

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

MEDIX RESOURCES INC  
Form 10-K  
March 27, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-24768

MEDIX RESOURCES, INC.  
(Exact name of registrant as specified in its charter)

Colorado  
(State or other jurisdiction of  
incorporation or organization)

84-1123311  
(I.R.S. Employer Identification No.)

The Graybar Building  
420 Lexington Avenue  
Suite 1830  
New York, New York  
(Address of principal executive offices)

10170  
(Zip Code)

Registrant's telephone number, including  
area code:

(212) 697-2509

Securities registered pursuant to Section  
12(b) of the Act:

Common Stock - \$.001 par value  
The Common Stock is listed on the  
American Stock Exchange

Securities registered pursuant to Section  
12(g) of the Act:

None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2002 was approximately \$23.3 million based upon the closing price of the registrant's common stock on the American Stock Exchange, as of the last business day of the most recently completed second fiscal quarter (June 28, 2002). (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates.)

On February 28, 2003, 80,877,065 shares of the registrant's common stock, par value \$0.001 per share, were outstanding.

*This Annual Report on Form 10-K and the documents incorporated herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, statements that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "plan", "intend", "may," "will," "expect," "believe", "could," "anticipate," "estimate," or "continue" or similar expressions or other variations or comparable terminology are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.*

### Table of Contents

Form 10-K Index

#### PART I

Item 1. Business

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

#### PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

#### PART III

Item 10 Directors and Executive Officers of the Registrant

Item 11 Executive Compensation

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

- Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13 Certain Relationships and Related Transactions
- Item 14 Controls and Procedures

### PART IV

- Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K
- Signatures

### PART I

#### **Item 1. BUSINESS**

Medix Resources, Inc. ("the Company", "we", "us", or "our") was incorporated under the laws of the State of Colorado in 1988 under the name Nur-Staff West, Inc. On May 24, 1988, we changed our name to Med-Temps, Incorporated, and on February 16, 1990, we changed our name to International Nursing Services, Inc. On February 17, 1998, we changed our name to Medix Resources, Inc. From 1988 until 2000, we operated as a temporary healthcare staffing company, with offices at various times in Colorado, New York, Texas and California. We disposed of the healthcare staffing operations in February 2000 and retained only the offices in Colorado. In January 1998, we acquired Cymedix Corporation, which was merged into our wholly owned healthcare technology subsidiary, Cymedix Lynx Corporation, and in 2000 began focusing solely on the development and commercialization of software and connectivity solutions for certain areas of the healthcare industry.

#### **Overview**

We develop and intend to market communication technologies for use in the healthcare industry primarily at the point of care. We have focused on electronic prescribing of drugs, laboratory orders and laboratory results because these represent the majority of the transactions performed at the point of care, and remain largely a paper-based starting point for transferring information in the healthcare system. Our goal is to close the gap in electronic or automated processing by providing technologies and work-flow processes at the point of care. Our technologies would enable point-of-care providers ("POCs") (i.e. physician or caretaker) to connect with other participants in the healthcare system. At this time, we are focused primarily on healthcare value chain intermediaries ("HVCIs") (e.g. pharmacy, lab, pharmacy benefit managers, pharmaceutical companies, etc.). Our products are designed to improve the accuracy and the efficiency of the processes of drug prescribing and the ordering of laboratory tests and the receiving of laboratory results.

When we shifted to this business in 2000, our plan was initially to deploy the technology in a single market. We began to test this approach in April 2002 with a small, local sales and installation team in Georgia that deployed the Cymedix technology to physician practices. By August 2002 it was clear to us that although the technology worked and physicians were using the system, this approach was not going to be commercially viable for several reasons including slow adoption by physicians unless there was an economic incentive, limited support by major HVCIs, and the high cost of marketing, sales, installation and service associated with serving individual and small medical practices. Based on these results, the initial deployment in Georgia was halted in August 2002.

At that time, we evaluated the business of automating the transaction at

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

the point of care and concluded that a viable business could be built, but a different approach would be required than originally anticipated. Based on this evaluation, in September 2002, our Board recruited certain new senior managers including a new chief executive officer to assist us in pursuing alternative approaches to developing and deploying technology at the point of care.

Our current plan for the commercialization of our technology is to target physician practices and other POC centers that have the following characteristics: sufficient patient volume; clear economic incentive, such as administrative savings and time savings; commitment to electronic transfer of point of care information; and HVCI or other healthcare participant support for the rollout of the technology. Subject to the above criteria, our goal remains to connect from the point of care to the various segments of the healthcare industry that meet these criteria, such as health plans, insurers, skilled nursing facilities, pharmacy benefit management companies ("PBMs"), pharmacies and pharmaceutical companies.

We believe that it is important to deploy technologies that are easy to adopt or already have established markets. As such, on March 4, 2003 we acquired assets from Comdisco Ventures, Inc. that were formerly used by ePhysician, Inc. in its software and technology business prior to its cessation of operations in 2002. ePhysician point-of-care technologies enable physicians to securely access and send information to pharmacies, billing service companies, and practice management systems via the Palm OS(R)-based handheld device and the Internet, meeting our objective of deploying a recognized technology. Our goal is the integration of the Cymedix and e-Physician technologies and to market them on a commercial basis.

We have been in business since 1988. We decided in 2000 to dispose of the temporary healthcare staffing business to focus on the healthcare software and connectivity solutions industry. The development of technology and the future marketing of connectivity solutions is our sole business at this time. Our net operating loss is due to this transition and the ongoing efforts to build a commercially viable business in point-of-care automation. We currently do not have any active users of our products.

Our principal executive office is located at The Graybar Building, 420 Lexington Avenue, Suite 1830, New York, New York 10170, and our telephone number is (212) 697-2509. We have closed our California and Colorado offices, and we are actively pursuing an exit to our leases in Georgia and California.

### **Industry Background**

Growth of the medical information management marketplace is driven by the need to share significant amounts of accurate clinical and patient information among all participants in the healthcare system. The U.S. Centers for Medicare and Medicaid Services estimates that \$1.4 trillion dollars, (14% of the U.S. gross domestic product) was spent on healthcare in 2001. It also estimates that healthcare expenditures are expected to grow to approximately \$2.8 trillion by 2011, due to increasingly expensive and sophisticated clinical technology, an aging population base and the growing demands of newly-empowered and health conscious consumers. Health economists estimate that 20% or more of the nation's total healthcare expenditures are spent on backroom administration. These economists also estimate that another 10% of these expenditures are attributable to the consequences of adverse health events caused by inaccurate or unavailable patient information.

Healthcare has many participants. For Medix, the relevant participants include the approximately 645,000 practicing physicians, 6,200 hospitals, 16,500 nursing homes, 8,000 home healthcare agencies, 4,500 independent laboratories and thousands of managed care organizations and other ancillary healthcare providers in the U.S. The larger organizations in healthcare have over the years

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

installed large-scale automated systems to structure and share uniform information. Physician practices, which are mostly comprised of five or fewer physicians, have systems to support billing, and some clinical activity. The same is true of hospitals. However, very few provider organizations have automated the first point of a transaction, which is often at the point of care. At the point of care, most practitioners rely on paper and pen, which is only later converted to electronic form. Generally, the industry has large-scale administrative and financial processing systems, but little transaction automation at the point of care.

The industry is highly regulated. There are both federal and state regulations. A federal regulation has been established relating to, among other areas, the management of information, called the Health Insurance Portability and Accountability Act ("HIPAA"). This act, among other things, specifies the communication standards for administrative and clinical electronic health information. Under HIPAA, by October 16, 2003, POCs and HVCIs, who transmit data electronically will be required to use technology that meets HIPAA security standards with respect to electronic transactions and code sets.

### **Technology**

Our developing technology platform and its resulting products, as discussed below, are intended to provide connectivity of medical related information from the point of care to HVCIs, over the Internet, safely, efficiently and easily. It is our intention to combine aspects of the ePhysician product functionality with our existing Cymedix technologies, resulting in our ultimate technology platform, which we intend to commercialize (these combined technologies are the "Merged Technology"). The Merged Technology is intended to improve the accuracy and the efficiency of the processes of drug prescribing and the ordering of laboratory tests and the receiving of laboratory results and will be focused around a device-neutral architecture that uses proven workstation, handheld and wireless technologies.

The technology assets acquired from ePhysician include product modules that we believe will allow us to augment the feature set of our software. Aspects of ePhysician's core technology architecture, including product functionality such as charge capture and partner messaging, will be evaluated for inclusion in our technology foundation.

The existing Cymedix technology is divided into three distinct areas, Cymedix Pharmacy, Cymedix Laboratory and the Cymedix Universal Interface ("CUI"). Our Cymedix Pharmacy product automates the prescription writing process for a medical practice. The Cymedix Pharmacy product allows a POC to perform real-time transactions to determine patient eligibility for drug benefit coverage, and medication history and formulary compliance at the point-of-care. Our Cymedix Laboratory product allows a POC to electronically submit lab test orders and to receive lab test results. The Cymedix Lab product can exchange real-time lab orders and lab results with reference and facility based laboratories. The CUI enables our Cymedix Pharmacy and Laboratory products to extract data from a POC's practice management system in an automated and secure manner. While we have not yet deployed these products with customers, we believe that these technologies are all functional, subject to appropriate integration with potential customers' systems.

The laboratory product that will be included in the Merged Technology is solely based on Cymedix's technology, as ePhysician does not have any laboratory functionality. The CUI will be combined with ePhysician's extraction technologies, which had been developed to work with over 150 practice management systems. Access to patient data appears to be a key aspect of any of our potential product offerings, irrespective of target market, so we expect to continue investing in the expansion of the extraction capabilities of the Merged Technology.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

The feature set of our Merged Technology will include most of the functionality described in the following charts. However, we expect to add and subtract functionality based on the needs of the end-users we pursue.

PRODUCT	TARGETED FUNCTIONALITY
Pharmacy	<ul style="list-style-type: none"><li>o Pharmacy benefit manager identification (eligibility verification and an automatic link to formulary / benefits information).</li><li>o Electronic Prescribing (retail and mail order)</li><li>o Medication History</li><li>o Treatment and formulary compliance</li><li>o Drug to Drug interaction, drug to allergy, duplicate therapy and other clinical checks</li><li>o Messaging and prompts</li><li>o Compliance analysis</li></ul>
Lab	<ul style="list-style-type: none"><li>o Complete Lab Order Entry</li><li>o Medical necessity verification</li><li>o 24/7 results reporting (partial and full)</li><li>o Specimen tracking</li><li>o Messaging and prompts</li></ul>

### Patents, Trademarks and Copyrights

US Patent No 5,995,939 was issued on November 30, 1999 to our wholly owned subsidiary, Cymedix Lynx Corporation. That patent covers our automated service request and fulfillment system and will expire October 14, 2017.

Cymedix registered U.S. Trademark Registration No. 2,269,377 for the mark CYMEDIX in connection with "computer software for data base and electronic record management in the healthcare field" on August 10, 1999, U.S. Trademark Registration No. 2,316,240 for the mark LYNX in connection with "computer software to provide secure communication on a global communication information network" on February 8, 2000, and U.S. Trademark Registration No. 2,409,248 for the mark CYMEDIX.COM in connection with "computer software for database and electronic record management in the healthcare field" on November 28, 2000. We do not intend to utilize these trademarks as part of the Merged Technology.

Cymedix has obtained seven copyright registrations for two versions of each of three modular software components of the Cymedix suite of products, as well as a technical evaluation document that describes the software products. No assurance can be given that any of our software products will receive additional patent or other intellectual property protection. Cymedix has assigned the above patent and copyright registrations to Medix. It is unclear whether any of the existing copyrights or the patent will inure any significant value to our business in the future.

We seek to protect our software, documentation and other written materials primarily through a combination of trade secret, trademark and copyright laws, confidentiality procedures and contractual provisions. In addition, we seek to avoid disclosure of our trade secrets, by, among other things, restricting access to our source code and requiring those persons with access to our proprietary information to execute confidentiality agreements with us.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult. While we are unable to determine the extent to which piracy of our products exists, software piracy can be expected to be a persistent problem, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

From time to time, we may be involved in intellectual property disputes. We may notify others that we believe their products infringe upon our intellectual property rights, and others may notify us that they believe that our products infringe on their intellectual property rights. We expect that providers of eHealth solutions will increasingly be subject to infringement claims as the number of products and competitors in our industry grows and traditional suppliers of healthcare data and transaction solutions begin to offer Internet-based products. If our proprietary technology is subjected to infringement claims, we may have to expend substantial amounts to defend ourselves, and, if we lose, pay damages or seek a license from third parties, which could delay the commercialization of our products. If our proprietary technology is infringed upon, we may have to expend substantial amounts to prosecute the infringing parties, and we may experience losses if we cannot support our claim of infringement.

### **Business Strategy**

While we continue the development of our Merged Technology, we are evaluating ways to deploy these technologies to the healthcare marketplace. We are currently exploring whether individual potential markets for deployment are on financial terms that would be commercially feasible and worth pursuing. We currently do not have any customers for our products.

Some PBMs have been willing to pay transaction fees to electronic prescribers for prescriptions delivered electronically for their covered lives. These transaction fees may not justify the cost of deploying our Merged Technology to POCs. Our existing contract with Medco Health Solutions, when implemented, would pay us transaction fees on their covered lives. We intend to explore the possibilities of PBMs, health plans and other interested parties providing us with additional financial assistance that might better justify deploying our Merged Technology to a targeted POC audience of their choosing. At this time, it is not certain whether this plan will be a viable part of our business if and when our Merged Technology is available for commercial deployment.

We are also beginning to explore other distribution channels and venues through which our Merged Technology could be deployed. We believe potentially attractive areas for us to pursue must offer us an opportunity to aggregate POCs or prescriptions in a concentrated manner. Skilled nursing facilities, institutional pharmacies, hospices and veteran's hospitals appear to be venues that may have attractive characteristics for the commercialization of our products. While the Merged Technology may meet certain aspects of these opportunities, we expect that each area we ultimately pursue, if any, would require us to undertake additional development work. In evaluating these distribution channels and venues, we plan to focus on ease of entry into a given distribution channel or venue, and the potential to extract a reasonable economic return from a paying customer. We do not intend to deploy our products to areas where we would need to invest significant financial resources. Instead, we are seeking opportunities where we perceive that we might be able to generate attractive levels of revenue over reasonable periods of time. Our intention is to develop short pilot opportunities with interested potential customers, with the hope of moving to a revenue producing relationship within the 2003 calendar year. No assurance can be given that this goal can be achieved. It is important to note that we have never deployed our Cymedix product in any meaningful

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

manner, and have not yet attempted to deploy our Merged Technology, and in fact, the development process of our Merged Technology is still underway, precluding us from attempting to deploy our Merged Technology at this time.

