

MEDIX RESOURCES INC
Form S-3
February 13, 2003

As filed with the Securities and Exchange Commission on February 12, 2003

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MEDIX RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of incorporation or organization)

84-1123311

(I.R.S. Employer Identification Number)

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

(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

Mark W. Lerner
The Graybar Building
420 Lexington Ave., Suite 1830
New York, New York 10170
(212) 697-2509

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

With Copies to:

Peter H. Ehrenberg, Esq.
Lowenstein Sandler PC
65 Livingston Avenue
Roseland, New Jersey 07068
(973) 597-2500

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant
to a dividend or interest reinvestment plans, please check the following box:

If any of the securities being registered on this Form are to be offered on a
delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, other than securities offered only in connection with dividend or interest
reinvestment plans, check the following box.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registrations statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (2) (3)	Proposed maximum offering price per unit (1)	Proposed maximum aggregate offering price (1)	Amount of registration fee
Shares of common stock, par value \$.001 per share	22,262,708	\$.60	\$13,357,625	\$1,229

(1) The offering price is being estimated solely for the purpose of calculating the registration fee. In accordance with Rule 457(c), the price shown is based upon the average of the high and low prices of Medix's common stock on February 10, 2003, as reported on the American Stock Exchange.

(2) Includes 12,111,458 shares of common stock covered by warrants issued (i) in private placements and (ii) as fees to finders in private placements.

(3) Pursuant to Rule 416 under the Securities Act, such number of shares of common stock registered hereby shall include an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

Subject to completion, dated February 12, 2003.

PROSPECTUS

MEDIX RESOURCES, INC.

22,262,708 Shares of Common Stock

The stockholders of Medix Resources, Inc. named herein will have the right to offer and sell up to an aggregate of 22,262,708 shares of our common stock under

Edgar Filing: MEDIX RESOURCES INC - Form S-3

this prospectus. The shares were purchased from Medix in private placements or are covered by warrants that were issued (i) in private placements or (ii) as fees to finders in private placements.

Medix will not receive directly any of the proceeds from the sale of these shares by the selling stockholders. However, Medix will receive the proceeds from the exercise of warrants to purchase some of the shares to be sold hereunder. See "Use of Proceeds". Medix will pay the expenses of registration of these shares.

Medix's common stock is traded on the American Stock Exchange under the symbol "MXR". On February 10, 2003, the closing price of our common stock was reported as \$0.59.

The securities offered hereby involve a high degree of risk. See "Risk Factors" beginning on page 3 for certain risks that should be considered by prospective purchasers of the securities offered hereby.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February [__], 2003

The information in this prospectus is not complete and may be changed. No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in or incorporated by reference in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by us, the selling stockholders or any other person. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that there has been no change in our affairs since such date.

TABLE OF CONTENTS

<u>SUMMARY</u>
<u>RISK FACTORS</u>
<u>FORWARD LOOKING STATEMENTS</u>
<u>THE COMPANY</u>
<u>USE OF PROCEEDS</u>
<u>SELLING STOCKHOLDERS</u>
<u>DESCRIPTION OF THE SECURITIES</u>
<u>PLAN OF DISTRIBUTION</u>
<u>INDEMNIFICATION OF OFFICERS AND DIRECTORS</u>
<u>WHERE YOU CAN FIND MORE INFORMATION ABOUT US</u>
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>
<u>LEGAL MATTERS</u>
<u>EXPERTS</u>
<u>FINANCIAL STATEMENTS</u>

SUMMARY

The following summary highlights some information from this prospectus. It is not complete and does not contain all of the information that you should

Edgar Filing: MEDIX RESOURCES INC - Form S-3

consider before making an investment decision. You should read this entire prospectus, including the "Risk Factors" section and the financial statements, related notes and the other more detailed information appearing elsewhere or incorporated by reference in this prospectus. Unless otherwise indicated, "we", "us", "our" and similar terms, as well as references to the "Company" and "Medix", refer to Medix Resources, Inc. and its subsidiaries and not to the selling stockholders. All industry statistics incorporated by reference in this prospectus were obtained from data prepared or provided by recognized industry sources.

This prospectus covers the offering and sale of 22,262,708 shares of our common stock to the public by certain selling stockholders listed under the heading selling stockholders in this prospectus, of which 10,151,250 shares are issued and outstanding and 12,111,458 shares are covered by warrants held by the selling stockholders. See "Selling Stockholders". The selling stockholders purchased the shares of common stock and the warrants covering shares of common stock from us in one or more private placements or received warrants as fees for serving as finders in private placements. We received aggregate proceeds in those private placements of \$4,060,500. As part of the private placements, we agreed to register the shares of common stock issued or issuable pursuant to warrants under the Securities Act of 1933, as amended. We also agreed to register the shares of common stock covered by warrants issued to finders as fees in private placements. As of December 31, 2002 we had 77,160,815 shares of our common stock outstanding, and approximately 33,153,728 shares were issuable upon the exercise of outstanding options, warrants or other rights, and the conversion of outstanding preferred stock.

We develop, distribute and deploy connectivity products for Internet-based communications and information management by medical service providers. We have nominal revenues from current operations and are funding the development and deployment of our products through the sales of our securities. See "The Company" and "Risk Factors".

Because of our continuing losses, and the lack of certain sources of capital to fund our development of connectivity products, our independent accountants stated in their audit report on our audited financial statements for the year ended December 31, 2001 there is substantial doubt about the Company's ability to continue as a going concern. The "going concern" explanatory paragraph signifies that significant questions exist about our ability to continue in business. See "Risk Factors".

On December 23, 2002, we executed a definitive merger agreement with PocketScript, LLC, a private company developing and marketing software products similar to our products. Under the agreement, PocketScript will be merged into our newly formed wholly owned subsidiary. At closing, we will issue 12 million shares of common stock to PocketScript's owners, subject to a downward adjustment if a certain closing value is not realized and for any liabilities paid or assumed by us. In addition, we will issue up to \$4 million in additional common stock if certain business milestones are satisfied within a six-month to one-year period after the closing of the merger. The sale of any stock that we issue to PocketScript's owners would be restricted for periods from 3 to 24 months after closing.

Our principal executive office is located at 420 Lexington Avenue, Suite 1830, New York, New York 10170, and its telephone number is (212) 697-2509.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and other information in this prospectus before investing in our common stock. The trading price of our common

Edgar Filing: MEDIX RESOURCES INC - Form S-3

stock could decline due to any of these risks, and you may lose all or part of your investment.

Risk Factors Generally Relating to Medix and/or PocketScript:

Our continuing losses endanger our viability as a going-concern and caused our accountants to issue a "going concern" explanatory paragraph in their independent auditors' report.

We reported net losses of \$10,636,000, \$5,415,000 and \$4,847,000 for the years ended December 31, 2001, 2000 and 1999, respectively, and a net loss of \$4,718,000 for the nine months ended September 30, 2002. At September 30, 2002, we had an accumulated deficit of \$38,777,000 and a negative working capital of \$1,849,000. Our Cymedix(R) products are in the development and early deployment stage and have not generated any significant revenue to date. We are funding our operations through the sale of our securities. Our independent accountants have included an explanatory paragraph in their independent auditors' reports on our audited December 31, 2000 and 2001 financial statements. See our Form 10-K, as amended, for the fiscal year ended December 31, 2001. One of the reasons that PocketScript agreed to enter into the merger agreement was that management of PocketScript was concerned that if PocketScript continued to operate independently, its needs for working capital and its failure to reach profitability were leading to substantial liquidity problems. Thus, the merger with PocketScript is not expected to ease our financial concerns, at least in the short term.

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

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

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

During 2002, from time to time, our lack of cash flow caused us to delay payment of our obligations as they came due in the ordinary of its business. In some cases, we were delinquent in making payments by the legally required due dates. At our four office locations, we had 48 monthly rental payments due in the aggregate during 2002. Two of those payments were late. Such payments were paid within 30 days of their due date. All payments plus any required penalties were ultimately paid with respect to our 2002 obligations. We had 26 Federal withholding and other payment due dates. Of those, three due dates were missed. The resulting delinquencies ranged from one to ten days before the required payments were made. We paid the resulting penalties as they were billed. We had state withholding obligations in five states, Colorado, California, Georgia, New Jersey and New York. Although we were not late in making withholding payments in

Edgar Filing: MEDIX RESOURCES INC - Form S-3

those five states during 2002, we have been late in prior periods. Similarly, although we were not late in making deposits of our employees' 401(k) contributions during 2002, we have been late in making such deposits in the past. During 2003, we may be delinquent from time to time in meeting our obligations as they become due.

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

In anticipation of the merger with PocketScript, we discontinued the development of our Cymedix(R) products as an independent product line because we plan to incorporate the Cymedix(R) product technology with the PocketScript technology following its acquisition. We believe that we can market and sell the combined technology more effectively than the Cymedix(R) products alone. However, if the PocketScript merger does not occur, the development of the Cymedix(R) products for commercial purposes will have been delayed for several months and we may be unable to then market and develop the Cymedix(R) products by themselves in a competitive manner.

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

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

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

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

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

- o As a developer of connectivity technology products, we will be required to anticipate and adapt to evolving industry standards and new technological developments. The market for our products and PocketScript's products is characterized by continued and rapid technological advances in both hardware and software development, requiring ongoing expenditures for

Edgar Filing: MEDIX RESOURCES INC - Form S-3

research and development, and timely introduction of new products and enhancements to existing products. The establishment of standards is largely a function of user acceptance. Therefore, such standards are subject to change. Our future success, if any, will depend in part upon our ability to enhance existing products, to respond effectively to technology changes, and to introduce new products and technologies that are functional and meet the evolving needs of our clients and users in the healthcare information systems market.

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

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

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

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

The healthcare and medical services industry in the United States is in a period of rapid change and uncertainty. Governmental programs have been proposed, and some adopted, from time to time, to reform various aspects of the U.S. healthcare delivery system. Some of these programs contain proposals to increase government involvement in healthcare, lower reimbursement rates and otherwise

Edgar Filing: MEDIX RESOURCES INC - Form S-3

change the operating environment for our physician users and customers. Particularly, the Health Insurance Portability and Accountability Act of 1996, and the regulations that are being promulgated thereunder, are causing the healthcare industry to change its procedures and incur substantial cost in doing so. Although we expect these regulations to have the beneficial effect of spurring adoption of our software products we cannot predict with any certainty what impact, if any, these and future healthcare reforms might have on our business.

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

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

Because our business is highly competitive and there are many competitors who

Edgar Filing: MEDIX RESOURCES INC - Form S-3

are financially stronger than we are, we are at risk of being outperformed in staffing, marketing, product development and customer services, which could severely limit our ability to become profitable.

