I TRAX INC
Form 10KSB/A
August 11, 2004

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-KSB/A

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2003

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

For the transition period from _______ to _______

Commission File Number: 0-30275

I-TRAX, INC.

(Name of small business issuer in its charter)

Delaware	23-3057155
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Logan Square 130 N. 18th Street, Suite 2615 Philadelphia, Pennsylvania	19103
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (215) 557-7488

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $.001 par value

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State issuer's revenues for its most recent fiscal year: $4,188,860.

The aggregate market value of the voting common stock held by non-affiliates computed with reference to the price at which the stock was sold on March 25, 2003 on the American Stock Exchange was $112,921,667. As of March 25, 2003, the number of outstanding shares of common stock, par value $.001 per share, was 28,374,852.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the issuer's definitive proxy statement for its 2004 Annual Meeting of Stockholders are incorporated by reference in Part III of this report.

Transitional Small Business Disclosure Format (Check one): [ ] Yes [X] No

Explanatory Statement

This amendment amends I-trax, Inc.'s Annual Report on Form 10-KSB for the year ended December 31, 2003, filed with the Securities and Exchange Commission on April 8, 2004 and amended on June 3, 2004, to change the value assigned to I-trax's common stock for purposes of matters related to the acquisition of CHD Meridian Healthcare from $4.96 to $3.63 in Managements Discussion and Analysis of Financial Condition and Results of Operations (Item 6) and in Note 19 to I-trax's financial statements.

This amendment also deletes from the Annual Report, as amended, (1) the consolidated financial statements of Meridian Healthcare Associates, Inc. and subsidiaries (d/b/a CHD Meridian Healthcare) for the years ended December 31, 2003, 2002 and 2001 and (2) unaudited combined condensed balance sheet of I-trax and CHD Meridian Healthcare on a pro forma basis as if the merger had been consummated on December 31, 2003 and the unaudited combined condensed statements of operations on a pro forma basis as if the merger had been consummated on January 1, 2002. These financial statements and pro forma information are contained in an amendment filed on August 11, 2004 to I-trax's Current Report on Form 8-K, originally filed on March 30, 2004 and previously amended on June 2, 2004.

Except as described above, no other changes have been made to our Annual Report on Form 10-KSB/A for the year ended December 31, 2003 filed on June 3, 2004.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of I-trax, Inc. and its subsidiaries should be reviewed in conjunction with our audited financial statements and related notes appearing in this Annual Report on Form 10-KSB for the fiscal years ended December 31, 2003 and 2002.

I-trax is a combination of two companies that merged on March 19, 2004: I-trax, Inc. and Meridian Occupational Healthcare Associates, Inc., a private company, which does business as CHD Meridian Healthcare. Although this Annual Report on Form 10-KSB describes the business of the merged companies, because the merger occurred subsequent to the year ended December 31, 2003, certain portions of this report, including the results of operations presented in this Management's Discussion and Analysis of Financial Condition and Results of Operations, are limited to I-trax. To present the performance and results of operations of the merged companies for the years ended December 31, 2003 and

2002, we are including in this report the balance sheet of CHD Meridian Healthcare as of December 31, 2003 and the statements of operations for the years ended December 31, 2003 and 2002, and the unaudited combined condensed balance sheet of I-trax and CHD Meridian Healthcare on a pro forma basis as if the merger had been consummated on December 31, 2003 and the unaudited combined condensed statements of operations on a pro forma basis as if the merger had been consummated on January 1, 2002.

The following discussion also contains forward-looking statements, which are based upon current expectations and involve a number of risks and uncertainties. In order for I-trax to utilize the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, investors are hereby cautioned that these statements may be affected by important factors, which are set forth below and elsewhere in this report, and consequently, actual operations and results may differ materially from those expressed in these forward-looking statements. The most important factor is our ability successfully to integrate our operations and health management programs with the operations and services of CHD Meridian Healthcare and successfully introduce to our market place our combined products and services. This and other risks concerning the merged companies business are discussed above beginning on page 7. The acquisition is discussed further below.

Our consolidated financial statements and applicable notes are prepared in accordance with the generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the covered periods. We base our estimates and judgments on our historical experience and on various other factors that we believe are reasonable under the circumstances. We

evaluate our estimates and judgments, including those related to revenue recognition, bad debts, restructuring costs, and goodwill and other intangible assets on an ongoing basis. Notwithstanding these efforts, there can be no assurance that actual results will not differ from the respective amount of those estimates.

Business Description

Following I-trax and CHD Meridian Healthcare merger, we offer two categories of services, which can be integrated or blended as necessary or appropriate based on each client's needs. The first category includes on site services such as occupation health, primary care, corporate health and pharmacy, which were historically offered by CHD Meridian Healthcare. The second category includes personalized health management programs, which were historically offered by I-trax.

Also as the result of the merger, we believe we are the nation's largest provider of on-site corporate health management services. Our health management services are designed to allow employers to contract directly for a wide range of employee healthcare needs. We can deliver these services at or near the client's work site by opening, staffing and managing a clinic or pharmacy dedicated to the client and its employees, or remotely by using the Internet and our state-of-the-art Care Communications Center staffed with trained nurses and other healthcare professionals 24 hours per day, 7 days per week. Our array of services provides each client with flexibility to meet its specific pharmacy, primary care, occupational health, corporate health, wellness, lifestyle management or disease management needs. Pursuant to multi-year agreements, our clients can offer their employees, dependents and retirees any combination of our various services which integrate seamlessly, through on-site or off-site delivery platforms, or as a component of or complement to existing health plan options.

Our primary target market is large and mid-sized self-insured employers and business consortia. These entities are more likely to derive immediate and meaningful financial benefit from our services because of their scale and focus on controlling healthcare costs.

We currently operate approximately 160 locations in 32 states. We also maintain contracts with approximately 150 clients, including many leading employers. Our clients pay us directly for our services and include automotive and automotive parts manufacturers, consumer products manufacturers, large financial institutions, health plans, integrated delivery networks, and third party administrators. Our client retention rate is high because we establish strong client relationships, which are supported by the critical nature of our services, the benefits achieved by employer and employee constituents, and the utilization of multi-year service contracts.

Corporate Overview; Acquisition of CHD Meridian Healthcare

I-trax was incorporated in Delaware on September 15, 2000 at the direction of the board of directors of I-trax Health Management Solutions, Inc., or Health Management, I-trax's then parent company. On February 5, 2001, I-trax became the holding company of Health Management at the closing of a re-organization.

The holding company structure has allowed us greater flexibility in our operations and expansion and diversification plans, including in the acquisition of CHD Meridian Healthcare and WellComm Group, Inc.

On March 19, 2004 we finalized the acquisition of CHD Meridian Healthcare. Under the merger agreement, we delivered to CHD Meridian Healthcare stockholders 10,000,000 shares of I-trax common stock, 400,000 shares of I-trax Series A Convertible Preferred Stock, each of which is convertible into 10 shares of I-trax common stock, and paid $25,508,000 in cash. Immediately prior to the merger, CHD Meridian Healthcare also redeemed certain of its then outstanding shares of common stock and options to purchase common stock for which it paid approximately $9,492,000 in the aggregate. Further, if CHD Meridian Healthcare, continuing its operations following the closing of the merger as a subsidiary of I-trax, achieves calendar 2004 milestones for earnings before interest, taxes, depreciation and amortization, or EBITDA, additional shares of common stock will be payable as follows: If EBITDA equals or exceeds $8,100,000, the number of such additional shares of common stock payable will be 3,473,280; the number of such shares increases proportionately up to a maximum of 3,859,200 shares if EBITDA equals or exceeds $9,000,000. Any escrowed shares that are not released will be returned to I-trax for cancellation. Further, the escrowed shares are not deemed outstanding for accounting purposes until released.

In the merger, I-trax assumed all of CHD Meridian Healthcare's liabilities, which equaled approximately $21,000,000.

Immediately following the closing of the merger, I-trax redeemed from former CHD Meridian Healthcare stockholders that participated in the merger, pro rata, an aggregate of 200,000 shares of Series A Convertible Preferred Stock at their original issue price of $25.00 per share.

I-trax obtained the cash portion of the merger consideration by selling 1,000,000 shares of Series A Convertible Preferred Stock at a purchase price of $25.00 per share for gross proceeds of $25,000,000 by borrowing $12,000,000 on a new $20,000,000 senior secured debt facility from a national lender.

Under the merger agreement and the related financing documents, we are required to register for resale the shares of common stock issued in the merger and issuable upon conversion of shares of Series A Convertible Preferred Stock issued in the merger and in the related financing.

The estimated purchase price we paid for CHD Meridian Healthcare, valuing our common stock at $3.63 per share, the average closing share price for the three days prior and the three days after the announcement of the merger, and before the issuance of any of the earn-out shares, is approximately $73.0 million. The acquisition will be accounted for as a purchase. As such, the purchase price will be allocated to the estimated fair values of the assets acquired and liabilities assumed. If the escrow shares are paid to former CHD Meridian Healthcare in accordance with the terms of the merger agreement, the purchase price of the acquisition will increase, and the additional purchase price will be also allocated to the estimated fair values of the assets acquired and liabilities assumed. We will obtain a third-party valuation of the acquired intangible assets.

The following are our unaudited pro forma results of operations giving effect to the acquisition of CHD Meridian Healthcare as though the transaction had occurred on January 1, 2002.

	Year ended December 31, 2003	Year ended December 31, 2002
Sales	$ 117,599,000	$ 107,384,000
Expenses	124,159,000	117,844,000
Net loss	$ (6,560,000)	$ (10,460,000)

We acquired WellComm effective February 6, 2002. In the acquisition, we paid the WellComm stockholders approximately $2,200,000 in cash and 1,488,000 shares of our common stock. We also issued to each of two senior officers of WellComm options to acquire 56,000 shares of our common stock at a nominal exercise price. Because the acquisition was structured as a merger, we also assume all of WellComm's liabilities, which equaled approximately $775,000.

We funded this acquisition by selling a 6% convertible senior debenture in the aggregate principal amount of $2,000,000 to Palladin Opportunity Fund LLC. We also issued Palladin a warrant to purchase up to 307,692 shares of our common stock. As of March 19, 2004, Palladin has converted all amounts outstanding under the debenture into common stock and has exercised the warrant in full at the conversion price and exercise price of $1.75 per share.

Listing on the American Stock Exchange

Effective January 3, 2003 we completed a 1-for-5 reverse stock split. Our board of directors and stockholders authorized the reverse stock split in connection with the then pending application to list our common stock on the American Stock Exchange. We began trading on the American Stock Exchange on

January 15, 2003 under the symbol "DMX."

Key Trends and Analytical Points

The following is a summary of key trends and analytical points covered in greater detail in management's discussion and analysis:

- CHD Meridian Healthcare Acquisition: On March 19, 2004, we finalized the acquisition of CHD Meridian Healthcare. We will commence reporting financial results that include CHD Meridian Healthcare operations beginning as of April 1, 2004. When we begin to report CHD Meridian Healthcare revenue, operational expenses, general and administration expenses, depreciation and amortization expenses and interest expense will also increase.

- Revenue and Cost of Revenue: Revenue and cost of revenue increased modestly from year ended December 31, 2002 to year ended December 31, 2003. In accordance with management's expectation, we continued to increase our service revenue and decrease our technology revenue.