Formulary compliance, which is the ability of an HVCI to have a POC prescribe a pharmaceutical product of the HVCI's choice, is an area that we intend to explore. We believe our technologies have the possibility of enabling an HVCI to achieve better formulary compliance. We may seek to prove this premise in a given marketplace through pilot projects, so as to attract HVCI's for whom this capability would be a material attraction. The key manner in which our Merged Technology could affect formulary compliance is through messaging and placement of information, intended to affect the POCs prescribing behavior prior to having prescribed any product. We have not yet explored this area, and our Merged Technology may not prove to be commercially viable in the manner in which we contemplate its use in this area.

### **RISK FACTORS**

In addition to the other information contained in this report, the following risk factors should be considered carefully in evaluating an investment in Medix Resources, Inc. and in analyzing our forward-looking statements.

#### **Risks Related to Medix**

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

We reported net losses of \$9,014,000, \$10,636,000 and \$5,415,000 for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, we had an accumulated deficit of \$43,073,000 and a net working capital deficit of \$252,000. Our products are in the development and early deployment stage and have not generated any revenue to date. We are funding our operations through the sale of our securities. Our independent accountants have included a "going concern" exception in their audit reports on our audited 2002, 2001 and 2000 financial statements.

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

We expect to continue to experience losses, in the near term, until such time as the Merged Technology can be successfully deployed with physicians and produce revenue. The continuing development, marketing and deployment of the Merged Technology will depend upon our ability to obtain additional financing. The Merged Technology is in the development stage and has not generated any revenue to date. We are funding our operations now through the sale of our securities. There can be no assurance that additional investments or financings will be available to us on favorable terms or at all as needed to support the development and deployment of Merged Technology. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Merged Technology at a distressed price or the financial failure of our company.

**We have a limited number of authorized shares of common stock for issuance, and if our shareholders do not approve of an increase in the authorized number of shares of our common stock, we will be unable to raise additional capital.**

We currently have 125,000,000 shares of common stock authorized for issuance under our certificate of incorporation, and as of February 28th 2002, have 80,877,065 outstanding shares of common stock and 37,064,527 shares of common stock reserved for issuance under existing options, warrants and outstanding shares of our convertible preferred stock. Thus, we only have 7,058,408 shares of common stock that are available for issuance. We intend to



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

request that our shareholders approve, at a special meeting of shareholders, an increase in the number of shares of common stock that we are authorized to issue. However, we cannot predict the outcome of that vote. If our shareholders do not approve of the increase in the number of shares of common stock that we are authorized to issue, we will be unable to raise additional capital.

**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 to 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 us to delay payment of our obligations as they came due in the ordinary course of our business. In some cases, we were delinquent in making payments by the legally required due dates. At our four office locations, we 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. We 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. We paid the resulting penalties as they were billed. We had state withholding obligations in five states, Colorado, California, Georgia, New Jersey and New York. Although we were not late in making withholding payments in those five states during 2002, we have been late in prior periods. Similarly, although we were not late in making deposits of our employees' 401(k) contributions during 2002, we have been late in making such deposits in the past. During 2003, we may be delinquent from time to time in meeting our obligations as they become due.

**While we have had operations since 1988, we are better considered a development stage company, which means our products and services have not yet proved themselves commercially viable and therefore our future is uncertain.**

Although we have had operations since 1988, because of our move away from temporary healthcare staffing, we have a relatively short operating history and limited financial data upon which you may evaluate our business and prospects, and are better considered a development stage company. In addition, our business model is likely to continue to evolve as we attempt to develop our product offerings and enter new markets. As a result, our potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by development stage companies that are attempting to move into new markets and continuing to innovate with new and unproven technologies. 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. Such failure may negatively affect our ability to generate revenue and our reputation.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

**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 the Merged Technology 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.
- 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 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 a strategy to develop alternate distribution channels in multiple markets, there can be no assurance that we will be successful.
- o We cannot assure you that we will successfully complete the development of the Merged Technology in a timely fashion or at all 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 effect on our financial condition.**

Certain of our 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, HIPAA and the regulations that are being promulgated under it 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 business.

**We 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 affect 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, 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 the Merged Technology. 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 the Merged Technology 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. A party has notified us that it believes our pharmacy product may infringe on patents that it holds. We have retained patent counsel who has made a preliminary investigation and determined that our product does not infringe on the identified patents. At this time no legal action has been instituted.
- o We 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 commercial efforts to protect such information and techniques; however, we cannot assure you that such efforts will be successful. The

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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 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 the Merged Technology 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 the Merged Technology is dependent to a significant degree on our key management and technical personnel. We believe that our 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 the Merged Technology operates. 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.

**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, we 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. As of that date approximately 33,153,728 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 \$.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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

to profit from a rise in the market price of the common stock, and the exercise of any options, warrants or other rights may dilute the book value per share of our 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 sales, as well as the issuance of 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 fluctuations:

- o unfavorable announcements or press releases relating to the technology sector;
- o regulatory, legislative or other developments affecting our company or the healthcare 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 an equity line of credit or 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 healthcare 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 healthcare 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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 further result in fewer market makers making a market in our common stock and further restrict the liquidity of our common stock.

### RECENT DEVELOPMENTS

On March 4, 2003, we purchased from Comdisco Ventures, Inc. substantially all of the assets formerly used by ePhysician, Inc. in its software and technology business prior to its cessation of operations in 2002. We are evaluating the newly acquired technology to determine how best to integrate our Cymedix technology with the ePhysician technology, resulting in our Merged Technology. From its formation in 1998, through its cessation of operations in November 2002, ePhysician developed and provided ePhysician Practice, a suite of software products that enables physicians to prescribe medications, access drug reference data, schedule patients, view formulary information, review critical patient information and capture charges at the point of care using a Palm OS(R)-based handheld device and the Internet.

On March 5, 2003, we terminated our merger agreement with PocketScript, LLC. We had entered into a non-binding Letter of Intent with PocketScript on October 30, 2002 and had executed a definitive merger agreement on December 19, 2002 to acquire PocketScript subject to certain conditions of closing.

### COMPETITION

Healthcare Connectivity Services. The market for healthcare connectivity services continues to be evolving and highly fragmented. No clear leader has emerged. Several competitors have exited the market during the past two years, having failed to prove the viability of their businesses or having depleted their financial resources. The technology companies in this market include, large traditional technology vendors such as Siemens, General Electric and Hewlett Packard, as well as various healthcare-centric technology companies such as Misys Healthcare Systems, WebMD, ProxyMed, NaviMedix and Allscripts.

There are other connectivity companies in the United States, both publicly and privately held, that compete directly or indirectly with us. Moreover, 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 Internet commerce or electronic network focus. Currently, we view our main competitors as WebMD, ProxyMed, NaviMedix and Allscripts, as well as practice management system vendors that may elect to build versus partner. These competitors have greater financial resources and marketing capability than we do and may have technology resources that are superior to ours. We will seek to raise capital to develop and implement our Merged Technology in a timely manner, however, as long as our operations remain under funded, as they are now, we will be at a competitive disadvantage.

We believe that we can be competitive in this industry because our Merged Technology will be built on a scalable technology architecture, our product features appear to fill a need in the healthcare connectivity marketplace and we will have extraction capabilities allowing us to interface with a significant number of practice management systems.

### GOVERNMENT REGULATION

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Federal and state laws and regulations regulate many aspects of our business. Since sanctions may be imposed for violations of these laws, compliance is a significant operational requirement. We believe we are in substantial compliance with all existing legal requirements material to the operation of our business. There are, however, significant uncertainties involving the application of many of these legal requirements to our business. We are unable to predict what additional federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the healthcare industry in general, or what effect any such legislation or regulations might have on us. We cannot provide any assurance that federal or state governments will not impose additional restrictions or adopt interpretations of existing laws that could have a material adverse affect on our results or operations, financial position and/or cash flow from operations.

**HIPAA and Standardized Transactions.** Our sponsor-customers and physician users must comply with the Administrative Simplification provision of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), under which regulations for governing privacy, electronic transactions and code sets, security and unique identifiers have been, or are in the process of being, implemented. Our products must contain features and functionality that allow our customers and users to comply with existing law and regulations.

HIPAA regulations will have a major effect on us as well as other participants in the healthcare industry. Significant resources will be required to implement these regulations. Major retooling of medical information technology will be required to install the required standardized codes and procedures. Transaction standards, code sets, and identifiers will need to be installed on medical participants' networks and office computers. Security and privacy regulations will be difficult to implement and maintain because they are broad in scope and require ongoing vigilance to assure compliance. Estimated costs of implementation vary widely, but will be in the billions of dollars throughout the United States. Failure to comply could put us or other healthcare participants out of business.

We believe that the Merged Technology is designed to comply with known HIPAA regulations. However, until all such regulations are issued and final, they could be modified, which may require us to expend additional resources to comply with the revised standards. In addition, given their novelty, breadth in scope, and uncertainty as to interpretation, implementation will be uncertain and the possibility of inadvertently failing to meet these standards is high. Such failure could result in fines and penalties being assessed against us or cause our business to suffer in other ways.

**Government Regulation of the Internet.** New laws and regulations may be adopted with respect to the Internet or other on-line services covering issues such as privacy, pricing, content, copyrights, distribution and characteristics and quality of products and services. The adoption of any new laws or regulations may impede the growth of the Internet or other on-line services, which could decrease the demand for our software applications and services, increase our cost of doing business, or otherwise have an adverse effect on our business, financial condition and results of operations. Moreover, the manner in which existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy will be applied to activities on the Internet is uncertain and may take years to resolve. Any such new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could have a material adverse effect on our business, financial condition and results of operations.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

**Confidentiality and Security.** While HIPAA, as discussed above, is expected to be the most important set of laws and regulations regarding confidentiality and security issues for companies in the healthcare industry, state regulations may also continue to apply to confidentiality of patient records and the circumstances under which such records may be released for inclusion in our databases. Such regulations govern both the disclosure and the use of confidential patient medical records. Such regulations could require holders of such information, including us, to implement costly security measures, or may materially restrict the ability of healthcare providers to submit information from patient records using our applications. We utilize an architecture that incorporates encrypted messaging, firewalls and other security methods to assure customers of a compliant and secure computing environment. However, no technical security procedure is infallible, and we will always be at risk of a breach of security by either willful human effort or inadvertent human error. If we were found liable for any such breach, such finding could have a material adverse affect on our business, financial condition and results of operations.

**False Claims Act.** Under the federal False Claims Act, liability may be imposed on any individual or entity who knowingly submits or participates in submitting claims for payment to the federal government which are false or fraudulent, or which contain false or misleading information. Liability may also be imposed on any individual or entity that knowingly makes or uses a false record or statement to avoid an obligation to pay the federal government. Certain state laws impose similar liability. The federal government or private whistleblowers may bring claims under the federal False Claims Act. If we are found liable for a violation of the federal False Claims Act, or any similar state law, due to our processing of claims for Medicaid and Medicare, it may result in substantial civil and criminal penalties. In addition, we could be prohibited from processing Medicaid or Medicare claims for payment.

**Government Investigations.** There is significant scrutiny by law enforcement authorities, the U.S. Department of Health and Human Services Office of Inspector General, the courts and Congress of agreements between healthcare providers and suppliers or other contractors that have a potential to increase utilization of government healthcare resources. In particular, scrutiny has been placed on the coding of claims for payment, incentive programs that increase use of a product and contracted billing arrangements. Investigators have looked beyond the formalities of business arrangements to determine the underlying purposes of payments between healthcare participants. Although, to our knowledge, neither we nor any of our customers is the subject of any investigation, we cannot tell whether we or our customers will be the target of governmental investigations in the future.

**Federal and State Anti-Kickback Laws.** Provisions of the Social Security Act, which are commonly known as the Federal Anti-Kickback Law, prohibit knowingly or willfully, directly or indirectly, paying or offering to pay, or soliciting or receiving, any remuneration in exchange for the referral of patients to a person participating in, or for the order, purchase or recommendation of items or services that are subject to reimbursement by, Medicare, Medicaid and similar other federal or state healthcare programs. Violations may result in civil and criminal sanctions and penalties. If any of our healthcare communications or electronic commerce activities were deemed to be inconsistent with the Federal Anti-Kickback Law or with state anti-kickback or illegal remuneration laws, we could face civil and criminal penalties or be barred from such activities. Further, we could be required to restructure our existing or planned sponsorship compensation arrangements and electronic commerce activities in a manner that could harm our business.

If compliance with government regulation of healthcare becomes costly and difficult for us and our customers, we may not be able to implement our business plan, or we may have to abandon a product or service we are providing or plan to provide altogether.



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

### Employees

As of March 14, 2003, we had 21 full-time and no part-time employees. Ten of these employees are involved in software programming and support of the Cymedix network, four are involved in the marketing and deployment of product, and seven are involved in our administrative and financial operations. None of our employees is represented by a labor union, and we have never experienced a work stoppage. We believe our relationship with our employees to be good. However, our ability to achieve our financial and operational objectives depends in large part upon our continuing ability to attract, integrate, retain and motivate highly qualified sales, technical and managerial personnel, and upon the continued service of our senior management and key sales and technical personnel. See "Executive Officers Compensation - Employment Agreements." Competition for such qualified personnel in our industry and the geographical locations of our offices is intense, particularly in software development and technical personnel.

### ITEM 2. PROPERTIES

Our principal executive office is located at 420 Lexington Avenue, Suite 1830, New York, NY 10170. In addition, we have three other offices located in Colorado, California and Georgia .

	Square Footage	Lease Expiration Date	2003 Rent (est.)
	-----	-----	-----
New York, New York Greenwood Village, Colorado (1)	10,495	1-31-2005	\$288,560
Agoura Hills, California (2)	2,967	7-31-2003	58,185
Marietta, Georgia (2)	3,474	3-31-2007	79,207
	2,060	2-28-2004	31,930
	-----	-----	-----
Totals	18,996		\$ 457,882
	=====		=====

- 
- (1) In connection with the sale of our remaining staffing business in 2000, we subleased 2,735 square feet of this space to the purchaser, who will pay \$50,000 in rent annually for such space until July 31, 2003. In 2002, we sublet an additional 2,269 square feet at market rates until July 31, 2003. We remain jointly liable for rental payments on such subleased spaces until the end of the sublease and liable for all the space until the end of the lease indicated above.
- (2) As a result of the cessation of our deployment efforts in Georgia, and in order to eliminate overhead, we have closed our California and Colorado offices, and we are actively pursuing an exit to our leases in Georgia and California. Given current market conditions, we are not optimistic that an attractive exit strategy exists, but we are seeking to mitigate our obligations on these two leases. Our lease in Colorado is scheduled to expire in mid-2003, and will not be renewed, as we have consolidated all previous functions performed in Colorado to New York City. We believe that our New York facility will be suitable for our needs for the foreseeable future. We have insured all of our properties at the levels required to meet our lease obligations. We believe that these levels are reasonable measures of adequate levels of insurance.

### ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company may be party to litigation

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

from time to time. Current legal proceedings are as follows:

Tufts Associated Health Plans, Inc. has threatened to commence litigation against us for allegedly breaching the Services and Support Agreement between Tufts and the Company. Tufts has alleged that because of the termination of the merger agreement between the Company and PocketScript, the Company is unable to provide the products and services as contemplated by the Services and Support Agreement and is in "material breach" thereunder. We disagree with Tufts' allegations. At this time, litigation has not been commenced.

On 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) breach of the 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 principle 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 the full \$55,000 was paid in 2002 in compliance with the settlement.

A party has notified us that it believes our pharmacy product may infringe on patents that it holds. We have retained patent counsel who has made a preliminary investigation and determined that our product does not infringe on the identified patents. At this time no legal action has been instituted.

#### ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The following matters were submitted to our shareholders at the 2002 Annual Meeting of Shareholders held on October 8, 2002:

<b>Proposal #1</b>	<b>Election of Directors</b>	<b>For</b>	<b>Withheld</b>
	-----	---	-----
	Mr. Samuel H. Havens	52,420,897	3,376,780
	Mr. Guy L. Scalzi	52,420,897	3,376,780

Patrick W. Jeffries', Joan E. Herman's, Darryl R. Cohen's, John T. Lane's and David B. Skinner's respective terms as directors did not expire during 2002 and each continued to serve as a director following the October 8, 2002 meeting. Mr. Skinner died in January 2003 and Mr. Lane resigned from the Board in February 2003.

**Proposal # 2** Approval of the proposed amendment to the Company's Articles of

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Incorporation to increase the number of shares of the Company's Common Stock authorized for issuance from 100 million to 125 million.

For ---	Against -----	Abstained -----
52,130,969	3,193,726	472,982

**Proposal #3** Ratification of the appointment of Ehrhardt Keefe Steiner & Hottman PC, independent public accountants, to audit the financial statements of the Company for the fiscal year ended December 31, 2002.

For ---	Against -----	Abstained -----
51,191,307	3,400,113	1,206,257

### PART II

#### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

On April 6, 2000, our common stock was listed and began trading on the American Stock Exchange under the symbol "MXR." Prior to that time, our common stock was traded on the OTC Bulletin Board under the symbol "MDIX." The following table shows high and low sale prices for each quarter in the last two calendar years as reported by the American Stock Exchange. On March 14, 2003, the last sales price reported on the American Stock Exchange was \$0.40.

		Common Stock Price	
		High	Low
		-----	
2002			
First Quarter		\$0.91	\$0.47
Second Quarter		0.62	0.27
Third Quarter		0.62	0.31
Fourth Quarter		0.94	0.48
2001			
First Quarter		\$1.62	\$0.52
Second Quarter		1.49	0.41
Third Quarter		1.36	0.50
Fourth Quarter		1.09	0.49

There were approximately 500 holders of record (and approximately 9,000 beneficial owners) of our common stock as of March 14, 2003. The number of record holders includes shareholders who may hold stock for the benefit of others.

We did not declare or pay a dividend for the years ending December 31, 2002 or December 31, 2001 and do not expect to pay any dividends on our common stock in the foreseeable future. We currently intend to retain all available funds for the development of our business and for use as working capital. The payment of dividends on our common stock is subject to our prior payment of all accrued and unpaid dividends on any preferred stock outstanding.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

### Equity Compensation Plan Information

The following table provides information about compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance to employees or non-employees (such as directors and consultants), as of December 31, 2002:

Plan Category

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
	-----	-----	-----
Equity compensation plans approved by security holders	9,340,000	\$1.11	505,000
o 1999 Stock Option Plan			
Equity compensation plans not approved by security holders	10,955,777	\$0.63	-
	-----	-----	-----
Total	20,295,777	\$0.85	505,000
	=====	=====	=====

### Recent Sales of Unregistered Securities

From October 2002 through February 2003, in private placements, the Company sold to accredited investors 10,151,250 shares of its common stock and warrants covering 10,151,250 shares of common stock for aggregate proceeds of \$4,060,500. In addition, from January 2003 through February 2003, the Company issued warrants covering 960,966 shares of common stock to accredited investors who are finders who assisted the Company in the private placements and to consultants who provided services to the Company.

### ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data, at the end of and for the last five fiscal years, should be read in conjunction with our Consolidated Financial Statements and related Notes thereto appearing elsewhere in this Report. The consolidated selected financial data are derived from our consolidated financial statements that have been audited by Ehrhardt Keefe Steiner & Hottman PC, our independent auditors, as indicated in their report included herein. The selected financial data provided below is not necessarily indicative of our future results of operations or financial performance.

	2002	2001	2000 (1)	1999	1998 (2)
	-----	-----	-----	-----	-----
Operating revenues	\$ 0	\$29,000	\$326,000	\$24,000	\$17,412,000

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Software and technology costs	2,366,000	1,288,000	865,000	596,000	780,000
(Loss) or profit from continuing operations	(9,014,000)	(10,636,000)	(6,344,000)	(5,422,000)	(515,000)
(Loss) or profit from continuing operations per share	(0.14)	(0.21)	(0.15)	(0.29)	(0.15)
Total Assets	3,793,000	3,101,000	5,089,000	4,629,000	5,175,000
Working Capital	(252,000)	(1,404,000)	394,000	644,000	(2,612,000)
Long Term Obligations	-	-	-	400,000	-
Stockholder's Equity (Deficit)	1,618,000	1,345,000	4,202,000	2,376,000	(218,000)

The following supplemental information is related to software development expenses.

Software Development Costs:	2002	2001	2000 (1)	1999	1998 (2)
Software research and development costs (3)	\$691,000	\$1,075,000	\$685,000	\$596,000	\$780,000
Capitalized software development costs	633,000	434,000	495,000	-	-
Total Software Development Costs incurred	1,324,000	1,509,000	1,180,000	596,000	780,000

(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 and license fees and impairment write-off of capitalized costs included in software costs in the Company's Statement of Operations.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

**Overview**

Currently, we develop and market healthcare communication technology products. Our technologies are designed to provide connectivity of medical related information between POCs and HVCIs. Our products are designed to improve the accuracy and the efficiency of the processes of prescribing medications and the ordering of laboratory tests and the receiving of laboratory results.

Our current financial condition is a direct result of the efforts to

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

develop a commercially viable healthcare connectivity business.

### **Critical Accounting Policies**

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

#### *Revenue Recognition*

Our policy is to recognize revenue 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. Our plan is that delivery will take place electronically when the customer has completed the exchange (transmission or receipt) of data or as monthly service is provided. Revenue will be charged to the customer on a per transaction basis as each transaction is completed or as monthly subscription services are provided and are billed monthly.

#### *Valuation of Goodwill*

In accordance with SFAS No. 142 we no longer amortize goodwill, but rather perform an annual assessment as to whether any impairment has occurred. We also assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include the following:

- o significant under-performance relative to expected historical or projected future operating results;
- o significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- o significant negative industry or economic trends;
- o significant decline in our stock price for a sustained period; and
- o our market capitalization relative to net book value.

We determine whether the carrying value of goodwill may not be recoverable annually and more frequently based upon events and circumstances including the existence of one or more of the above indicators of impairment. We determine whether impairment has occurred by first, comparing the fair value of our only reporting unit to the carrying value of the reporting unit. If the fair value of the reporting unit is less than the carrying value of the net assets, then the second step is to initially determine the fair value of the net assets in the reporting unit exclusive of goodwill, and record any necessary impairment of assets other than goodwill in accordance with SFAS No. 144 or other applicable standards. The difference in the fair value of the individual net assets exclusive of goodwill and the reporting unit results in the implied value of goodwill. The implied value of goodwill is compared to its carrying value and

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

the difference is recorded as an impairment charge, if necessary. We performed our annual evaluation of goodwill and the fair value of the reporting unit exceeded its carrying value, therefore, no impairment of goodwill existed. Net goodwill amounted to \$1.6 million as of December 31, 2002.

### *Software and Technology Costs*

We capitalize costs, which primarily include salaries in connection with developing software for internal use. We use judgment in determining whether development costs meet the criteria for immediate expense or capitalization. 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. We cease capitalization of development costs once the software has been substantially completed and is ready for its intended use. We capitalized \$633,000, \$434,000 and \$495,000 of costs during the years ended December 31, 2002, 2001 and 2000, respectively. The software development costs capitalized were amortized over the estimated useful life of the software, which was estimated to be five years. Amortization expense was \$216,000, \$156,000 and \$134,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Included in software costs are those costs associated with software research and development efforts that have not been capitalized under SOP 98-1. Software research and development costs totaled \$691,000, \$1,075,000 and \$685,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Software costs also include the amortization of capitalized software costs and license fees paid to service providers, which totaled \$609,000, \$213,000 and \$180,000 for the years, ended December 31, 2002, 2001 and 2000, respectively.

Uncertainties regarding future cash flows did not support the carrying value of those costs at December 31, 2002. In accordance with SFAS No. 144, the Company wrote-off the remaining \$1,066,000 of previously capitalized net costs during the fourth quarter of 2002. Future performance will be enhanced with the acquisition of assets formerly used by e-Physician, the merger of the acquired technologies with the Cymedix technologies and the implementation of the revised business strategies.

While the Company's business model has changed potentially affecting the Company's anticipated near term future operating results, the Company believes its modified plan continues to rely on the same technology that was acquired from Cymedix in 1998. Accordingly, management does not believe an impairment of goodwill has occurred and it continues to have a viable long-term strategy that is supported by its current market capitalization at December 31, 2002, which supports the fair value of its only reporting unit.

### **Results of Operation**

#### *Comparison of years ended December 31, 2002 and December 31, 2001*

At present we are not receiving revenue from the sale of our products. In 2001, we recognized \$29,000 in revenue primarily from the sales of ADC Hardware, a product that we no longer sell.

Software and technology costs of \$2,366,000 were incurred in 2002, an increase of \$1,078,000 compared to \$1,288,000 for 2001. The increase is primarily related to the write-off of \$1,066,000 of previously capitalized net software development costs for which recoverability became uncertain due to uncertainty in future cash flows. The increase also reflects additional license costs incurred in 2002 of \$336,000 over 2001 due to added infrastructure to support our transaction service capabilities in 2002 as we placed a major focus on deployment of our technologies with PBMs during the first three quarters of

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

2002. Amortization of capitalized software development costs increased \$60,000, while research and development costs decreased by \$384,000 due to increased capitalization of costs associated with active projects in 2002.

Selling, general and administrative expenses increased \$166,000 or 3% from \$5,746,000 in 2001 to \$5,912,000 in 2002. The increase is primarily attributable to \$374,000 of leasehold abandonment costs incurred in 2002 due to the closure of our California and Georgia offices, offset by a reduction in outside consulting fees.

During 2001, we recorded impairment expense of \$1,111,000 resulting from the discontinuance of our Automated Design Concepts division which totaled \$443,000, to focus staff resources on our primary technology, and the cancellation of our Zirmed license totaling \$668,000 which was a result of management's assessment that our needs would be better served by superior technology. There were no comparable expenses in 2002.

Interest expense decreased by \$28,000 due to a decrease in the amount of debt financing we had outstanding in 2002 compared to 2001. Additionally, financing costs decreased in 2002 by \$2,124,000 as we obtained most of our financing through the direct sale of equity securities compared to 2001 when, (1) shares were issued for conversions and redemptions under the convertible notes payable credit facility at modified conversion prices resulting in financing costs of \$1,286,000, (2) shares were issued in private placements in connection with our note payable credit facility at below market prices resulting in financing costs of \$448,000 and (3) warrants valued at \$415,000, were issued in connection with private placements of common stock in connection with our note payable credit facility.

During 2002, we disposed of certain fixed assets that resulted in a loss of \$69,000. We did not have any of these disposals in 2001.

Net loss improved approximately \$1,622,000 from \$10,636,000 in 2001 to \$9,014,000 in 2002 due to the reasons discussed above.

### *Comparison of years ended December 31, 2001 and December 31, 2000*

Total revenues decreased approximately \$297,000 from \$326,000 in 2000 to \$29,000 in 2001. The decrease is due to a decrease in Cymedix pilot program fees billed during 2001 of \$189,000, and a decrease in ADC revenue of \$108,000 as a result of discontinuing that business segment.

Software and technology costs increased \$423,000 or approximately 49% from \$865,000 in 2000 to \$1,288,000 in 2001, as a result of increased personnel costs incurred in the ongoing development of the Cymedix product line

Selling, general and administrative expenses decreased approximately 3% from \$5,925,000 in 2000 to \$5,746,000 in 2001. The decrease is attributable to a company wide salary reduction program that was undertaken early in 2001.

During 2001, we recorded impairment expense of \$1,111,000 resulting from the discontinuance of our Automated Design Concepts division which totaled \$443,000, to focus staff resources on our primary technology, and the cancellation of our Zirmed license totaling \$668,000 which was a result of management's assessment that our needs would be better served by superior technology.

Other income decreased approximately \$151,000 from 2000 to 2001. This increase reflects a decline in interest income that had been earned on excess cash received and invested during 2000 from the exercise of options and warrants.



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Interest expense increased \$61,000 from 2000 to 2001 due to interest that was paid on a convertible promissory note issued during 2001.

Financing costs of \$2,428,000 were incurred in 2001 due to warrants issued and an in-the money conversion feature in connection with the convertible debt credit facility of \$581,000, a warrant issued in the private equity placement valued at \$113,000, and shares issued in the conversion of debt and related equity share issuances at below market prices which resulted in costs of \$1,734,000.

Net gain (loss) from discontinued operations decreased approximately \$929,000 from \$929,000 in 2000 to \$0 in 2001, due to the sale during February 2000 of the remaining assets of the company's staffing operations.

Net loss increased approximately \$5,221,000 from \$5,415,000 in 2000 to \$10,636,000 in 2001 due to the reasons discussed above.

### **Liquidity and Capital Resources**

We had \$1,369,000 in cash as of December 31, 2002 compared to \$8,000 in cash as of December 31, 2001 and \$1,007,000 as of December 31, 2000. Net working capital reflected a deficit of (\$252,000) as of December 31, 2002, compared to a deficit of (\$1,404,000) at December 31, 2001 and a surplus of \$394,000 as of December 31, 2000.