- o eHealth Services. Competition can be expected to emerge from established healthcare information vendors and established or new Internet related vendors. The most likely competitors are companies with a focus on clinical information systems and enterprises with an Internet commerce or electronic network focus. Many of these competitors will have access to substantially greater amounts of capital resources than we have access to, for the financing of technical, manufacturing and marketing efforts. Frequently, these competitors will have affiliations with major medical product or software development companies, who may assist in the financing of such competitor's product development. We will seek to raise capital to develop Cymedix(R) products and PocketScript products in a timely manner, however, so long as our operations remain under-funded, as they now are, we will be at a competitive disadvantage.
- o Personnel. The success of the development, distribution and deployment of our Cymedix(R) products and the PocketScript products is dependent to a significant degree on our key management and technical personnel. We believe that our and PocketScript's success will also depend upon our ability to attract, motivate and retain highly skilled, managerial, sales and marketing, and technical personnel, including software programmers and systems architects skilled in the computer languages in which our Cymedix(R) products and PocketScript's products operate. Competition for such personnel in the software and information services industries is intense. The loss of key personnel, or the inability to hire or retain qualified personnel, could have a material adverse effect on our results of operations, financial condition or business and on the success of our proposed acquisition of PocketScript.

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

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

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

As of December 31, 2002, we had 77,160,815 shares of common stock outstanding. As of that date approximately 33,177,353 shares were issuable upon the exercise of outstanding options, warrants or other rights, and the conversion of preferred stock. Most of these shares will be immediately saleable upon exercise or conversion under registration statements we have filed with the SEC. The exercise prices of options, warrants or other rights to acquire common stock presently outstanding range from \$.25 per share to \$4.97 per share. During the respective terms of the outstanding options, warrants, preferred stock and other outstanding derivative securities, the holders are given the opportunity to profit from a rise in the market price of the common stock, and the exercise of any options, warrants or other rights may dilute the book value per share of our common stock and put downward pressure on the price of the common stock. The existence of the options, conversion rights, or any outstanding warrants may

Edgar Filing: MEDIX RESOURCES INC - Form S-3

adversely affect the terms on which we may obtain additional equity financing. Moreover, the holders of such securities are likely to exercise their rights to acquire common stock at a time when we would otherwise be able to obtain capital on terms more favorable than could be obtained through the exercise or conversion of such securities.

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

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

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

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

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

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

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

Trading of our common stock may be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended, unless an exemption from such rules is available. Broker-dealers making a market in our common stock will be required to provide disclosure to their customers regarding the risks associated with our common stock, the suitability for the customer of an investment in our

Edgar Filing: MEDIX RESOURCES INC - Form S-3

common stock, the duties of the broker-dealer to the customer and information regarding bid and asked prices for our common stock, and the amount and description of any compensation the broker-dealer would receive in connection with a transaction in our common stock. The application of these rules may further result in fewer market makers making a market in our common stock and further restrict the liquidity of our common stock.

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

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

Risks Relating to the PocketScript Merger and the Combination of Medix and PocketScript:

The merger with PocketScript could affect Medix.

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

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

We may incur substantial costs in integrating PocketScript.

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

There will be dilution to the holdings of our securityholders as a result of the merger with PocketScript.

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

exercise over Medix.

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

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

The merger may result in a loss of PocketScript employees.

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

FORWARD-LOOKING STATEMENTS

Certain information contained in this prospectus and the documents incorporated by reference into this prospectus include forward-looking statements (as defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act), which mean that they relate to events or transactions that have not yet occurred, our expectations or estimates for our future operations, our growth strategies or business plans or other facts that have not yet occurred. Such statements can be identified by the use of forward-looking terminology such as "might," "may," "will," "could," "expect," "anticipate," "estimate," "likely," "believe," or "continue" or the negative thereof or other variations thereon or comparable terminology. The above risk factors contain discussions of important factors that should be considered by prospective investors for their potential impact on forward-looking statements included in this prospectus and in the documents incorporated by reference into this prospectus. These important factors, among others, may cause actual results to differ materially and adversely from the results expressed or implied by the forward-looking statements.

THE COMPANY

General

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

development efforts. We are funding such expenses as well as our administrative expenses through the sale of our securities. We have no significant long-term debt financing available to us. When we entered into the merger agreement with PocketScript, we discontinued the development of our Cymedix(R) products as an independent product line because we plan to incorporate the Cymedix(R) product technology with the PocketScript technology following its acquisition.

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

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

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

USE OF PROCEEDS

The selling stockholders will receive the net proceeds from the sale of shares. We will not receive any of the proceeds from any sale of the shares by the selling stockholders. However, we will receive the proceeds from the exercise of warrants to purchase certain of the shares offered hereunder. If all warrants covered hereby are exercised, we would receive proceeds of \$6,055,729. Any such proceeds will be used for working capital purposes.

SELLING STOCKHOLDERS

The table below sets forth information as of February 11, 2003, with respect to the selling stockholders, including names, holdings of shares of common stock prior to the offering of the shares, including shares covered by warrants, the number of shares being offered for each account, and the number and percentage of shares of common stock to be owned by the selling stockholders immediately following the sale of the shares, assuming all of the offered shares are sold. The selling stockholders acquired the shares of common stock and warrants covering shares of our common stock in private placement transactions or as fees for serving as finders in connection with our private placements.

Name of Selling Stockholder	Shares of Common Stock Beneficially	Shares of Common Stock	Shares of Common Stock	Shares of Common Stock to	Percentage of Common Stock to be
--------------------------------	---	------------------------------	------------------------------	---------------------------------	--

Edgar Filing: MEDIX RESOURCES INC - Form S-3

	Owned Before the Offering(1)	Covered By Warrants	Being Offered(1)	be Beneficially Owned After the Offering	Beneficially Owned After the Offering
Aaron Investments	1,000,000	500,000	1,000,000	0	-
AIG DKR Soundshore Private Investors Holding Fund Limited	500,000	250,000	500,000	0	-
Alpha Capital AG	2,500,000	1,250,000	2,500,000	0	-
Babbah, Kami Ofir	150,000	75,000	150,000	0	-
Bartran, William D.	125,000	62,500	125,000	0	-
Berardo, Thomas & Patricia	20,000	10,000	20,000	0	-
Berrey, Dan and Fran	106,875	71,250	106,875	0	-
BHNV Holdings LLC	250,000	125,000	250,000	0	-
Black Hills Investment Corp.	1,398,625	623,000	1,148,625	250,000	-
Blue Water Trading, Inc.	500,000	150,000	300,000	200,000	-
Bollander, William P.	168,750	106,250	168,750	0	-
Brelea Ventures, LLC	13,125	13,125	13,125	0	-
Brighton Capital Ltd.	30,625	30,625	30,625	0	-
Brown, Andrew	1,048,000	250,000	500,000	548,000	-
Cavell Investment Ltd.	1,000,000	500,000	1,000,000	0	-
Eisenberg Family Foundation	500,000	250,000	500,000	0	-
Excalibur Limited Partnership	500,000	250,000	500,000	0	-
Frankson, Carl	100,000	50,000	100,000	0	-

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Geary Partners, LP	320,000	160,000	320,000	0	-
Intercoastal Financial Services Corp.	152,425	152,425	152,425	0	-
Jeffries, Patrick	1,755,000	250,000	500,000	1,255,000	1.6%
Kassab, Marianne	80,000	40,000	80,000	0	-
Legend Merchant Group	5,500	5,500	5,500	0	-
Lerner, Claire	25,000	12,500	25,000	0	-
Lerner, Mark	184,375	25,000	50,000	134,375	-
Levine, Beth	250,000	125,000	250,000	0	-
Lousberg, Dean K.	250,000	62,500	125,000	125,000	-
Marjorie E. Goddard TTEE Marjorie E. Goddard Rev, TST DTD November 5, 1999	125,000	62,500	125,000	0	-
Markham Holdings Limited	500,000	250,000	500,000	0	-
Mayor & Associates LLC	276,500	276,500	276,500	0	-
McCulloch Jr., Robert F.	375,000	187,500	375,000	0	-
Meade Jr., Thomas J.	625,000	250,000	500,000	125,000	-
Merriman, Jonathan	225,000	112,500	225,000	0	-
Nordic, Gary E.	250,000	125,000	250,000	0	-
Otape, LLC	750,000	375,000	750,000	0	-
Palladino, Giampiero	125,000	62,500	125,000	0	-
Platinum Partners LP	2,250,000	625,000	1,250,000	1,000,000	1.3%
Presidio Partners, LP	680,000	340,000	680,000	0	-
Privet Financial, LLC	200,000	100,000	200,000	0	-

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Prudential Securities IRA Custodian for Margaret Galdorise	125,000	62,500	125,000	0	-
Puttick, Kenneth G.	500,000	250,000	500,000	0	-
RoyCap, Inc.	2,555,283	1,930,283	2,555,283	0	-
Rudinsky, Moshe	1,375,000	687,500	1,375,000	0	-
Saker, Wayne	750,000	250,000	500,000	250,000	-
Stephen S. Jamal, SSJ Enterprises, LLC	1,000,000	500,000	1,000,000	0	-
Stifel Nicolaus & Co. Inc. Custodian FBO Barry Ollman IRA R/O	100,000	50,000	100,000	0	-
WEC Asset Management LLC	375,000	125,000	250,000	125,000	-
Yanowitz, Gerald	180,000	90,000	180,000	0	-

(1) Includes shares of common stock covered by warrants that are included in this prospectus.

Relationship Between Medix and the Selling Stockholders

The selling stockholders have purchased their shares from us, or will acquire the shares of common stock indicated above upon the exercise of warrants, in private placements. None of the persons listed above are affiliates or controlled by our affiliates, except the following officer and directors who purchased securities on the same terms as other investors in the private placement: Patrick Jeffries and Mark Lerner. We have separate contractual obligations to file this registration with each of the selling stockholders.

DESCRIPTION OF SECURITIES

Our authorized capital consists of 125,000,000 shares of common stock, par value \$.001 per share, and 2,500,000 shares of preferred stock, par value \$.001 per share. As of December 31, 2002, we had outstanding 77,160,815 shares of common stock, 1 share of 1996 Preferred Stock and 75 shares of 1999 Series C Preferred Stock. As of such date, our common stock was held of record by approximately 460 persons and beneficially owned by approximately 10,000 persons.