- Operating Expenses: Operating expenses have decreased from year ended December 31, 2002 to year ended December 31, 2003, with salary and related benefits, research and development, depreciation and amortization and impairment charges related to intangible assets declining. The decline is partially offset by an increase in marketing and publicity expenses.

- Other Income and Expenses: Interest expense and financing costs increased from year ended December 31, 2002 to year ended December 31, 2003.

- Working Capital: We finished the year ended December 31, 2003, with negative working capital. However, as of March 31, 2004, we had estimated pro forma working capital, which together with operating cash flow and amounts available under a newly established secured credit facility should be sufficient to conduct our operations for the next twelve months.

Results of Operations

The following discussion of results of operations is limited to the historic business of I-trax as in effect as of December 31, 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002.

Revenue for the year ended December 31, 2003 was $4,188,860, an increase of $256,950 or 7% from $3,931,910 for the year ended December 31, 2002. Total revenue was comprised of two components: (1) prevention and care services revenue of $2,612,941; and (2) technology license and services revenue of $1,575,919. Of the total technology license and services revenue, approximately $1,400,000 represents revenue from a perpetual license of CarePrime(R) and MyFamilyMD(TM) to UICI, Inc. This license also grants UICI an exclusive right to use CarePrime(R) and MyFamilyMD(TM) in the student health market. We contracted this license and software development in the third quarter of 2002 and we recognize it based on deliverables throughout 2002 and 2003. We expect to commence reporting CHD Meridian Healthcare revenue beginning as of April 1, 2004 pursuant to a letter of understanding between the two companies.

Cost of revenue for the year ended December 31, 2003 was $1,371,870, an increase of 12% from $1,229,044 for the year ended December 31, 2002. The increase is attributable to the personnel costs required to service our prevention and care services contracts. Cost of revenue will increase when we begin to report CHD Meridian Healthcare revenue as of April 1, 2004.

Software development costs amounting to $1,237,713 were capitalized for the year ended December 31, 2003, since the development stage of these products had reached technological feasibility. For the year ended December 31, 2002, we charged to operations $410,220 in research and development costs. We expensed such costs during the year ended December 31, 2002 because the products under development had not reached technological feasibility and therefore, the related expense could not be capitalized. We expect to continue to spend funds to improve our technology and to add functionality to our technology products. Such products include the

MyFamilyMD(TM) application and its MedWizard(R) tools, the CarePrime(TM) application, which interacts with MyFamilyMD(TM) and its MedWizard(R) tools, and the Health-e-Coordinator(TM) application, which is a disease management platform.

General and administrative expenses (excluding salary and related benefits which are discussed separately below) increased from $1,721,685 for the year ended December 31, 2002 to $1,740,710 for the year ended December 31, 2003, an immaterial increase of $19,025. Our ability to control general and administrative expenses is attributable to increased efficiencies and implementation of stringent budgetary controls. General and administrative expenses will increase when we begin to report CHD Meridian Healthcare revenue and associated expenses as of April 1, 2004.

Salary and related benefits were $2,468,468 for the year ended December 31, 2003 as compared to $4,233,209 for the year ended December 31, 2002. This decrease amounted to $1,764,741 or 42%. The two major reasons for the large decrease in salary and related benefits were: (1) capitalization of approximately $805,000 of development salaries to software development costs in 2003, and (2) implementation of a variable pay plan in December 2002. Pursuant to the plan, all employees accepted a 10% salary reduction in order to fund the variable plan. If certain financial and personal goals were met during 2003, the employees were eligible to participate in the plan, thus potentially receiving additional compensation in excess of the accepted 10% salary reduction. Because we only met the financial goals established under the plan during the first quarter of 2003, the net reduction in salary associated with the plan amounted to approximately $500,000. The balance of the decrease in salary and related benefits is the result of consolidating positions and improving efficiencies. Salary and related benefits will increase effective April 1, 2004 when we begin to report CHD Meridian Healthcare revenue and related expenses.

Depreciation and amortization expenses were $1,702,469 for the year ended December 31, 2003, as compared to $2,045,461 for the year ended December 31, 2002. The decrease is primarily attributable to the write down of certain intangible assets during the last quarter of 2002.

During 2002, we incurred an impairment charge of $1,648,332 in connection with certain intangible assets (customer relations) acquired in the

WellComm acquisition. During the quarter ended December 31, 2003, we recorded an impairment charge of approximately $458,000 representing the un-amortized portion of covenants not to compete attributable to the founder of WellComm, who passed away.

Marketing and publicity expenses were $1,762,567 for the year ended December 31, 2003 as compared to $773,963 for the year ended December 31, 2002. The increase of 128% or $988,604 is a direct result of augmented marketing and investor relation campaigns to promote I-trax in the capital markets and its products in the wellness and disease management market. The marketing and publicity expense for 2003 includes a non-cash charge of approximately $1,414,000, for the issuance of common stock, granting of warrants and contribution of common stock by certain of our stockholders to an investor relations firm.

Interest expense and financing costs for the year ended December 31, 2003 were $2,405,015 an increase of $1,297,383 or 117% from $1,107,632 for the year ended December 31, 2002. For the year ended December 31, 2003, interest expense includes charges of approximately $1,880,826 related to the debenture and related warrants issued to Palladin Opportunity Fund, LLC. Of this amount, $224,350 represents interest of 6% on the debenture for the year ended December 31, 2003; $1,125,085 represents amortization of the value assigned to the original beneficial conversion value of the Palladin debenture and the associated warrants and additional charges and amortization for the further beneficial conversion value caused by the June 2003 reset of the conversion price of such debenture and the exercise price of the associated warrants; and $531,391 represents an accelerated charge to interest expense for the portion of the debenture converted during the year ended December 31, 2003. During the period, Palladin converted $1,483,351 of principal outstanding under the debenture into common stock. Generally, the beneficial conversion value represents the benefit to the investor that results from purchasing an immediately convertible debenture with a conversion price that is less than fair market value on the date of purchase after first allocating a portion of the proceeds from the debenture to the associated warrants. The remaining balance of interest expense of approximately $524,189 is associated with interest on other debt and the amortization of the value of warrants granted to certain shareholders for loans made to us. Interest expense will increase effective April 1, 2004 to reflect interest payable in connection with $12,000,000 outstanding under a new $20,000,000 senior secured credit facility established to fund a portion of the CHD Meridian Healthcare acquisition price.

Amortization of debt issuance and conversion costs was $336,783 and $187,337 for the years ended December 31, 2003 and 2002, respectively. These amounts represented costs incurred in selling the $2,000,000 debenture to Palladin and were amortized over the two-year life of the debenture. During the year ended December 31, 2003, however, we recorded a one-time charge of $122,228 in connection with the re-pricing of the exercise price of the warrants issued to the third party that brokered the Palladin investment and increasing the number of shares covered by the warrant as per the broker agreement.

Under the terms of the registration rights agreement entered in connection with the private placement of common stock and warrants closed on October 31, 2003, we were required to file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, covering the resale of all the common stock purchased and the common stock underlying the warrants within 30 days of the placement's closing.

Additionally, under the same registration rights agreement, we were required to use our best efforts to cause such registration statement to become effective within 90 days of closing of the placement. The registration rights agreement further provided that if the registration statement was not filed, or did not become effective within the defined time period, I-trax would have been required to pay each holder an amount in cash, as liquidated damages, equal to 1.5% per month of the aggregate purchase price paid by such holders. The registration statement was filed within the allowed time, and was declared effective by the Commission on February 17, 2004.

In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," the fair value of the warrants issued in the October 2003 private placement was accounted for as a liability, with an offsetting reduction to additional paid-in capital received in the private placement. The warrant liability was reclassified to equity as of February 17, 2004, the effective date of the registration statement. Such transaction did not impact our financial position or business operations.

The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions: no dividends; risk-free interest rate of 4%; the contractual life of 5 years and volatility of 112%. The fair value of the warrants at December 31, 2003 was estimated to be approximately $2,760,000, which reflects an increase in fair value of $301,305 from the time the warrants were granted. This amount has been charged to operations as an increase in common stock warrants. The fair value of the warrants increased by approximately an additional $350,000 from December 31, 2003 to February 17, 2004. This increase will be charged in the statement of operations for the quarter ended March 31, 2004 as an increase in common stock warrants.

The adjustments required by EITF 00-19 were required because of a private placement subscription agreement, which specified a penalty if we did not timely register the common stock underlying the warrants issued in the transaction. The Securities and Exchange Commission declared the related registration statement effective within the contractual deadline and we did not incur any penalties. The adjustments for EITF 00-19 had no impact on our working capital, liquidity, or business operations.

During January 2003, in connection with the termination of our agreement to acquire DxCG, Inc., a Boston-based predictive modeling company, we charged $200,000 to earnings. This sum was paid to DxCG following DxCG's termination of the merger agreement because certain conditions to closing, including third party financing for the cash portion of the purchase price, were not satisfied.

No provision or benefit for Federal or state income taxes has been recorded for the years ended December 31, 2003 and 2002, because we have incurred net operating losses and have no carry-back potential. Based on a number of factors, including the lack of a history of profits and net operating loss carry-forward limitations due to changes in ownership, management believes that there is sufficient uncertainty regarding the realization of deferred tax assets such that a valuation allowance has been provided. At December 31, 2003, our net operating loss carry-forwards of approximately $23,700,000 were available to reduce future taxable income. These losses expire at various times beginning in 2004. These carry-forward losses are also of no value unless we are profitable. To the extent that we are profitable, the utilization of these carry-forward losses may be limited as a result of substantial changes in our stock ownership in the past along with the effect of the CHD Meridian Healthcare acquisition. The amount of the limitation has not yet been calculated.

For the year ended December 31, 2003, our net loss was $8,058,579, inclusive of $500,000 of income resulting from a life insurance policy pay out following the death of an executive officer, compared to a net loss of $9,424,973 for the year ended December 31, 2002, a decrease of 14%.

Liquidity and Capital Resources

The following discussion concerns the liquidity and capital resources of I-trax, with the exception of portions specifically addressing the CHD Meridian Healthcare acquisition and certain pro forma information subsequent to the CHD Meridian Healthcare acquisition.

Working Capital

As of December 31, 2003, we had a working capital deficiency of $290,042.

On March 19, 2004, we completed the CHD Meridian Healthcare acquisition. We obtained some of the cash merger consideration by selling 1,000,000 shares of Series A Convertible Preferred Stock at a purchase price of $25.00 per share for gross proceeds of $25 million.

In addition, on March 19, 2004, contemporaneously with the CHD Meridian Healthcare acquisition, we obtained a permanent $20 million senior secured credit facility from Bank of America, N.A., and borrowed $12 million under this facility to fund the balance of the cash merger consideration. The credit facility expires on April 1, 2007. The credit facility has a $6 million term loan commitment with a $14 million revolving credit commitment, which is reduced by letter of credit liabilities, which currently amount to $3.25 million. The credit facility is secured by substantially all of our assets. At any time prior to June 1, 2004, the borrowings under the revolving credit commitment may not exceed $10 million. From June 1, 2004 until November 1, 2005, the borrowings under the revolving credit commitment may not exceed 80% of eligible receivables and 50% of eligible fixed assets. Borrowings, at our election, may be either Base rate or Eurodollar rate loans. Base rate loans bear interest at the prime rate as published from time to time, plus up to 0.75% per annum depending on our coverage rations. The Eurodollar rate loans bear interest at the Eurodollar rate plus up to 3.0% per annum likewise depending on our coverage ratios. As of March 26, 2004, we had outstanding $6 million under the term loan, $6 million under the revolving loan and an aggregate of $3.25 million under letters of credit.