During 2002, net cash used in operating activities was \$5,469,000 compared to \$5,397,000 in 2001. During 2002, we raised \$5,125,000 from private placements of our common stock net of offering costs, \$1,000,000 from the issuance of a convertible debenture, \$972,000 from our equity line of credit net of offering costs and \$817,000 from exercise of options and warrants. During 2001, we raised \$1,500,000 from a convertible note financing, \$1,200,000 from private placements of our common stock, \$1,510,000 from our equity line of credit and \$369,000 from exercise of options and warrants. During 2000, we raised \$6,091,000 from the exercise of options and warrants. Our equity line of credit was terminated in August 2002.

We are funding our operations now through the sale of our securities. There can be no assurance that additional investments or financings will be available to us on favorable terms or at all as needed to support the development and deployment of the Merged Technology. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Merged Technology at a distressed price or the financial failure of our company.

### **Impacts of Accounting Standards**

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 consolidated 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

prospectively. The Company believes that the adoption of this statement will have no material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB No. 4, 44 and 64, Amendment of FASB No. 13, and Technical Corrections." SFAS No. 145 rescinds FASB No. 4 "Reporting Gains and Losses from Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also rescinds SFAS No. 44 "Accounting for Intangible Assets of Motor Carriers" and amends SFAS No. 13, "Accounting for Leases." This statement is effective for fiscal years beginning after May 15, 2002. The Company believes the adoption of this statement will have no material impact on its consolidated 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 believes the adoption of this statement will have no material impact on its consolidated 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, that 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 believes the adoption of this statement will have no material impact on its consolidated 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 adoption of this statement did not have a material effect on the consolidated financial statements as the Company continues to account for stock based compensation under the intrinsic value approach, and follows the pro-forma disclosure requirements of SFAS No. 123, as amended by SFAS No 148.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not hold or engage in transactions with market risk sensitive instruments

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached hereto and filed as a part of this Annual Report on Form 10-K are our Consolidated Financial Statements, beginning on page F-1.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

#### Directors and Executive Officers

Our directors and executive officers, as of March 14, 2003, and their biographical information are set forth below:

Name	Age	Position	Director or Officer Since
Darryl R. Cohen (3)	50	President, Chief Executive Officer and a Director	2002
Louis E. Hyman	35	Executive Vice President and Chief Technology Officer	2001
James Q. Gamble	52	Executive Vice President for Operations	2002
Mark W. Lerner	49	Executive Vice President and Chief Financial Officer	2002
Brian R. Ellacott	46	Senior Vice President of Corporate Development	2000
Patrick W. Jeffries (1)(3)	50	Director; Chairman of the Board and Chair of the Finance Committee	2001
Samuel H. Havens (2)(4)	59	Director and Chair of the Nominating Committee	1999
Joan E. Herman (1)(2)	49	Director and Chair of the Audit Committee	2000
Guy L. Scalzi (1)(2)(4)	56	Director and Chair of the Compensation Committee	2001

- (1) Member of the Audit Committee  
 (2) Member of the Compensation Committee  
 (3) Member of the Finance Committee  
 (4) Member of Nominating Committee

All of our executive officers devote full-time to our business and affairs. Biographical information on each current executive officer and director is set forth below.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

### Biographical Information

Darryl R. Cohen. Mr. Cohen joined Medix in September 2002 as President and Chief Executive Officer. His support for Medix began in 1999 as both a shareholder and strategic advisor. As an investor in private and public companies, Mr. Cohen frequently works with the management of the companies in which he is invested, assisting them in the areas of marketing strategy and financing efforts. Mr. Cohen was President of DCNL Incorporated, a privately held beauty supply manufacturer and distributor he founded in 1988 and sold to Helen of Troy in 1998. During his tenure as President of DCNL, Mr. Cohen was also co-owner and President of Basics Beauty Supply Stores. The innovative business building strategies developed by Mr. Cohen not only launched DCNL to success, but have become standard practice in a variety of industries to create effective marketing and distribution channels. Since the sale of DCNL, he has remained active as a co-owner of a financial services advisory firm, Omni Financial, providing financial restructuring services for individuals. Mr. Cohen is also a member of the Board of Directors of Access Marketing and consults for a major media company in the cable television market. Mr. Cohen holds a BA in Political Science from the University of California at Berkeley.

Louis E. Hyman. Mr. Hyman joined Medix in May 2001 as Executive Vice President and Chief Technology Officer. He was a consultant to the Company, serving as interim Chief Technology Officer from March 2001 until May 2001. From September 1999 until joining Medix, Mr. Hyman was President and CEO of Ideal Technologies, Inc., a healthcare integration consulting firm. Mr. Hyman held senior technology management and executive positions with CareInsite, Inc. (from August 1999 to September 2000 as Vice President of Information Technology) and LaPook Lear Systems Inc. (from August 1992 to August 1999 as Vice President and Director of Technology), both of which were merged into WebMD, Inc. in September 2000. As a result of these transactions, Mr. Hyman maintained his position as Vice President of Information Technology with WebMD through November 2000, where he played a key role in WebMD's integration efforts as well as initiatives to improve its profitability. He graduated Summa Cum Laude from St. John's University where he earned a B.S. degree in Computer Science.

James O. Gamble. Mr. Gamble joined Medix in December 2002 as Executive Vice President Operations. Prior to joining Medix, Mr. Gamble was with Perot Systems where he served as the Director of Consulting. Mr. Gamble was with Perot Systems from 1999 to 2002. At Perot Systems, he managed the Healthcare Payer Consulting team in the creation and implementation of creative business solutions for health plans. Additionally, Mr. Gamble managed a corporate turnaround and numerous business re-engineering projects at Harvard Pilgrim Healthcare, a major regional health plan, from 1999 to 2001, where he served as a member of the Executive Turnaround Steering Committee. Previously, Mr. Gamble was a Senior Director at Alamo Rent-A-Car from 1980 to 1999, responsible for the development and implementation of corporate strategic planning initiatives as well as a variety of other executive operations positions. Mr. Gamble holds a BBA in Business Administration from the University of Georgia.

Mark W. Lerner. Mr. Lerner joined Medix in July 2002 as Chief Financial Officer. Prior to joining Medix, Mr. Lerner was with Boardroom, Inc., a direct marketing company located in Greenwich, Connecticut, where he served as Vice President in charge of Finance Operations and Development. Mr. Lerner was at Boardroom, Inc. from December 2000 to June 2002. Prior to Boardroom Inc., Mr. Lerner served as the Senior Vice President in charge of eCommerce for Weinstein & Holtzman, Inc. from 1998 to 2000 and as Vice President and CFO for The Thompson Corporation's Science & Professional Division from 1993 to 1998 and as well as a variety of executive positions within Pfizer Inc. Mr. Lerner holds a BS degree in Finance from Miami University, Ohio and an MBA in Finance from Emory University. He is also a graduate of Columbia University's Executive Program.

Brian R. Ellacott. Mr. Ellacott joined Medix in March 2000 as Senior Vice

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

President of Business Development. In mid-2001, Mr. Ellacott was appointed as the Division CEO for Southeast Region Markets for the Company. Prior to joining Medix, Mr. Ellacott served as president of Cosmetic Surgery Consultants from November 1998 until March 2000. From 1996 to 1998 he was executive vice president of Alignis Inc., an alternative healthcare PPO. Before that, he was President of Bibb Hospitality (Atlanta) for The Bibb Company. Mr. Ellacott began his career in healthcare at Baxter International/American Hospital Supply where he held numerous positions, including Director of National Accounts (Chicago); Director of Marketing (Australia); Director of Marketing (Canada); Systems Manager (Canada); Regional Manager (British Columbia); and Product Manager (hospital products). He holds a B.A. in Business Administration, with Honors, from Wilfrid Laurier University (Waterloo, Canada).

Patrick W. Jeffries. Mr. Jeffries joined Medix as a director in 2001. In 1997, Mr. Jeffries founded, and since that time has served as the President of, the predecessor company of Health Technology Partners, L.L.C., a privately-held provider of investment guidance, CEO- and Board-level counseling, and management consulting services. Mr. Jeffries also served as the CEO and Chairman of the Board of OpTx Corporation in 1997 and 1998. From December 1995 to July 1997, he was Executive Vice President of Salick Health Care, Inc., a publicly-traded company that managed cancer treatment facilities. From 1985 to 1995, Mr. Jeffries was first an associate and then a partner of McKinsey & Company, Inc., an international management-consulting firm. He holds an MBA from Cornell University and a BSEE from Washington University.

Samuel H. Havens. Mr. Havens joined Medix as a director in 1999. Prior to his retirement in 1996, Mr. Havens served as President of Prudential Healthcare for five years. He had begun his career with The Prudential Insurance Company as a group sales representative in 1965, and served in various posts in Prudential healthcare operations over three decades. Since retiring, Mr. Havens has served on the Board and as a consultant to various healthcare organizations. He is a member of the Board of Advisors of Temple Law School and the Editorial Board of Managed Care Quarterly. Mr. Havens completed the Executive Program in Business Administration at Columbia University. He holds a JD degree from Temple Law School, a CLU from the American College of Life Underwriters, and an AB degree from Hamilton College.

Joan E. Herman. Ms. Herman joined Medix as a director in 2000. Ms. Herman is the President of WellPoint's Senior, Specialty, and State Sponsored Programs division and is responsible for its Dental, Life & AD&D, Pharmacy, Behavioral Health, Workers' Compensation Managed Care Services, Senior Services, and Disability businesses. She is also responsible for WellPoint's State Sponsored Programs, which include MediCal and Healthy Families. In 1999, a WellPoint affiliate entered into an agreement with the Company to implement a pilot program for the introduction of Cymedix(R) software to healthcare providers identified by such affiliate. Ms. Herman serves on the Company's Board of Directors pursuant to the terms of that agreement. Prior to joining WellPoint in 1998, Ms. Herman was the Senior Vice President, Strategic Development and Senior Vice President, Group Insurance for Phoenix Home Life Mutual Insurance Company. Ms. Herman has served as chairman of the board of Leadership Greater Hartford and been a member of the board of directors of the American Academy of Actuaries, the American Leadership Forum, the Hartford Ballet, the Greater Hartford Arts Council, and the Children's Fund of Connecticut. She is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. Ms. Herman holds an MA in Mathematics from Yale University, an MBA from Western New England College, and an A.B. in mathematics from Barnard College.

Guy L. Scalzi. Mr. Scalzi joined Medix as a director in 2001. Mr. Scalzi is Vice President of First Consulting Group Management Services, LLC, a healthcare information technology consultant. Prior to joining that company in January 2000, he was Senior Vice President and Chief Information Officer for New York Presbyterian Healthcare System from April 1996 to December 1999. From January

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

1995 to March 1996, Mr. Scalzi was Director of Planning for Information Services at New York Hospital-Cornell Medical Center. From June 1993 to December 1994, he was Chief Information Officer, The Hospital for Joint Diseases, New York University Medical Center. From 1984 to 1993, he was a founder and senior executive with DataEase International, Inc., an international PC software development and marketing company. Mr. Scalzi has an MBA from Manhattan College and a B.S. degree from The State University of New York at Oswego.

### Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and executive officers, and persons who own more than 10% of a registered class of a company's equity securities, to file with the U. S. Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of the Company's common stock and other equity securities. Officers, directors and greater than 10% shareholders are required by Securities and Exchange Commission regulations to furnish the Company with copies of all Section 16(a) reports they file. Based solely upon such reports, we believe that none of such persons failed to comply with the requirements of Section 16(a) during 2002, except for Samuel H. Havens, John T. Lane (a former director), Patrick W. Jeffries and James Q. Gamble, for each of whom one Form 4 and in the case of Mr. Gamble one Form 3 inadvertently was filed late, and David Skinner, a former director who died prior to a Form 5 filing date, and Gary Smith a former executive officer who failed to file a Form 5 after his termination of employment.

### ITEM 11. EXECUTIVE COMPENSATION

#### Executive Officer Compensation

**Summary Compensation Table.** The following table sets forth the annual and long-term compensation for services in all capacities to the Company for the three years ended December 31, 2002, awarded or paid to, or earned by our Chief Executive Officer ("CEO"), the former executive officer who served as such during 2002, the three other most highly compensated officers who were serving as such at December 31, 2002 (the "Named Officers") and two additional executive officers who would otherwise have been included had they remained executive officers at December 31, 2002.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options (Shares)
Darryl R. Cohen President and CEO (2)	2002	\$124,135 (2)	-	-	2,220,000
John Prufeta CEO (former) (3)	2002	\$200,137	-	-	
	2001	\$114,000	-	-	425,000
Louis E. Hyman Executive Vice President And Chief					

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Technology Officer (4)	2002	\$220,096	-	-	125,000
	2001	\$156,625 (4)	-	-	250,000
Mark W. Lerner Executive Vice President and Chief Financial Officer (5)					
	2002	\$107,481	-	-	275,000
Brian R. Ellacott Senior Vice President					
	2002	\$185,032	-	-	50,000
	2001	\$165,000	-	-	175,000
	2000	\$125,769	-	-	150,000
Patricia Minicucci Chief Operating Officer (former) (6)					
	2002	\$228,363	-	-	
	2001	\$197,000	-	-	175,000
Gary Smith Chief Financial Officer (former) (7)					
	2002	\$140,844	-	-	
	2001	\$197,000	-	-	175,000

- (1) Other annual compensation is made up of automobile allowances, and disability and health insurance premiums, in amounts less than 10% of the officer's annual salary plus bonus.
- (2) Mr. Cohen joined the Company as CEO in September 2002. During 2002, Mr. Cohen served as a consultant to the Company from June through September. The \$124,135 includes the consulting compensation paid to Mr. Cohen. He was not employed by the Company in 2001 or 2000.
- (3) Mr. Prufeta's employment with the Company was terminated in September 2002. Mr. Prufeta received \$ 7,150 from the Company following his termination pursuant to a Separation Agreement and General Release, which amount is included in his \$200,137 compensation for 2002.
- (4) During 2001, Mr. Hyman, through an affiliated entity, served as a consultant to the Company before he became a full time employee and executive officer in May 2001. The \$156,625 includes the consulting compensation paid to Mr. Hyman's firm. Mr. Hyman also received a grant of options to purchase 20,000 shares for his consulting services, which are included in the 250,000 options granted in 2001. He was not employed by the Company in 2000.
- (5) Mr. Lerner joined the Company as CFO in July 2002. He was not employed by the Company in 2001 or 2000.
- (6) Ms. Minicucci's employment with the Company was terminated in October 2002. Ms. Minicucci received \$46,800 from the Company following her termination pursuant to a Separation Agreement and General Release, which amount is included in her \$228,363 compensation for 2002.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

(7) Mr. Smith's employment with the Company was terminated in July 1, 2002.