Common Stock

Each share of common stock is entitled to one vote at all meetings of stockholders. Stockholders are not permitted to cumulate votes in the election of directors. Currently, the Board of Directors consists of six directors, who serve for staggered terms of three years, with at least two directors elected at every annual meeting. All shares of common stock are equal to each other with

Edgar Filing: MEDIX RESOURCES INC - Form S-3

respect to liquidation rights and dividend rights. There are no preemptive rights to purchase any additional shares of common stock. In the event of our liquidation, dissolution or winding up, holders of the common stock will be entitled to receive on a pro rata basis all of our assets remaining after satisfaction of all liabilities and preferences of the outstanding preferred stock. The outstanding shares of common stock and the shares of common stock issuable upon conversion or exercise of derivative securities are or will be, as the case may be, duly and validly issued, fully paid and non-assessable.

Transfer Agent and Registrar

We have retained Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401, as Transfer Agent and Registrar, for our common stock. Computershare Trust Company's telephone number is (303) 262-0600.

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, donees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately negotiated transactions;
- o short sales;
- o broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- o a combination of any such methods of sale; and
- o any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), if available, rather than under this prospectus.

The selling stockholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades. The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. We believe, and intend to confirm prior to the effective date of the registration statement of which this prospectus is a part that the selling stockholders have not entered into any agreements, understandings or arrangements with any

Edgar Filing: MEDIX RESOURCES INC - Form S-3

underwriters or broker-dealers regarding the sale of their shares other than ordinary course brokerage arrangements, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of shares by the selling stockholders.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

Selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares. Otherwise, all discounts, commissions or fees incurred in connection with the sale of the common stock offered hereby will be paid by the selling stockholders.

Upon our being notified by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such shares were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction.

In order to comply with the securities laws of certain states, if applicable, the shares will be sold in such jurisdictions, if required, only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with.

We advised the selling stockholders that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to their sales of the shares offered hereby.

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Article 109 of the Colorado Business Corporation Act generally provides that we may indemnify our directors, officers, employees and agents against liabilities in any action, suit or proceeding whether civil, criminal, administrative or investigative and whether formal or informal (a "Proceeding"), by reason of being or having been a director, officer, employee, fiduciary or agent of Medix, if such person acted in good faith and reasonably believed that his conduct, in his official capacity, was in the best interests of Medix (or, with respect to employee benefit plans, was in the best interests of the participants of the plan), and in all other cases that his conduct was at least not opposed to Medix's best interests. In the case of a criminal proceeding, the director, officer, employee or agent must have had no reasonable cause to believe that his

Edgar Filing: MEDIX RESOURCES INC - Form S-3

conduct was unlawful. Under Colorado Law, we may not indemnify a director, officer, employee or agent in connection with a proceeding by or in the right of Medix if the director is adjudged liable to Medix, or in a proceeding in which the directors, officer employee or agent is adjudged liable for an improper personal benefit.

Our Articles of Incorporation and Bylaws provide that we shall indemnify our directors, and officers, employees and agents to the extent and in the manner permitted by the provisions of the laws of the State of Colorado, as amended from time to time, subject to any permissible expansion or limitation of such indemnification, as may be set forth in any stockholders' or directors' resolution or by contract.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling Medix pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission (the "Commission"), such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

WHERE YOU CAN FIND MORE INFORMATION ABOUT US

We file reports, proxy statements, information statements and other information with the SEC. You may read and copy this information, for a copying fee, at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on its public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services, from the American Stock Exchange and at the web site maintained by the SEC at <http://www.sec.gov>.

We have filed a registration statement under the Securities Act, with respect to the securities offered pursuant to this prospectus. This prospectus does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information, reference is made to the registration statement and the exhibits filed as a part thereof, which may be found at the locations and website referred to above.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission (the "SEC") allows us to "incorporate by reference" into this prospectus the information we file with the SEC, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is an important part of this prospectus. We incorporate by reference the following documents we filed with the SEC:

- o Our Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended;
- o Our Quarterly Report on Form 10-Q for the period ended March 31, 2002;
- o Our Quarterly Report on Form 10-Q for the period ended June 30, 2002;
- o Our Quarterly Report on Form 10-Q for the period ended September 30, 2002;
- o Our Current Report on Form 8-K, dated April 10, 2002;
- o Our Current Report on Form 8-K, dated May 16, 2002;

Edgar Filing: MEDIX RESOURCES INC - Form S-3

- o Our Current Report on Form 8-K, dated May 30, 2002;
- o Our Current Report on Form 8-K, dated June 7, 2002;
- o Our Current Report on Form 8-K, dated June 11, 2002;
- o Our Current Report on Form 8-K, dated June 26, 2002;
- o Our Current Report on Form 8-K, dated July 25, 2002;
- o Our Current Report on Form 8-K, dated August 12, 2002;
- o Our Current Report on Form 8-K, dated September 10, 2002;
- o Our Current Report on Form 8-K, dated September 27, 2002;
- o Our Current Report on Form 8-K, dated September 27, 2002;
- o Our Current Report on Form 8-K, dated October 9, 2002;
- o Our Current Report on Form 8-K, dated October 16, 2002;
- o Our Current Report on Form 8-K, dated October 30, 2002;
- o Our Current Report on Form 8-K, dated December 20, 2002;
- o Our Current Report on Form 8-K, dated January 13, 2003;
- o Our Current Report on Form 8-K, dated January 21, 2003; and
- o Our Current Report on Form 8-K, dated February 3, 2003.

We are also incorporating by reference additional documents that we may file with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act prior to the termination of this offering.

If you are a stockholder, we may have sent you some of the documents incorporated by reference, but you can obtain any of them through us or the Commission. Documents incorporated by reference are available from us without charge, except exhibits, unless we have specifically incorporated by reference an exhibit into a document that this prospectus incorporates. Stockholders may obtain documents incorporated by reference into this prospectus by requesting them in writing or by telephone from:

Medix Resources, Inc.
Investor Relations Department
The Graybar Building
420 Lexington Ave., Suite 1830
New York, New York 10170
(212) 697-2509

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Lowenstein Sandler PC, 65 Livingston Avenue, Roseland, New Jersey.

EXPERTS

Our consolidated financial statements as of December 31, 2001, and for each of the three years in the period ended December 31, 2001 and 2000 appearing in our

Edgar Filing: MEDIX RESOURCES INC - Form S-3

2001 Form 10-K have been audited by Ehrhardt Keefe Steiner & Hottman PC, independent auditors, as stated in their report appearing therein, and have been incorporated herein by reference in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of PocketScript, LLC as of December 31, 2001 and December 31, 2000 as contained in this registration statement of which this prospectus is a part have been audited by Ehrhardt Keefe Steiner & Hottman PC, independent auditors, as stated in their report appearing therein, and have been incorporated herein by reference in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

INDEX TO FINANCIAL STATEMENTS

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

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

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

Medix Resources, Inc. Unaudited Interim Consolidated Financial Statements:

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

PocketScript LLC Interim Financial Statements:

- (k) Independent Auditors' Report
- (l) Balance Sheets as of December 31, 2001 and 2000 and September 30, 2002 (unaudited)
- (m) Statements of Operations for the Years Ended December 31, 2001 and 2000 and for the Nine Months Ended September 30, 2002 and 2001 (unaudited)

Edgar Filing: MEDIX RESOURCES INC - Form S-3

(n) Statement of Changes in Redeemable Preferred Stock and Stockholders' Equity (Deficit) for the Years Ended December 31, 2001 and 2000 and Nine Months Ended September 30, 2002 (unaudited)

(o) Statements of Cash Flows for the Years Ended December 31, 2001 and 2000 Nine Months Ended September 30, 2002 and 2001 (unaudited)

(p) Notes to Financial Statements

Unaudited Pro Forma Condensed Consolidated Financial Statements

(q) Introduction

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

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

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

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced recurring losses

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

/s/Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

March 19, 2002
Denver, Colorado

MEDIX RESOURCES, INC.

Consolidated Balance Sheets

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

Liabilities and Stockholders' Equity

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

Commitments and contingencies

Stockholders' equity

1996 Preferred stock, 10% cumulative convertible, \$1
par value 488 shares authorized, 155 issued, 1

Edgar Filing: MEDIX RESOURCES INC - Form S-3

share outstanding, liquidation preference \$17,000	-	-
1997 convertible preferred stock, \$1 par value 300 shares authorized 167.15 shares issued, zero shares outstanding	-	-
1999 Series A convertible preferred stock, \$1 par value, 300 shares authorized, 300 shares issued, zero shares outstanding	-	-
1999 Series B convertible preferred stock, \$1 par value, 2,000 shares authorized, 1,832 shares issued, 50 shares outstanding, liquidation preference \$50,000	-	-
1999 Series C convertible stock, \$1 par value, 2,000 shares authorized, 1,995 shares issued, 375 and 875 shares outstanding as of December 31, 2001 and 2000, respectively, liquidation preference \$375,000 and \$875,000	-	1,000
Common stock, \$.001 par value, 100,000,000 shares authorized, 56,651,409 and 46,317,022 issued and outstanding, respectively	56,000	46,000
Dividends payable with common stock	7,000	5,000
Additional paid-in capital	35,341,000	27,573,000
Accumulated deficit	(34,059,000)	(23,423,000)
	-----	-----
Total stockholders' equity	1,345,000	4,202,000
	-----	-----
Total liabilities and stockholders' equity	\$ 3,101,000	\$ 5,089,000
	=====	=====

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

Consolidated Statements of Operations

	For the Years Ended December 31,		
	2001	2000	1999
	-----	-----	-----
Sales			
Revenues	\$ 29,000	\$ 326,000	\$ 24,000
	-----	-----	-----
	29,000	326,000	24,000
	-----	-----	-----
Cost of goods sold			
Direct costs of services	213,000	180,000	2,000
	-----	-----	-----
Total cost of goods sold	213,000	180,000	2,000
	-----	-----	-----
Gross (loss) profit	(184,000)	146,000	22,000
	-----	-----	-----
Operating expenses			
Software research and development			

Edgar Filing: MEDIX RESOURCES INC - Form S-3

costs	1,075,000	685,000	596,000
Selling, general and administrative expenses	5,746,000	5,925,000	3,777,000
Impairment of intangible assets	1,111,000	-	-
Total operating expenses	7,932,000	6,610,000	4,373,000
Other income (expense)			
Other income	12,000	163,000	7,000
Interest expense	(104,000)	(43,000)	(204,000)
Financing costs	(2,428,000)	-	-
	(2,520,000)	120,000	(197,000)
Loss from continuing operations	(10,636,000)	(6,344,000)	(4,548,000)
Discontinued operations			
Discontinued operations	-	929,000	(299,000)
	-	929,000	(299,000)
Net loss	(10,636,000)	(5,415,000)	(4,847,000)
Preferred stock dividends	-	(1,000)	(2,212,000)
Net loss available to common Stockholders	\$ (10,636,000)	\$ (5,416,000)	\$ (7,059,000)
Basic and diluted weighted average common shares outstanding	50,740,356	41,445,345	23,384,737
Basic and diluted (loss) per common share - continuing operations	\$ (0.21)	\$ (0.15)	\$ (0.29)
Basic and diluted income (loss) per common share - discontinued operations	-	0.02	(0.01)
Basic and diluted loss per common share	\$ (0.21)	\$ (0.13)	\$ (0.30)