The credit facility includes certain financial covenants customary for the amount of duration of this commitment. As of the date of this filing, we were in compliance with all such covenants.

We are required to make twelve principal installment payments of $0.5 million each quarter beginning on July 1, 2004.

As of March 31, 2004, we had estimated pro forma working capital of approximately $5,500,000. We believe that this amount, together with our operating cash flow and amounts available to be drawn from the credit facility, is sufficient to meet our working capital and operating expense requirements for the next twelve months. We also believe that cash flow from operations, existing working capital and additional availability under the credit facility should be sufficient to fund long-term operations, capital expenditures and expansion of our existing client base. If we have other long-term capital needs, however, such as for acquisition capital, additional equity or debt financings may be needed.

Sources and Uses of Cash

Despite negative cash flows from operations, which amounted to $3,509,478 for the year ended December 31, 2003 and $2,871,201 for the year ended December 31, 2002, we have been able to secure funds to support our operations. During the year ended December 31, 2002, we secured funding by selling equity securities, issuing a debenture and receiving advances from officers, directors and other related parties, which aggregated approximately $4,800,000. Of the $4,800,000, approximately $2,200,000 was used to acquire WellComm, $190,000 was used to repay debt and the remainder was used to fund operations. During the year ended December 31, 2003, we borrowed, net of repayments, approximately $600,000 from officers, related parties and certain stockholders. Additionally, during the year ended December 31, 2003, we raised an aggregate of $5,010,000 in two private

placements of our securities and upon the exercise of warrants to acquire 720,866 shares of common stock, which yielded approximately $970,000. The funds were used primarily to fund operations, continue the investment in our technology and satisfy certain liabilities, including the pay off of a $300,000 credit line.

Current Liabilities. As of December 31, 2003, our current liabilities were $1,601,524, of which $280,000 was due to related parties. The remainder of current liabilities of $1,321,524 was comprised primarily of trade payables of $605,689, accrued expenses of $361,168, $114,452 of short term loans and capital lease obligations and $250,000 of deferred revenue. We have good relationships with all of our vendors.

Long-Term Debt. As of December 31, 2003, the face value of our long-term debt was $1,358,808 (with a carrying value of $797,805), and was held by two investor groups. Psilos Group Partners and affiliated entities were owed $617,809 for which principal and interest was not due until March 2006. The balance of $740,999 was outstanding under the convertible debenture held by Palladin, which was not due until February 2005 (after receiving a one year extension effective December 31, 2003).

Pay-off of Liabilities. In connection with obtaining a senior secured credit facility to fund the CHD Meridian Healthcare acquisition, we repaid all related party loans and advances, and all other outstanding loans on March 19, 2004. Accordingly, contemporaneously with the closing of the CHD Meridian Healthcare acquisition, we repaid an aggregate of $1,233,932 of which $289,897 was for related party loans and accrued interest and $944,035 was for principal and accrued interest under various promissory notes.

In the first quarter of 2004, Palladin converted the remaining balance of its debenture into 427,106 shares of our common stock.

Equity Sales. Under a private placement initiated in June 2003, we raised approximately $1,000,000 in cash, converted approximately $1,169,270 in related party loans, of which $1,037,038 represented principal and $132,232 represented interest, and converted $121,997 of deferred salaries by selling or issuing, as applicable, common stock. In this offering, we issued a total of 1,311,682 shares.

During August 2003 we commenced a private placement whereby we offered as a unit, two shares of common stock and a warrant to purchase an additional share of common stock exercisable at $3.00, the market price of our common stock on the date we commenced the private placement, for a unit purchase price of $5. The maximum amount offered was $3,500,000. Through October 31, 2003, the end of the private placement, we issued a total of 1,400,000 shares of common stock and granted warrants to purchase 700,000 additional shares. We realized net proceeds of $3,037,894 after expenses as of December 31, 2003.

For the year ended December 31, 2003, we received approximately $973,000 from exercises of warrants.

Material Commitments

The following schedules summarizes the contractual obligations of I-trax and CHD Meridian Healthcare by the indicated period as of December 31, 2003:

For the year ending December 31:	I-trax	CHD Meridian Healthcare	Total
2004	$ 206,000	$ 1,294,000	$ 1,500,000
2005	119,000	986,000	1,105,000
2006	56,000	927,000	983,000
2007	24,000	780,000	804,000
2008	--	651,000	651,000
Thereafter	--	574,000	574,000
Total future payments	$ 405,000	$ 5,212,000	$ 5,617,000

Related Party Transactions

During February 2003, we repaid $140,000 of the $225,000 loan outstanding to a relative of our former chief operating officer.

During February 2003, pursuant to two promissory notes, two of our former directors advanced us $200,000 for working capital. The notes accrued interest at 8% per year and matured in February 2004.

As of June 30, 2003, our chief executive officer and former chief operating officer, along with a director, advanced us a total of $540,000 for working capital at an interest rate of 8% per year.

As of December 31, 2003, we repaid an aggregate of $99,622 to our chief executive officer and other related parties. As of March 22, 2004, we repaid all related party loans, and interest accrued on such loans, in the aggregate amount $289,897.

In connection with the death of a senior executive officer, in October 2003 we were entitled to receive proceeds of $500,000 from a key-person life insurance policy we maintained on the life of such senior executive officer. The proceeds from the life insurance policy were pledged as security for loans made to us in 2002 and 2003 by the deceased executive officer, a former director and a key employee. Accordingly, the life insurance company was instructed to disburse such proceeds directly to the note holders in partial satisfaction of such loans.

Critical Accounting Policies

The following critical accounting policies concern the business of I-trax at December 31, 2003. The policies will be reassessed effective as of April 1, 2004 when we begin to report revenue, expenses and other financial information concerning CHD Meridian Healthcare.

Impairment of Goodwill and Intangible

We operate in an industry that is rapidly evolving and extremely competitive. It is reasonably possible that our accounting estimates with respect to the useful life and ultimate recoverability of our carrying basis of goodwill and intangible assets could change in the near term and that the effect of such changes on the financial statements could be material. During the year ended December 31, 2003 and 2002, we recorded an impairment charge of $458,252 and $1,648,332, respectively in connection with certain intangible assets acquired in the WellComm acquisition. For 2003, the charge related to the unamortized portion of covenants not to compete directly attributable to the founder of WellComm. The founder of WellComm passed away in 2003. For 2002, the charge related to the write off of a portion of an intangible asset associated with customer relations.

Revenue Recognition

Technology Revenue. We derive our revenue pursuant to different contract types, including perpetual software licenses, subscription licenses and custom development services, all of which may include support services revenue such as licensed software maintenance, training, consulting and web hosting arrangements. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

We license our software products for a specific term or on a perpetual basis. Most of our license contracts also require maintenance and support. We apply the provisions of Statement of Position 97-2, "Software Revenue Recognition," as amended by Statement of Position 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" to all transactions involving the sale of software products and hardware transactions where the software is not incidental. For hardware transactions where software is not incidental, we do not unbundle our fee and, accordingly, do not apply separate accounting guidance to the hardware and software elements. For hardware transactions where no software is involved we apply the provisions of Staff Accounting Bulletin 101 "Revenue Recognition." In addition, we apply the provisions of Emerging Issues Task

Force Issue No. 00-03 "Application of AICPA Statement of Position 97-2 to Arrangements that Include the Right to Use Software Stored on Another Entity's Hardware" to our hosted software service transactions.

We recognize revenue from the sale of software licenses when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured. Delivery generally occurs when the product is delivered to a common carrier.

We assess collection based on a number of factors, including past transaction history with the customer and the credit worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

For arrangements with multiple obligations (for example, undelivered maintenance and support), we allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. Accordingly, we defer revenue for the amount equivalent to the fair value of the undelivered elements.

We recognize revenue for maintenance services ratably over the contract term. Our training and consulting services are billed based on hourly rates, and we generally recognize revenue as these services are performed. However, upon execution of a contract, we determine whether or not any services included within the arrangement require us to perform significant work either to alter the underlying software or to build additional complex interfaces so that the software performs as the customer requests. If these services are included as part of an arrangement, we recognize the fee using the percentage of completion method. We determine the percentage of completion based on our estimate of costs incurred to date compared with the total costs budgeted to complete the project.

Services Revenue. We recognize service revenue as services are rendered. We contract with our customers to provide services based on an agreed upon monthly fee, a per-call charge or a combination of both.

Upon execution of a contract for services, we assess whether the fee associated with our revenue transactions is fixed and determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed and determinable based on the payment terms associated with such contract. If a significant portion of a fee is due after our normal payment terms, which are generally 30 to 90 days from invoice date, we account for such fee as services are provided.

We also enter into risk-sharing contracts. These contracts are generally for a term of three to five years, provides for automatic renewal, and may provide that a percentage of our fee is refundable ("performance based") based on achieving a targeted percentage reduction in a customer's healthcare costs.

Material Equity Transactions

In 2003, we executed equity transactions with related and unrelated parties in connection with the raising funds for working capital along with issuing securities in lieu of compensation for services received. We believe that we have valued all such transaction pursuant to the various accounting rules and that they ultimately represent the economic substance of each transaction. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations-Sources and Uses of Funds" and "Item 5-Recent Sales of Unregistered Securities" above.

ITEM 7. FINANCIAL STATEMENTS

I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003
AND
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of I-trax, Inc.:

We have audited the accompanying consolidated balance sheet of I-trax, Inc. & Subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period then ended. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2003, and the results of its operations and cash flows for each of the two years in the period then ended in conformity with U.S. generally accepted accounting principles.

Goldstein Golub Kessler LLP
New York, New York
February 16, 2004, except for Note 19,
as to which the date is as of March 19, 2004.

I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2003

ASSETS	
Current assets	
Cash	$
Accounts receivable, net	
Prepaid expenses	
Other current assets	

Total current assets	

Office equipment, furniture, leasehold improvements and software development costs, net	
Deposit on acquisition of perpetual license	
Deferred marketing costs, net	
Deferred acquisition costs	
Debt issuance costs, net	
Goodwill	
Intangible assets, net	
Security deposits	
Total assets	$ 1

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	$
Accrued expenses	
Due to officers and related parties	
Capital lease payable	
Note payable - other, net of discount of $12,362	
Deferred revenue	
Total current liabilities	
Common stock warrants	
Capital lease obligation, net of current portion	
Promissory notes and debenture payable, net of discount of $561,003	
Total liabilities	
Commitments and contingencies	
Stockholders' equity	
Preferred stock - $.001 par value, 2,000,000 shares authorized, -0- issued and outstanding	
Common Stock - $.001 par value, 100,000,000 shares authorized, 13,966,817 shares issued and outstanding	
Additional paid in capital	4
Accumulated deficit	(3
Total stockholders' equity	
Total liabilities and stockholders' equity	$ 1

See accompanying notes to financial statements.

