

MEDIX RESOURCES INC  
Form DEF 14A  
April 11, 2003

**SCHEDULE 14A INFORMATION**

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

**[Amendment No. 1]**

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material under Rule 14a-12

**Medix Resources, Inc.**

**(Name of Registrant as Specified in Its Charter)**

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[X] No fee required.

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- 2) Aggregate number of securities to which transaction applies;
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-1. (Set forth the amount on which the filing fee is calculated and state how it was determined):
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- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.: ^
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4) Date Filed:

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

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON MAY 21, 2003**

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Medix Resources, Inc., a Colorado corporation, will be held at 420 Lexington Avenue, Suite 1830 New York, New York 10170, on Wednesday, May 21, 2003 at 10:00 a.m., local time, for the following purposes:

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1. To vote on a proposal to amend Medix Resources' articles of incorporation, increasing the number of authorized shares of common stock from 125,000,000 to 400,000,000.
2. To vote on a proposal to reincorporate Medix Resources in Delaware.
3. To vote on a proposal to approve Medix Resources' 2003 Stock Incentive Plan.
4. To transact such other business as may properly come before the special meeting or any adjournments(s) thereof.

Medix Resources' board of directors has fixed the close of business on March 24, 2003, as the record date for determining the shareholders entitled to receive notice of, and to vote at, the special meeting. A complete list of shareholders entitled to vote at the special meeting will be available, upon written demand, for inspection during normal business hours by any shareholder of Medix Resources prior to the special meeting, for a proper purpose, at Medix Resources' offices located at the address set forth above. Only shareholders of record on the record date are entitled to notice of, and to vote at, the special meeting and any and all adjournments or postponements thereof.

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

By Order of the Board of Directors

Mark W. Lerner  
*Secretary*

New York, New York

April 4, 2003

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**MEDIX RESOURCES, INC.**

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

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**PROXY STATEMENT**

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**SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON MAY 21, 2003**

**AT 420 LEXINGTON AVENUE, SUITE 1830, NEW YORK, NEW YORK**

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**A WARNING ABOUT FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this document regarding our plans. These forward-looking statements are subject to risks and uncertainties, and there can be no assurance that such statements will prove to be correct. When we use words such as "believes," "expects," "anticipates," "estimates", "plans", "intends", "objectives", "goals", "aims" or "projects" or similar words or expressions, we are making forward-looking statements.

Actual results or performance could differ materially from those expressed in our forward-looking statements. We have described the risks and uncertainties that affect our business in our Annual report on Form 10-K for the year ended December 31, 2002.

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

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

This Proxy Statement and the enclosed Proxy Card are first being mailed to shareholders beginning on or about April 14, 2003.

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

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### SUMMARY

*This brief summary highlights selected information regarding our proposed amendment to our articles of incorporation, our reincorporation proposal and our 2003 Stock Incentive Plan, described more fully elsewhere in this proxy statement. It does not contain all of the information that is important to you. You should carefully read this entire proxy statement, the annexes and the other documents to which this proxy statement refers in order to fully understand our proposed amendment to our articles of incorporation, our reincorporation proposal and our 2003 Stock Incentive Plan. See "Where You Can Find More Information" on page 33.*

#### The Parties to the Reincorporation Merger

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

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

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

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

#### The Special Meeting

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The special meeting of our shareholders will be held at 420 Lexington Avenue, Suite 1830, New York, New York 10170, on Wednesday, May 21, 2003 at 10:00 a.m., local time. At our special meeting, we will ask our shareholders to approve our proposed amendment to our articles of incorporation, our reincorporation agreement and our 2003 Stock Incentive Plan.

The close of business on March 24, 2003 is the record date for determining which holders of our stock are entitled to vote at our special meeting. At the record date, there were 81,017,065 shares of our common stock entitled to vote at the special meeting. One third of the shares outstanding on the record date will constitute a quorum.

### Vote Required

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

### Share Ownership of Management and Others

As of March 24, 2003, the current directors and executive officers of Medix Resources beneficially owned 6,427,695 shares of our common stock, representing approximately 7.4% of the voting stock outstanding on the record date. Of such 6,427,695 shares, 1,637,500 shares are issuable upon the exercise of warrants and 3,394,375 shares are issuable upon the exercise of stock options.

### Recommendations of the Board of Directors

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

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

### Regulatory Approvals

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

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

We will not effect the reincorporation in Delaware unless and until we have arranged for all of our outstanding shares to retain their listed status once we reincorporate in Delaware.

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If our shareholders approve the proposed amendment to our articles of incorporation, such amendment must be filed with the Secretary of State of the State of Colorado. If our shareholders approve the proposed reincorporation merger, certificates of merger must be filed with the Secretary of State of the State of Colorado and of the State of Delaware. Such filings must comply with detailed statutory requirements that are routine in merger transactions.

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### **Market Price Data**

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

	High (\$)	Low (\$)
<b>Year Ended December 31, 2001:</b>		
Quarter Ended March 31.....	\$ 1.56	\$ 0.58
Quarter Ended June 30.....	\$ 1.40	\$ 0.45
Quarter Ended September 30.....	\$ 1.20	\$ 0.54
Quarter Ended December 31.....	\$ 1.00	\$ 0.53
<b>Year Ended December 31, 2002:</b>		
Quarter Ended March 31.....	\$ 0.91	\$ 0.47
Quarter Ended June 30.....	\$ 0.62	\$ 0.27
Quarter Ended September 30.....	\$ 0.62	\$ 0.31
Quarter Ended December 31.....	\$ 0.94	\$ 0.48
<b>Year Ending December 31, 2003:</b>		
Quarter Ended March 31	\$ 0.70	\$ 0.29
Quarter Ending June 30 (through April 2, 2003.....	\$ 0.29	\$ 0.27

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### **Dividend Policy**

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

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### **Summary Historical Financial Information**

Medix Resources' Summary Historical Financial Information. We have derived the summary historical financial information of Medix Resources set forth below from our year-end financial statements filed with the SEC. The selected financial data provided below is not necessarily indicative of our future results of operations or financial performance. See "Where You Can Find More Information."

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

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

The following supplemental information is related to software development expenses.

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

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

### The Reincorporation Merger

#### General

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

#### Structure

In order to reincorporate in Delaware, we have created a new wholly-owned subsidiary that we have incorporated in Delaware. Under the terms of the reincorporation merger, upon receipt of shareholder approval, Medix Resources



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will merge into this subsidiary and each share of Medix Resources stock will become one share of the stock of our Delaware subsidiary. Your ownership interest in the Delaware subsidiary immediately after the reincorporation merger will be identical to your ownership interest in Medix Resources immediately prior to the merger.