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

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

1996 Preferred Stock		1997 Preferred Stock		1999 Series A Preferred Stock		1999 Prefe
Shares	Amount	Shares	Amount	Shares	Amount	Shares
-----	-----	-----	-----	-----	-----	-----

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Balance - December 31, 1998	8.00	\$	-	19.50	\$	-	-	\$	-	\$
Issuance of warrants with convertible note payable	-		-	-		-	-		-	
1999 preferred stock issuances (net of \$15,500 of offering costs)	-		-	-		-	300		-	1,8
Preferred stock conversions	(4.50)		-	(14.50)		-	(115)		-	(1,0
Repurchase of 1996 preferred stock	(2.50)		-	-		-	-		-	
Conversion of note payable into common stock	-		-	-		-	-		-	
Conversion of redemption payable into common stock	-		-	-		-	-		-	
Exercise of warrants	-		-	-		-	-		-	
Exercise of stock options	-		-	-		-	-		-	
Stock issued for services	-		-	-		-	-		-	
Stock options and warrants issued for services	-		-	-		-	-		-	
Net loss	-		-	-		-	-		-	
Dividends declared	-		-	-		-	-		-	
	-----		-----	-----		-----	-----		-----	-----
Balance - December 31, 1999	1.00		-	5.00		-	185		-	8
Conversion of note payable into common stock	-		-	-		-	-		-	
Warrants issued in settlement	-		-	-		-	-		-	
Common stock issued in connection with ADC merger	-		-	-		-	-		-	
Preferred stock conversions	-		-	(5.00)		-	(185)		-	(7
Exercise of warrants	-		-	-		-	-		-	

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2001	2000	1999
Cash flows from operating activities			
Net loss	\$ (10,636,000)	\$ (5,415,000)	\$ (4,847,000)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	488,000	426,000	243,000
Impairment of intangible assets	1,111,000	-	-
Financing costs	2,428,000	-	238,000
Common stock, options and warrants issued for settlements	149,000	-	-
Common stock, options and warrants issued for services	145,000	376,000	2,231,000
Discontinued operations	-	-	299,000
Gain on sale of staffing business	-	(1,102,000)	-
Change in net assets of discontinued operations	-	857,000	(1,243,000)
Changes in assets and liabilities			
Accounts receivable, net	49,000	(29,000)	2,046,000
Prepaid expenses and other	(119,000)	(49,000)	5,000
Accounts payable and accrued liabilities	988,000	(237,000)	(2,141,000)
Checks written in excess of bank balance	-	-	(72,000)
	5,239,000	242,000	1,606,000
Net cash used in operating activities	(5,397,000)	(5,173,000)	(3,241,000)
Cash flows from investing activities			
Proceeds from sale of divisions	-	500,000	-
Software development costs incurred	(434,000)	(495,000)	-
Purchase of property and equipment	(70,000)	(400,000)	(72,000)
Purchase of software license	-	(720,000)	-
Proceeds from notes receivable	-	500,000	563,000
Business acquisition costs, net of cash acquired	-	(94,000)	-
Net cash (used in) provided by investing activities	(504,000)	(709,000)	491,000
Cash flows from financing activities			
Proceeds from issuance of debt and notes payable	1,824,000	178,000	500,000
Advances under financing agreement	-	-	11,272,000
Payments under financing agreement	-	(484,000)	(11,781,000)
Principal payments on debt and notes payable	(303,000)	(125,000)	(289,000)
Issuance of preferred and common stock, net of offering costs	3,012,000	-	4,112,000
Proceeds from the exercise of options and warrants	369,000	6,091,000	150,000

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Repurchase of preferred stock	-	-	(25,000)
	-----	-----	-----
Net cash provided by financing activities	4,902,000	5,660,000	3,939,000
	-----	-----	-----
Net (decrease) increase in cash	(999,000)	(222,000)	1,189,000
Cash - beginning of year	1,007,000	1,229,000	40,000
	-----	-----	-----
Cash - end of year	\$ 8,000	\$ 1,007,000	\$ 1,229,000
	=====	=====	=====

Supplemental disclosure of cash flow information:

Cash paid for:	Interest

2001	\$ 42,000
2000	\$ 21,000
1999	\$ 324,000

Supplemental disclosure of non-cash activity:

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

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

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

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

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

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

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

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

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

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

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

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

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

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

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

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

Notes to Consolidated Financial Statements

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

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

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

financial condition of its customers to reduce credit risk.

Fair Value of Financial Instruments

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

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

Revenue Recognition

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

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

Income Taxes

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

Property and Equipment

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

Software Development Costs

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

Financing Costs

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

Intangible assets

Intangible assets are stated at cost, and consist of goodwill, which is being amortized using the straight-line method over fifteen years.

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

Reclassifications

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

Advertising Costs

The Company expenses advertising costs as incurred.

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

Basic Loss Per Share

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

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

Recently Issued Accounting Pronouncements

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

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

Note 2 - Going Concern

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

Management's Plan for Continued Existence

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

Note 3 - Discontinued Operations

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

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

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

	For the Years Ended December 31,	
	2000	1999
Revenue	\$ 1,128,000	\$ 10,812,000
Direct costs of services	927,000	8,472,000
Gross margin	201,000	2,340,000
Selling, general and administrative	219,000	2,193,000
Interest expense	18,000	446,000
Litigation settlement	137,000	-
Net loss	\$ (173,000)	\$ (299,000)

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

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

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

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

Note 4 - Acquisition of Assets

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

\$1,000 per month expiring in February 2002. Assets purchased include cash and accounts receivable.

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

Cash	\$	6,000
Accounts receivable		27,000
Goodwill		487,000
Accounts payable		(41,000)
Accrued liabilities		(5,000)

	\$	474,000
		=====

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

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

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

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

Note 5 - Balance Sheet Disclosures

Software development costs consist of the following:

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

Property and equipment consists of the following:

	December 31,	
	2001	2000
Furniture and fixtures	\$ 103,000	\$ 91,000
Computer hardware and purchased software	609,000	552,000
Leasehold improvements	29,000	28,000
	741,000	671,000
Less property, plant and equipment - accumulated depreciation	(376,000)	(253,000)
	\$ 365,000	\$ 418,000

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

Intangible assets consist of the following:

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

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

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

Accrued expenses consists of the following:

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

\$ 450,000 \$ 391,000
=====

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

Note 6 - Long-Term Debt

Long-term debt consists of:

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

Convertible Promissory Note

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

Convertible Note Payable Credit Facility

In December 2000, the Company obtained a credit facility under which it issued a convertible promissory note and common stock purchase warrants. The credit facility provided that the Company could draw against this facility in increments as follows: \$750,000 upon closing, which occurred January 10, 2001; \$250,000 within 10 days of an effective registration statement, which occurred February 13, 2001; and \$500,000 draws at the 60th day, 90th day and the 150th day from the effective registration statement. These advances could be made only if the Company's common stock price remained above \$1 for five business days prior to

Edgar Filing: MEDIX RESOURCES INC - Form S-3

the draw. During the draw down periods, the Company drew \$1,500,000 under the convertible note. Advances under the convertible note bear interest at an annual rate of 10% and provide for semi-annual payments on July 10, 2001 and January 10, 2002. All outstanding balances under this arrangement were converted or redeemed during 2001 into common shares. The note payable balance was convertible at \$.90 per share for up to the first \$750,000 and any remaining balance at \$1.00 per share. The initial \$750,000 draw on this arrangement has an imputed discount recorded, which was valued at \$75,000 for the "in-the-money" conversion feature of the first advance. In addition, the noteholder can force a redemption of the note or any portion thereof, for either cash or stock at the option of the Company, but if for stock, at a redemption price of eighty (80%) percent of the Volume Weighted Market Price (as defined) per common share during the twenty Trading Days ending on the day of the notice delivered by the holder.

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

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

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

During March 2001, the Company, under an amendment to its convertible note payable credit facility, received \$350,000 from the credit facility provider for the issuance of 636,364 shares of its common stock as a private placement transaction. As a part of this common stock issuance, the Company issued warrants to purchase 636,364 shares of common stock at \$.80 per share with a term of two years from the date of issuance. As a result of the warrant issuance, the Company has recorded financing expense of \$262,000 in the accompanying financial statements, using the Black-Scholes option-pricing model. The company also issued warrants to purchase 63,636 shares of common stock at \$.80 per share with a term of two years to two finders assisting the transaction. The finders

Edgar Filing: MEDIX RESOURCES INC - Form S-3

warrants have been valued at \$40,000 using the Black-Scholes pricing model and have been included as financing costs in the accompanying financial statements. The calculated values were computed using the following assumptions: lives of 2 years, exercise prices of \$.80, volatility of 117%, no dividend payments and a risk free rate of 5.5%.

During the period May through December 2001, the Company received \$850,000, under a second amendment to the credit facility, for the issuance of 1,235,944 shares of its common stock, in additional private placement transactions. As a part of these common stock issuances, the Company issued warrants to purchase 168,919 shares of common stock at \$1.00 per share with a term of two years from the date of issuance. The Company has recorded financing expense of \$113,000 related to the warrant issuance in the accompanying financial statements, using the Black-Scholes option-pricing model. The calculated values were computed using the following assumptions: lives of 2 years, exercise prices of \$.80, volatility of 117%, no dividend payments and a risk free rate of 5.5%.

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

Note 7 - Commitments and Contingencies

Operating Leases

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

Rent expense for these leases was:

Year Ending December 31,

2001	\$	396,000
2000	\$	315,000
1999	\$	293,000

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

Year Ending December 31,

2002	\$	550,000
2003		413,000
2004		309,000
2005		26,000

	\$	1,298,000
		=====

Litigation

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

During the fourth quarter of 1997, an action was filed against the Company in the Eastern District of New York under the caption New York Healthcare, Inc. v. International Nursing Services, Inc., et al. On February 15, 2000, the Company agreed in principle to settle this claim. In connection with the settlement, the

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Company issued a warrant to purchase 35,000 of the Company's common stock at \$3.96 per share. The Company recorded expense of approximately \$137,000 related to the issuance of the warrant, which has been included in the results of discontinued operations. The warrants were valued using the Black-Scholes pricing model, using assumptions of volatility of 273%, no dividend payments and a risk free rate of 5.5%.