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I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2
Revenue:		
Technology licenses	$ 1,575,919	$ 2,
Services	2,612,941	1,
Total revenue	4,188,860	3,
Cost of revenue:		
Technology licenses	63,363	
Services	1,308,507	1,
Total cost of revenue	1,371,870	1,
Gross profit	2,816,990	2,
Operating expenses:		
General and administrative	1,740,710	1,
Salary and related benefits	2,468,468	4,
Research and development	--	
Depreciation and amortization	1,702,469	2,
Marketing and publicity, includes non-cash charges of $1,414,000 for 2003	1,762,567	
Impairment charge related to intangible assets	458,252	1,
Total operating expenses	8,132,466	10,
Operating loss	(5,315,476)	(8,
Other income (expenses):		
Proceeds from life insurance company	500,000	
Costs in connection with terminated acquisition	(200,000)	
Amortization of debt issuance and conversion costs	(336,783)	(
Interest expense and financing costs	(2,405,015)	(1,
Increase in fair value of common stock warrants	(301,305)	
Total other income (expenses)	(2,743,103)	(1,
Net loss	$ (8,058,579)	$ (9,
Loss per common share:		
Basic and diluted	$ (.74)	$

Weighted average number of shares outstanding:	10,904,553	9,

See accompanying notes to financial statements.

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I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Stock		Additional Paid-in
	Shares	Amount	Capital
Balances at December 31, 2001	6,987,894	$ 6,987	$ 22,992,730
Cancellation of unclaimed shares and reverse stock split adjustment	(45,332)	(45)	45
Issuance of compensatory stock options	--	--	163,200
Fair market value of detachable warrants issued in connection with debenture and beneficial conversion value	--	--	1,838,923
Issuance of common stock and granting of options in connection with the acquisition of WellComm Group, Inc.	1,488,000	1,488	10,478,512
Issuance of common stock and warrants as consideration for finder fee	22,200	22	391,386
Sale of common stock, net of $7,150 in costs	540,833	541	1,942,935
Issuance of common stock and warrants as consideration for services	23,708	24	1,677,243
Issuance of common stock in connection with exercise of options and warrants	355,424	355	1,145
Mark-to-market of options granted to officers in lieu of canceling note and pledge agreement during 2001	--	--	(250,000)

Net loss for the year ended December 31, 2002	--	--	--
Balances at December 31, 2002	9,372,727	$ 9,372	$ 39,236,119

See accompanying notes to financial statements.

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I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Stock		Additional Paid-in Capital	Acc D
	Shares	Amount		
Balances at December 31, 2002	9,372,727	$ 9,372	$ 39,236,119	$ (3
Issuance of compensatory stock options	--	--	27,942	
Mark to market of warrants granted for investor relations services and stock options granted to a former employee	--	--	(4,097)	
Fair market value of detachable warrants and additional beneficial conversion value in connection with re-pricing of convertible debenture	--	--	1,007,833	
Issuance of common stock for services	332,760	333	522,375	
Contribution of common stock given by shareholders to vendor for services rendered to the Company	--	--	246,240	
Proceeds from sale of common stock and exercise of warrants, net of costs and common stock warrants liability	2,675,838	2,676	2,549,373	
Issuance of warrants for services	--	--	649,448	
Fair value of detachable warrants issued in connection with convertible note	--	--	268,000	

Issuance of common stock for conversion of related party debt and assigned debt	668,152	668	1,168,602	
Issuance of common stock for conversion of deferred salaries	69,711	69	121,928	
Issuance of common stock upon conversion of debenture	847,629	848	1,482,503	
Net loss for the year ended December 31, 2003	--	--	--	(
Balances at December 31, 2003	13,966,817	$ 13,966	$ 47,276,266	$ (3

See accompanying notes to financial statements.

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I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	
Operating activities:		
Net loss	$(8,058,579)	$(9
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of discount on notes payable charged to interest expense	858,887	
Accretion of beneficial conversion value of debenture	1,168,285	
Amortization of option liability	(13,423)	
Amortization of debt issuance costs	336,783	
Depreciation and amortization	1,702,469	2
Impairment charge related to intangible assets	458,252	1
Expenses for compensatory stock options and warrants	23,845	
Bad debt expense	58,829	
Issuance of securities for services	1,418,396	
Increase in fair value of common stock warrants	301,305	
Write-off of deposit on terminated acquisition	200,000	
Changes in operating assets and liabilities, net of acquisitions:		
Decrease (increase) in:		
Accounts receivable	8,406	
Prepaid expenses	(73,062)	
Other current assets	(16,888)	
(Decrease) increase in:		

Accounts payable	(333,582)	
Accrued expenses	(409,694)	
Deferred revenue	(1,139,707)	1
Net cash used in operating activities	(3,509,478)	(2
Investing activities:		
Proceeds from repayment of note receivable	--	
Increase in transaction costs	(84,783)	
Proceeds from release of security deposit	6,905	
Deposit on potential acquisition	--	
Deposit on acquisition of perpetual license	(160,000)	
Property, equipment and software development costs acquired	(1,278,891)	
Net cash to acquire WellComm Group, Inc.	--	(2
Net cash used in investing activities	(1,516,769)	(2
Financing activities:		
Principal payments on capital leases	(71,372)	
Proceeds from credit line payable	--	
Repayments to credit line	(300,000)	
Repayment to related parties	(239,622)	
Proceeds from related parties	740,000	
Proceeds from notes payable	350,000	
Proceeds from sale of Common Stock and exercise of warrants	5,010,849	1
Proceeds from sale of option	--	
Proceeds from issuance of debenture	--	1
Notes payable repayments	(250,000)	
Net cash provided by financing activities	5,239,855	4
Net increase (decrease) in cash	213,608	
Cash at beginning of period	360,166	1
Cash at end of period	$ 573,774	$
Supplemental disclosure of non-cash flow information:		
Cash paid during the year for: Interest	$ 83,833	$

I-TRAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Continues from previous page.)

	2003
Schedule of non-cash investing activities:	
Issuance of 1,488,000 shares of common stock and granting of 112,000 stock options in connection with acquisition of WellComm Group, Inc	$ --
Issuance of common stock and warrants for finder fee	$ --
Schedule of non-cash financing activities:	
Issuance of common stock in connection with conversion of promissory notes, related party advances, and accrued interest	$ 1,169,270
Issuance of common stock in connection with conversion of deferred salaries	$ 121,997
Issuance of common stock in connection with conversion of debenture payable	$ 1,483,351
Accrued interest expense on debenture payable and promissory notes	$ 394,538
Proceeds from life insurance company in connection with the death of executive officer	$ 500,000
Repayments to related parties from pledged life insurance proceeds	$ 500,000
Issuance of common stock in connection with conversion of accounts payable	$ --
Acquisition of office equipment in connection with capital lease obligation	$ --
Issuance of warrants in connection with marketing agreement	$ --
Fair market value of detachable warrants and beneficial conversion value in connection with re-pricing	$ 1,007,833
Fair market value of warrants granted in connection with convertible note	$ 268,000

See accompanying notes to financial statements.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 1--ORGANIZATION

I-trax, Inc. (the "Company") provides focused disease management and comprehensive health management solutions designed to improve the health of the populations it serves while reducing the cost of medical care. The Company was incorporated in the State of Delaware on September 15, 2000. On February 5, 2001, the Company and I-trax Health Management Solutions, Inc. ("Health Management") completed a holding company reorganization. At the effective time of the reorganization, Health Management became a wholly owned subsidiary of the Company. The Company's common stock is traded on the American Stock Exchange under the symbol "DMX."

As of December 31, 2003, the Company had two wholly owned subsidiaries: Health Management, a corporation, and I-trax Health Management Solutions, LLC (formerly known as WellComm Group, LLC) ("Health Management, LLC"), a single member limited liability company. The Company formed Health Management, LLC to conduct the activities of WellComm Group, Inc., which the Company acquired on February 6, 2002, as further described in Note 4. The Company conducts its operations through Health Management and Health Management, LLC.

Effective January 3, 2003, the Company completed a 1-for-5 reverse stock split. Accordingly, all information presented in these financial statements has been adjusted retroactively to reflect this reverse stock split.

The Company entered into a merger agreement, as amended, on December 26, 2003, with Meridian Occupational Healthcare Associates, Inc, (doing business as CHD Meridian Healthcare) ("CHD Meridian"), a privately held company and a provider of outsourced, employer-sponsored healthcare services. The merger was consummated on March 19, 2004. (See note 19 for additional information.)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

The Company accounts for income taxes in accordance with Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires the use of the "liability method" of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the respective periods' taxable income for federal and state income tax reporting purposes.

Loss Per Common Share

Loss per common share is computed pursuant to SFAS No. 128, "Earnings Per Share." Basic loss per share is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and convertible debt. As of December 31, 2003 and 2002, 5,469,286 and 3,843,755, respectively, of options and warrants were excluded from the diluted loss per share computation, as their effect would be anti-dilutive.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use Of Estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Disclosure At December 31, 2003

The carrying value of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value because of short-term maturity. The fair value of the promissory notes and debenture payable approximates their principal amount of $1,358,808.

Office Equipment, Furniture And Leasehold Improvements

The Company records office equipment, furniture and leasehold improvements at cost less accumulated depreciation and amortization, which is provided for on the straight line basis over the estimated useful lives of the assets which range between three and seven years. The Company expenses expenditures for maintenance and repairs as incurred.

Accounts Receivable

The Company utilizes the allowance method for determining the collectibility of its accounts receivable. The allowance method recognizes bad debt expense following a review of the individual accounts outstanding in light of the surrounding facts. Accounts receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay and economic trends. The Company writes off accounts receivables against the allowance when a balance is determined to be uncollectible.

Research And Development Costs

Research and development costs are expensed as incurred. For the year ended December 31, 2003, the Company did not incur any research and development costs. Such costs amounted to $410,220 for the year ended December 31, 2002.

Revenue Recognition

The Company recognizes service revenue as the services are rendered. The Company contracts with its customers to provide services based on an established monthly fee, a per-call charge or a combination of both.

The Company recognizes revenue from technology licenses in accordance with Statement of Position ("SOP") 97-2 "Software Revenue Recognition" as further modified by Statement of Position 98-9 "Modification of SOP 97-2, "Software Revenue Recognition with Respect to Certain Transactions." SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements such as software products, upgrades, enhancements, post-contract customer support, installation and training to be allocated to each element based on the relative fair value of the elements.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue Recognition (cont'd)

The Company recognizes revenue from software development contracts on a percentage-of-completion method with progress to completion measured based upon labor hours incurred or achievement of contract milestones. Revenue from re-sale of hardware and software, obtained from vendors, is recognized at the time hardware and software is delivered to customers. Customer deposits represent funds received in advance in excess of revenue recognized.

Software Development Costs

In accordance with the provisions of AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes all application development costs and expenses all preliminary project and post-implementation costs in the accompanying statement of operations.

For the year ended December 31, 2003, the Company capitalized $1,237,713 of software developed for internal use. The Company expects to start amortizing such software development costs during the first quarter of 2004.

Deferred Marketing Costs

Deferred marketing costs consist of the value of the warrant to acquire 400,000 shares of common stock issued to a customer in October 2002 in connection with a three-year joint marketing agreement. The warrant was valued at $1,360,000 utilizing the Black-Scholes pricing model. The value of the warrant is being amortized over the three-year life of the joint marketing agreement on a straight-line basis. For the years ended December 31, 2003 and 2002, $453,336 and $75,555, respectively was charged to amortization expense. The unamortized portion of the deferred marketing costs was $831,109 and is reflected on the accompanying consolidated balance sheet.