### Comparison of Shareholder Rights

As a shareholder of Medix Resources, your rights will be governed by the Delaware statute governing corporations and by the certificate of incorporation and by-laws of our Delaware subsidiary. We have summarized the material differences between your rights as a shareholder of Medix Resources and the rights you will have as a shareholder of our Delaware subsidiary under "Approval of Reincorporation in the State of Delaware - Comparison of the Rights of Holders of Medix-COL Common Stock and Medix-DEL Common Stock". You should also review the following annexes for information about our proposed reincorporation:

Annex A - Reincorporation Agreement

Annex B - Certificate of Incorporation (Delaware subsidiary)

Annex C - By-Laws (Delaware subsidiary)

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## THE SPECIAL MEETING

### General

The Medix Resources' Board of Directors is soliciting your signature on the enclosed proxy card for use at the Medix Resources special meeting of shareholders to be held on May 21, 2003, at 10:00 a.m., local time, or at any adjournment(s) thereof, for the purposes that we have described in this proxy statement and in the notice of special meeting of shareholders that we have provided to you. The special meeting will be held at 420 Lexington Avenue, Suite 1830, New York, New York 10170. We first mailed these proxy solicitation materials on or about April 14, 2003 to all shareholders listed in our shareholder records as of the record date for the special meeting. We will bear the cost of this solicitation.

### Record Date and Quorum

Shareholders of record at the close of business on March 24, 2003 are entitled to vote at the special meeting. We refer to that date as the record date. On the record date, 81,017,065 shares of our common stock, \$0.001 par value per share, were outstanding. Shareholders holding at least one-third of all shares of our common stock, represented in person or by proxy, will constitute a quorum for the special meeting. If we have a quorum, we will be able to transact business at the special meeting.

### Revocability of Proxies

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

- o deliver to us a written notice of revocation prior to the time that the submitted proxy is voted;
- o deliver a duly executed proxy card bearing a later date than the other proxy card; or

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- o attend the special meeting and vote in person.

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

### Voting and Solicitation

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

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

### Matters to be Brought Before the Special Meeting

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

### Principal Shareholders

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 24, 2003 by (i) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock (ii) each director, named executive officer and (iii) all executive officers and directors as a group. On such date, we had 81,177,065 shares of common stock outstanding. Shares not outstanding but deemed beneficially owned by virtue of the right of any individual to acquire shares within 60 days are treated as outstanding only when determining the amount and percentage of common

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stock owned by such individual. Each person has sole voting and investment power with respect to the shares shown, except as noted.

Name	Number of Shares	Percentage of Outstanding Shares (1)	Number of Shares Included in the Second Column Representing Shares Issuable upon Exercise or Conversion of Warrants, Options or Convertible Securities
<b>Directors</b>			
Darryl Cohen	2,928,320 (2)	3.3	2,095,000
Patrick Jeffries	1,755,000	2.0	1,317,500
Samuel Havens	290,000	*	265,000
Guy Scalzi	240,000	*	240,000
Joan Herman (3)	0	0	0
<b>Other Executive Officers</b>			
Louis Hyman	455,000	*	405,000
Brian Ellacott	425,000	*	400,000
Mark Lerner	184,375	*	159,375
James Gamble	150,000	*	150,000
All Directors and Executive Officers as a Group (10 persons)	6,427,695	7.4	5,031,875

\* Represents less than one percent.

(1) As of March 24, 3003, there were 81,177,065 shares of common stock outstanding, including 160,000 shares issuable upon conversion of our outstanding preferred stock.

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

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

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### SUMMARY INFORMATION ABOUT MEDIX RESOURCES

The following description summarizes our current business and describes certain recent developments impacting Medix Resources. For additional

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information regarding Medix Resources, see "Where You Can Find More Information".

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

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

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

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

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

We have been in business since 1988. We decided in 2000 to dispose of the temporary healthcare staffing business to focus on the healthcare software and

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connectivity solutions industry. The development of technology and the future marketing of connectivity solutions is our sole business at this time. Our net operating loss is due to this transition and the ongoing efforts to build a commercially viable business in point-of-care automation. We currently do not have any active users of our products.

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

### Recent Developments

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

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

## PROPOSAL ONE

### **AMENDMENT OF OUR ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 125,000,000 SHARES TO 400,000,000 SHARES**

#### General

Our Board of Directors has declared advisable an amendment to the Medix Resources articles of incorporation to increase the aggregate number of authorized shares of common stock from 125,000,000 shares to 400,000,000 shares (the "Amendment") and has directed that the Amendment be submitted to the shareholders at the special meeting. The articles of incorporation presently authorize the issuance of 125,000,000 shares of common stock and 2,500,000 shares of preferred stock. No change is proposed in the number of authorized shares of preferred stock.

#### Proposed Amendment

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

"Section 1. Classes and Shares Authorized. The total number of shares of Common Stock that the Corporation shall have authority to issue is Four Hundred Million (400,000,000) shares of Common Stock, \$0.001 par value per share. The total number of shares of Preferred Stock that the Corporation

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shall have authority to issue is Two Million Five Hundred Thousand (2,500,000) shares of Preferred Stock, \$1.00 par value per share."

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

Of our 125,000,000 authorized shares of common stock, 81,177,065 shares were issued and outstanding as of March 24, 2003. At that date, we had also reserved for issuance a total of 36,517,722 additional shares of common stock for issuance as follows:

- o 10,430,000 shares are issuable upon the exercise of vested and unvested stock options;
- o 25,927,722 shares are issuable upon the exercise of outstanding warrants; and
- o 160,000 shares are issuable upon conversion of outstanding shares of preferred stock.

In addition, we are currently proposing to adopt a new Stock Incentive Plan, which, if approved by our shareholders, will require us to reserve an additional 10,000,000 shares of common stock.

In addition to satisfying our current commitments as described above, we will be required to raise additional capital to finance our operations and to finance the development of our software products. The purpose of the proposed Amendment includes providing us with greater flexibility in financing these cash requirements, by providing us with adequate authorized common stock to commit in future financings. Your Board of Directors has determined that we soon will be restricted in our financing options due to the limited amount of authorized but unissued shares of common stock provided for in our articles of incorporation. We are currently funding operations principally by issuing common stock and warrants from time to time in private transactions at a discount to market. If you do not approve of the increase in the number of shares of common stock that we are authorized to issue, we will be unable to raise additional capital to fund our operations. We have no current plans, proposals or arrangements, written or otherwise, to issue any of the shares of common stock that are to be authorized by the Amendment. However, we anticipate that during 2003 in order for us to raise sufficient capital in private placement transaction to fund our operations, we will need to issue additional shares of our common shares and/or securities exercisable for or convertible into shares of our common stock.

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On April 2, 2003, the last trading date prior to the day on which your board approved the Amendment (subject to shareholder approval), the closing sale price of the common stock on the American Stock Exchange was \$0.27 per share.