On November 12, 1999, an action was filed in California Superior Court, which has since been removed to the U. S. District Court, Central District of California, against Medix Resources, Inc. and its wholly owned subsidiary, Cymedix Lynx Corporation. As of November 3, 2000, a settlement agreement was reached between the Company and the plaintiff whereby the company paid the plaintiff \$66,000 cash, and issued an option to purchase 50,000 of the Company's common stock at \$.25 per share. The Company recorded expense of approximately \$102,000 related to the issuance of the option. The warrants were valued using the Black-Scholes pricing model, using assumptions of volatility of 273%, no dividend payments and a risk free rate of 5.5%.

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

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

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

Note 8 - Stockholders' Equity

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

1996 Private Placement

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

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

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

1997 Private Placement

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

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

1999 Private Placement

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

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

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

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Equity Line

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

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

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

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

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

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

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

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

Accumulated Deficit

Of the \$34,059,000 cumulative deficit at December 31, 2001 and \$23,423,000 at

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

Stock Options

In May 1988, the Company adopted an incentive stock option plan (ISO), which provides for the grant of options representing up to 100,000 shares of the Company's common stock to officers and employees of the Company upon terms and conditions determined by the Board of Directors. Options granted under the plan are generally exercisable immediately and expire up to ten years after the date of grant. Options are granted at a price equal to the market value at the date of grants, or in the case of a stockholder who owns greater than 10% of the outstanding stock of the Company, the options are granted at 110% of the fair market value.

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

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

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

The following table presents the activity for options outstanding:

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Granted	2,289,000	-	0.71
Forfeited/canceled	(865,000)	(65,834)	3.03
Exercised	(1,267,142)	(173,500)	0.25
Outstanding - December 31, 2001	6,019,500	364,167 \$	1.40

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

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

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

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

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

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

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

For the Years Ended December 31,		
2001	2000	1999

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Approximate risk free rate	5.50%	5.50%	5.50%
Average expected life	5 years	10 years	10 years
Dividend yield	0%	0%	0%
Volatility	132%	273%	225%
 Estimated fair value of total options granted	 \$1,399,000	 \$8,841,000	 \$1,289,000

Warrants

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

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

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

The following table presents the activity for warrants outstanding:

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Forfeited/canceled	(36,000)	0.80
Exercised	(22,000)	0.19

Outstanding - December 31, 2001	7,449,587 \$	0.69
=====		

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

Note 9 - Income Taxes

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

Note 10 - Employee Benefit Plan

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

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

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

Years of Service	

1	10%
2	20%
3	30%
4	40%
5	60%
6	80%
7	100%

Note 11 - Related Party Transactions

Prior to being elected to the board of directors of the Company in 1999, a company affiliated with one of the Company's directors, entered into agreements

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

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

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

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

Note 12 - Subsequent Events

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Note 13 - Summarized Quarterly Results (Unaudited)

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

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

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

MEDIX RESOURCES, INC.

Consolidated Balance Sheets

September 30, December 31,

Edgar Filing: MEDIX RESOURCES INC - Form S-3

	2002	2001
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 267,000	\$ 8,000
Accounts receivable, trade	1,000	--
Prepaid expenses and other	240,000	344,000
	-----	-----
Total current assets	508,000	352,000
Software development costs, net	1,024,000	649,000
Property and equipment, net	335,000	365,000
Goodwill, net	1,735,000	1,735,000
	-----	-----
Total assets	\$ 3,602,000	\$ 3,101,000
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable	\$ 17,000	\$ 158,000
Convertible notes payable	1,000,000	--
Advance from related party	50,000	
Accounts payable	567,000	851,000
Accounts payable-related parties	130,000	166,000
Accrued expenses	407,000	450,000
Deferred revenue	155,000	--
Accrued payroll taxes interest and penalties ..	131,000	131,000
	-----	-----
Total current liabilities	2,457,000	1,756,000
	-----	-----
Stockholders' equity		
1996 Preferred stock, 10% cumulative convertible, \$1 par value; 488 shares authorized; 155 shares issued; 1 share outstanding	--	--
1999 Series B convertible preferred stock, \$1 par value; 2,000 shares authorized; 1,832 shares issued; 50 shares outstanding	--	--
1999 Series C convertible preferred stock, \$1 par value; 2,000 shares authorized; 1,995 shares issued; 100 and 375 shares outstanding	--	--
Common stock, \$.001 par value; 100,000,000 authorized; 65,842,599 and 56,651,409 issued and outstanding	66,000	56,000
Dividends payable with common stock	8,000	7,000
Additional paid-in capital	39,848,000	35,341,000
Accumulated deficit	(38,777,000)	(34,059,000)
	-----	-----
Total stockholders' equity	1,145,000	1,345,000
	-----	-----
Total liabilities and stockholders' equity	\$ 3,602,000	\$ 3,101,000
	=====	=====

See notes to consolidated financial statements.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

MEDIX RESOURCES, INC.

Unaudited Consolidated Statements of Operations

	For the Three Months Ended September 30, 2002	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2002	For the Nine Months Ended September 30, 2001
Revenues	\$ --	\$ --	\$ 10,000	\$ 30,000
Direct costs of services	103,000 -----	5,000 -----	495,000 -----	38,000 -----
Gross margin	(103,000) -----	(5,000) -----	(485,000) -----	(8,000) -----
Software research and development costs	153,000	348,000	533,000	947,000
Selling, general and administrative expenses	1,422,000	1,594,000	3,390,000	4,611,000
Impairment of intangible Assets	-- -----	1,111,000 -----	-- -----	1,111,000 -----
Net loss from operations	(1,678,000)	(3,058,000)	(4,408,000)	(6,677,000)
Other income	2,000	11,000	7,000	11,000
Financing Costs	(43,000)	(121,000)	(246,000)	(346,000)
Interest expense	(13,000) -----	(15,000) -----	(71,000) -----	(64,000) -----
Net loss	\$ (1,732,000) =====	\$ (3,183,000) =====	\$ (4,718,000) =====	\$ (7,076,000) =====
Net loss per common share	\$ (0.03) =====	\$ (0.06) =====	\$ (0.08) =====	\$ (0.14) =====
Weighted average shares outstanding	63,767,646 =====	51,267,407 =====	60,698,928 =====	49,308,780 =====

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

Net (loss) as reported	\$ (3,183,000)	\$ (7,076,000)
Add back: Goodwill amortization	39,000 -----	121,000 -----
Adjusted net loss	\$ (3,144,000) =====	\$ (6,955,000) =====

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Basic and diluted loss per share as reported	\$ (0.06)	\$ (0.14)
	=====	=====
Goodwill amortization	\$ --	\$ --
	=====	=====
Adjusted loss per share	\$ (0.06)	\$ (0.14)
	=====	=====

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

Unaudited Consolidated Statements of Cash Flows

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

	-----	-----
Net increase (decrease) in cash and cash equivalents ...	259,000	(934,000)
Cash and cash equivalents at beginning of period	8,000	1,007,000
	-----	-----
Cash and cash equivalents at end of period	\$ 267,000	\$ 73,000
	=====	=====

Non-cash and investing and financing activities for the nine months ended September 30, 2002:

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

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

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

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

Cost of Services Provided

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

Note 2 - Goodwill

September 30,

Edgar Filing: MEDIX RESOURCES INC - Form S-3

	2002
Goodwill acquired through the Cymedix acquisition	\$ 2,369,000
Less accumulated amortization	(634,000)

	\$ 1,735,000
	=====

The Company has completed step one, impairment review of FAS 142, effective January 1, 2002, and has determined that the fair value of that goodwill associated with its Cymedix reporting unit using a discounted cash flow method had no impairment.

Note 3 - Equity Transactions

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

Equity Line

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

Warrants

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

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

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

Convertible Loan

The Company entered into a secured convertible loan agreement dated February 19, 2002 with WellPoint Health Networks Inc. in which a member of the Company's audit committee is a related party, pursuant to which we borrowed \$1,000,000. The loan would have become payable on February 19, 2003, if not converted into our common stock. The loan earned annual interest at a floating rate of 300 basis points over prime, as it is adjusted from time to time, which was also

Edgar Filing: MEDIX RESOURCES INC - Form S-3

payable at maturity and may be converted into common stock. Conversion into common stock was at the option of either WellPoint or Medix at a contingent conversion price. The Company recorded financing costs during the first quarter of 2002 associated with this loan agreement as a result of the in-the-money conversion feature totaling \$70,000. The loan was secured by the grant of a security interest in all Medix's intellectual property, including its patent, copyrights and trademarks. Medix converted the principal of and interest accrued on the note into 2,405,216 common shares on October 9, 2002. The security interest in Medix's intellectual property was also released.

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

Private Placements

During April 2002, the Company initiated a private placement of its \$.001 par value common stock. A total of 3,452,500 units were placed, each consisting of one share of common stock and one warrant. Subscribers purchased each unit for \$0.40 and are entitled to exercise warrant rights to purchase one share of the common stock of the company at a purchase price of \$.0.50 per share for a five year period on or after September 1, 2002 and prior to September 1, 2007. The Company received a total of \$1,381,000 from this private placement. The Company has committed to register the above underlying shares in a registration statement with the Securities and Exchange Commission within 90 days of completion of the offering. Subsequently, some of these subscribers holding warrants to purchase 1,770,000 shares of common stock, have agreed to amend the exercise period of their warrants from July 1, 2003 to December 31, 2008

During July 2002, the Company initiated a second private placement of its \$.001 par value common stock. A total of 3,600,000 units were placed during the period July to October 2002, each consisting of one share of common stock and one warrant. Subscribers purchased each unit for \$0.40 and are entitled to exercise warrant rights to purchase one share of the common stock of the company at a purchase price of \$.0.50 per share for a five year period on or after January 1, 2003 and prior to January 1, 2008. The Company received a total of \$1,440,000 from this private placement. The Company has committed to register the above underlying shares in a registration statement with the Securities and Exchange Commission within 90 days of completion of the offering.