**Stock Option Awards.** In August 1999, our Board of Directors approved and authorized our 1999 Stock Option Plan (the "1999 Plan"), which is intended to grant either non-qualified stock options or incentive stock options, as described below. In 2000, our shareholders approved the 1999 Plan. The purpose of the 1999 Plan is 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.

Options granted under our 1999 Plan include both incentive stock options ("ISOs"), within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and non-qualified stock options ("NQOs"). Under the terms of the 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 various 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 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 total amount of shares of our common stock reserved for issuance under the 1999 Plan.

As of March 14, 2003, we had issued 6,197,260 shares of our common stock upon exercise of options to current or former employees and directors, and have 10,555,000 shares currently 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 1999 Plan and earlier stock option plans.

Option information for fiscal 2002 relating to the Named Officers is set forth below:

### Options Granted in 2002

Name	Share Granted	Percentage of Total Options Granted to Employees in 2002	Exercise Price	Expiration Date	Valuation under Black- Scholes Pricing Method (1)
Darryl Cohen	2,220,000	62.9%	\$0.69	11-20-2007	1,367,042
Brian Ellacott	50,000	1.4%	\$0.59	3-8-2007	22,141
Mark W. Lerner	275,000	7.8%	\$0.38	7-1-2007	78,430



Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Louis Hyman 125,000 3.5% \$0.70 3-8-2007 53,633

-----

(1) The Black-Scholes option-pricing model estimates the options fair value by considering the following assumptions: the options exercise price and expected life, the underlying current market price of the stock and expected volatility, expected dividends and the risk free interest rate corresponding to the term of the option. The fair values calculated above use expected volatility of 95%, a risk-free rate of 5.5%, no dividend yield and anticipated exercise at the end of the term.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Shares Exercised	Value Realized	Number of shares underlying Unexercised Options at Year-End		Value of Unexercised Money Options at Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Darryl Cohen	0	0	780,000	1,440,000	\$39,000	\$
Mark W. Lerner	0	0	78,125	196,875	\$28,125	\$
Brian Ellacott	0	0	350,000	25,000	\$26,750	
Louis Hyman	0	0	285,000	90,000	\$29,625	

-----

(1) The dollar values are calculated by determining the difference between \$0.74 per share, the fair market value of the Common Stock at December 31, 2002, and the exercise price of the respective options.

Medix has no retirement, pension or profit-sharing program for the benefit of its directors, executive officers or other employees, but the Board of Directors may recommend one or more such programs for adoption in the future. Medix does not make any contributions to its 401(k) Plan for its employees.

**Employment Agreements.**

Mr. Cohen has an Employment Agreement with the Company, which has a term of one year, ending on September 24, 2003. The agreement provides that he will be compensated at a salary of \$175,000 annually. He holds the position of President and Chief Executive Officer, and reports to the Chairman of the Board. In addition, Mr. Cohen serves as a member of the Board of Directors. Pursuant to his Employment Agreement, he has been granted options to purchase 780,000 shares of common stock at price of \$0.69 per share, all of which vested upon execution of the agreement. An additional 1,440,000 options to purchase shares of common stock also at a price of \$0.69 per share were granted under the Employment Agreement and vest upon the achievement of milestones fully described in the agreement. The Employment Agreement provides that, upon the occurrence of a Change in Control of the Company, all Options and Additional Options described in the Employment Agreement shall be deemed fully vested and exercisable upon the effective date of the Change in Control. Mr. Cohen's Employment Agreement is terminable by either the Company or Mr. Cohen for any reason on sixty days notice.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Mr. Gamble has an Employment Agreement with the Company, which has a term of one year, ending on December 9, 2003, and is renewable for additional one-year terms. The agreement provides that he will be compensated at a salary of \$175,000 annually. He holds the position of Executive Vice President and Chief Operating Officer, and reports to the President and CEO. Pursuant to his Employment Agreement, he has been granted options to purchase 300,000 shares of common stock at a price of \$0.68 per share, of which 75,000 vested upon execution of the agreement with the remainder vesting equally over the next three quarters (April 1, July 1 and October 1, 2003), and an additional 150,000 options to purchase shares were granted under the Employment Agreement and vest upon the achievement of milestones fully described in the agreement. His Employment Agreement provides for termination at any time by the employee with or without cause or by the Company with cause. The Employment Agreement is also subject to termination by the Company without cause subject to the right of the employee to continue to receive compensation for a period which is the lesser of three months or the period from the effective date of termination to the last day of the Initial Term (as defined in the Employment Agreement). The Employment Agreement also contains a non-compete provision that extends for a period of one year after termination or resignation of the employee, as well as certain confidentiality provisions.

Mr. Hyman has an Employment Agreement with the Company, which has a term of one year, ending on May 14, 2003, and is renewable for additional one year terms. The agreement provides that he will be compensated at a salary of \$225,000 annually. He holds the position of Executive Vice President and Chief Technology Officer, and reports to the President and CEO. Pursuant to his Employment Agreement, he has been granted options to purchase 125,000 shares of common stock at a price of \$.70 per share, which vested 50% on September 8, 2002 and the remainder on March 8, 2003. His Employment Agreement provides for termination at any time by the employee with or without cause or by the Company with cause. The Employment Agreement is also subject to termination by the Company without cause after the initial one-year term, subject to the right of the employee to continue to receive compensation for 6 months. The Employment Agreement also contains a non-compete provision that extends for a period of one year after termination or resignation of the employee, as well as certain confidentiality provisions. The Employment Agreement contains provisions providing that, upon the occurrence of a "Triggering Event" (defined to include a change in ownership of 50% of the outstanding shares of the Company's common stock through a merger or otherwise) during the term of his employment, he will receive a lump sum payment equal to his then current year's base and bonus pay.

Mr. Ellacott has an Employment Agreement with the Company, which has a term of one year, ending on May 1, 2003, and is renewable for additional one-year terms. The agreement provides that he will be compensated at a salary of \$180,000 annually. He holds the position of Senior Vice President and Southeast Division Market CEO, reporting to the Executive Vice President, Operations. Pursuant to his Employment Agreement, he has been granted options to purchase 50,000 shares of common stock at a price of \$0.59 per share, which vested in equal parts on September 8, 2002 and March 8, 2003. His Employment Agreement provides for termination at any time by the employee with or without cause or by the Company with cause. The Employment Agreement is also subject to termination by the Company without cause, subject to the right of the employee to continue to receive compensation for 6 months. The Employment Agreement also contains a non-compete provision that extends for a period of one year after termination or resignation of the employee, as well as certain confidentiality provisions. The Employment Agreement contains provisions providing that, upon the occurrence of a "Triggering Event" (defined to include a change in ownership of 50% of the outstanding shares of the Company's common stock through a merger or otherwise) during the term of his employment, he will receive a lump sum payment equal to his then current year's base and bonus pay.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Mr. Lerner has an Employment Agreement with the Company, which has a term of one year, ending on July 1, 2003, and is renewable for additional one year terms. The agreement provides that he will be compensated at a salary of \$207,000 annually. He holds the position of Executive Vice President and Chief Financial Officer, and reports to the President and CEO. Pursuant to his Employment Agreement, he has been granted options to purchase 275,000 shares of Common Stock at a price of \$.38 per share, of which 50,000 vested immediately and the remaining 225,000 vest in equal quarterly increments over the next eight calendar quarters. His Employment Agreement provides for termination at any time by the employee with or without cause or by the Company with cause. The Employment Agreement is also subject to termination by the Company without cause after the initial one-year term, subject to the right of the employee to continue to receive compensation for 6 months. The Employment Agreement also contains a non-compete provision that extends for a period of one year after termination or resignation of the employee, as well as certain confidentiality provisions. The Employment Agreement contains provisions providing that, upon the occurrence of a "Triggering Event" (defined to include a change in ownership of 50% of the outstanding shares of the Company's common stock through a merger or otherwise) during the term of his employment, he will receive a lump sum payment equal to his then current year's base and bonus pay.

### Director Compensation

In January 2002, the Directors discontinued the policy of cash fees to Directors for attending Board or committee meetings. Instead, non-employee Directors will be compensated for their services through the grant of options to purchase our common stock. On January 22, 2002, each Director, other than Ms. Herman based on the policy referred to above, has been granted options to purchase 40,000 shares of common stock at an exercise price of \$0.70 per share. Those options vest in quarterly 10,000 share increments, on the date of grant, provided that the Director remains on the Board of the Company.

In November 2002, the following options, each with an exercise price of \$0.69, were granted;

1. To Mr. Havens and Mr. Scalzi options to purchase 120,000 shares of common stock vesting September 1, 2003, provided that the Director remains on the Board of the Company.
2. To Mr. Cohen, as part of his employment agreement, options to purchase

Shares of  
Common Stock Vesting  
-----

780,000 Immediately  
240,000 4-1-03 if still a Board Member  
240,000 10-1-03 if still a Board Member  
480,000 Upon achieving \$5,000,000 in financing  
480,000 Upon achieving \$500,000 in monthly revenue

3. To Mr. Jeffries, Chairman of the Board, options to purchase

Shares of  
Common Stock Vesting  
-----

520,000 Immediately  
120,000 4-1-03 if still a Board Member  
120,000 10-1-03 if still a Board Member  
240,000 Upon achieving \$5,000,000 in financing  
240,000 Upon achieving \$500,000 in monthly revenue

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

In 1999, we entered into a consulting agreement with Mr. Samuel Havens, which provides that we pay Mr. Havens \$5,000 per month for his consulting services in connection with our marketing efforts. This agreement concludes April 2003. Mr. Havens has deferred his monthly payment since April 2001. During 2002, we paid Mr. Havens \$20,000 for his services and as of March 14, 2003 we owed Mr. Havens \$85,000 under this agreement, which amount will be paid 50% in cash and the remainder in options to acquire our common stock.

### **Compensation Committee Interlocks and Insider Participation**

In 1999, we entered into agreements with WellPoint Pharmacy Management ("WPM") to implement a pilot program for the introduction of Cymedix(R) software to healthcare providers identified by WPM. After the required testing of the software, the agreements provide for a production program to install the software broadly among WPM managed providers. One of the agreements provides that Medix will nominate a representative of WPM to be elected to the Company's Board of Directors. Ms. Herman is that representative. Such agreement also provided that WPM would be granted warrants evidencing the right to purchase up to 6,000,000 shares of common stock, which vest upon the occurrence of certain performance criteria. The agreement provides for the grant of warrants covering 3,000,000 shares with an exercise price of \$0.30 per share, and warrants covering 3,000,000 shares with an exercise price of \$0.50 per share, all expiring five years from the date of grant, September 8, 2004. In February 2002, the warrant agreement was amended to revise the performance criteria and to add an additional right to purchase up to 1,000,000 additional shares at a purchase price of \$1.75 per share. At March 15, 2003, warrants covering 1,850,000 shares, exercisable at \$.30 per share, had vested. In February 2002, WellPoint Health Networks Inc., the parent of WPM made a secured convertible loan to Medix of \$1,000,000, which note was converted into 2,405,216 shares of our common stock in 2002. In addition, Mr. Jeffries, who became a director of Medix in 2001, was a consultant to WellPoint Health Networks.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 14, 2003 by (i) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock (ii) each director, named executive officer and (iii) all executive officers and directors as a group. On such date, we had 80,917,065 shares of common stock outstanding. Shares not outstanding but deemed beneficially owned by virtue of the right of any individual to acquire shares within 60 days are treated as outstanding only when determining the amount and percentage of common stock owned by such individual. Each person has sole voting and investment power with respect to the shares shown, except as noted.

	Number of Shares	Percentage of Class
-----		
Darryl R. Cohen (1) (2) 420 Lexington Avenue, Suite 1830 New York, NY 10170	2,688,320	3.1%
Patrick W. Jeffries (2) 15332 Antioch Street, Suite 320 Pacific Palisades, CA 90272	1,635,000	1.9%
Joan E. Herman (2) (3) One WellPoint Way Thousand Oaks, CA 91362	None	*

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Guy L. Scalzi (2) First Consulting Group 405 Lexington Avenue, 37th Floor New York, NY 10174	240,000	*
Samuel H. Havens (2) 58 Winged Foot Drive Livingston, NJ	290,000	*
Mark W. Lerner (2) 420 Lexington Avenue, Suite 1830 New York, NY 10170	184,375	*
Louis E. Hyman (2) 420 Lexington Avenue, Suite 1830 New York, NY 10170	475,000	*
Brian R. Ellacott (2) 101 Villager Parkway, Building 1 Marietta, Georgia 30067	425,000	*
James Q. Gamble (2) 101 Villager Parkway, Building 1 Marietta, Georgia 30067	150,000	*
All Directors and Officers as a group (9)	6,087,695	7.1%
* Less than 1% of outstanding shares		

- 
- (1) Mr. Cohen disclaims beneficial ownership of 67,950 of these shares held in trust for his minor children
  - (2) Represents shares of common stock available upon the exercise of outstanding options.
  - (3) Ms. Herman has declined the grant of any options based on Wellpoint company policy.

### ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since 1996, we have had a policy that any transactions with directors or officers or any entities in which they are also officers or directors or in which they have a financial interest, will only be on terms that would be reached in an arms-length transaction, consistent with industry standards and approved by a majority of our disinterested directors. This policy provides that no such transaction by shall be either void or voidable solely because of such relationship or interest of such directors or officers or solely because such directors are present at the meeting of the Board of Directors or a committee thereof that approves such transaction or solely because their votes are counted for such purpose. In addition, interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee thereof that approves such a transaction. We have also adopted a policy that any loans to officers, directors and 5% or more shareholders are subject to approval by a majority of the disinterested directors. All of the transactions described below have been approved according to this policy.

In 1999, we entered into a consulting agreement with Mr. Samuel Havens, which provides that we pay Mr. Havens \$5,000 per month for his consulting services in connection with our marketing efforts. This agreement concludes April 2003. Mr. Havens has deferred his monthly payment since April 2001. During 2002, we paid Mr. Havens \$20,000 for his services and as of March 14, 2003 we

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

owed Mr. Havens \$85,000 under this agreement, which amount will be paid 50% in cash and the remainder in options to acquire our common stock.

See "EXECUTIVE COMPENSATION - Compensation Committee Interlocks and Insider Participation" for a description of other related party transactions.

### ITEM 14 CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report

(1) Financial Statements

See Financial Statements included after the signature page beginning at page F-1.

(2) Financial statement schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

(3) List of Exhibits

See Index to Exhibits in paragraph (c) below.

(b) Reports on Form 8-K. The Company filed four reports on Form 8-K during the last quarter of 2002 as follows:

1. Report filed with the SEC on October 11, 2002, reporting under Item 5, the issuance of a press release respecting the conversion of debt into equity.