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

Our shareholders will have no appraisal rights under Colorado law with respect to the Amendment or any equity financing that Medix Resources may undertake after its adoption. In addition, shareholders do not have any preemptive rights to participate in any future issuance of common stock, and therefore will suffer dilution of ownership upon such issuance. The issuance of additional shares could also have the effect of diluting the earnings per share

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and book value of existing shares of our common stock. Although the authorization of the additional shares is not intended as an anti-takeover device, the additional shares could be used to dilute the stock ownership of persons seeking to gain control of the Company, which could preclude existing shareholders from taking advantage of such a situation.

### Vote Required

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

## **PROPOSAL TWO**

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

#### General

Your board has recommended, and at the special meeting the shareholders will be asked to authorize, the change of Medix Resources' state of incorporation from Colorado to Delaware. This transaction will not result in any change in the business, management, assets, liabilities or net worth of Medix Resources. Reincorporation in Delaware will allow us to take advantage of certain provisions of the corporate laws of Delaware. The purposes and effects of the proposed change are summarized below.

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

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

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

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

### Principal Reasons for Changing Our State of Incorporation

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

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

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

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

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

#### ***Removal of Directors***

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



elect the director.

**Colorado**

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

**Delaware**

A director of a corporation that does not have a staggered or classified board of directors or cumulative voting may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors. In the case of a Delaware corporation having cumulative voting, if less than the entire board is to be removed, a director may not be removed without cause if the number of shares voted against such removal would be sufficient to elect the director under cumulative voting. A director of a corporation with a staggered or classified board of directors may be removed only for cause, unless the certificate of incorporation otherwise provides. The Certificate of Incorporation of Medix-DEL provides for a staggered or classified board of directors, but not for cumulative voting. The Certificate of Incorporation of Medix-DEL provides that the staggered board provisions will apply regardless of the size of the Board.

**Staggered or Classified Board of Directors**

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

**Colorado**

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

**Delaware**

Delaware law permits, but does not require, a staggered board of directors, pursuant to which the directors can be divided into as many as three classes with staggered terms of office, with only one class of directors standing for election each year. The Medix-DEL Certificate of Incorporation provides that the staggered board provisions will apply regardless of the size of the board.

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

Delaware and Colorado have similar laws respecting indemnification by a corporation of its officers, directors, employees and other agents. The laws of

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

### **Colorado**

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

Colorado law generally permits indemnification of director liability, including expenses actually and reasonably incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a majority vote of a disinterested quorum of the directors, by independent legal counsel or by a majority vote of a quorum of the shareholders that the person seeking indemnification acted in good faith and, in the case of conduct in an official capacity, in a manner he or she reasonably believed was in the best interests of the corporation or a benefit plan (if acting in a capacity with respect to such a plan). In other cases, the director is entitled to indemnification if his or her conduct was at least not opposed to the corporation's best interests. In a criminal proceeding, the director is entitled to indemnification if he or she had no reasonable cause to believe the conduct was unlawful.

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

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

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

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

The Bylaws of Medix-COL provide that Medix-COL will indemnify any person

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

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

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

### **Delaware**

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

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

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

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

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

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

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

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

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

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

### ***Inspection of Shareholder List***

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

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

#### ***Colorado***

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

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fraud in the transaction, the determination of the board is conclusive insofar as the adequacy of consideration relates to whether the shares are validly issued, fully paid, and nonassessable.

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

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

### ***Delaware***

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

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

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

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

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

#### ***Colorado***

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

#### ***Delaware***

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

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

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

### **Colorado**

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

### **Delaware**

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

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

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

### **Colorado**

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

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

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

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### **Delaware**

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

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

The certificate of incorporation of Medix-DEL provides that if Medix-DEL sells all or substantially all of its assets to, merges or consolidates with, or exchanges all of its shares with, an unaffiliated third-party that is a beneficial owner of more than 10% of Medix-DEL's outstanding shares of capital stock, the holders of at least two-thirds of Medix-DEL's outstanding capital stock would need to approve the transaction. Medix-DEL did not include in its certificate of incorporation a provision comparable to the provision in Medix-COL's articles of incorporation permitting approval of such a transaction by the holders of a majority of the outstanding capital stock if a majority of directors who were so-called "continuing directors" (that is, directors prior to the transaction in which the unaffiliated third-party became a beneficial owner of more than 10% of Medix-DEL's outstanding shares of capital stock or directors elected by a majority of Medix-DEL's directors who were in office at the time that the unaffiliated third-party became a beneficial owner of more than 10% of Medix-DEL's outstanding shares of capital stock) approved the transaction because of case law in Delaware with respect to the lack of enforceability of continuing director provisions in a related context. Instead, the certificate of incorporation of Medix-DEL permits approval of such a transaction by the holders of a majority of the outstanding capital stock if a majority of the entire board approves the transaction.

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

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

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

For purposes of Section 203, the term "business combination" is defined broadly to include mergers with or caused by the interested stockholder; sales or other dispositions to the interested stockholder (except proportionately with the corporation's other stockholders) of assets of the corporation or a direct or indirect majority-owned subsidiary equal in aggregate market value to ten percent or more of the aggregate market value of either the corporation's

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consolidated assets or all of its outstanding stock; the issuance or transfer by the corporation or a direct or indirect majority-owned subsidiary of stock of the corporation or such subsidiary to the interested stockholder (except for certain transfers in a conversion or exchange or a pro rata distribution or certain other transactions, none of which increase the interested stockholder's proportionate ownership of any class or series of the corporation's or such subsidiary's stock or of the corporation's voting stock); or receipt by the interested stockholder (except proportionately as a stockholder), directly or indirectly, of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or a subsidiary.

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

- o prior to the date on which such stockholder becomes an interested stockholder, the board of directors approves either the business combination or the transaction that resulted in the person or entity becoming an interested stockholder;
- o upon consummation of the transaction that made him or her an interested stockholder, the interested stockholder owns at least 85% of the corporation's voting stock outstanding at the time the transaction commenced (excluding from the 85% calculation shares owned by directors who are also officers of the target corporation and shares held by employee stock plans that do not give employee participants the right to decide confidentially whether to accept a tender or exchange offer); or
- o on or after the date such person or entity becomes an interested stockholder, the board approves the business combination and it is also approved at a stockholder meeting by 66-2/3 % of the outstanding voting stock not owned by the interested stockholder.

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

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

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

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

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

Under both Delaware and Colorado law, contracts or transactions in which one or more of a corporation's directors has an interest are generally not void or voidable because of such interest, provided that certain conditions, such as



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obtaining the required approval and fulfilling the requirements of good faith and full disclosure, are met. With certain exceptions, the conditions are similar under Delaware and Colorado law. To authorize or ratify the transaction, under Colorado law (a) either the shareholders or the disinterested members of the board of directors must approve any such contract or transaction in good faith after full disclosure of the material facts, or (b) the contract or transaction must have been fair as to the corporation. The same requirements apply under Delaware law, except that the fairness requirement is tested as of the time the transaction is authorized, ratified or approved by the board, the shareholders or a committee of the board. If board approval is sought, the contract or transaction must be approved by a majority vote of the disinterested directors, though less than a majority of a quorum, except that interested directors may be counted for purposes of establishing a quorum.