Note 4 - Stock Options

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

Note 5 - Related Party Transactions

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

The Company also received an advance of \$50,000 from a member of the board of

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

Note 6 - Litigation

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

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

Subsequent Events - Acquisition Letter of Intent

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
PocketScript, LLC
Mason, Ohio

We have audited the accompanying balance sheets of PocketScript, LLC (formerly PocketScript, Inc.) as of December 31, 2001 and 2000, and the related statements of operations, changes in redeemable preferred stock stockholders' equity and cash flows for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

/s/Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

February 5, 2003
Denver, Colorado

POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)

Balance Sheets

December 31,		September 30,
2001	2000	2002
-----	-----	-----
		(unaudited)

Assets

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Current assets			
Cash	\$ -	\$ 153,621	\$ 10,027
Accounts receivable, net	-	5,055	18,427
Prepaid expenses and other	-	11,302	20
	-----	-----	-----
Total current assets	-	169,978	28,474
	-----	-----	-----
Non-current assets			
Property and equipment, net	2,020,057	2,650,818	303,632
Other assets	77,029	59,200	27,029
	-----	-----	-----
Total non-current assets	2,097,086	2,710,018	330,661
	-----	-----	-----
Total assets	\$2,097,086	\$2,879,996	\$ 359,135
	=====	=====	=====

Liabilities and Stockholders' (Members) Deficit

Current liabilities			
Convertible debentures	\$ -	\$2,131,000	\$ -
Notes payable	1,890,400	-	250,000
Bank overdraft	5,643	-	-
Accounts payable	2,148,326	1,184,731	20,730
Accounts payable - related parties	-	-	329,981
Accrued expenses	1,311,873	539,543	208,579
	-----	-----	-----
Total current liabilities	5,356,242	3,855,274	809,290
	-----	-----	-----
Notes payable, less current portion	-	-	1,364,689
	-----	-----	-----
Total liabilities	5,356,242	3,855,274	2,173,979
	-----	-----	-----

Commitments and contingencies

Redeemable convertible cumulative preferred stock, \$0.01 par value:			
Series A- 0% rate, authorized shares - 8,000,000, issued and outstanding shares - 3,680,702 and 2,256,023 at December 31, 2001 and 2000, respectively, with liquidation preferences aggregating \$5,521,208 (2001) and \$3,380,658 (2000)	5,521,208	3,380,658	-
Series B1- 8% rate, authorized shares - 2,379,795, issued and outstanding shares - 2,054,795 at December 31, 2001 and 2000 with liquidation preferences aggregating \$3,342,193 (2001) and \$3,102,193 (2000)	3,260,000	3,020,000	-
Series B2- 8% rate, authorized shares - 9,620,205, no shares issued and outstanding	-	-	-
Equity (deficit)			
Members capital, 100 units issued and outstanding at September 30, 2002	-	-	1,000

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Common stock, \$.001 par value, 50,000,000 shares authorized, 10,000,000 shares issued and outstanding at September 30, 2002 (unaudited) December 31, 2001 and 2000, respectively	100,000	100,000	-
Additional paid-in capital	999,852	849,852	8,880,060
Accumulated deficit	(13,140,216)	(8,325,788)	(10,695,904)
	-----	-----	-----
Total stockholders' (members) deficit	(12,040,364)	(7,375,936)	(1,814,844)
	-----	-----	-----
Total liabilities and stockholders' (members) deficit	\$2,097,086	\$2,879,996	\$ 359,135
	=====	=====	=====

See notes to consolidated financial statements.

POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)

Statements of Operations

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Total gain from reorganization items	-	-	2,879,867	-
Net income (loss)	(4,574,428)	(7,889,825)	2,444,312	(4,163,278)
Dividend on preferred stock	(240,000)	(20,000)	-	(180,000)
Net income (loss) applicable to common stockholders (LLC members)	\$ (4,814,428)	\$ (7,909,825)	\$2,444,312	\$ (4,343,278)
Basic and diluted income (loss) per share (LLC unit)	\$ (0.48)	\$ (0.79)	\$24,443.12	\$ (0.43)
Weighted average shares (LLC units) outstanding	10,000,000	10,000,000	100	10,000,000

See notes to consolidated financial statements.

POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)

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

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

convertible preferred stock	-	-	-	240,000	-
Issuance of warrants	-	-	-	-	-
Net loss	-	-	-	-	-
	-----	-----	-----	-----	-----
Balance at December 31, 2001	3,680,702	5,521,208	2,054,295	3,260,000	-
Retirement of preferred stock (unaudited)	-	-	(2,054,795)	(3,260,000)	-
Net income (unaudited)	-	-	-	-	-
Bankruptcy reorganization and Conversion to LLC (unaudited)	(3,680,702)	(5,521,208)	-	-	-
	-----	-----	-----	-----	-----
Balance at September 30, 2002 (unaudited)	-	\$ -	-	\$ -	-
	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

POCKETSCRIPT LLC (FORMERLY POCKETSCRIPT, INC.)

Statements of Cash Flows

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Purchase of intangible assets	(17,829)	-	-	(17,829)
Purchase of property and equipment	(110,037)	(2,935,278)	-	(82,076)
	-----	-----	-----	-----
Net cash used in investing activities	(127,866)	(2,935,278)	-	(99,905)
	-----	-----	-----	-----
Cash flows from financing activities				
Bank overdraft	5,643	-	(5,643)	-
Proceeds from issuance of convertible debentures	-	2,868,000	-	-
Proceeds from issuance of preferred stock	-	5,550,115	-	-
Proceeds from notes payable	1,890,400	1,500,000	179,269	1,890,400
Repayment of notes payable	-	(1,600,000)	-	-
	-----	-----	-----	-----
Net cash provided by financing activities	1,896,043	8,318,115	173,626	1,890,400
	-----	-----	-----	-----
Net (decrease) increase in cash	(153,621)	(8,301)	(10,027)	(24,057)
Cash - beginning of year	153,621	161,922	-	153,621
	-----	-----	-----	-----
Cash - end of year	\$ -	\$ 153,621	\$ 10,027	\$ 129,564
	=====	=====	=====	=====
Deemed distribution on debt assumption	\$ -	\$ 100,000	\$ -	\$ 100,000
	=====	=====	=====	=====
Dividend on redeemable convertible preferred stock	\$ 240,000	\$ 20,000	\$ -	\$ 180,000
	=====	=====	=====	=====
Convertible notes payable converted to redeemable series A preferred stock	\$ 2,131,000	\$ 818,000	\$ -	\$ 818,000
	=====	=====	=====	=====
Redeemable preferred Series B-1 stock retired	\$ -	\$ -	\$3,260,000	\$ -
	=====	=====	=====	=====
Licensed software returned for repurchase of B-1 preferred stock	\$ -	\$ -	\$1,000,000	\$ -
	=====	=====	=====	=====
Debt forgiveness in reorganization items	\$ -	\$ -	\$ 564,610	\$ -
	=====	=====	=====	=====
Equipment write-off in reorganization items	\$ -	\$ -	\$3,915,224	\$ -
	=====	=====	=====	=====

See notes to consolidated financial statements.

MEDIX RESOURCES, INC.

Notes to Consolidated Financial Statements

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

PocketScript, LLC (formerly PocketScript, Inc.) (the Company) was incorporated

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

PocketScript, Inc. was originally incorporated as an S Corporation and subsequently converted into an Ohio C Corporation in 2000 and became a Delaware C Corporation through a merger with a Delaware Corporation established for the purpose of the merger. In 2002 after emergence from bankruptcy, PocketScript, LLC, purchased the assets of PocketScript, Inc. Because the business operations have remained intact, the accompanying financial statements have been presented as that of a continuous business enterprise.

Unaudited Interim Financial Statements

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

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

Fair Value of Financial Instruments

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

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

Revenue Recognition

The Company defers the recognition of all revenue until collectibility is probable, persuasive evidence of an arrangement exists, and the price of the products or services being sold is fixed and determinable. Revenue will be generated principally through pharmacy benefits managers, pharmacies and pharmaceutical manufacturers based on a transaction fee for each prescription processed or based upon a monthly fee in lieu of transaction fees. These fees will be recognized upon the occurrence of the transaction or ratably over the service period. Revenue will also be generated from the sale of software licenses and the sale or lease of hardware. The software licenses and leased hardware revenue will be recognized ratably over the term of the license or lease beginning after the software and hardware have been delivered and installed and the title and risks of ownership have been passed to the customer.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Revenue from the sale of hardware will be recognized upon shipment of the product. The Company will also earn fees from data compilation and distribution, which will be recognized as earned. Revenue from Internet advertising contracts will be recognized ratably over the service period, with incremental revenues (as determined by customer usage) recognized on a per transaction basis. No revenue will be recognized that is subject to a refund or the performance of a future obligation.

Income Taxes

Effective January 1, 2000, the Company changed its status from an S corporation to a C Corporation for tax purposes. Income taxes are provided based on the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS 109). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company's net deferred tax assets are fully reserved for by a valuation allowance.

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

Property and Equipment

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

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

Financing Costs

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

Research and Development Costs

The Company expenses research and development costs as incurred.

Advertising Costs

The Company expenses advertising costs as incurred.

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

Basic Loss Per Share

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

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

Recent Accounting Pronouncements

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

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

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

In November 2002, the FASB published interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also

Edgar Filing: MEDIX RESOURCES INC - Form S-3

clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company is currently evaluating what effect the adoption of this statement will have the Company's financial statements. The Company does not expect the adoption of this statement to have a material effect on the Company's financial statements.

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

Note 2 - Chapter 11 Bankruptcy Reorganization and Emergence

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

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

Note 3 - Management's Plans

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

In December of 2002, the company entered into a definitive merger agreement to be acquired by Medix Resources, Inc. (Medix) through the issuance of Medix preferred stock, which is convertible into common shares. Management plans include the raising of capital once the acquisition is completed. The acquisition is dependent upon a successful stockholders vote by Medix stockholders. If the acquisition is not consummated and the subsequent capital

Edgar Filing: MEDIX RESOURCES INC - Form S-3

is not raised, the Company may be unable to continue in existence. The accompanying financial statements do not include any adjustments as a result of this uncertainty.

Note 4 - Related Party Transactions

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

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

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

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

Note 5 - Balance Sheet Disclosures

Property and equipment consists of the following:

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

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

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

Accrued expenses consists of the following:

	December 31,		September 30,
	2001	2000	2002

Edgar Filing: MEDIX RESOURCES INC - Form S-3

	-----	-----	-----
			(unaudited)
Accrued payroll and benefits	\$ 713,127	\$ 539,543	\$ 170,079
Other accrued expenses	598,746	-	38,500
	-----	-----	-----
	\$ 1,311,873	\$ 539,543	\$ 208,579
	=====	=====	=====

At various times during 2002, the Company was delinquent with payroll tax deposits. At September 30, 2002, \$20,000 was accrued for estimated taxes, interest and penalties.