2. Report filed with the SEC on October 16, 2002, reporting under Item 5, the issuance of a press release respecting the results from Medix's October 8, 2002 shareholder meeting.

3. Report filed with the SEC on November 1, 2002, reporting under Item 5, the issuance of a press release respecting the execution of a letter of intent to merge with PocketScript, LLC.

4. Report filed with the SEC on December 23, 2002, reporting under Item 5, the issuance of a press release respecting the execution of a definitive agreement to acquire PocketScript, LLC.

(c) Exhibits required by Item 601 of Regulation S-K. We will furnish to our shareholders a copy of any of the exhibits listed below upon payment of

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

\$.25 per page to cover the costs of the Company of furnishing the exhibits.

### Exhibit No. Description

- 3.1.1 Articles of incorporation of the Company as filed on April 22, 1988 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.1 to the Registration Statement on Form SB-2 (Reg. No. 33-81582-D), filed with the SEC in July 14, 1994 (the "1994 Registration Statement").
- 3.1.2 Articles of Amendment to Articles of Incorporation of the Company as filed on May 24, 1988 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.2 to the 1994 Registration Statement.
- 3.1.3 Articles of Amendment to Articles of Incorporation of the Company as filed on February 16, 1990 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.3 to the 1994 Registration Statement.
- 3.1.4 Articles of Amendment to Articles of Incorporation of the Company as filed on August 12, 1994 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.4 to Amendment No. 1 to the 1994 Registration Statement, filed with the SEC on August 15, 1994
- 3.1.5 Articles of Amendment to Articles of Incorporation of the Company as filed on September 12, 1994 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.5 to Amendment No. 3 to the 1994 Registration Statement, filed with the SEC on September 12, 1994.
- 3.1.6 Certificate of Designation of 1996 Convertible Preferred Stock, incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registration Statement of the Company on Form S-3, filed with the SEC October 10, 1996.
- 3.1.7 Articles to Amendment to Articles of Incorporation filed with the Secretary of State of the State of Colorado on October 9, 1996, incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registration Statement of the Company on Form S-3 filed with the SEC on October 10, 1996.
- 3.1.8 Articles of Amendment containing Articles of Designation of 1997 Convertible Preferred Stock, incorporated by reference to Exhibit 3.1.8 to the Company's Form 10-KSB filed with the SEC on March 31, 1997.
- 3.1.9 Articles of Amendment to Articles of Incorporation of the Company as filed on November 14, 1997 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.9 to the Company's Form 10-KSB filed with the SEC on March 30, 1998.
- 3.1.10 Articles of Amendment to Articles of Incorporation of the Company as filed on February 17, 1998 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.10 to the Company's Form 10-KSB filed with the SEC on March 30, 1998.
- 3.1.11 Articles of Amendment to Articles of Incorporation of the Company as

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

filed on March 17, 1998 with the Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.11 to the Company's Form 10-KSB filed with the SEC on March 30, 1998.

- 3.1.12 Articles of Amendment of Articles of Incorporation establishing the 1999 Series A Convertible Preferred Stock as filed on April 21, 1999, with Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.12 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 3.1.13 Articles of Amendment of Articles of Incorporation increasing the authorized capital of the Company as filed on June 11, 1999, with Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.13 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 3.1.14 Articles of Amendment of Articles of Incorporation establishing the 1999 Series B Convertible Preferred Stock as filed on July 22, 1999, with Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.14 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 3.1.15 Articles of Amendment of Articles of Incorporation establishing the 1999 Series C Convertible Preferred Stock as filed on January 21, 2000, with Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.15 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 3.1.16 Articles of Amendment of Articles of Incorporation increasing the authorized capital of the Company as filed on March 22, 2000, with Secretary of State of the State of Colorado, incorporated by reference to Exhibit 3.1.16 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 3.1.17 Articles of Amendment of Articles of Incorporation increasing the authorized capital of the Company filed on October 14, 2002, the Secretary of State of the State of Colorado.\*
- 3.2 Amended and Restated By-Laws of the Company, incorporated by reference to Exhibit 3.2.2 to Amendment No. 1 to the Registration Statement filed with the SEC on August 15, 1994.
- 4.1 Form of specimen certificate for common stock of the Company, incorporated by reference to Exhibit 4.1. to the Company's Form 10-KSB filed with the SEC on March 30, 1998.
- 4.2 Form of 1996 Unit Warrant, incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement of the Company on Form S-3 filed with the SEC on October 10, 1996.
- 4.3 Form of Warrant issued with the 1999 Series A, B, and C Convertible Preferred Stock, incorporated by reference to Exhibit 4.7 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 4.4 Amended and Restated Warrant to Purchase Common Stock issued to Wellpoint Pharmacy Management, dated September 8, 1999 and amended February 18, 2002, incorporated by reference to Exhibit 10.7 to the Company's Amendment No.1 to Registration Statement on Form S-2 (Reg. No. 333-73572), filed with the SEC on February 28, 2002.
- 4.5 Form of Warrant issued with the 2002 private placement of stock with warrants.\*



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

- 10.1.1 Incentive Stock Option Plan, adopted May 5, 1988, authorizing 100,000 shares of common stock for issuance pursuant to the Plan, incorporated by reference to Exhibit No. 10.2.1 of the 1994 Registration Statement.
- 10.1.2 Omnibus Stock Option Plan, adopted effective January 1, 1994, authorizing 500,000 shares of common stock for issuance pursuant to the Plan, incorporated by reference to Exhibit No. 10.2.2 of the 1994 Registration Statement.
- 10.1.3 1996 Stock Incentive Plan, adopted by the Company's Board of Directors on November 27, 1996, authorizing 4,000,000 shares of common stock for issuance pursuant to the Plan., incorporated by reference to Exhibit 10.2.3 to the Company's Form 10-KSB filed with the SEC on March 30, 1998.
- 10.1.4 1999 Stock Option Plan, adopted by the Board of Directors on August 16, 1999, as amended, incorporated by reference to Exhibit 10.2.4 to the Company's Form 10-KSB filed with the SEC on March 21, 2001.
- 10.1.5 Form of non-plan Option Agreement issued to five Directors on November 20, 2002\*
- 10.2 Employment Agreement between the Company and Mr. Darryl R. Cohen, dated as of September 25, 2002.\*
- 10.3 Employment Agreement between the Company and Mr. James Q. Gamble, dated as of December 9, 2002\*
- 10.4 Employment Agreement between the Company and Mr. Mark W. Lerner, dated as of July 1, 2002, incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q, filed with the SEC on August 20, 2002.
- 10.5 Employment Agreement between the Company and Louis E. Hyman dated as of May 14, 2002, incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q, filed with the SEC on August 20, 2002.
- 10.6 Employment Agreement between the Company and Bryan R. Ellacott dated as of March 1, 2002, incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q, filed with the SEC on August 20, 2002.
- 10.7 Employment Agreement between the Company and Mr. John R. Prufeta, dated as of February 1, 2002, incorporated by reference to Exhibit 10.5 to the Company's Form 10-K filed with the SEC on March 31, 2002.
- 10.8 Separation Agreement between the Company and Mr. John R. Prufeta, dated December 20, 2002\*
- 10.9 Employment Agreement between the Company and Patricia A. Minicucci dated as of February 15, 2002, incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q, filed with the SEC on August 20, 2002.
- 10.10 Separation Agreement between the Company and Ms. Patricia Minicucci, dated December 12, 2002. \*
- 10.11 Asset Purchase Agreement, dated as of February 19, 2000, among Medix Resources, Inc., Medical Staffing Network, Inc., National Care Resources - Texas, Inc., National Care Resources - Colorado, Inc. and TherAmerica, Inc., incorporated by reference to Exhibit 10.2 to the Company's Form 8-K, filed with the SEC on March 7, 2000.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

- 10.12 Agreement and Plan of Merger, dated as of March 8, 2000, among Medix Resources, Inc., Cymedix Lynx Corporation, Automated Design Concepts, Inc. and David R. Pfeil, incorporated by reference to Exhibit 10.24 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 10.13 Consulting Agreement between the Company and Mr. Samuel H. Havens, dated as of October 1, 1999, incorporated by reference to Exhibit 10.25 to the Company's Form 10-KSB, filed with the SEC on March 30, 2000.
- 10.14 Registration Rights Agreement, dated as of December 29, 2000, between RoyCap Inc. and Medix Resources, Inc. incorporated by reference to Exhibit 10.3 to the Company's Form S-2 Registration Statement filed with the SEC on January 29, 2001.
- 10.15 Warrant Agreement, dated as of December 29, 2000, between RoyCap Inc. and Medix Resources, Inc., incorporated by reference to Exhibit 10.4 to the Company's Form S-2 Registration Statement filed with the SEC on January 29, 2001.
- 10.16 Securities Purchase Agreement, dated February 19, 2002, between Medix and Wellpoint Health Networks Inc. incorporated by reference to Exhibit 10.8 to the Company's Amendment No.1 to Registration Statement on Form S-2 (Reg. No. 333-73572), filed with the SEC on February 28, 2002.
- 10.17 General Security Agreement, dated February 19, 2002, among Medix, Cymedix and Wellpoint Health Networks Inc., incorporated by reference to Exhibit 10.9 to the Company's Amendment No.1 to Registration Statement on Form S-2 (Reg. No. 333-73572) filed with the SEC on February 28, 2002.
- 10.18 Agreement, dated as of October 18, 2001, between Medix and Merck-Medco Managed Care, L.L.C., incorporated by reference to Exhibit 10.2 to the Company's Amendment No.1 to Registration Statement on Form S-2 (Reg. No. 333-73572), filed with the SEC on February 28, 2002. (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment filed with the Office of the Secretary of the SEC)
- 10.19 Vendor Services Agreement, dated as of September 28, 2001, between Medix and Express Scripts, Inc., incorporated by reference to Exhibit 10.3 to the Company's Amendment No.1 to Registration Statement on Form S-2 (Reg. No. 333-73572), filed with the SEC on February 28, 2002. (Portions of this Exhibit
- 10.20 Binding Letter of Intent for Pilot and Production Programs, dated September 8, 1999, between Medix, Cymedix and Professional Claims Services, Inc. (d/b/a Wellpoint Pharmacy Management), incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the SEC on August 20, 2002.
- 10.21 Pilot Agreement, dated as of December 28, 1999, between Cymedix and Professional Claims Services, Inc. (d/b/a Wellpoint Pharmacy Management), incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed with the SEC on August 20, 2002.
- 10.22 Registration Rights Agreement, dated March 4, 2003, between T3 Group, LLC and Medix.\*
- 10.23 Asset Purchase Agreement among Medix, Comdisco Ventures, Inc. and T3

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Group, LLC, dated March 4, 2003.\*

10.24 Lease between SLG Graybar Sublease, LLC and the Company, dated January 17, 2002 for the Company's principal executive office, incorporated by reference to Exhibit 10.25 to the Company's Form 10-K filed with the SEC on March 31, 2002.

21 Subsidiaries of the Company.\*

23 Consent of Ehrhardt Keefe Steiner & Hottman PC, independent certified public accountants for the Company, to the incorporation by reference of its report dated February 14, 2003, appearing elsewhere in this Form 10-K into the Company's Registration Statements on Form S-3 (Reg. No. 333-32308, 333-85483 and 333-100650) and Registration Statements on Form S-8 (Reg. No. 333-31684, 333-57558 and 333-73578).\*

99.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

99.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

-----  
\*Filed herewith

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDIX RESOURCES, INC.

By: /s/ Darryl R. Cohen

-----  
Darryl R. Cohen  
President and Chief Executive Officer

Dated: March 22, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Darryl R. Cohen ----- Darryl R. Cohen	President, Chief Executive Officer and Director (Principal Executive Officer)	March 22, 2003
/s/Mark W. Lerner ----- Mark W. Lerner	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 25, 2003
/s/Patrick W. Jeffries ----- Patrick W. Jeffries	Director	March 24, 2003

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

/s/Joan E. Herman

Director

March 24, 2003

-----  
Joan E. Herman

/s/ Guy L. Scalzi

Director

March 24, 2003

-----  
Guy L. Scalzi

**Certifications**

**Pursuant to Section 302 of the Sarbanes Oxley Act of 2002**

I, Darryl R. Cohen, certify that:

1. I have reviewed this annual report on Form 10-K of Medix Resources, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 22, 2003

/s/ Darryl R. Cohen

-----  
President and Chief Executive Officer

I, Mark W. Lerner, certify that:

1. I have reviewed this annual report on Form 10-K of Medix Resources, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 25, 2003

/s/ Mark W. Lerner

-----  
Executive Vice President  
and Chief Financial Officer

### **MEDIX RESOURCES, INC.**

#### **Consolidated Financial Statements and Independent Auditors' Report December 31, 2002 and 2001**

### **MEDIX RESOURCES, INC.**

#### **Table of Contents**

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statement of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholders  
Medix Resources, Inc.  
New York, NY

We have audited the accompanying consolidated balance sheets of Medix Resources, Inc. and subsidiaries (the Company) as of December 31, 2002 and 2001, 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, 2002. 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. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002 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  
Ehrhardt Keefe Steiner & Hottman PC

February 14, 2003  
Denver, Colorado

**MEDIX RESOURCES, INC.**

**Consolidated Balance Sheets**

	December 31,	
	2002	2001
Assets		

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Current assets		
Cash .....	\$ 1,369,000	\$ 8,000
Stock subscription receivable .....	76,000	--
Prepaid expenses and other .....	478,000	344,000
	-----	-----
Total current assets .....	1,923,000	352,000
	-----	-----
Non-current assets		
Software development costs, net .....	--	649,000
Property and equipment, net .....	265,000	365,000
Goodwill, net .....	1,605,000	1,735,000
	-----	-----
Total non-current assets .....	1,870,000	2,749,000
	-----	-----
Total assets .....	\$ 3,793,000	\$ 3,101,000
	=====	-----
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable .....	\$ 175,000	\$ 158,000
Accounts payable .....	961,000	851,000
Accounts payable - related parties .....	130,000	166,000
Accrued expenses .....	736,000	581,000
Deferred revenue .....	173,000	--
	-----	-----
Total current liabilities .....	2,175,000	1,756,000
	-----	-----
Commitments and contingencies		
Stockholders' equity		
1996 Preferred stock, 10% cumulative convertible, \$1 par value, 488 shares authorized, 155 shares 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, zero and 50 shares outstanding, liquidation preference \$0 and \$50,000 .....	--	--
1999 Series C convertible stock, \$1 par value, 2,000 shares authorized, 1,995 shares issued, 75 and 375 shares outstanding, liquidation preference \$75,000 and \$375,000 .....	--	--
Common stock, \$.001 par value, 125,000,000 shares authorized, 77,160,817 and 56,651,407 issued and outstanding, respectively .....	77,000	56,000
Dividends payable with common stock .....	9,000	7,000
Additional paid-in capital .....	44,605,000	35,341,000
Accumulated deficit .....	(43,073,000)	(34,059,000)
	-----	-----
Total stockholders' equity .....	1,618,000	1,345,000
	-----	-----
Total liabilities and stockholders' equity .....	\$ 3,793,000	\$ 3,101,000



See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Operations**

	For the Years Ended December 31,		
	2002	2001	2000
Revenues .....	\$ --	\$ 29,000	\$ 326,000
Costs and expenses			
Software and technology costs .....	2,366,000	1,288,000	865,000
Selling, general and administrative expenses .....	5,912,000	5,746,000	5,925,000
Costs associated with terminated acquisition .....	309,000	--	--
Impairment of intangible assets .....	--	1,111,000	--
Total operating expenses .....	8,587,000	8,145,000	6,790,000
Other income (expense)			
Other income .....	22,000	12,000	163,000
Interest expense .....	(76,000)	(104,000)	(43,000)
Loss on disposal of assets .....	(69,000)	--	--
Financing costs .....	(304,000)	(2,428,000)	--
Total other (expense) income .....	(427,000)	(2,520,000)	120,000
Loss from continuing operations .....	(9,014,000)	(10,636,000)	(6,344,000)
Discontinued operations .....	--	--	929,000
Net loss .....	(9,014,000)	(10,636,000)	(5,415,000)
Preferred stock dividends .....	--	--	(1,000)
Net loss available to common stockholders	\$ (9,014,000)	\$ (10,636,000)	\$ (5,416,000)
Basic and diluted weighted average common shares outstanding .....	63,417,283	50,740,356	41,445,345
Basic and diluted loss per common share - continuing operations .....	\$ (0.14)	\$ (0.21)	\$ (0.15)
Basic and diluted income (loss) per			

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

common share - discontinued operations .	-----	-----	-----
	--	--	0.02
Basic and diluted loss per common share .	\$ (0.14)	\$ (0.21)	\$ (0.13)
	=====	=====	=====

(Continued on following page.)