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

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

#### ***Colorado***

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

#### ***Delaware***

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

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

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

#### ***Colorado***

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

#### ***Delaware***

Delaware does not have a similar bonding requirement.

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

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

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determined exclusive of any element of value arising from the accomplishment or expectation of the transaction.

### **Colorado**

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

### **Delaware**

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

### **Dissolution**

#### **Colorado**

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

#### **Delaware**

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

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majority of the outstanding shares entitled to vote, voting at a meeting at which a quorum is present, would be sufficient to approve a dissolution of Medix-DEL that had previously been approved by the board of directors.

### Vote Required

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

## **PROPOSAL THREE**

### **THE 2003 STOCK INCENTIVE PLAN**

On February 10, 2003, our board of directors adopted, subject to shareholder approval, the Medix Resources, Inc. 2003 Stock Incentive Plan (the "Stock Incentive Plan"). The purpose of the Stock Incentive Plan is to enable us to attract and retain qualified directors, officers, employees and consultants, and to provide these persons with an additional incentive to contribute to our success. The material aspects of the Stock Incentive Plan are summarized below. We have attached a copy of the Stock Incentive Plan to this proxy statement as Annex D. Shareholders are urged to read the plan in its entirety.

### Administration

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

### Structure

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

### Eligibility

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

### Types of Options

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

### Other Awards

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

### Exercise Period

Subject to modification by the Program Administrator, options granted to participants are generally exercisable in 25% annual installments beginning on the first anniversary of the date of grant and continuing for each of the next three anniversaries thereafter. Unless previously terminated by our board of directors, the Stock Incentive Plan will terminate on February 10, 2013. Such termination will have no impact upon options granted prior to the termination date. The maximum term of all options granted under the Stock Incentive Plan is 10 years, provided, however, that any incentive stock option granted to a person who is the beneficial owner of more than 10% of the combined voting power of the Company's capital stock will cease to be exercisable five years after the date such option is granted.

### Exercise Price

Options granted under the Stock Incentive Plan will have an exercise or payment price as established by the Program Administrator, provided that the exercise price of incentive stock options may not be less than the fair market value of the underlying shares on the date of grant. If incentive stock options are granted to a person who is the beneficial owner of more than 10% of the combined voting power of the Company's capital stock, such options shall be granted at a price of not less than 110% of the fair market value of the shares covered by the option. If on the date of grant the common stock is listed on a stock exchange (including the American Stock Exchange) or is quoted on the automated quotation system of Nasdaq, the fair market value will be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) on such date. If no such prices are available, the fair market value shall be determined in good faith by the Program Administrator in accordance with generally accepted valuation principles and such other factors as the Program Administrator deems relevant. On April 2, 2003, the closing sale price of a share of our common stock on the American Stock Exchange was \$0.27.

### Payment

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

Transferability

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

Termination of Employment

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

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

Amendment and Termination

The Stock Incentive Plan may be amended or terminated at any time by our board of directors, except that no amendment may be made without shareholder approval if such approval is required by applicable laws or regulations, and no amendment or revision may alter or impair an outstanding option without the consent of the holder thereof. The Stock Incentive Plan will terminate on February 10, 2013, unless earlier terminated by our board of directors. No options may be granted after termination, although such termination will not affect the status of any option outstanding on the date of termination.

Shares Subject to the Plan

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

Adjustments

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

Change In Control

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

- o the consummation of any merger of Medix Resources in which Medix

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Resources is not the surviving corporation (expressly excluding from the definition of a change in control a merger in which shareholders of Medix Resources before the transaction continue to own at least one half of the outstanding voting common stock);

- o the consummation of any sale, lease, exchange or other transfer of all or substantially all of the assets of the Company;
- o approval by our shareholders of a plan of liquidation or dissolution of Medix Resources; and
- o any action pursuant to which any person (as defined in Section 13(d) of the Securities Exchange Act of 1934) shall become the beneficial owner of more than 50% of our outstanding voting securities.

### Additional Limitation

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

### Federal Income Tax Consequences

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

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

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

For regular income tax purposes, an optionee will not recognize any income upon the exercise of incentive stock options. However, as noted below, the excess of the fair market value of the stock on the date of exercise over the exercise price will be taken into account in determining whether the "alternative minimum tax" will apply for the year of exercise. Moreover, under recently proposed regulations, certain Federal employment taxes may apply upon the exercise of incentive stock options after January 1, 2003. If the shares acquired upon exercise of incentive stock options are held for at least two years from the date of the option grant and for at least one year after the shares are acquired, any gain or loss upon the sale of such shares will be

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treated as long-term capital gain or loss, generally measured by the difference between the sales price of the stock and the exercise price. In general, any disposition of the shares during either of those two-year and one-year holding periods is considered a "disqualifying disposition". In the event of a disqualifying disposition, an optionee will recognize compensation income in the year of disposition in an amount equal to the lesser of (i) the fair market value of the stock on the date of exercise minus the exercise price or (ii) the amount realized on disposition minus the exercise price. The remainder of the gain will be treated as long-term or short-term capital gain, depending upon whether the stock has been held for more than one year. If an optionee makes a disqualifying disposition, we will generally be entitled to a tax deduction equal to the amount of ordinary income recognized by the optionee. In general, if an optionee in exercising an option tenders shares of our common stock in partial or full payment of the option price, no gain or loss will be recognized on the tender. However, if the tendered shares were previously acquired upon the exercise of an incentive stock option and the tender is within two years from the date the option was granted or one year after the date of exercise of the other option, the tender will be a disqualifying disposition of the tendered shares.

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

### Other Medix Resources Option Plans

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

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

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

Under the terms of the 1999 Plan, all officers and employees of our company are eligible for ISOs. Our company determines in its discretion, which persons will receive ISOs, the applicable exercise price, vesting provisions and the exercise term thereof. The terms and conditions of option grants differ from optionee to optionee and are set forth in the optionees' individual stock option agreement. Such options generally vest over a period of one or more years and expire after up to ten years. In order to qualify for certain preferential treatment under the Code, ISOs must satisfy certain statutory requirements. Options that fail to satisfy those requirements will be deemed NQOs and will not receive preferential treatment under the Code. Upon exercise, shares will be issued upon payment of the exercise price in cash, by delivery of shares of our common stock, by delivery of options or a combination of any of these methods. At our 2001 Annual Meeting, our shareholders approved an increase of 3,000,000 shares to 13,000,000 as the amount of total shares of our common stock reserved for issuance under the 1999 Plan.