Marketing and publicity costs are expensed as incurred and totaled $1,762,567 and $773,963 for the years ended December 31, 2003 and 2002, respectively. Marketing and publicity costs for 2003 included a non- cash charge of approximately $1,414,000 in addition to the amortization of the value of the warrant referred to in the preceding paragraph.

Debt Issuance Costs

The Company recorded a total of $416,610 of debt issuance costs in connection with the sale of a 6% senior debenture in February 2002. These costs consisted of a cash payment of $130,000 and common stock and warrants valued at $286,610, which were issued to an placement agent as a finder fee. The Company amortized these costs on a straight-line basis over the two-year life of the debenture. Accordingly, for the years ended December 31, 2003 and 2002, amortization of debt issuance costs amounted to $214,555 and $187,337, respectively.

Additionally, during June 2003, in connection with the re-pricing of the warrants granted to such placement agent, the Company charged an additional $122,228 as amortization of debt issuance costs, bringing the total amortization expense for the year ended December 31, 2003 to $336,783. As of December 31, 2003, the remaining un-amortized portion of debt issuance costs amounted to $34,718.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Comprehensive Income

The Company adopted SFAS No. 130, "Accounting for Comprehensive Income." This statement establishes standards for reporting and disclosing of comprehensive income and its components (including revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The items of other comprehensive income that are typically required to be disclosed are foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. The Company had no items of other comprehensive income for the years ended December 31, 2003 and 2002.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that chooses to change to the fair-value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects that accounting for stock-based employee compensation using the fair-value-based method would have on reported net income and earnings per share and to require prominent disclosure about the entity's accounting policy decisions with respect to stock-based employees compensation. Certain of the disclosure requirements are required for all companies, regardless of whether the fair value method or intrinsic value method is used to account for stock-based compensation arrangements. The amendments to SFAS No. 123 are effective for financial statements for fiscal years ended after December 15, 2002 and for interim periods beginning after December 15, 2002.

The Company accounts for its employee incentive stock option plans using the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. The adoption of the disclosure requirements of SFAS No. 148 did not have a material effect on the Company's financial position or results of operations.

Had the Company determined compensation expense based on the fair value at the grant dates for those awards consistent with the method of SFAS 123, the Company's net loss per share would have been increased to the following pro forma amounts:

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

	2003	2002
Net loss as reported	$ (8,058,579)	$ (9,424,973)
Add back intrinsic value of the options issued to employee and charged to operations	27,942	163,200
Deduct total stock based employee compensation expense determined under fair value based methods for all awards	(2,952,906)	(2,844,904)
Pro forma net loss	$(10,983,543)	$(12,106,677)
Basic and diluted net loss per share as reported	$ (.74)	$ (1.04)
Pro forma basic and diluted net loss per share	$ (1.01)	$ (1.33)

The above pro forma disclosure may not be representative of the effects on reported net operations for future years as options vest over several years and the Company may continue to grant options to employees.

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

Dividend yield	0.00%
Expected volatility	112%
Risk-free interest rate	4%
Expected life	5 year

Segment Reporting

The Company evaluates segment performance based on income from operations. Through December 31, 2003, the Company has not measured segment performance because the Company has operated in only one segment.

New Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, effective for the fiscal period beginning after December 15, 2003. Statement No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. To the extent that the Company is either now or in the future required to repurchase shares of common stock, the adoption of Statement No. 150 would require the Company to classify common stock subject to redemption as a liability as of January 1, 2004, based on the latest revision. Prospectively, changes in the liability with the exception of redemptions will be included in pre-tax income.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New Accounting Pronouncements (cont'd)

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21 ("Issue 00-21"), Revenue Arrangements with Multiple Deliverables. Issue 00-21 provides guidance on how to account for arrangements that involve delivery or performance of multiple products, services and/or rights to use assets. The adoption of Issue 00-21 is not expected to have an impact on the Company's consolidated financial position or results of operations.

The Company does not believe that any other recently issued and adopted, but not yet effective, accounting standards would have a material effect on the accompanying financial statements.

NOTE 3--OFFICE EQUIPMENT, FURNITURE AND LEASEHOLD IMPROVEMENTS

Office equipment, furniture and leasehold improvements are as follows at December 31, 2003:

Office equipment	$ 889,720
Furniture	145,422
Software Development Costs	1,237,713
Leasehold improvements	50,000
Less accumulated depreciation and amortization	(808,088)
	$ 1,514,767

Certain office equipment is pledged as collateral for related capital lease obligations. (See Note 8.)

Depreciation and amortization expense for the years ended December 31, 2003 and 2002 amounted to $176,903 and $216,762, respectively.

NOTE 4--ACQUISITION OF WELLCOMM GROUP

On February 6, 2002, the Company acquired all of the issued and outstanding common stock of WellComm Group, Inc. ("WellComm Group"). WellComm Group was a disease management company. As stipulated in the Merger Agreement dated January 28, 2002, as amended, the Company issued 1,488,000 shares of common stock valued at $9,746,400, granted 112,000 options valued at $733,600 to acquire common stock at a nominal exercise price and paid $2,199,136 in cash. In addition, the Company issued 16,000 shares of common stock, valued at $104,800 and charged to operations as compensation expense, to an employee for introducing the Company to WellComm Group. The aggregate acquisition price amounted to $12,679,136. The value of common stock issued and stock options granted was determined based on the average market price of common stock immediately before and after the acquisition was agreed to and announced. For accounting purposes, the effective date of the acquisition was January 31, 2002.

NOTE 4--ACQUISITION OF WELLCOMM GROUP (cont'd)

The Company now conducts the former operations of WellComm Group through Health Management, LLC. The financial statements include the former operations of WellComm Group from February 1, 2002 forward.

The purchase price allocation was based on a formal valuation prepared by an independent appraiser. Of the total purchase price, the Company allocated

$1,648,000 to non-compete covenants, $4,501,563 to customer relationships, $330,237 to net assets acquired with the remainder of $6,199,336 to goodwill. Non-compete covenants are being amortized on a straight-line basis over a four-year life and customer relationships are amortized over a three-year life.

The following table summarizes the actual fair values of the assets acquired and liabilities assumed at the acquisition date:

Current assets	$ 651,474
Property and equipment	190,000
Intangible assets	6,149,563
Goodwill	6,199,336
Total assets acquired	$13,190,373
Current liabilities	$ 482,882
Long term debt	28,355
Total liabilities assumed	511,237
Net assets acquired	$12,679,136

The following pro forma results of operations of the Company give effect to the acquisition of WellComm Group as though the acquisition was consummated as of January 1, 2002.

	For the year ended December 31, 2002
Total revenue	$ 4,185,689
Total expenses	$ 13,688,289
Net loss	$ (9,502,600)
Pro forma net loss per share:	
Basic and Diluted	$ (1.03)
Weighted average number of shares outstanding:	
Basic and Diluted	9,220,958

NOTE 5--GOODWILL AND INTANGIBLE ASSETS

The Company has adopted SFAS No. 142 as of January 1, 2002. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires the Company to complete a test for impairment of these assets annually as well as a transitional goodwill impairment test within six months of the date of adoption. The Company has completed its impairment assessment as required by SFAS No. 142 and concluded that no impairment of recorded goodwill exists.

There were no changes in the carrying amount of goodwill for the year ended December 31, 2003.

The components of identifiable intangible assets, which are included in the consolidated balance sheet as of December 31, 2003, are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carr Amount
Amortized intangible assets:			
Non-compete covenants	1,648,000	(1,198,815)	44
Customer relationships	4,501,563	(3,733,139)	76
Total	$ 6,149,563	$ (4,931,954)	$ 1,21

During the quarter ended December 31, 2003, the Company recorded an impairment charge of approximately $458,000 representing the unamortized portion of covenants not to compete directly attributable to the founder of WellComm Group who passed away. For the year ended December 31, 2002, the Company recorded an impairment charge amounting to $1,648,332 related to customer relationships. Total amortization expense for all the intangibles amounted to $1,072,230 for the year ended December 31, 2003. The estimated amortization expense for the years ending December 31, 2004 and 2005 is $1,095,944 and $37,185, respectively.

NOTE 6--DEPOSIT ON ACQUISITION OF PERPETUAL LICENSE

On April 25, 2003 the Company entered into a Marketing and Services Agreement with BioSignia, Inc. ("BioSignia"), whereby the Company committed to pay BioSignia certain minimum payments in return for allowing the Company to private label BioSignia's technology, products and services in connections with the Company's products and services. BioSignia provides products and services in the field of predictive modeling, health economics, epidemiology and prospective medicine. Pursuant to the agreement, the Company paid BioSignia $160,000. Subsequent to December 31, 2003, the Company and BioSignia entered into a new agreement whereby for an additional $575,000, the Company acquired a perpetual license to BioSignia's technology and products. Accordingly, as of December 31, 2003, the Company classified the $160,000 paid under the original agreement as a deposit on perpetual license.

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NOTE 7--ACCRUED EXPENSES

Accrued expenses consist of the following at December 31, 2003:

Interest	$ 157,280
Salaries	203,888
Total	$ 361,168

NOTE 8--CAPITAL LEASE OBLIGATIONS

In April 2000, the Company acquired a telephone system for $34,290 by entering into capital lease obligations with interest at approximately 10% per annum, requiring 60 monthly payments of $731, which include principal and interest. The related equipment secures the lease.

In October 2000, the Company acquired web hosting equipment for $107,288 by entering into a capital lease obligation with interest at approximately 9% per annum, requiring 36 monthly payments of $3,572, which include principal and interest. Such lease terminated during October 2003.

In July 2002, the Company acquired a new telephony system for its call center with a total cost of $107,709 by entering into a capital lease obligation with interest at approximately 8% per annum, requiring 60 monthly payments of approximately $2,278, which includes principal and interest. The related equipment secures the lease.

The future minimum lease commitments under the capital leases as of December 31, 2003 are as follows:

For the year ending December 31:

2004	$ 32,836
2005	26,257
2006	24,064
2007	14,037
Total future payments	97,194
Less amount representing interest	(11,754)
Present value of minimum lease payments	85,440
Less current portion	26,814
Net long term portion	$ 58,626

At December 31, 2003 equipment under capital leases is carried at a book value of $79,424.

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NOTE 9--RELATED PARTIES TRANSACTIONS

During February 2003, the Company repaid $140,000 of the $225,000 loan outstanding to a relative of the Company's Chief Operating Officer.

During February 2003, pursuant to two promissory notes, two former directors of the Company advanced $200,000 to the Company for working capital. The notes accrued interest at 8% per year and matured in February 2004.

As of June 30, 2003, the Company's Chief Executive and Operating Officers, along with a director of the Company, advanced the Company a total of $540,000 for working capital at an interest rate of 8% per year.

As of December 31, 2003, the Company repaid an aggregate of $99,622 to its Chief Executive Officer and other related parties.

During May 2003, certain stockholders of the Company contributed a total of 163,073 shares of common stock valued at $246,240 to an investor relations consultant for services rendered. Accordingly, the Company charged this amount to operations.

