (a) cash by bank check, (b) shares of Common Stock having a Fair Market Value (determined in the manner provided in Section 4 of the Incentive Plan) equal to the amount of the payment, (c) a note in the amount of the payment containing such terms as are approved by the Plan Administrator or (d) any combination of the foregoing in an aggregate amount equal to the amount of the payment.

Section 4. Stock Appreciation Right in Tandem with Supplemental or Incentive Stock Option. A SAR granted in tandem with a supplemental stock option or an incentive stock option (in either case, an "Option") shall be on the following terms and conditions:

- (a) Each SAR shall relate to a specific Option or portion of an Option granted under the Supplemental Stock Incentive Plan or Incentive Stock Incentive Plan, as the case may be, and may be granted by the Plan Administrator at the same time that the Option is granted or at any time thereafter prior to the last day on which the Option may be exercised.
- (b) A SAR shall entitle a recipient, upon surrender of the unexpired related Option, or a portion thereof, to receive from the Corporation an amount equal to the excess of (i) the Fair Market Value (determined in accordance with Section 4 of the Incentive Plan) of the shares of Common Stock which the recipient would have been entitled to purchase on that date pursuant to the portion of the Option surrendered over (ii) the amount which the recipient would have been required to pay to purchase such shares upon exercise of such Option.
- (c) A SAR shall be exercisable only for the same number of shares of Common Stock, and only at the same times, as the Option to which it relates. SARs shall be subject to such other terms and conditions as the Plan Administrator may specify.
- (d) A SAR shall lapse at such time as the related Option is exercised or lapses pursuant to the terms of the Program. On exercise of the SAR,

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the related Option shall lapse as to the number of shares exercised.

Section 5. Naked Stock Appreciation Right. SARs granted by the Plan Administrator as naked stock appreciation rights ("Naked Rights") shall be subject to the following terms and conditions:

- (a) The Plan Administrator may award Naked Rights to recipients for periods not exceeding ten years. Each Naked Right shall represent the right to receive the excess of the Fair Market Value of one share of Common Stock (determined in accordance with Section 4 of the Incentive Plan) on the date of exercise of the Naked Right over the Fair Market Value of one share of Common Stock (determined in accordance with Section 4 of the Incentive Plan) on the date the Naked Right was awarded to the recipient.
- (b) Unless otherwise provided by the Plan Administrator at the time of award or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted Naked Rights, Naked Rights may only be exercised to the following extent during the following periods of employment or service as a consultant or director:

During -----	Maximum Percentage of Naked Rights Which May Be Exercised -----
First 12 months after award	0%
First 24 months after award	25%
First 36 months after award	50%
First 48 months after award	75%
Beyond 48 months after award	100%

- (c) The Naked Rights solely measure and determine the amounts to be paid to recipients upon exercise as provided in Section 5(a). Naked Rights do not represent Common Stock or any right to receive Common Stock. The Corporation shall not hold in trust or otherwise segregate amounts which may become payable to recipients of Naked Rights; such funds shall be part of the general funds of the Corporation. Naked Rights shall constitute an unfunded contingent promise to make future payments to the recipient and shall not reduce the number of shares of Common Stock available under the Program.

### PART IV

#### PERFORMANCE SHARE PLAN

Section 1. General. This Performance Share Plan ("Performance Share Plan") is Part IV of the Corporation's Program. Unless any provision herein indicates to the contrary, this Performance Share Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant performance shares to any person eligible under Article 4 of the General Provisions. Each performance share grant shall confer upon the recipient thereof the right to receive a specified number of shares of Common Stock of the Corporation contingent upon the achievement of specified performance objectives within a specified performance objective period including, but

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not limited to, the recipient's continued employment or status as a consultant through the period set forth in Section 5 of this Performance Share Plan. At the time of an award of a performance share, the Plan Administrator shall specify the performance objectives, the performance objective period or periods and the period of duration of the performance share grant. Any performance shares granted under this Plan shall constitute an unfunded promise to make future payments to the affected person upon the completion of specified conditions.

Section 3. Mode of Payment. At the discretion of the Plan Administrator, payments of performance shares may be made in (a) shares of Common Stock, (b) a check in an amount equal to the Fair Market Value (determined in the manner provided in Section 4 of the Incentive Plan) of the shares of Common Stock to which the performance share award relates, (c) a note in the amount specified above in Section 3(b) containing such terms as are approved by the Plan Administrator or (d) any combination of the foregoing in the aggregate amount equal to the amount specified above in Section 3(b).

Section 4. Performance Objective Period. The duration of the period within which to achieve the performance objectives shall be determined by the Plan Administrator. The period may not be more than ten years from the date that the performance share is granted. The Plan Administrator shall determine whether performance objectives have been met with respect to each applicable performance objective period. Such determination shall be made promptly after the end of each applicable performance objective period, but in no event later than 90 days after the end of each applicable performance objective period. All determinations by the Plan Administrator with respect to the achievement of performance objectives shall be final, binding on and conclusive with respect to each recipient.

Section 5. Vesting of Performance Shares. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted performance shares, the Corporation shall pay to the recipient on the date set forth in Column 1 below ("Vesting Date") the percentage of the recipient's performance share award set forth in Column 2 below.

Column 1 Vesting Date -----	Column 2 Percentage -----
1 year from Date of Grant	25%
2 years from Date of Grant	25%
3 years from Date of Grant	25%
4 years from Date of Grant	25%