As of March 24, 2003, we had issued 6,197,060 shares of our common stock upon exercise of options to current or former employees and directors, and had 10,430,000 shares covered by outstanding options held by current or former employees and directors, with exercise prices ranging from \$.25 to \$4.97. Such options have been granted under the 1994 Plan, the 1996 Plan, the 1999 Plan and under options granted outside of our stock option plans.

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under our 1994 Plan, 1996 Plan and 1999 Plan and under stock options granted outside of these plans. These plans were our only equity compensation plans in existence as of March 24, 2003.

Plan Category	(a) Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Shareholders.....	9,430,000	\$1.10	595,000
Equity Compensation Plans Not Approved by Shareholders.....	10,318,972	\$0.49	0
Total	19,748,972	\$0.78	595,000



Vote Required

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

**EXPERTS**

The consolidated financial statements of Medix Resources as of December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002 appearing in our Annual report on Form 10-K for the year ended December 31, 2002 have been audited by Ehrhardt Keefe Steiner & Hottman P.C., independent auditors, as stated in their report appearing therein, and have been incorporated herein by reference in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**OTHER MATTERS**

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

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

**WHERE YOU CAN FIND MORE INFORMATION**

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

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

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

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

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

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

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York, New York 10006.

By Order of the Board of Directors

Mark Lerner, Secretary

April 4, 2003

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**MEDIX RESOURCES, INC.**

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

**MEDIX RESOURCES, INC.**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholders

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Medix Resources, Inc.  
New York, NY

We have audited the accompanying consolidated balance sheets of Medix Resources, Inc. and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medix Resources, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

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

/s/Ehrhardt Keefe Steiner & Hottman PC  
Ehrhardt Keefe Steiner & Hottman PC

February 14, 2003  
Denver, Colorado

## MEDIX RESOURCES, INC.

### Consolidated Balance Sheets

	December 31,	
	2002	2001
Assets		
Current assets		
Cash .....	\$ 1,369,000	\$ 8,000
Stock subscription receivable .....	76,000	--
Prepaid expenses and other .....	478,000	344,000
Total current assets .....	1,923,000	352,000

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Non-current assets		
Software development costs, net .....	--	649,000
Property and equipment, net .....	265,000	365,000
Goodwill, net .....	1,605,000	1,735,000
	-----	-----
Total non-current assets .....	1,870,000	2,749,000
	-----	-----
Total assets .....	\$ 3,793,000	\$ 3,101,000
	=====	-----
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable .....	\$ 175,000	\$ 158,000
Accounts payable .....	961,000	851,000
Accounts payable - related parties .....	130,000	166,000
Accrued expenses .....	736,000	581,000
Deferred revenue .....	173,000	--
	-----	-----
Total current liabilities .....	2,175,000	1,756,000
	-----	-----
Commitments and contingencies		
Stockholders' equity		
1996 Preferred stock, 10% cumulative convertible, \$1 par value, 488 shares authorized, 155 shares issued, 1 share outstanding, liquidation preference \$17,000 .....	--	--
1997 convertible preferred stock, \$1 par value, 300 shares authorized, 167.15 shares issued, zero shares outstanding .....	--	--
1999 Series A convertible preferred stock, \$1 par value, 300 shares authorized, 300 shares issued, zero shares outstanding .....	--	--
1999 Series B convertible preferred stock, \$1 par value, 2,000 shares authorized, 1,832 shares issued, zero and 50 shares outstanding, liquidation preference \$0 and \$50,000 .....	--	--
1999 Series C convertible stock, \$1 par value, 2,000 shares authorized, 1,995 shares issued, 75 and 375 shares outstanding, liquidation preference \$75,000 and \$375,000 .....	--	--
Common stock, \$.001 par value, 125,000,000 shares authorized, 77,160,817 and 56,651,407 issued and outstanding, respectively .....	77,000	56,000
Dividends payable with common stock .....	9,000	7,000
Additional paid-in capital .....	44,605,000	35,341,000
Accumulated deficit .....	(43,073,000)	(34,059,000)
	-----	-----
Total stockholders' equity .....	1,618,000	1,345,000
	-----	-----
Total liabilities and stockholders' equity .....	\$ 3,793,000	\$ 3,101,000
	=====	=====

See notes to consolidated financial statements.

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MEDIX RESOURCES, INC.

Consolidated Statements of Operations

	For the Years Ended December 31,		
	2002	2001	2000
Revenues .....	\$ --	\$ 29,000	\$ 326,000
Costs and expenses			
Software and technology costs .....	2,366,000	1,288,000	865,000
Selling, general and administrative expenses .....	5,912,000	5,746,000	5,925,000
Costs associated with terminated acquisition .....	309,000	--	--
Impairment of intangible assets .....	--	1,111,000	--
Total operating expenses .....	8,587,000	8,145,000	6,790,000
Other income (expense)			
Other income .....	22,000	12,000	163,000
Interest expense .....	(76,000)	(104,000)	(43,000)
Loss on disposal of assets .....	(69,000)	--	--
Financing costs .....	(304,000)	(2,428,000)	--
Total other (expense) income .....	(427,000)	(2,520,000)	120,000
Loss from continuing operations .....	(9,014,000)	(10,636,000)	(6,344,000)
Discontinued operations .....	--	--	929,000
Net loss .....	(9,014,000)	(10,636,000)	(5,415,000)
Preferred stock dividends .....	--	--	(1,000)
Net loss available to common stockholders	\$ (9,014,000)	\$ (10,636,000)	\$ (5,416,000)
Basic and diluted weighted average common shares outstanding .....	63,417,283	50,740,356	41,445,345
Basic and diluted loss per common share - continuing operations .....	\$ (0.14)	\$ (0.21)	\$ (0.15)
Basic and diluted income (loss) per common share - discontinued operations .	--	--	0.02
Basic and diluted loss per common share .	\$ (0.14)	\$ (0.21)	\$ (0.13)

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(Continued on following page.)

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Operations**

(Continued from previous page.)