In June 2003, certain of the Company's officers, directors and a venture capital fund managed by the Company's Chief Executive Officer converted a total $909,421, comprised of loans and advances of $790,697 (includes $75,000 from a venture fund managed by the Company's Chief Executive Officer) and accrued interest of $118,724, into 519,667 shares of common stock at $1.75 per share. In addition, certain of the same parties assigned additional loans in the principal amount of $246,342, and accrued interest of $13,507 thereon, to an investor relations firm, which thereafter converted the assigned loans into common stock also at $1.75 per share. The price of the conversions was determined with reference to a private placement of common stock to third parties completed by the Company contemporaneously with the conversions as disclosed in Note 17 below.

In connection with the death of a senior executive officer of the Company, during 2003, the Company was entitled to receive proceeds of $500,000 from a key-person life insurance policy maintained by the Company on the life of such senior executive officer. The proceeds from the life insurance policy were pledged as security for loans made to the Company in 2002 and 2003 by the deceased senior executive officer, a former director and a key employee. Accordingly, the life insurance company was instructed to disburse such proceeds directly to the related note holders in partial satisfaction of such loans.

As of December 31, 2003, the amount due to officers and related parties amounted to $280,000, which are classified as current liabilities since they are due on demand. On March 19, 2004, the Company repaid such related party advances along with accrued interest. See Note 19.

Interest expense associated with related party loans and advances amounted to $83,761 and $79,735 for the years ended December 31, 2003 and 2002, respectively.

NOTE 10--CREDIT LINE

The Company, by virtue of acquiring WellComm Group, assumed a revolving line of credit that allowed the Company to borrow up to $300,108. Amounts outstanding under the line of credit incurred interest at 0.5% over the national prime rate, as reported by the Wall Street Journal, and were payable monthly. During October 2003, the Company repaid $300,000 owed on the line of credit, representing payment in full. Interest expense associated with the credit line amounted to $12,996 and $11,742 for the years ended December 31, 2003 and 2002, respectively.

NOTE 11--NOTES PAYABLE--OTHER

In April 2003, the Company borrowed $100,000 from a shareholder pursuant to a convertible promissory note. The note, with an eleven-month term, accrues interest at 6% per annum and a default interest rate of 12% per annum. The principal and related accrued and unpaid interest is convertible by the shareholder into common stock at anytime at $1.50 per share. As consideration for this loan, the Company also granted the shareholder a warrant to acquire 100,000 shares of common stock at an exercise price of $1.50 per share. The value assigned to the warrant of $68,000 was recorded as a discount to the promissory note using the relative fair value of the debt and the warrant to the actual proceeds from the convertible promissory note. The discount is accreted to interest expense over the term of the convertible promissory note. For the year ended December 31, 2003, the discount accreted to interest expense associated with the convertible promissory note amounted to $55,638. At December 31, 2003 the carrying value of the note amounted to $87,638 and is included in "Notes payable - other, net of discount" on the accompanying consolidated balance sheet. On March 19, 2004, the Company repaid such note payable along with accrued interest. See Note 19.

Pursuant to a promissory note dated April 10, 2003, the Company borrowed $150,000 from a shareholder with an interest rate of 12% per annum, requiring monthly payments of $25,000 plus accrued interest with a final payment due on December 31, 2003. As of December 31, 2003, the outstanding principal balance and related accrued interest was paid in full. For the year ended December 31, 2003, interest expense amounted to $7,981.

On May 29, 2003, the Company borrowed $100,000 from a shareholder. For the period the loan was outstanding, interest expense amounted to $12,000. The loan and related interest amounting to $112,000 was repaid in full on September 29, 2003.

NOTE 12--PROMISSORY NOTES PAYABLE

On March 2, 2001, the Company borrowed $692,809 from an investor group that included $75,000 from a venture capital fund managed by the Company's Chief Executive Officer. The loan bears interest at 8% per annum, with a default rate of 12% per annum, and is due on March 2, 2006. The Company also granted this investor group warrants to purchase 364,694 shares of common stock at $0.50 per share, which were exercised during the first quarter of 2002 into 340,317 shares of common stock, net of shares surrendered as exercise price. The value assigned to detachable warrants of $459,854 is accreted to interest expense over the five-year term of the underlying promissory notes.

In June 2003, as part of certain related parties converting and assigning debt as discussed in Note 9 above, the venture capital fund managed by the Company's Chief Executive Officer, with the consent of the Company, assigned the fund's loan in the principal amount of $75,000 and a portion of the accrued interest thereon amounting to $6,669 to an investment relations firm, which thereafter converted the assigned loan into common stock at $1.75 per share. The balance of the accrued interest not assigned in the amount of $6,098 was converted into 3,484 shares of common stock also at $1.75 per share. The price of the conversion was determined with reference to a private placement of common stock to third parties completed by the Company contemporaneously with the conversion as disclosed in Note 17 below.

The amount accreted to interest expense amounted to $90,708 and $90,708 for the years ended December 31, 2003 and 2002, respectively. At December 31, 2003, the carrying value of the notes amounted to $418,744 and is included in the "Promissory notes and debenture payable, net of discount" on the accompanying consolidated balance sheet. The face value of the promissory notes amounted to $617,809 at December 31, 2003.

On March 19, 2004, the Company repaid such promissory notes along with accrued interest. See note 19.

NOTE 13--CONVERTIBLE DEBENTURE

The Company funded the acquisition of WellComm Group by selling a 6% convertible senior debenture in the aggregate principal amount of $2,000,000 to Palladin Opportunity Fund LLC. Pursuant to the purchase agreement, the Company also issued Palladin a warrant to purchase an aggregate of up to 307,692 shares of common stock at an exercise price of $5.50 per share. The outstanding principal and any interest under the debenture was payable in full on or before February 3, 2004. Further, outstanding principal and any accrued interest may be converted at any time at the election of Palladin into common stock. The original conversion price of the debenture was $5.00 per share. In accordance with the terms of the debenture, the price was reset to $3.03 in February 2003 and to $1.75 in June 2003. In accordance with the terms of the warrant, the exercise price of the warrant was reset from $5.50 to $1.75 in June 2003.

The initial value assigned to the warrant of $890,272 was recorded as a discount to the debenture and is accreted to interest expense over the term of the debenture. The amount accreted to interest expense associated with the original value assigned to the warrant amounted to $343,782 and $257,650 for the years ended December 31, 2003 and 2002, respectively. As a result of resetting of the exercise price of the warrant in June 2003, the Company recorded an additional charge of $203,077 for interest expense for the additional market value of the warrant on the date of resetting. Lastly, as a result of Palladin's partial conversion of the debenture, the Company recorded $165,682 of additional interest expense for the year ended December 31, 2003. This amount represents the acceleration of the unamortized discount of the warrant, which is attributable to the converted portion of principal.

Upon the initial sale of the debenture, the Company recorded a beneficial conversion value of $948,651. The beneficial conversion value represents the difference between the fair market value of the common stock on the date the debenture was sold (or the date the conversion price is changed) and the price at which the debt could be converted into common stock. The beneficial conversion value was increased by $682,528 as a result of the reset in June 2003. The Company recorded $802,576 and $424,113 of interest expense for the years ended December 31, 2003 and 2002, respectively, for the amortization of the beneficial conversion value of the debenture. As a result of Palladin's partial conversion of the debenture, the Company recorded $365,709 of additional interest expense for the year ended December 31, 2003. This amount represents the unamortized portion of the beneficial conversion value, which is attributable to the converted portion of principal.

The Company, pursuant to the debenture agreement, has also recorded accrued interest at the rate of 6% on the outstanding principal portion of the debenture. Interest accrued for the year ended December 31, 2003 amounted to $224,350.

For the year ended December 31, 2003, Palladin converted an aggregate of $1,483,351 of the amount due on the debenture for which the Company issued 847,629 shares of common stock.

As of December 31, 2003, the carrying value of the debenture amounted to $379,061 and is included in "Promissory notes and debenture payable, net of discount" on the accompanying consolidated balance sheet. The face value of the debenture amounted to $740,999 at December 31, 2003.

The debenture is classified as a long-term liability because, during December 2003, Palladin agreed to extend the maturity date of the debenture until February 2005. As consideration for the extension, the Company granted 50,000 warrants to acquire common stock at $1.75, which Palladin exercised on December 30, 2003. The warrants have been valued at approximately $200,000 utilizing the Black-Scholes valuation model. This amount was recorded as a discount to the debenture and is accreted to interest expense over the extension period of one year.

NOTE 13--CONVERTIBLE DEBENTURE (cont'd)

During November and December 2003, Palladin exercised 307,692 warrants, representing the warrants granted upon the sale of the debenture during February 2002 and the 50,000 warrants granted for the extension of the maturity date of the debenture. As a result of the exercise, the Company received proceeds of

$625,961.

Lastly, in connection with facilitating the transaction with Palladin, the Company recorded $416,610 of debt issuance costs comprised of $130,000 of cash, 6,200 shares of common stock valued at $40,610 and a warrant to acquire 40,000 shares of common stock at $5.00 per share valued at $246,000 delivered to a third party that brokered the transaction. In connection with the reset in June 2003 of the conversion price of Palladin's debenture and the exercise price of Palladin's warrant, the Company also, in accordance with a contractual commitment: (1) reset the exercise price of the warrant originally granted to the third party from $5.00 to $1.75 per share, resulting in a charge to operations of $26,400 for additional debt issuance costs; and (2) increased the shares of common stock issuable under the warrant by 74,285 shares, resulting in a further charge to operations of $95,828.

For the years ended December 31, 2003 and 2002 the amortization of these debt issuance costs amounted to $336,783 and $187,337, respectively.

During the first quarter of 2004, Palladin converted the balance of the debenture payable. See Note 19.

NOTE 14--COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company is a party to various employment agreements with certain of its officers and key employees. Such employment agreements range between three to five years with annual salaries ranging from $83,000 to $200,000.

Nature of Business

The Company is subject to risks and uncertainties common to growing technology companies, including rapid technological developments, reliance on continued development and acceptance of the Internet and health care applications utilizing the Internet, intense competition and a limited operating history.

Significant Customers

Financial instruments, which may expose the Company to concentrations of credit risk, consist primarily of accounts receivable. As of December 31, 2003, one customer represented 25% of the total accounts receivable. For the year ended December 31, 2003, the Company had three unrelated customers, which accounted for 29%, 13%, and 14%, respectively, of total revenue. For the year ended December 31, 2002, the Company had two unrelated customers, which accounted for 42% and 30%, respectively of total revenue.

Office Leases

During October 1999, the Company entered into a lease agreement for its technology and product development offices. The lease was to expire on October 31, 2004 with annual rent of approximately $162,000 before annual escalations. During December 2001, the Company was successful in negotiating out of this lease by entering into an amendment\relocation lease agreement with the same landlord for materially less space. The Company entered into an eighteen-month lease requiring monthly payments of approximately $3,600. The lease expired on October 31, 2003.

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NOTE 14--COMMITMENTS AND CONTINGENCIES (cont'd)

Office Leases (cont'd)

During April 2000, the Company entered into a lease agreement for its executive offices. The lease expires June 2005 and requires annual rent payments of approximately $150,000 before annual escalations.

During May 2002, the Company entered into a lease agreement for its call center located in Omaha, Nebraska. The lease expires during May 2007 with annual rent of approximately $56,000 before annual escalations.

The Company's approximate future minimum annual rental payments, including annual escalations under the non-cancelable operating leases in effect as of December 31, 2003, are as follows:

For the year ending December 31:

2004	$ 206,000
2005	119,000
2006	56,000
2007	24,000
	$ 405,000

Rent expense for the years ended December 31, 2003 and 2002 amounted to approximately $245,000 and $275,000, respectively.