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Operations**

(Continued from previous page.)

Had the Company adopted SFAS 142 as of January 1, 2000, the historical amounts previously reported would have been adjusted to the following:

	For the Years Ended December 31,		
	2002	2001	2000
	-----	-----	-----
Net loss as reported	\$ (9,014,000)	\$ (10,636,000)	\$ (5,415,000)
Add back: Goodwill amortization	-	209,000	205,000
	-----	-----	-----
Adjusted net loss	\$ (9,014,000)	\$ (10,427,000)	\$ (5,210,000)
	=====	=====	=====
Basic and diluted loss per share as reported	\$ (0.14)	\$ (0.21)	\$ (0.15)
	=====	=====	=====
Goodwill amortization	\$ -	\$ -	\$ -
	=====	=====	=====
Adjusted loss per share	\$ (0.14)	\$ (0.21)	\$ (0.15)
	=====	=====	=====

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statement of Changes in Stockholders' Equity  
For the Years Ended December 31, 2002, 2001 and 2000**

1996 Preferred Stock		Preferred Stock 1997	
-----	-----	-----	-----
Shares	Amount	Shares	Amount
-----	-----	-----	-----

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Balance - December 31, 1999	1.00	\$ --	5.00	\$ --
Conversion of note payable into common stock .....	--	--	--	--
Warrants issued in legal settlement .....	--	--	--	--
Common stock issued in connection with ADC merger .....	--	--	--	--
Preferred stock conversions .....	--	--	(5.00)	--
Exercise of warrants .....	--	--	--	--
Exercise of stock options .....	--	--	--	--
Stock options and warrants issued for services .....	--	--	--	--
Cancellation of shares issued in error .....	--	--	--	--
Net loss .....	--	--	--	--
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 and warrants issued in legal settlement .....	--	--	--	--

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Stock options and warrants issued for services .....	--	--	--	--
Net loss .....	--	--	--	--
Dividends declared .....	--	--	--	--
	-----	-----	-----	-----
Balance - December 31, 2001	1.00	--	--	--
Extension of warrant exercise period .....	--	--	--	--
Exercise of options and warrants .....	--	--	--	--
In the money conversion feature issued with convertible note payable .....	--	--	--	--
Warrants issued in satisfaction of liability .....	--	--	--	--
Stock issued on conversion of note payable .....	--	--	--	--
Stock and warrants issued in private placements, net of offering expenses of	--	--	--	--
Preferred stock conversions .....	--	--	--	--
Stock issued with equity line, net of offering costs of	--	--	--	--
Stock options and warrants issued for consulting services .....	--	--	--	--
Stock options issued to officer for financial support .....	--	--	--	--
Fair value of option vesting acceleration .....	--	--	--	--
Warrants issued to officer for cash advance made .....	--	--	--	--
Net loss .....	--	--	--	--
Dividends declared .....	--	--	--	--
	-----	-----	-----	-----

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Balance - December 31, 2002	1.00	\$ --	--	\$ --
	=====	=====	=====	=====

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Cash Flows**

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities			
Net loss .....	\$ (9,014,000)	\$ (10,636,000)	\$ (5,415,000)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization .....	343,000	488,000	426,000
Compensation expense relating to stock options .....	94,000	--	--
Loss on disposal of assets .....	69,000	--	--
Write-off of capitalized software project costs .....	1,066,000	--	--
Impairment of intangible assets .....	--	1,111,000	--
Financing costs .....	304,000	2,428,000	--
Common stock, options and warrants issued for settlements .....	--	149,000	--
Common stock, options and warrants issued for services .....	260,000	145,000	376,000
Warrants issued associated with convertible debt .....	--	--	--
Gain on sale of staffing business ...	--	--	(1,102,000)
Change in net assets of discontinued operations .....	--	--	857,000
Changes in assets and liabilities			
Accounts receivable, net .....	--	49,000	(29,000)
Prepaid expenses and other .....	238,000	(119,000)	(49,000)
Accounts payable and accrued liabilities .....	998,000	988,000	(237,000)
Deferred revenue .....	173,000	--	--
	3,545,000	5,239,000	242,000
Net cash used in operating activities .....	(5,469,000)	(5,397,000)	(5,173,000)
Cash flows from investing activities			
Proceeds from sale of divisions .....	--	--	500,000
Software development costs incurred ..	(633,000)	(434,000)	(495,000)
Purchase of property and equipment ...	(96,000)	(70,000)	(400,000)
Purchase of software license .....	--	--	(720,000)
Proceeds from notes receivable .....	--	--	500,000
Business acquisition costs, net of cash acquired .....	--	--	(94,000)

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Net cash used in investing activities .....	(729,000)	(504,000)	(709,000)
Cash flows from financing activities			
Proceeds from issuance of debt and notes payable .....	1,000,000	1,824,000	178,000
Payments under financing agreement ...	--	--	(484,000)
Principal payments on debt and notes payable .....	(355,000)	(303,000)	(125,000)
Issuance of preferred and common stock, net of offering costs .....	6,097,000	3,012,000	--
Proceeds from the exercise of options and warrants .....	817,000	369,000	6,091,000
Net cash provided by financing activities .....	7,559,000	4,902,000	5,660,000
Net increase (decrease) in cash .....	1,361,000	(999,000)	(222,000)
Cash - beginning of year .....	8,000	1,007,000	1,229,000
Cash - end of year .....	\$ 1,369,000	\$ 8,000	\$ 1,007,000

(Continued on the following page.)

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Cash Flows**

(Continued from the previous page.)

Supplemental disclosure of cash flow information:

Cash paid for:	Interest
	-----
2002	\$ 28,000
2001	\$ 42,000
2000	\$ 21,000

Supplemental disclosure of non-cash activity:

Dividends declared payable in common stock were \$2,000, \$2,000, and \$1,000 for December 31, 2002, 2001 and 2000, respectively.

During 2002, 50 and 300 shares of the series B and C preferred stock was converted into 100,000 and 600,000 shares of common stock, respectively.

During 2002, a \$1,000,000 convertible note payable and \$48,000 of accrued interest were converted and redeemed into 2,405,216 shares of common stock.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

During 2002, the Company issued options and warrants valued at \$260,000 for consulting services provided.

During 2002, the Company recorded \$70,000 for the value of the in-the-money conversion feature on the debt.

During 2002, an accrued liability of \$590,000 for warrants earned in 2001 was satisfied through the issuance of the warrants.

During 2002, options valued at \$132,000 as financing costs were issued to an officer for past financial support.

During 2002, warrants were issued to a related party in connection with advances provided valued at \$44,000.

During 2002, private stock offering proceeds were reduced by \$76,000 for subscription receivable for cash not received.

During 2002, the Company financed insurance premiums of \$372,000 through a finance company.

During 2002, the Company extended the exercise period of warrants that expired. The value of the extension was \$58,000 and recorded as financing costs.

During 2002, the Company wrote off old payroll tax liabilities of \$130,000 assumed in the Cymedix acquisition which were recorded as a reduction to goodwill.

During 2002, the Company accelerated the vesting period for a former officer's stock options pursuant to a severance agreement. Fair value of the acceleration was calculated at \$94,000.

(Continued on following page.)

See notes to consolidated financial statements.

### **MEDIX RESOURCES, INC.**

#### **Consolidated Statements of Cash Flows**

(Continued from the previous page.)

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.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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, warrants issued to finders under private placements in connection with its note payable credit facility were valued at \$113,000 and recorded as financing costs.

During 2001, shares issued for conversions and redemptions under the convertible notes payable credit facility at modified conversion 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 4,564,000 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).

During 2000, the Company converted a \$400,000 note payable into 800,000 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**

The Company develops and intends to market healthcare communication technology products for electronic prescribing of drugs, laboratory orders and laboratory results. These technologies are designed to provide connectivity of medical related information between point-of-care providers ("POCs") (i.e. physician or caretaker) and specific healthcare value chain intermediaries ("HVCIs") (e.g. pharmacy, lab, pharmacy benefit managers, pharmaceutical companies, etc.). The Company's technology is designed to improve the accuracy and the efficiency of the processes of drug prescribing and the ordering of laboratory tests and the receiving of laboratory results. In February of 2000, the Company completed the divestiture of its healthcare staffing businesses in (Note 3).



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

### 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

It is the Company's policy to extend credit to its customers in the normal course of business. It is also our policy to reduce credit risk by periodically performing credit analysis and monitoring the financial condition of our customers.

### 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 as of December 31, 2002 and 2001 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, 2002 and 2001 because interest rates on these instruments approximate market interest rates.

### Revenue Recognition

It is the company's policy to record revenue when transaction services are provided to its customers through the use of its suite of communication software. Revenue will also be recorded for monthly subscription services earned as those monthly services are provided. The Company does not currently generate any revenue from the licensing, sale or installation of its suite of communication software.

It is the Company's policy to recognize revenue when the communication transaction has been completed by the customer, persuasive evidence of the terms of the arrangement exist, its 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 or as monthly subscription services are provided and are 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

straight-line method over the estimated useful lives for owned assets, ranging from 3 to 7 years.

### Software and Technology Costs

The Company applies the provisions of Statement of Position 98-1 (SOP 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.

Included in software costs are those costs associated with software research and development efforts that have not been capitalized under SOP 98-1. Software research and development costs totaled \$691,000, \$1,075,000 and \$685,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Software costs also include the amortization of capitalized software costs and license fees paid to service providers which totaled \$609,000, \$213,000 and \$180,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Additionally during the fourth quarter of 2002, the Company wrote-off \$1,066,000 of previously capitalized software development costs which are included in the accompanying financial statements in software costs.

### 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 Statement of Financial Accounting Standards No. 84 (SFAS No 84).

### Long Lived Assets

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 in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144). The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired.

### Goodwill

In accordance with SFAS 141, goodwill is no longer being amortized.

Under SFAS 142, the Company reviews its goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the market capitalization of the Company in its assessment of whether or not goodwill has been impaired. At December 31, 2002, the Company has determined that no impairment of the Company's goodwill is required.

### Reclassifications

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Certain amounts in the 2001 and 2000 consolidated financial statements have been reclassified to conform to the 2002 presentation.

### Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses were as \$23,000, \$23,000, and \$42,000 for the years ended December 31, 2002, 2001, and 2000.

### Basic Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (SFAS 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, 2002, 2001 and 2000 total stock options, warrants and convertible debt and preferred stock of 33,166,853, 14,693,254 and 13,767,143, 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 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 consolidated 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 consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB No. 4, 44 and 64, Amendment of FASB No. 13, and Technical Corrections." SFAS No. 145 rescinds FASB No. 4 "Reporting Gains and Losses from Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also rescinds SFAS No. 44 "Accounting for Intangible Assets of Motor Carriers" and amends SFAS No. 13, "Accounting for Leases." This statement is effective for fiscal years beginning after May 15, 2002. The Company believes the adoption of this statement will have no material impact on its consolidated 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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 believes the adoption of this statement will have no material impact on its consolidated 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, that 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 believes the adoption of this statement will have no material impact on its consolidated 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 adoption of this statement did not have a material effect on the consolidated financial statements as the Company continues to account for stock based compensation under the intrinsic value approach, and follows the pro-forma disclosure requirements of SFAS No. 123, as amended by SFAS No 148.

### **Note 2 - Management's Plan for Continued Existence**

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.

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 related marketing efforts. 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. The Company's future operations are dependent upon management's ability to source additional equity capital.

The Company expects to continue to experience losses in the near term, until such time that its technologies can be merged with those acquired from ePhysician, Inc. (see Note 12) and successfully deployed with physicians to produce revenues. The continuing deployment, marketing and the development of the merged technologies will depend on the Company's ability to obtain additional financing. The merging of technologies with ePhysician, Inc. is in

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

the early development stage and has not generated any significant revenue to date. The Company is currently funding operations through the sale of common stock, and there are no assurances that that additional investment or financings will be available as needed to support the development and deployment of the merged technologies. The need for the Company to obtain additional financing is acute and failure to obtain adequate financing could result in lost business opportunities, the sale of the Cymedix business at a distressed price or may lead to the financial failure of the Company. -

### **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 for the year ended December 31, 2000 are as follows:

Revenue .....	\$ 1,128,000
Direct costs of services .....	927,000
	-----
Gross margin .....	201,000
	-----
Selling, general and administrative	219,000
Interest expense .....	18,000
Litigation settlement .....	137,000
	-----
Net loss .....	\$ (173,000)
	=====

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
	-----

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Gain on disposal of the remaining staffing businesses	1,102,000
Gain 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)
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
-----	

Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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,	
	2002	2001
	-----	-----
Software development costs	\$ -	\$ 929,000
Less accumulated amortization	-	(280,000)
	-----	-----
	\$ -	\$ 649,000
	=====	=====

Annual amortization expense, which is included in costs of services provided was \$216,000, \$156,000, and \$124,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

During the fourth quarter of 2002 the Company changed its business model, which significantly impacted its projections of expected future operating results. Due to the change in the business model the anticipated undiscounted cash flows from the Company's capitalized software development costs did not support the carrying value of those costs at December 31, 2002. In accordance with SFAS No. 144, the Company wrote-off the remaining \$1,066,000 of previously capitalized net costs during the fourth quarter of 2002. While the Company's business model has changed impacting the expected future operating results, the Company believes that the basis of its continued plan is embedded with the technology business plan it acquired in the Cymedix transaction in 1998. Accordingly, management does not believe an impairment of goodwill has occurred and it continues to have a viable long-term strategy that is supported by its current market capitalization at December 31, 2002 which supports the fair value of its only reporting unit.