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

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

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

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

	1996 Preferred Stock		Preferred Stock 1997	
	Shares	Amount	Shares	Amount
Balance - December 31, 1999	1.00	\$ --	5.00	\$ --
Conversion of note payable into common stock .....	--	--	--	--

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Warrants issued in legal settlement .....	--	--	--	--
Common stock issued in connection with ADC merger .....	--	--	--	--
Preferred stock conversions .....	--	--	(5.00)	--
Exercise of warrants .....	--	--	--	--
Exercise of stock options .....	--	--	--	--
Stock options and warrants issued for services .....	--	--	--	--
Cancellation of shares issued in error .....	--	--	--	--
Net loss .....	--	--	--	--
Dividends declared .....	--	--	--	--
	-----	-----	-----	-----
Balance - December 31, 2000	1.00	--	--	--
Exercise of options and warrants .....	--	--	--	--
Warrants and in the money conversion feature issued with convertible note payable .....	--	--	--	--
Stock issued on conversion of note payable .....	--	--	--	--
Stock and warrants issued in private placement .....	--	--	--	--
Preferred stock conversions .....	--	--	--	--
Stock issued with equity line .....	--	--	--	--
Stock and warrants issued in legal settlement .....	--	--	--	--
Stock options and warrants issued for services .....	--	--	--	--
Net loss .....	--	--	--	--

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Dividends declared .....	--	--	--	--
Balance - December 31, 2001	1.00	--	--	--
Extension of warrant exercise period .....	--	--	--	--
Exercise of options and warrants .....	--	--	--	--
In the money conversion feature issued with convertible note payable .....	--	--	--	--
Warrants issued in satisfaction of liability .....	--	--	--	--
Stock issued on conversion of note payable .....	--	--	--	--
Stock and warrants issued in private placements, net of offering expenses of	--	--	--	--
Preferred stock conversions .....	--	--	--	--
Stock issued with equity line, net of offering costs of	--	--	--	--
Stock options and warrants issued for consulting services .....	--	--	--	--
Stock options issued to officer for financial support .....	--	--	--	--
Fair value of option vesting acceleration .....	--	--	--	--
Warrants issued to officer for cash advance made .....	--	--	--	--
Net loss .....	--	--	--	--
Dividends declared .....	--	--	--	--
Balance - December 31, 2002	1.00	\$ --	--	\$ --

See notes to consolidated financial statements.



## MEDIX RESOURCES, INC.

## Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities			
Net loss .....	\$ (9,014,000)	\$ (10,636,000)	\$ (5,415,000)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization .....	343,000	488,000	426,000
Compensation expense relating to stock options .....	94,000	--	--
Loss on disposal of assets .....	69,000	--	--
Write-off of capitalized software project costs .....	1,066,000	--	--
Impairment of intangible assets .....	--	1,111,000	--
Financing costs .....	304,000	2,428,000	--
Common stock, options and warrants issued for settlements .....	--	149,000	--
Common stock, options and warrants issued for services .....	260,000	145,000	376,000
Warrants issued associated with convertible debt .....	--	--	--
Gain on sale of staffing business ...	--	--	(1,102,000)
Change in net assets of discontinued operations .....	--	--	857,000
Changes in assets and liabilities			
Accounts receivable, net .....	--	49,000	(29,000)
Prepaid expenses and other .....	238,000	(119,000)	(49,000)
Accounts payable and accrued liabilities .....	998,000	988,000	(237,000)
Deferred revenue .....	173,000	--	--
	3,545,000	5,239,000	242,000
Net cash used in operating activities .....	(5,469,000)	(5,397,000)	(5,173,000)
Cash flows from investing activities			
Proceeds from sale of divisions .....	--	--	500,000
Software development costs incurred ..	(633,000)	(434,000)	(495,000)
Purchase of property and equipment ...	(96,000)	(70,000)	(400,000)
Purchase of software license .....	--	--	(720,000)
Proceeds from notes receivable .....	--	--	500,000
Business acquisition costs, net of cash acquired .....	--	--	(94,000)
Net cash used in investing activities .....	(729,000)	(504,000)	(709,000)
Cash flows from financing activities			
Proceeds from issuance of debt and			

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

(Continued on the following page.)

See notes to consolidated financial statements.

**MEDIX RESOURCES, INC.**

**Consolidated Statements of Cash Flows**

(Continued from the previous page.)

Supplemental disclosure of cash flow information:

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

Supplemental disclosure of non-cash activity:

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued on following page.)

See notes to consolidated financial statements.

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

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

(Continued from the previous page.)

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

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

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

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

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.

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

During 2001, warrants issued to finders under private placements in connection with its note payable credit facility were valued at \$113,000 and recorded as financing costs.

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

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

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

During 2000, 5.0 units of the 1997 preferred stock, 185 shares of the 1999 Series A preferred stock, 767 shares of the Series B preferred stock, and 1,120 shares of the series C preferred stock were converted into 4,564,000 shares of common stock.

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

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

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

See notes to consolidated financial statements.

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

#### **Notes to Consolidated Financial Statements**

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

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

##### **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.

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### Use of Estimates

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

### Concentrations of Credit Risk

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

### Fair Value of Financial Instruments

The carrying amounts of financial instruments including accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values as of December 31, 2002 and 2001 due to the relatively short maturity of these instruments.

The carrying amounts of notes payable and debt issued approximate their fair value as of December 31, 2002 and 2001 because interest rates on these instruments approximate market interest rates.

### Revenue Recognition

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

It is the Company's policy to recognize revenue when the communication transaction has been completed by the customer, persuasive evidence of the terms of the arrangement exist, its fee is fixed and determinable, and collectibility is reasonably assured. Delivery takes place electronically when the customer has completed the exchange (transmission or receipt) of data. Revenue is charged to the customer on a per transaction basis as each transaction is completed or as monthly subscription services are provided and are billed monthly.

### Income Taxes

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

### Property and Equipment

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

### Software and Technology Costs

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

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

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

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

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

### Financing Costs

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

### Long Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144). The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired.

### Goodwill

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

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

### Reclassifications

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

### Advertising Costs

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

### Basic Loss Per Share

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

For the years ended December 31, 2002, 2001 and 2000 total stock options, warrants and convertible debt and preferred stock of 33,166,853, 14,693,254 and 13,767,143, were not included in the computation of diluted loss per share because their effect was antidilutive, however, if the Company were to achieve profitable operations in the future, they could potentially dilute such earnings.

### Recently Issued Accounting Pronouncements

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

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

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

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company believes the adoption of this statement will have no material impact on its consolidated

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financial statements.

In November 2002, the FASB published interpretation No. 45 "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, that company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company believes the adoption of this statement will have no material impact on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based compensation. In addition, SFAS 148 amends the disclosure provision of SFAS 123 to require more prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation on reported net income. The effective date for this Statement is for fiscal years ended after December 15, 2002.

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

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

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

The Company has incurred operating losses for the past several years, the majority of which are related to the development of the Company's healthcare connectivity technology and related marketing efforts. These losses have produced operating cash flow deficiencies, and negative working capital, which raise substantial doubt about its ability to continue as a going concern. The Company's future operations are dependent upon management's ability to source additional equity capital.