Profit Sharing Plan

The Company maintains a 401(k) profit sharing plan covering qualified employees, which includes employer participation in accordance with the provisions of the Internal Revenue Code. The plan allows participants to make pretax contributions and the Company to match certain percentages of employee contributions depending on a number of factors, including the participant's length of service. The profit sharing portion of the plan is discretionary and noncontributory. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee. As of December 31, 2003, the Company has made no contributions.

Risk Sharing Contracts

The Company enters into risk sharing contracts with some customers in certain disease management arrangements. These contracts are generally for terms of three to five years and provide that a percentage of the Company's fees may be refunded to a customer if the Company does not save such customer a pre-determined percentage of the expenses incurred by individuals whose health is managed by the Company. As of December 31, 2003, the Company is not a party to any risk sharing contracts.

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NOTE 15--COSTS IN CONNECTION WITH TERMINATED ACQUISITION

On November 8, 2002, the Company entered into a merger agreement to acquire a technology company, which had developed web based predictive modeling software. Under the terms of this agreement and at the time this agreement was executed, the Company deposited $200,000 into an escrow account. This sum was to be released to the company being acquired if the Company failed to satisfy certain conditions to closing, including third party financing for the cash portion of the purchase price. As a result of not securing the financing by January 31, 2003 as stipulated in the merger agreement, the sum of $200,000 was released in the first quarter of 2003 and charged to operations as terminated acquisition cost.

NOTE 16--PROVISION FOR INCOME TAXES

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to differences between the financial statement and tax bases of assets and liabilities for financial statement and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of these temporary differences, which will either be taxable or deductible in the year when the assets or liabilities are recovered or settled. Accordingly, measurement of the deferred tax assets and liabilities attributable to the book-tax basis differentials are computed at a rate of 34% federal and 6% state.

As of December 31, 2003, the Company had deferred tax assets of approximately $9,561,000 resulting from temporary differences and net operating loss carry-forwards of approximately $25,160,000, which are available to offset future taxable income, if any, through 2018. As utilization of the net operating loss carry-forwards and temporary difference is not assured, the deferred tax asset has been fully reserved through the recording of a 100% valuation allowance. Further, the Company will be limited in the amount of net operating losses it may utilize following the merger with CHD Meridian. Such limitations resulting from 50% or more change in ownership have not been determined.

The tax effects of temporary differences, loss carry-forwards and the valuation allowance that give rise to deferred income tax assets are as follows:

	December 31, 2003
Temporary differences:	
Fair value of warrants and common stock	$ 574,000
Net operating losses	8,987,000
Less valuation allowance	(9,561,000)
Deferred tax assets	$ 0

The reconciliation of the effective income tax rate to the federal statutory rate for the years ended December 31, 2003 and 2002 is as follows:

Federal income tax rate	(38.0)%
Change in valuation allowance on net operating carry-forwards	38.0
Effective income tax rate:	0.0 %

NOTE 17--STOCKHOLDERS' EQUITY

2002 Issuance of Common Stock and Warrants

The Company has been unable to locate one stockholder entitled to receive common stock as a result of a 1999 merger. Accordingly, the Company has cancelled 45,141 unclaimed shares of common stock. In connection with a 1-for-5 reverse stock split, the Company paid stockholders cash for all fractional shares that resulted from the reverse stock split. Accordingly, a total of 191 shares were cashed out.

The Company funded the acquisition of WellComm Group by selling a 6% convertible senior debenture in the aggregate principal amount of $2,000,000 to Palladin Opportunity Fund LLC. Pursuant to the purchase agreement, the Company also issued Palladin a warrant to purchase an aggregate of up to 307,692 shares of common stock at an exercise price of $5.50 per share. The original conversion price of the debenture was $5.00 per share. In accordance with the terms of the debenture, the price was reset to $3.03 in February 2003 and to $1.75 in June 2003. In accordance with the terms of the warrant, the exercise price of the warrant was reset from $5.50 to $1.75 in June 2003.

The Company valued the warrant issued to Palladin at $890,272 using the Black-Scholes pricing model, thereby allocating a portion of the proceeds from the debt to the warrant and the option using the relevant fair value of the debt and warrant to the actual proceeds from the debenture. The Company recorded $890,272 as a discount to the debenture. This amount is accreted to interest expense over the life of the debenture.

Upon the initial sale of the debenture, the Company recorded a beneficial conversion value of $948,651. The beneficial conversion value represents the difference between the fair market value of the common stock on the date the debenture was sold (or the date the conversion price is changed) and the price at which the debt could be converted into common stock.

In connection with facilitating the transaction with Palladin, the Company paid $130,000, issued 6,200 shares of common stock valued at $40,610 and granted a warrant to acquire 40,000 shares of common stock at $5.00 per share to a third party that brokered the transaction. In addition, the Company issued 16,000 shares of common stock valued at $104,800 to an employee for introducing the Company to WellComm. The Company has valued the shares at the market price on day of issuance or $145,408 and has valued the warrants utilizing the Black-Scholes option-pricing model or $246,000.

On February 6, 2002, the Company acquired all of the issued and outstanding common stock of WellComm Group, Inc. by issuing 1,488,000 shares of common stock valued at $9,746,400, granting options valued at $733,600 to acquire 112,000 shares common stock at a nominal exercise price, and paying approximately $2,200,000 in cash. The aggregate acquisition price amounted to approximately $12,680,000.

During January 2002, the Company sold in a private placement an aggregate of 22,000 shares of common stock for $47,850, net of $7,150 of direct costs. This private placement was commenced in November 2001. Additionally, pursuant to a private placement commenced in February 2002, the Company sold 505,500 shares of common stock, yielding proceeds of $1,895,626. In connection with the fund raising efforts from an existing stockholder, the Company issued 13,333 shares as consideration to such stockholder.

NOTE 17--STOCKHOLDERS' EQUITY (cont'd)

2002 Issuance of Common Stock and Warrants (cont'd)

During the year ended December 31, 2002, pursuant to various agreements and board approvals, the Company issued an aggregate of 23,708 shares of common stock and granted 60,000 warrants to various consultants for services received and for settlement of debt. The common stock was valued at fair market value on the date of issuance or $114,167 in the aggregate, which was charged to operations. The warrants were valued utilizing the Black-Scholes option-model. Accordingly, the Company recorded a charge of $222,000 for investor relations as a result of granting such warrants.

During the year ended December 31, 2002, the Company charged operations for $163,200 related to the issuance of options to a former employee.

Effective October 31, 2002, the Company and one of its customers entered into a three year Joint Marketing Agreement. Under this agreement, each party will, using its reasonable discretion, market to its clients the other party's products and services. In connection with the agreement, the Company granted UICI, a New York Stock Exchange Company, a seven-year warrant to acquire up to 400,000 shares of common stock at $5.50 per share.

The Company and UICI are also parties to a license and maintenance agreement entered into on September 30, 2002, pursuant to which the Company granted UICI an exclusive license to certain software in the student market and a non-exclusive license to such software for use by UICI for its other businesses. The Company, utilizing the Black-Scholes option-pricing model, has valued such warrant at approximately $1,360,000. Such amount has been capitalized and it will be amortized on a monthly basis over the life of the agreement of three years.

During the year ended December 31, 2002, a total of 380,960, warrants and options were exercised and accordingly, the Company issued an aggregate of 355,424 shares of common stock, net of shares surrendered as exercise price.

2003 Issuance of Common Stock and Warrants

During May 2003 the Company issued an aggregate of 332,760 shares of common stock to four investor relations firms. The common stock valued at $522,708, based on the market price of the Company's common stock on the date of issuance, has been charged to operations for 2003.

During May 2003, certain shareholders of the Company contributed loans (which were thereafter converted into common stock) and 163,073 shares of common stock to an investor relations firm retained by the Company as compensation for services. The benefit that the Company has received from these contributions aggregates $246,240 based on the market price of the Company's common stock on the date of the contribution, and was charged to operations.

During June 2003 the Company sold 613,986 shares of common stock at $1.75 per share yielding net proceeds (after direct costs including 40,167 shares of common stock) of $1,004,186.

During June 2003, the Company issued 519,667 shares of common stock in connection with the conversion of related party debt and accrued interest thereon amounting to $909,421 based on the market price of the Company's common stock on the date of issuance.

During June 2003, the Company issued 148,485 shares of common stock in connection with the conversion of assigned debt to an investor relations firm amounting to $259,849 based on the market price of the Company's common stock on the date of issuance.

NOTE 17--STOCKHOLDERS' EQUITY (cont'd)

2003 Issuance of Common Stock and Warrants (cont'd)

During June 2003, the Company issued 69,711 shares of common stock in connection with the conversion of deferred salaries amounting to $121,997 based on the market price of the Company's common stock on the date of issuance.

During August 2003, the Company commenced a private placement whereby it offered as a unit, two shares of common stock and a warrant to purchase an additional share of common stock exercisable at $3.00 (the market price on the Company's common stock on the date the Company commenced the private placement) for a unit purchase price of $5. The maximum amount offered was $3,500,000. Through October 31, 2003, the end of the private placement, the Company has issued a total of 1,400,000 shares of common stock and granted warrants to purchase 700,000 additional shares under this private placement. The Company has realized net proceeds of $3,037,894 after expenses as of December 31, 2003.

Pursuant to the terms of the registration rights agreement entered in connection with the transaction, within 30 days of the closing of the private placement, the Company was required to file with the Securities and Exchange Commission (the "SEC") a registration statement under the Securities Act of 1933, as amended, covering the resale of all the common stock purchased and the common stock underlying the warrants. Additionally, within 90 days of closing, the

Company was required to use its best efforts to cause such registration statement to become effective. The registration rights agreement further provided that if a registration statement is not filed, or does not become effective, within the defined time periods, then in addition to any other rights the holders may have, the Company would be required to pay each holder an amount in cash, as liquidated damages, equal to 1.5% per month of the aggregate purchase price paid by such holders. The registration statement was filed within the allowed time, and was declared effective by the SEC on February 17, 2004.

In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In a Company's Own Stock," and the terms of the warrants and the transaction documents, the fair value of the warrants amounted to $2,458,800 on date of grant. The warrants were accounted for as a liability, with an offsetting reduction to additional paid-in capital received in the private placement. The warrant liability will be reclassified to equity as of February 17, 2004, the effective date of the registration statement, evidencing the non-impact of these adjustments on the Company's financial position and business operations.

The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions: no dividends; risk-free interest rate of 4%; the contractual life of 5 years and volatility of 112%. The fair value of the warrants at December 31, 2003 was estimated to be approximately $2,760,000, which reflects an increase in fair value of $301,305 from the time the warrants were granted. This amount has been charged to operations as an increase in common stock warrants. The fair value of the warrants increased additionally by approximately $350,000 from December 31, 2003 to February 17, 2004. Accordingly, such increase will be charged in the statement of operations for the quarter ended March 31, 2004 as an increase in common stock warrants.

The adjustments required by EITF 00-19 were triggered by the terms of the private placement agreement, specifically the potential penalties if the Company did not timely register the common stock underlying the warrants issued in the transaction. The SEC declared the related registration statement effective within the contractual deadline and the Company incurred no penalties. The adjustments for EITF 00-19 had no impact on the Company's working capital, liquidity, or business operations.