Property and equipment consist of the following:

	December 31,	
	2002	2001
	-----	-----
Furniture and fixtures .....	\$ 111,000	\$ 103,000
Computer hardware and purchased software .....	542,000	609,000
Leasehold improvements .....	20,000	29,000
	-----	-----
	673,000	741,000
Less property, plant and equipment - accumulated depreciation .....	(408,000)	(376,000)
	-----	-----
	\$ 265,000	\$ 365,000
	=====	=====

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

Depreciation expense was \$127,000, \$123,000 and \$97,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

The changes in the carrying amount of goodwill for the year ending December 31, 2002 are as follows:

Balance as of January 1, 2002 .....	\$ 2,369,000
Goodwill written off relating to liability assumed in the acquisition .....	(130,000)
	-----
Balance as of December 31, 2002 .....	\$ 2,239,000
	=====

Goodwill relates to the Company's acquisition of Cymedix. Goodwill has an accumulated amortization balance of \$634,000 for the years ending December 31, 2002 and 2001. Amortization expense was \$0, \$209,000, and \$205,000 for the years ended December 31, 2002, 2001 and 2000, 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,	
	2002	2001
	-----	-----
Accrued payroll and benefits .....	\$256,000	\$294,000
Accrued lease abandonment costs .....	374,000	--
Accrued professional fees .....	36,000	57,000
Accrued license fees .....	36,000	53,000
Other accrued expenses .....	23,000	29,000
Accrued interest .....	11,000	17,000
Accrued payroll taxes, interest and penalties	--	131,000
	-----	-----
	\$736,000	\$581,000
	=====	=====

During the fourth quarter of 2002, the Company closed its California and Georgia offices. In connection with these office closures the Company accrued the balance of the remaining lease commitments totaling \$374,000 at December 31, 2002, which are included in selling general and administrative expenses in the accompanying financial statements.

At various times during 2001 and 2000, 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 recorded the write-offs as an adjustment to previously recorded goodwill.



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

### Note 6 - Long-Term Debt

Long-term debt consists of:

	December 31,	
	2002	2001
Notes payable - finance company, interest accrues at 7%, monthly payments of principal and interest of \$23,730 are payable through October 2003.	\$ 157,000	\$ 140,000
Notes payable - finance company, interest accrues at 7%, monthly payments of principal and interest of \$1,417 are payable through October 2003.	18,000	18,000
	175,000	158,000
Less current portion	(175,000)	(158,000)
	\$ -	\$ -

### Convertible Promissory Notes

The Company entered into a secured convertible loan agreement, dated February 19, 2002, pursuant to which the Company borrowed \$1,000,000 from WellPoint Health Networks Inc., in which a member of the Company's audit committee is a related party. WellPoint converted the note into 2,405,216 common shares on October 9, 2002, which includes approximately \$48,000 of accrued interest. The loan was secured by the grant of a security interest in all Medix's intellectual property, including its patent, copyrights and trademarks. The conversion of the loan eliminated the aforementioned security interest.

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. 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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 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 54,168 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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 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, Georgia, Colorado and California and various equipment under non-cancelable operating leases. We have closed our California and Colorado offices, and we are actively pursuing an exit to our leases in Georgia and California. Obligations for the New Jersey lease ended July of 2002.

Rent expense for these leases was:

Year Ending December 31,  
-----

2002	\$	610,000
2001	\$	396,000
2000	\$	315,000

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

Year Ending December 31,  
-----

2003	\$	371,000
2004		325,000
2005		34,000
		-----
	\$	730,000
		=====

#### 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.

In February of 2000, the Company reached a settlement on certain outstanding litigation and 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%.

In November of 2000, a settlement agreement was reached between the Company and a plaintiff on outstanding litigation whereby the Company paid the plaintiff \$66,000 cash, and issued an option to purchase 50,000 of the Company's common

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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%.

In June of 2001, the Company settled an outstanding claim 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.

In May of 2001, the Company agreed to settle another outstanding legal action 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 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.

In 2001, the Company also settled certain 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 two 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.

In August 2002, the Company reached an agreement in principal with a plaintiff to settle certain litigation by paying \$25,000 with no admission of liability on the Company's part. This settlement was signed and paid during September 2002.

In August 2002, the Company reached an agreement in principal with a company to settle certain litigation by paying \$55,000, to be paid over three months. This settlement was signed and the balance paid as of December 31, 2002.

Tufts Associated Health Plans, Inc. has threatened to commence litigation against us for allegedly breaching the Services and Support Agreement between Tufts and the Company. Tufts has alleged that because of the termination of the merger agreement between the Company and PocketScript, the Company is unable to provide the products and services as contemplated by the Services and Support Agreement and is in "material breach" thereunder. We disagree with Tufts' allegations. At this time, litigation has not been commenced.

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

On March 20, 2000, the Company authorized 2,500,000 shares of preferred stock. As of December 31, 2002, no additional shares of preferred stock have been issued.

In October of 2002, the stockholders approved an increase of authorized common stock to 125,000,000.

### **1996 Private Placement**

In July and September 1996, the Company completed a private placement of 244

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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, 2002 and 2001. 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 Placements

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 relating to 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

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

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. During 2002, 50 shares of Series B preferred stock were converted into 100,000 common shares. The warrants are callable by the Company for \$.01 upon thirty days written notice. These warrants expired in October 2002. Upon cancellation, the Company extended the expiration date for 480,000 of these warrants to April 2003. Using a Black Scholes pricing model, \$58,000 of expense was charged to equity as the value of this repricing.

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. During 2002, 300 shares of Series C preferred stock were converted into 600,000 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.

### 2002 Private Placement

During 2002, the Company initiated three private placement offerings each consisting of one share of common stock and warrants to purchase common stock. The exercise price of the offering was \$.40 per share. The warrants, included with each unit, entitled the holder to purchase common shares at \$.50 per share, expiring five years after offering date. Over the three offerings, \$5,491,000 was raised in total proceeds, net of offering costs of \$290,000, through the issuance of 13,702,500 shares of common stock. At December 31, 2002 a \$76,000 subscription receivable remained which was collected in January 2003.

### Equity Line

The Company entered into an Equity Line of Credit Agreement dated as of June 12, 2001, which provided 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.

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 below, 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.

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 1,954,719 shares of common stock. This agreement was terminated in April 2002.

The principal conditions to any such advance were as follows:

- o There must have been thirteen stock market trading days between any two requests for advances made by the Company.
- o The Company could only request an advance if the volume weighted average

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

price of the common stock as reported by Bloomberg L.P. for the day before the request is made was equal to or greater than the volume weighted average price as reported by Bloomberg L.P. for the 22 trading days before a request was made.

- o The Company was not be able to receive an advance amount that was 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 was be equal to 91% of the three lowest daily volume weighted average prices during the 22 trading days before a request was made.

The Company received 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 was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof. The Company 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 registered 9,500,000 shares. The related Registration Statement was declared effective by the SEC on August 6, 2001. The Company also agreed that its executive officers and directors would not sell any shares of its common stock during the ten trading days following any advance request by the Company.

The Company paid 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 paid legal fees in an aggregate amount of \$15,000.

### Accumulated Deficit

Of the \$43,073,000 cumulative deficit at December 31, 2002 and \$34,059,000 at December 31, 2001, the approximate amount relating to the Company's technology business from inception is \$27,752,000 and \$21,112,000, respectively. In addition, a premium of \$2,332,000 was paid upon the acquisition of Cymedix Lynx in 1998, producing a total investment of \$30,084,000 at December 31, 2002 and \$23,444,000 at December 31, 2001 in the technology to date.

### Stock Options

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 reserved 10,000,000 shares of common stock for granting of options under the 1999 Plan. At 2001 Annual Meeting the shareholders approved an increase of 3,000,000 shares as the amount of total shares of our Common Stock reserved for issuance under the 1999 Plan.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

The following table presents the activity for options outstanding:

	Incentive Stock Options	Non-qualified Stock Options	Weighted Average Exercise Price
Outstanding - December 31, 1999	7,517,877	633,000	\$ 0.32
Granted	2,255,000	110,000	3.82
Granted	(10,000)	-	0.25
Forfeited/canceled	(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
Granted	4,968,000	860,000	0.67
Forfeited/canceled	(1,314,750)	(266,167)	1.15
Exercised	(200,000)	(158,000)	0.40
Outstanding - December 31, 2002	9,472,750	800,000	\$ 1.06

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Price*	Life*	Number	Price*
\$ .25 - .55	2,417,000	\$ 0.41	5.92	2,197,625	\$ 0.41
\$ .59 - .99	6,619,750	0.69	4.72	3,689,750	0.69
\$1.05 - 4.97	1,236,000	4.34	4.24	1,186,000	4.47
Total - December 31, 2002	10,272,750	\$ 1.06	4.95	7,073,375	\$ 1.23

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

In fiscal year 2002, the Company has issued 636,000 stock options to consultants that have been valued at \$260,000 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 \$0.38 to \$0.70, volatility of 95%, 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 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:



## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

	For the Years Ended December 31,		
	2002	2001	2000
Net loss - as reported	\$ (9,014,000)	\$ (10,636,000)	\$ (5,415,000)
Net loss - pro forma	(111,198,000)	(12,035,000)	(14,256,000)
Basic loss per common share - as reported	(0.14)	(0.21)	(0.13)
Basic loss per common share - pro forma	(0.18)	(0.24)	(0.34)

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,		
	2002	2001	2000
Approximate risk free rate	5.50%	5.50%	5.50%
Average expected life	5 years	5 years	10 years
Dividend yield	0%	0%	0%
Volatility	95%	132%	273%
Estimated fair value of total options granted	\$2,184,000	\$1,399,000	\$8,841,000

### Warrants

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 right to exercise the warrants are earned in increments based on certain performance criteria. At December 31, 2002 a total of 1,850,000 warrants had been earned. 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%. 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%. The 850,000 warrants were issued in the first quarter of 2002.

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 December 31, 2002, the fair value of the related warrants and resulting expense would have been approximately \$1,848,683, using the Black-Scholes option pricing model, with assumptions of 95% volatility, no dividend yield and a risk-free rate of 5.5%.

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

The Company also issued and modified warrant terms in the settlement of certain litigation during 2001 (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, 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
Issued	17,493,016	0.51
Forfeited/canceled	(826,000)	0.51
Exercised	(1,388,975)	0.50
Outstanding - December 31, 2002	22,727,628	\$ 0.58

All of the outstanding warrants are exercisable and have a weighted average remaining contractual life of 3.45 years.

### Note 9 - Income Taxes

As of December 31, 2002, the Company has net operating loss (NOL) carryforwards of approximately \$29,105,000, which expire in the years 2002 through 2022. 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 \$141,000 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 \$9,900,000 and \$7,400,000, respectively. The change in the valuation allowance for 2002 and 2001 was approximately \$2,500,000 and \$2,413,000, respectively.

### Note 10 - Employee Benefit Plan

Employees are eligible to participate in the company's 401(k) retirement. Payroll deductions are taken out of every payroll check and are "pre-tax" dollars. Employees may elect (in writing) at any time that their participation

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

be "suspended", however, they may only apply for re-enrollment quarterly. Employees may elect up to a 15% contribution. There currently is no employer match policy.

### **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 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.

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 \$20,000, \$0 and \$52,000 for such consulting services in 2002, 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.

During 2002, the Company recorded \$130,000 as a liability to a related party for loans made to the Company during 2002. The liability emerged a part of a severance package for compensation and expenses. The separation agreement calls for monthly payments of \$5,000 beginning January 2003 with the entire amount being due in May 2003.

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

The Company entered into a definitive agreement to acquire substantially all of the assets of PocketScripts LLC in December 2002. The acquisition was contingent upon certain closing conditions including approval by the Company's stockholders. Through December 31, 2002, the Company paid an initial deposit of \$100,000 in connection with the proposed merger, in addition to \$209,000 in advances for working capital purposes and expenses relating to the acquisition which were incurred. On March 5, 2003, Medix announced the termination of the proposed merger agreement with PocketScript, LLC. As a result of the acquisition being terminated, the Company expensed the \$309,000 incurred during the year ended December 31, 2002.

On March 7, 2003, the Company purchased the assets of ePhysician, Inc. for \$300,000 and 100,000 shares of our common stock, from Comdisco Ventures, Inc.,

## Edgar Filing: MEDIX RESOURCES INC - Form 10-K

an ePhysician creditor. ePhysician point-of-care technologies enable physicians to securely access and send information to pharmacies, billing services, and practice management systems via the Palm OS(R)-based handheld device and the Internet. The Company intends to integrate various aspects of ePhysician's technologies with their existing products.

### 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.

	First Quarter	Second Quarter	Third ----- Quarter (2)	Fourth ----- Quarter (3) (4)
Footnotes				
December 31, 2001				
Revenues	\$ 30,000	\$ -	\$ -	\$ (1,000)
Operating expenses	2,195,000	1,455,000	3,058,000	1,437,000
Net loss	(2,259,000)	(1,635,000)	(3,183,000)	(3,559,000)
Basic loss per share (1)	(0.05)	(0.03)	(0.06)	(0.07)
Diluted loss per share (1)	(0.05)	(0.03)	(0.06)	(0.07)
December 31, 2002				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating expenses	1,475,000	1,265,000	1,678,000	3,140,000
Net loss	(1,677,000)	(1,309,000)	(1,732,000)	(4,296,000)
Basic loss per share (1)	(0.03)	(0.02)	(0.03)	(0.05)
Diluted loss per share(1)	(0.03)	(0.02)	(0.03)	(0.05)

- (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 expenses 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) Included in the fourth quarter 2002 operating expenses is \$1,066,000 of expenses related to the write-off of capitalized software project costs, \$374,000 of accrued lease abandonment costs, and \$309,000 of expenses associated with an acquisition which was terminated.