The Company expects to continue to experience losses in the near term, until such time that its technologies can be merged with those acquired from ePhysician, Inc. (see Note 12) and successfully deployed with physicians to produce revenues. The continuing deployment, marketing and the development of the merged technologies will depend on the Company's ability to obtain additional financing. The merging of technologies with ePhysician, Inc. is in the early development stage and has not generated any significant revenue to date. The Company is currently funding operations through the sale of common stock, and there are no assurances that that additional investment or financings will be available as needed to support the development and deployment of the merged technologies. The need for the Company to obtain additional financing is acute and failure to obtain adequate financing could result in lost business



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opportunities, the sale of the Cymedix business at a distressed price or may lead to the financial failure of the Company. -

### Note 3 - Discontinued Operations

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

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

The results of operations of the Company's discontinued remaining staffing businesses for the year ended December 31, 2000 are as follows:

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

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

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

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

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businesses ..... \$ 929,000  
 =====

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

**Note 4 - Acquisition of Assets**

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

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

Cash .....	\$ 6,000
Accounts receivable	27,000
Goodwill .....	487,000
Accounts payable ..	(41,000)
Accrued liabilities	(5,000)
	-----
	\$ 474,000
	=====

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

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

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

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

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Loss per share	\$	(0.13)	\$	(0.20)
	=====		=====	

**Note 5 - Balance Sheet Disclosures**

Software development costs consist of the following:

	December 31,	
	2002	2001
	-----	-----
Software development costs	\$ -	\$ 929,000
Less accumulated amortization	-	(280,000)
	-----	-----
	\$ -	\$ 649,000
	=====	=====

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

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

Property and equipment consist of the following:

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

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

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

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

Goodwill relates to the Company's acquisition of Cymedix. Goodwill has an accumulated amortization balance of \$634,000 for the years ending December 31, 2002 and 2001. Amortization expense was \$0, \$209,000, and \$205,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

Accrued expenses consists of the following:

	December 31,	
	2002	2001
	-----	-----
Accrued payroll and benefits .....	\$256,000	\$294,000
Accrued lease abandonment costs .....	374,000	--
Accrued professional fees .....	36,000	57,000
Accrued license fees .....	36,000	53,000
Other accrued expenses .....	23,000	29,000
Accrued interest .....	11,000	17,000
Accrued payroll taxes, interest and penalties	--	131,000
	-----	-----
	\$736,000	\$581,000
	=====	=====

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

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

### **Note 6 - Long-Term Debt**

Long-term debt consists of:

	December 31,	
	2002	2001
	-----	-----

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

Convertible Promissory Notes

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

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

Convertible Note Payable Credit Facility

In December 2000, the Company obtained a credit facility under which it issued a convertible promissory note and common stock purchase warrants. During the draw down periods, the Company drew \$1,500,000 under the convertible note. Advances under the convertible note bear interest at an annual rate of 10% and provide for semi-annual payments on July 10, 2001 and January 10, 2002. All outstanding balances under this arrangement were converted or redeemed during 2001 into common shares. The note payable balance was convertible at \$.90 per share for up to the first \$750,000 and any remaining balance at \$1.00 per share. The initial \$750,000 draw on this arrangement has an imputed discount recorded, which was valued at \$75,000 for the "in-the-money" conversion feature of the first advance. In addition, the noteholder can force a redemption of the note or any 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

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warrants to purchase common stock to the holder of the convertible promissory note. The Company issued 750,000 warrants in connection with drawdowns under the convertible note. The warrants have an exercise price of \$1.75 and terms of two years from the date of issuance. The Company also issued 54,168 warrants to purchase common stock to two finders assisting with the transaction. The finder warrants also have terms of two years and an exercise price of \$1.75.

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

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

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

During the period May through December 2001, the Company received \$850,000, under a second amendment to the credit facility, for the issuance of 1,235,944 shares of its common stock, in additional private placement transactions. As a 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,

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volatility of 117%, no dividend payments and a risk free rate of 5.5%.

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

### Note 7 - Commitments and Contingencies

#### Operating Leases

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

Rent expense for these leases was:

Year Ending December 31,  
-----

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

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

Year Ending December 31,  
-----

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

#### Litigation

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

In February of 2000, the Company reached a settlement on certain outstanding litigation and issued a warrant to purchase 35,000 of the Company's common stock at \$3.96 per share. The Company recorded expense of approximately \$137,000 related to the issuance of the warrant, which has been included in the results of discontinued operations. The warrants were valued using the Black-Scholes pricing model, using assumptions of volatility of 273%, no dividend payments and a risk free rate of 5.5%.

In November of 2000, a settlement agreement was reached between the Company and a plaintiff on outstanding litigation whereby the Company paid the plaintiff \$66,000 cash, and issued an option to purchase 50,000 of the Company's common stock at \$.25 per share. The Company recorded expense of approximately \$102,000 related to the issuance of the option. The warrants were valued using the Black-Scholes pricing model, using assumptions of volatility of 273%, no dividend payments and a risk free rate of 5.5%.

In June of 2001, the Company settled an outstanding claim by paying the

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plaintiff \$35,000 and issuing to him 2 year warrants to purchase 195,000 shares of the Company's common stock at \$.50 per share. The settlement was approved by the court on July 6, 2001. The case has been dismissed with prejudice. The warrants issued in this settlement have been valued at \$137,000 using the Black-Scholes pricing model, using assumptions of volatility of 132%, no dividend payments and a risk-free rate of 5.5%, and have been included as an increase to goodwill in the accompanying financial statements, as a result of an unrecorded liability that existed at the time of the Cymedix merger.

In May of 2001, the Company agreed to settle another outstanding legal action by paying the plaintiff \$20,000 and issuing him a three year warrant (issued over a 18 month period) to purchase 137,500 shares of the Company's common stock at \$.50 per share. The warrants issued in this settlement have been valued at \$64,000 using the Black-Scholes pricing model, using assumptions of volatility of 132%, no dividend payments, and a risk-free rate of 5.5%, and have been included as an expense in the consolidated statement of operations.

In 2001, the Company also settled certain litigation by issuing to one plaintiff 90,000 shares of the Company's common stock, valued at \$51,000, and extending the exercise period of the warrants of the other plaintiff until December 31, 2003, valued at \$33,000. The shares and warrants issued in this settlement have been valued at \$84,000 using the Black-Scholes pricing model, for the modification to the warrant, using assumptions of a life of two years, exercise price of \$1.00, volatility of 132%, no dividend payments and a risk-free rate of 5.5%, and have been included as an expense in the consolidated statement of operations.

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

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

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

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

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

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

### **1996 Private Placement**

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



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additional 939,320 shares of common stock in 1998.

During 1999 4.5 units were converted into 241,072 shares of common stock. Additionally, the Company repurchased from another holder 2.5 units in a negotiated agreement for \$25,000.

The Company has 1.0 remaining unit of its 1996 preferred stock outstanding at December 31, 2002 and 2001. The remaining unit may be converted into the Company's common stock including accrued dividends at the lesser of \$1.25 per common share or 75% of the prior five day trading average of the Company's common stock.