For the year ended December 31, 2003, Palladin converted an aggregate of $1,483,351 of its debenture into 847,629 shares of the Company's common stock.

NOTE 17--STOCKHOLDERS' EQUITY (cont'd)

2003 Issuance of Common Stock and Warrants

During 2003, the Company granted fully vested, non-forfeitable warrants to purchase 375,000 shares of common stock with exercise prices of $1.50 and $1.76 (based on market value at the date of issuance) to certain individuals and one institution for investor relations services pursuant to various consulting agreements expiring in May and June 2004. The value of such warrants, utilizing the Black-Scholes model amounted to $649,448.

During May 2003 pursuant to the approval of the Board of Directors, the Company granted warrants to purchase an aggregate of 450,000 shares for an exercise price of $1.80 per share (representing a premium over market price on the date of grant) to its Chief Executive and Operating Officers for their continued financial support and for their guarantees to continue to support the Company through January 2004. The granting of such warrants did not result in any charges to operations because they were granted to employees.

In April 2003, the Company borrowed $100,000 from a shareholder pursuant to a convertible promissory note. The note, with an eleven-month term, accrues interest at 6% per annum and a default interest rate of 12% per annum. The principal and related accrued and unpaid interest is convertible by the shareholder into common stock at anytime at $1.50 per share. As consideration for this loan, the Company also granted the shareholder a warrant to acquire 100,000 shares of common stock at an exercise price of $1.50 per share. The value assigned to the warrant of $68,000 was recorded as a discount to the promissory note using the relevant fair value of the debt and the warrant to the actual proceeds from the convertible promissory note.

During December 2003, Palladin agreed to extend the maturity date of the Debenture until February 2005, in exchange for which, the Company granted an additional 50,000 warrants with an exercise price of $1.75. The warrants have been valued at approximately $200,000 utilizing the Black-Scholes valuation model. This amount, also recorded as a discount to the debenture, is accreted to interest expense over the extension period of one year.

In connection with the reset in June 2003 of the conversion price of Palladin's debenture and the exercise price of Palladin's warrant, the Company, in accordance with a contractual commitment, reset the exercise price of the warrant originally granted to a third party that brokered the Palladin investment from $5.00 to $1.75 per share and amended the warrant to increase the number of shares issuable thereunder by 74,285 shares of common stock. This reset of the exercise and the amendment to the warrant resulted in a charge to operations in the amount of $95,828.

During the last quarter of the year, the Company received an aggregate of $968,769 (net of financing costs) from the exercise of warrants from various holders.

NOTE 17--STOCKHOLDERS' EQUITY (cont'd)

2003 Issuance of Common Stock and Warrants (cont'd)

The following table summarizes the Company's activity as it relates to its warrants for the year ended December 31, 2003:

	Shares

Balance outstanding at January 1, 2003	2,132,953
Quarter ended March 31, 2003:	
Granted	--
Exercised	--
Balance outstanding at March 31, 2003	2,132,953
Quarter ended June 30, 2003:	
Granted	999,285
Exercised	--
Balance outstanding at June 30, 2003	3,132,238
Quarter ended September 30, 2003:	
Granted	320,000
Exercised	
Balance outstanding at September 30, 2003	3,452,238
Quarter ended December 31, 2003:	
Granted	620,000
Exercised	(720,866)
Balance outstanding at December 31, 2003	3,351,372

Outstanding warrants are exercisable at prices ranging from $.75 to $5.50.

NOTE 18--STOCK OPTIONS

Equity Compensation Plans and Non-Plan Stock Options

The Company has two equity compensation plans, which were adopted in 2000 and 2001. The purpose of the plans is to provide the opportunity for grants of incentive stock options, nonqualified stock options and restricted stock to employees of the Company and its subsidiaries, certain consultants and advisors who perform services for the Company or its subsidiaries and non-employee members of the Company's Board of Directors. The 2001 plan has several additional features, including, a salary investment option grant program that permits eligible employees to reduce their salary voluntarily as payment of two-thirds of the fair market value of the underlying stock subject to the option, with the remaining one-third of the fair market value payable as the exercise price for the option and, if specifically implemented, automatic grant program for non-employee members of the Board of Directors at periodic intervals.

NOTE 18--STOCK OPTIONS (cont'd)

Equity Compensation Plans and Non-Plan Stock Options (cont'd)

Originally, there were 600,000 shares of common stock authorized for issuance under the 2000 plan and 1,200,000 shares of common stock authorized for issuance under the 2001 plan. The number of shares authorized for issuance under the 2001 plan increases automatically on the first day of each year beginning with the year 2002 by an amount equal to the lesser of (a) three percent of the shares of common stock then outstanding or (b) 200,000 shares. As a result, effective January 1, 2003, the number of shares of common stock available for issuance under the 2001 plan increased from 1,200,000 to 1,400,000.

The maximum aggregate number of shares of common stock that can be granted to any individual during any calendar year is 70,000 under the 2000 plan and 80,000 and under the 2001 plan.

2000 Plan Grants

As of December 31, 2003, an aggregate of 226,500 options were outstanding under the 2000 plan. Exercise prices of these options range from $5.00 to $10.00 per share (depending on the fair market value of the stock on the date of grant).

2001 Plan Grants

As of December 31, 2003, an aggregate of 1,222,414 options were outstanding under the 2001 plan. Exercise prices of these options range from $1.77 to $7.50 (depending on fair market value of the stock on the date of grant).

Non-Plan Stock Option Grants

As of December 31, 2003, the Company had outstanding an aggregate of 669,000 options outside of any stock option plan with exercise prices ranging from $.01 to $10.00 per share (depending on fair market value of the stock on the date of grant).

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NOTE 18--STOCK OPTIONS (cont'd)

Equity Compensation Plans and Non-Plan Stock Options (cont'd)

The table below summaries the activity in the Company's stock option plans for the years ended December 31, 2002 and 2003:

	Incentive Options	Non-Qualified Options	Non-Plan Non-Qualified Options	To

Outstanding as of January 1, 2002	463,500	527,371	209,000
Granted	342,878	95,700	230,000
Exercised	--	(2,727)	--
Forfeited/Expired	(70,549)	(84,371)	--
Outstanding as of December 31, 2002	735,829	535,973	439,000
Granted	288,000	340,000	300,000
Exercised	--	--	--
Forfeited/Expired	(370,888)	(80,000)	(70,000)
Outstanding as of December 31, 2003	652,941	795,973	669,000
Vesting Dates:			
December 31, 2004	172,045	200,998	177,496
December 31, 2005	112,248	82,665	101,665
December 31, 2006	75,089	50,004	75,006
December 31, 2007	--	--	--
December 31, 2008	--	--	20,000
Thereafter	--	--	--

As of December 31, 2003, there were outstanding an aggregate of 1,050,698 of exercisable plan and non-plan options with exercise prices ranging from $.01 to $10.00.

The weighted average fair value of options granted during the year ended December 31, 2003 amounted to $2.90.

For the year ended December 31, 2003 and 2002, the Company recorded $27,942 and $163,000, respectively, of compensation in connection with granting of options.

NOTE 19--SUBSEQUENT EVENTS

Acquisition of CHD Meridian (unaudited)

The Company entered into a merger agreement, as amended, on December 26, 2003, with CHD Meridian, a privately held company and a provider of outsourced, employer-sponsored healthcare services.

NOTE 19--SUBSEQUENT EVENTS (cont'd)

Acquisition of CHD Meridian (unaudited) (cont'd)

Pursuant to the merger agreement, the Company, on March 19, 2004, the effective date of the merger, (1) issued 10,000,000 shares of common stock valued at

$36,300,000 utilizing $3.63 (the average closing market price for the three days prior and three days after the announcement date of the merger) per share, (2) issued 400,000 shares of convertible preferred stock (with each share convertible into 10 shares of common stock at a price of $2.50 per share or 4,000,000 shares in the aggregate) at $25 per share or $10,000,000 in the aggregate, and (3) paid approximately $25,508,000 to the CHD Meridian stockholders. Immediately following the closing of the merger, the Company also redeemed from former CHD Meridian stockholders that participated in the merger, pro rata, an aggregate of 200,000 shares of convertible preferred stock at its original issue price of $25 per share or $5,000,000.

The former CHD Meridian stockholders will also receive additional shares of the Company's common stock if CHD Meridian, continuing its operations following the closing of the merger as CHD Meridian LLC, achieves calendar 2004 milestones for earnings before interest, taxes, depreciation and amortization (or EBITDA) as follows: If EBITDA equals or exceeds $8,100,000, the number of such additional common shares payable will be 3,473,280; the number of such shares increases proportionately up to a maximum of 3,859,200 additional shares of the Company's common stock if EBITDA equals or exceeds $9,000,000. In connection with this earn-out, the Company placed 3,859,200 shares in escrow.

The Company funded the cash portion of the merger consideration by (1) selling 1,000,000 shares of convertible preferred stock at $25 per share with each preferred share convertible into 10 shares of common stock at a price of $2.50 per share, for gross proceeds of $25,000,000, and (2) drawing $12,000,000 under a new $20,000,000 senior secured credit facility with a national lender. The credit facility expires on April 1, 2007. The credit facility has a $6,000,000 term loan commitment with a $14,000,000 revolving credit commitment, which is reduced by letters of credit, which currently amount to $3,250,000. The credit facility is secured by substantially all of the Company's assets.

The acquisition, which is valued at $ 72,977,000 as of March 19, 2004, the date of acquisition, is accounted for as a purchase. As such, the purchase price will be allocated to the estimated fair values of the assets acquired and liabilities assumed. The Company will be obtaining third-party valuations of certain intangible assets.

The following unaudited pro forma results of operations of the Company give effect to the acquisition of CHD Meridian as though the transaction had occurred on January 1, 2002.

	Year ended December 31, 2003	Year ended December 31, 2002
Sales	$ 117,599,000	$ 107,384,000
Expenses	124,159,000	117,844,000
Net loss	$ (6,560,000)	$ (10,460,000)
Less: Dividends applicable to Preferred Stockholders	$ --	$ 15,820,000
Net loss applicable to common stock	$ (6,560,000)	$ (26,280,000)
Loss per share Basic and Diluted	$ (.31)	$ (1.38)
Weighted average shares outstanding Basic and Diluted	20,905,000	19,097,000

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NOTE 19--SUBSEQUENT EVENTS (cont'd)

Repayments of related party loans and advances and promissory notes

In connection with obtaining a credit line facility for the funding of the CHD Meridian merger, the Company was required to repay all related party loans and advances and any other outstanding loans immediately prior to closing. Accordingly, contemporaneously with the closing of the merger, the Company repaid an aggregate of $1,233,932 of which $289,897 was for related party debts and accrued interest and $944,035 was for principal and accrued interest (through March 19, 2004) pursuant to various promissory notes.

Conversion of Debenture Payable

During the first quarter of 2004, Palladin converted the remaining balance of the debenture payable. Accordingly, the Company issued 427,106 shares of common stock.

Conversion of Note Payable

Effective March 19, 2004, the Company issued 70,533 shares of common stock in connection with the conversion of a note payable, and interest accrued thereunder, issued to a stockholder.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of August 11, 2004.

I-TRAX, INC.

By: /s/ Frank A. Martin

Frank A. Martin, Chairman and
Chief Executive Officer