Note 6 - Notes Payable

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

Notes payable consist of the following:

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

Edgar Filing: MEDIX RESOURCES INC - Form S-3

December 31, 2001. Collateralized by substantially all assets.	455,000	-	-
Notes payable to stockholders, interest at prime plus 5% default rate (9.75% at December 31, 2001 and September 30, 2002), due June 2001, in default at December 31, 2001. Collateralized by substantially all assets.	395,400	-	-
Notes payable to secured creditors, interest accrues at 10% until January 1, 2004 when the balance of accrued interest is payable in full and thereafter interest is payable monthly until maturity at September 30, 2005. Collateralized by substantially all assets.	-	-	1,364,689
	-----	-----	-----
	1,890,400	-	1,614,669
Less current portion	(1,890,400)	-	(250,000)
	-----	-----	-----
	\$ -	\$ -	\$ 1,364,689
	=====	=====	=====

Remaining maturities under notes payable are as follows:

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

	\$1,614,669
	=====

Note 7 - Convertible Debentures

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

The Company also issued a \$1,000,000 convertible debenture to a strategic partner in June 2000 in conjunction with a services agreement. Each debenture is

Edgar Filing: MEDIX RESOURCES INC - Form S-3

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

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

Note 8 - Commitments and Contingencies

Operating Leases

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

Year Ending December 31,

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

Nine Months Ending
September 30, (unaudited)

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

Note 9 - Redeemable Convertible Preferred Stock

In February 2000, the Company issued Series A redeemable convertible preferred stock, which has the same voting rights as the common stock of the Company. Each share of preferred stock is convertible, at the option of the holder, into common stock at an initial per share price of \$1.50. This price may be adjusted proportionately to any common stock activity to avoid dilution upon conversion. The Company has reserved shares of its authorized but unissued common stock for the full number of shares of common stock issuable on the conversion of all

Edgar Filing: MEDIX RESOURCES INC - Form S-3

outstanding preferred shares. At the Company's discretion, preferred shares may automatically be converted into shares of common stock upon the closing of a public offering in which the gross proceeds exceed \$20,000,000.

In January 2000, the Company issued 1,533,932 shares of Series A preferred stock for \$2,300,115. Under the terms of a separate agreement with a strategic partner, the Company sold 166,668 shares of Series A redeemable convertible preferred stock for \$250,000 in December 2000.

In December 2000, the Company issued 2,054,795 shares of Series B-1 redeemable convertible preferred stock for \$3,000,000. The preferred stock carries an 8% cumulative dividend. Each share of preferred stock is convertible, at the option of the holder, into common stock at an initial per share price of \$1.50. This price may be adjusted proportionately to any common stock activity to avoid dilution upon conversion. The Company has reserved shares of its authorized but unissued common stock for the full number of shares of common stock issuable on the conversion of all outstanding preferred shares. At the Company's discretion, preferred shares may automatically be converted into shares of common stock upon the closing of a public offering in which the gross proceeds exceed \$30,000,000. The Company recorded preferred dividends of 240,000, \$20,000 and \$180,000 for the years ended December 31, 2001 and 2000 and the nine-months ended September 30, 2002.

After January 2005, the Company shall, at the option of any holder, redeem shares of preferred stock by paying the shareholder a price calculated in accordance with the shareholder agreement. In the event of any voluntary or involuntary liquidation of the Company, before any distribution of payment is made to the holders of common stock, the holders of preferred stock are entitled to receive an amount equal to \$1.50 per share, plus the amount of any declared and unpaid dividends. Any assets remaining after such payments to preferred shareholders shall be distributed pro rata among all shareholders.

Each holder of preferred stock is entitled to such number of votes equal to the number of shares of common stock into which all of such holder's preferred stock is convertible.

In January 2002, the Series B-1 redeemable convertible stock was retired by agreement of the parties. In connection with the retirement, the Company returned previously purchased software of with a purchased cost of \$1,000,000 as consideration for the return of the preferred shares. The difference between the carrying value of the purchased software of \$1,000,000 and the value of the preferred stock including cumulative accrued dividends of \$3,260,000 was recorded as an increase to additional paid-in-capital of \$2,260,000.

Note 10 - Stockholders' Equity

Common Stock

Effective January 1, 2000, the Company's Articles of Incorporation were amended resulting in one class of voting common stock. Prior to January 1, 2000, there were two classes of common stock - voting Class A stock and nonvoting Class B. Accordingly, all references in the financial statements related to share amounts, including information concerning stock option plans, have been adjusted retroactively to reflect this.

Stock Split

The Company declared a 100 for 1 stock split effective January 1, 2000. The Company subsequently declared a 10-for-1 stock split effective June 8, 2000. Accordingly, all references in the financial statements related to share amounts, including information concerning stock option plans, have been adjusted

Edgar Filing: MEDIX RESOURCES INC - Form S-3

retroactively to reflect the stock splits.

Effective January 1, 2000, the Board of Directors formalized the Employee Stock Option Plan (the Plan). The Plan provides for the issuance of up to 3,000,000 common shares in connection with the issuance of nonqualified and incentive stock options. The Company's Board of Directors determines eligibility. The exercise price of the options is generally the fair market value at the date of grant. Options under the plan generally vest over three years, or earlier in the event of a change in control, as defined.

Stock Options

The Company follows the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation." Accordingly, no compensation cost has been recognized for the stock option plan. The Company uses the Black-Scholes option-pricing model to estimate fair value of options and warrants granted. Had compensation cost for the Company's warrant issuances and stock options issued to employees in 2000 been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Corporation's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	December 31,	
	2001	2000
Net loss - as reported	\$ (4,574,453)	\$ (7,889,825)
Net loss - pro forma	\$ (4,574,453)	\$ (10,420,090)
Basic loss per share - as reported	\$ (0.48)	\$ (0.79)
Basic loss per share - pro forma	\$ (0.48)	\$ (1.04)

Employee stock options outstanding were as follows:

	Option Shares	Weighted- Average Exercise Price
Balance at January 1, 2000	-	\$ -
Options Granted	2,038,530	0.69
Balance at December 31, 2000 and 2001	2,038,530	\$ 0.69

During 2000, the Company granted 1,656,530 options at \$0.50 per share and 382,000 options at \$1.50 per share. Employee options exercisable totaled 1,339,280 at December 31, 2001. The fair value of option grants in 2000 was \$2,530,265 using the Black-Scholes option pricing model, with assumptions of 300% and 100% volatility, expected lives of seven years, no dividend yield and a risk-free rate of 5.5%.

Stock Options to Consultants

In April 2000, the Company issued 196,500 options to purchase common stock to an outside consultant at an exercise price of \$1.50 per share. These options were fully vested as of June 30, 2000 and expire June 30, 2007. The fair value of these options of \$249,726 were expensed, with fair value estimated using the Black-Scholes option pricing model, with assumptions of 100% volatility, expected lives of seven years, no dividend yield and a risk-free rate of 5.5%.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

All outstanding stock options were eliminated as part of the Company's Chapter 11 bankruptcy proceeding (Note 2).

Stock Warrants

During 2000, the Company issued 228,919 warrants to outside consultants in connection with the convertible debentures and the redeemable convertible preferred stock issuances. Each warrant entitles the holder to purchase one share of Series A redeemable convertible preferred stock at a price of \$1.50, subject to adjustments in certain events as defined in the agreement. The warrants are exercisable immediately. The Company recorded financing charges of \$290,926 related to the issuance of these warrants. The fair value of the warrants was estimated using the Black-Scholes option-pricing model, with assumptions of 100% volatility, expected lives of seven years, no dividend yield and a risk-free rate of 5.5%.

On April 12, 2001, associated with borrowings of \$150,000, \$150,000 and \$100,000 from three shareholders, the Company issued 37,500, 37,500 and 25,000 warrants to the three shareholders, respectively. Each warrant entitles the holder to purchase one share of the Company's common stock at a price of \$0.01 per share, subject to adjustments in certain events as defined in the agreement. The warrants are exercisable immediately and expire 90 days after \$5 million in venture capital financing is raised. These warrants have been valued at \$150,000, or \$1.50 per option share which equals the estimated value of the underlying common stock, based on conversion rates of recent redeemable preferred stock issued.

The following table presents the activity for stock purchase warrants:

	Shares	Exercise Price	Expiration Date
	-----	-----	-----
Balance at January 1, 1999	-	\$ -	-
Issuances	228,919	1.50	February 7, 2007 - June 30, 2007
	-----	-----	
Balance at December 31, 2000	228,919	1.50	February 7, 2007 - June 30, 2007
Issuances	100,000	1.50	*
	-----	-----	
Balance at December 31, 2001	328,919	\$ 1.50	February 7, 2007 - June 30, 2007 and *
	=====	=====	

* 90 days after raising \$5,000,000 in venture capital.

All warrants were eliminated as part of the Company's Chapter 11 bankruptcy proceeding (Note 2).

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Introduction

The following unaudited pro forma condensed consolidated financial information gives effect to the PocketScript merger under the purchase method of accounting. These pro forma statements are presented for illustrative purposes only. The pro forma adjustments are based upon available information and assumptions that we

Edgar Filing: MEDIX RESOURCES INC - Form S-3

believe are reasonable. The pro forma condensed consolidated financial statements do not purport to represent what the consolidated results of operations or financial position of Medix Resources would actually have been if the PocketScript merger had in fact occurred on the dates that we refer to below, nor do they purport to project the results of operations or financial position of Medix Resources for any future period or as of any date, respectively.

Under the purchase method of accounting, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair market values. The excess of the purchase price, including estimated fees and expenses related to the merger, over the net assets acquired is classified as goodwill on the accompanying unaudited pro forma condensed consolidated balance sheet.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2002, was prepared by combining the historical cost balance sheet at September 30, 2002 for Medix Resources with the historical cost balance sheet at September 30, 2002, for PocketScript, giving effect to the merger as though it had been completed on September 30, 2002.

The unaudited pro forma condensed consolidated statements of operations for the periods presented were prepared by combining Medix Resources' statements of operations for the nine months ended September 30, 2002 and the year ended December 31, 2001 with PocketScript's statements of operations for the same periods, giving effect to the merger as though it had occurred on January 1, 2001. These unaudited pro forma condensed consolidated financial statements do not give effect to any restructuring costs or to any potential cost savings or other operating efficiencies that could result from the merger.

The historical financial statements of Medix Resources for the year ended December 31, 2001 are derived from audited consolidated financial statements and for the nine months ended September 30, 2002 are derived from unaudited condensed consolidated financial statements of Medix Resources, all of which are presented elsewhere in this proxy statement. The historical financial statements of PocketScript for the year ended December 31, 2001 are derived from audited consolidated financial statements and for the nine months ended September 30, 2002 are derived from unaudited condensed consolidated financial statements of PocketScript, all of which are presented elsewhere in this proxy statement.

Unaudited Pro Forma Combined Balance Sheet As of September 30, 2002

	Medix(1) -----	PocketScript (2) -----	Total -----
Assets			
Cash and cash equivalents	\$ 267,000	\$ 10,027	\$ 277,027
Accounts receivable, trade	1,000	18,427	19,427
Prepaid expenses and other	240,000	20	240,020
	-----	-----	-----
Total current assets	508,000	28,474	536,474
Software development costs, net	1,024,000	-	1,024,000
Property and equipment, net	335,000	303,632	638,632
Other assets	-	27,029	27,029
Customer contracts	-	-	-
Purchased technology	-	-	-
Goodwill, net	1,735,000	-	1,735,000
	-----	-----	-----

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Total assets	\$3,602,000	\$ 359,135	\$3,961,135	\$
	=====	=====	=====	
Liabilities and Stockholders' Equity				
Notes payable	\$ 17,000	\$ 250,000	\$ 267,000	\$
Convertible notes payable	1,000,000	-	1,000,000	
Advance from related party	50,000	-	50,000	
Accounts payable	567,000	20,730	587,730	
Accounts payable-related parties	130,000	329,981	459,981	
Accrued expenses	407,000	170,079	577,079	
Deferred revenue	155,000	38,500	193,500	
Accrued payroll taxes, interest, and penalties	131,000	-	131,000	
	-----	-----	-----	
Total current liabilities	2,457,000	809,290	3,266,290	
	-----	-----	-----	
Long-term debt	-	1,364,689	1,364,689	
	-----	-----	-----	
Total liabilities	-	2,173,979	4,630,979	
	-----	-----	-----	
Commitments and contingency				
Stockholders' equity				
Common stock, \$.001 par value; 100,000,000 authorized; 65,842,599 issued and outstanding.	66,000	1,000	67,000	
Dividends payable with common stock	8,000	-	8,000	
Preferred stock	-	-	-	
Additional paid-in capital	39,848,000	8,880,060	48,728,060	
Accumulated deficit	(38,777,000)	(10,695,904)	(49,472,904)	
	-----	-----	-----	
Total stockholders' equity	1,145,000	(1,814,844)	(669,844)	
	-----	-----	-----	
Total liabilities and stockholders' equity	\$3,602,000	\$ 359,135	\$3,961,135	\$
	=====	=====	=====	

**Unaudited Pro Forma Combined Statement of Operations
For the Nine Months Ended September 30, 2002**

	Medix (1)	PocketScript (2)	Total	
	-----	-----	-----	
Sales	\$ 10,000	\$ 135,159	\$ 145,159	\$
	-----	-----	-----	
Revenues	10,000	135,159	145,159	
	-----	-----	-----	
Operating expenses				
Amortization of software costs and license fees	495,000	-	495,000	
Software research and development costs	533,000	45,925	578,925	
Selling, general and administrative expenses	3,390,000	485,998	3,875,998	

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Impairment of assets	-	-	-
	-----	-----	-----
Total operating expenses	4,418,000	531,923	4,949,923
	-----	-----	-----
Income (loss) from operations	(4,408,000)	(396,764)	(4,804,764)
	-----	-----	-----
Other income (expense)			
Other income	7,000		7,000
Interest expense	(71,000)	(38,791)	(109,791)
Financing costs	(246,000)	-	(246,000)
Reorganization gain	-	2,879,867	2,879,867
	-----	-----	-----
Net (loss) income	\$ (4,718,000)	\$ 2,444,312	\$ (2,273,688)
	=====	=====	=====
Extraordinary item - forgiveness of debt income	-	-	-
	-----	-----	-----
Net loss after extraordinary item	\$ (4,718,000)	\$ 2,444,312	\$ (2,273,688)
	=====	=====	=====
Dividend on preferred stock	-	-	-
	-----	-----	-----
Net (loss) income applicable to common stockholders	\$ (4,718,000)	\$ 2,444,312	\$ (2,273,688)
	=====	=====	=====
Basic and diluted loss per common share	\$ (0.08)		
	=====		
Weighted average pro forma shares outstanding - basic and diluted	60,698,928		
	=====		

**Unaudited Pro Forma Combined Statement of Operations
For the Year Ended December 31, 2001**

	Medix (1)	PocketScript (2)	Total
	-----	-----	-----
Sales	\$ 29,000	\$ 597,505	\$ 626,505
	-----	-----	-----
Revenues	29,000	597,505	626,505
	-----	-----	-----
Operating expenses			
Amortization of software costs and license fees	213,000	-	213,000
Software research and development costs	1,075,000	1,032,214	2,107,214
Selling, general and administrative expenses	5,746,000	3,933,270	9,679,270
Impairment of assets	1,111,000	-	1,111,000
	-----	-----	-----

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Total operating expenses	8,145,000	4,965,484	13,110,484
	-----	-----	-----
Income (loss) from operations	(8,116,000)	(4,367,979)	(12,483,979)
	-----	-----	-----
Other income (expense)			
Other income	12,000	3,202	15,202
Interest expense	(104,000)	(59,676)	(163,676)
Financing costs	(2,428,000)	(150,000)	(2,578,000)
	-----	-----	-----
Net loss	\$ (10,636,000)	\$ (4,574,453)	\$ (15,210,453)
	=====	=====	=====
Extraordinary item	-	-	-
	-----	-----	-----
Net loss after extraordinary item	\$ (10,636,000)	\$ (4,574,453)	\$ (15,210,453)
	=====	=====	=====
Dividend on preferred stock	-	(240,000)	(240,000)
	-----	-----	-----
Net loss applicable to common stockholders	\$ (10,636,000)	\$ (4,814,453)	\$ (15,450,453)
	=====	=====	=====
Basic and diluted loss per common share	\$ (0.21)		
	=====		
Weighted average pro forma shares outstanding - basic and diluted	50,740,356		
	=====		

Notes to Unaudited Pro Forma Balance Sheet and Statements of Operations

1. Reflects the September 30, 2002 and December 31, 2001 balances filed by Medix Resources, Inc. (Medix) on Forms 10-K and 10-Q.
2. Reflects the balances from the historical financial statements of the acquiree, PocketScript, LLC (PocketScript) at September 30, 2002 and December 31, 2001.
3. To record the merger consideration and purchase price allocation in connection with the acquisition. Medix paid an initial deposit of \$100,000 in connection with the merger; additionally Medix is to issue 12,000,000 shares of preferred stock subject to certain adjustments and additional contingent payment consideration of up to \$4,000,000 in common stock for future performance criteria being satisfied. The preliminary purchase price allocation below does not include any contingent consideration or transaction fees and expenses. The value of the preferred stock is based upon the 12,000,000 initial shares being issued which are convertible into one share of Medix common stock, using a common share price of \$.60 for Medix common stock. The purchase price allocation is as follows:

Consideration:	
Cash	\$ 100,000
Preferred Stock	7,200,000

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Assumed Liabilities	2,175,000

Total consideration	\$9,475,000

Purchase Price Allocation:	
Current Assets	\$ 28,500
Fixed Assets	350,000
Customer Contracts	162,000
Purchased Technology	3,500,000
Goodwill	5,434,500

Total assets acquired	\$9,475,000

The acquired intangible assets are amortized over their estimated useful lives of five years for Customer Contracts and four years for Purchased Technology. The purchase price allocation is based on preliminary information obtained from an outside valuation being performed and is subject to finalization and adjustment.

4. To adjust the balance of capitalized software development costs abandoned at September 30, 2002, and recorded the related impairment balances for the nine-month period ended September 30, 2002 and the year ended December 31, 2001.
5. To remove the historical depreciation and amortization and record the depreciation
6. and amortization for the assets acquired based on the purchase price allocation described in note 3 above.
7. To remove the gain from PocketScript Chapter 11 bankruptcy reorganization.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following is a list of the estimated expenses to be incurred by the Registrant in connection with the issuance and distribution of the shares being registered hereby.

Securities and Exchange Commission registration fee.	\$1,229
Printing and engraving expenses.....	1,000
Legal fees and expenses.....	15,000
Accounting fees and expenses.....	50,000
Transfer Agent and Trustee fees and expenses.....	1,000
Miscellaneous.....	20,000
Total.....	\$88,229
	=====

Item 15. Indemnification of Directors and Officers.

See "INDEMNIFICATION OF OFFICERS AND DIRECTORS" in the prospectus.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Item 16. Exhibits.

Exhibit Number	Description
5.1*	Opinion of Lowenstein Sandler PC
23.1	Consent of Ehrhardt Keefe Steiner & Hottman P.C.
23.2*	Consent of Lowenstein Sandler PC (included in Exhibit 5.1)
24.1	Power of Attorney (included on signature page)

* To be filed by amendment.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(a) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933,

(b) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement,

(c) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that clauses (a) and (b) do not apply if the information required to be included in a post-effective amendment by such clauses is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

(4) That, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 15 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on February 11, 2003.

MEDIX RESOURCES, INC.

Edgar Filing: MEDIX RESOURCES INC - Form S-3

By: /s/Darryl R. Cohen

 Darryl R. Cohen
 President and CEO

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below in so signing also makes, constitutes and appoints Darryl R. Cohen and Mark W. Lerner, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign and file Registration Statement(s) and any and all pre- or post-effective amendments to such Registration Statement(s), with all exhibits thereto and hereto, and other documents with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/Darryl R. Cohen ----- Darryl R. Cohen	President, Chief Executive Officer and Director (Principal Executive Officer)	February 11, 2003
/s/Mark W. Lerner ----- Mark W. Lerner	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	February 11, 2003
/s/Patrick W. Jeffries ----- Patrick W. Jeffries	Director	February 11, 2003
/s/Samuel H. Havens ----- Samuel H. Havens	Director	February 11, 2003
/s/John T. Lane ----- John T. Lane	Director	February 12, 2003
/s/Joan E. Herman ----- Joan E. Herman	Director	February 11, 2003

Edgar Filing: MEDIX RESOURCES INC - Form S-3

Director

February __, 2003

Guy L. Scalzi

EXHIBIT INDEX

Exhibit Number	Description
5.1*	Opinion of Lowenstein Sandler PC
23.1	Consent of Ehrhardt Keefe Steiner & Hottman P.C.
23.2*	Consent of Lowenstein Sandler PC (included in Exhibit 5.1)
24.1	Power of Attorney (Included on signature page)

* To be filed by amendment.