### 1997 Private Placement

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

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

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

### 1999 Private Placements

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

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

The second private placement consisted of 1,832 shares of Series B preferred stock each with 2,000 warrants for \$1,000 per unit, which raised total proceeds of \$1,816,500 (net of offering costs of \$15,500). The Company also issued a warrant to purchase 50,000 shares of common stock at \$.50, which expires in May 2002, for services rendered in connection with the private placement. The warrants included with each unit entitle the holder to purchase common shares at \$.50 per share, expiring in October 1, 2003. The preferred shares are currently convertible into common shares at \$.50 per common share through October 1, 2003. During 1999, 1,015 shares of Series B preferred stock were converted into 2,030,000 common shares. During 2000, 767 shares of Series B preferred stock were converted into 1,534,000 common shares. During 2002, 50 shares of Series B

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

The third private placement consisted of 1,995 shares of Series C preferred stock each with 4,000 warrants for \$1,000 per unit, which raised total proceeds of \$1,995,000. The warrants, included with each unit, entitled the holder to purchase common shares at \$.50 per share, expiring in April 1, 2003. The preferred shares are convertible beginning April 1, 2000 into common shares at \$.50 per common share through April 1, 2003. During 2000, 1,120 shares of Series C preferred stock were converted into 2,240,000 common shares. During 2001, 500 shares of Series C preferred stock were converted into 1,000,000 shares of common stock. During 2002, 300 shares of Series C preferred stock were converted into 600,000 shares of common stock. After April 1, 2000, the warrants are callable by the Company for \$.01 upon thirty days written notice. The Company has not called any of these warrants as of the date hereof.

### 2002 Private Placement

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

### Equity Line

The Company entered into an Equity Line of Credit Agreement dated as of June 12, 2001, which provided that the Company can put to the provider, subject to certain conditions, the purchase of common stock of the Company at prices calculated from a formula as defined in the agreement.

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

During the period January to April 2002, the Company received \$972,000, net of commissions and escrow fees from eight equity line advances, resulting in the issuance of 1,954,719 shares of common stock. This agreement was terminated in April 2002.

The principal conditions to any such advance were as follows:

- o There must have been thirteen stock market trading days between any two requests for advances made by the Company.
- o The Company could only request an advance if the volume weighted average price of the common stock as reported by Bloomberg L.P. for the day before the request is made was equal to or greater than the volume weighted average price as reported by Bloomberg L.P. for the 22 trading days before a request was made.
- o The Company was not be able to receive an advance amount that was greater

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than 175% of the average daily volume of its common stock over the 40 trading days prior to the advance request multiplied by the purchase price.

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

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

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

### Accumulated Deficit

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

### Stock Options

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

In August 1999, the Board of Directors established the 1999 Stock Option Plan (the "1999 Plan"), which provides for the grant of incentive stock options ("ISOs") to officers and other employees of the Company and non-qualified options to directors, officers, employees and consultants of the Company. Options granted under the plan are generally exercisable immediately and expire up to ten years after the date of grant. Options are granted at a price equal to the market value at the date of grant. The Board of Directors reserved 10,000,000 shares of common stock for granting of options under the 1999 Plan. At 2001 Annual Meeting the shareholders approved an increase of 3,000,000 shares as the amount of total shares of our Common Stock reserved for issuance under the 1999 Plan.

The following table presents the activity for options outstanding:

	Incentive Stock Options	Non-qualified Stock Options	Weighted Average Exercise Price
--	-------------------------------	-----------------------------------	--

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Outstanding - December 31, 1999	7,517,877	633,000	\$	0.32
Granted	2,255,000	110,000		3.82
Granted	(10,000)	-		0.25
Forfeited/canceled	(3,900,235)	(139,499)		0.28
Outstanding - December 31, 2000	5,862,642	603,501		1.62
Granted	2,289,000	-		0.71
Forfeited/canceled	(865,000)	(65,834)		3.03
Exercised	(1,267,142)	(173,500)		0.25
Outstanding - December 31, 2001	6,019,500	364,167		1.40
Granted	4,968,000	860,000		0.67
Forfeited/canceled	(1,314,750)	(266,167)		1.15
Exercised	(200,000)	(158,000)		0.40
Outstanding - December 31, 2002	9,472,750	800,000	\$	1.06

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

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

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

In fiscal year 2002, the Company has issued 636,000 stock options to consultants that have been valued at \$260,000 and recorded as consulting expense, using the Black-Scholes options pricing model. The assumptions used include lives ranging from 2 to 5 years, exercise prices ranging from \$0.38 to \$0.70, volatility of 95%, no dividend payments and a risk free rate of 5.5%.

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

For the Years Ended December 31,		
2002	2001	2000

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Net loss - as reported	\$ (9,014,000)	\$ (10,636,000)	\$ (5,415,000)
Net loss - pro forma	(111,198,000)	(12,035,000)	(14,256,000)
Basic loss per common share - as reported	(0.14)	(0.21)	(0.13)
Basic loss per common share - pro forma	(0.18)	(0.24)	(0.34)

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

	For the Years Ended December 31,		
	2002	2001	2000
Approximate risk free rate	5.50%	5.50%	5.50%
Average expected life	5 years	5 years	10 years
Dividend yield	0%	0%	0%
Volatility	95%	132%	273%
Estimated fair value of total options granted	\$2,184,000	\$1,399,000	\$8,841,000

### Warrants

The Company has an obligation to issue up to 7,000,000 warrants under an agreement with a pharmacy management company for the Company's proprietary software to be interfaced with core medical service providers, in which one of the Company's audit committee members is a related party to the pharmacy management company. The agreement provides for 3,000,000 warrants with an exercise price of \$.30, 3,000,000 warrants with an exercise price of \$.50, and 1,000,000 warrants with an exercise price of \$1.75 all expiring September 8, 2004. The right to exercise the warrants are earned in increments based on certain performance criteria. At December 31, 2002 a total of 1,850,000 warrants had been earned. In connection with the obligation to issue the 1,000,000 warrants earned, the Company recorded expense of \$1,364,000 valued using the Black-Scholes option pricing model, with assumptions of 132% volatility, no dividend yield and a risk-free rate of 5.5%. In connection with the obligation to issue the 850,000 warrants earned, the Company recorded expense of \$590,000 during the third quarter of 2001 valued using the Black-Scholes option pricing model, with assumptions of 132% volatility, no dividend yield and a risk-free rate of 5.5%. The 850,000 warrants were issued in the first quarter of 2002.

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

The agreement provides for a total of 5,150,000 remaining warrants under five performance criteria categories which can be earned in any order or concurrently. Had all of the remaining performance criteria been met at December 31, 2002, the fair value of the related warrants and resulting expense would have been approximately \$1,848,683, using the Black-Scholes option pricing model, with assumptions of 95% volatility, no dividend yield and a risk-free rate of 5.5%.

The Company also issued and modified warrant terms in the settlement of certain litigation during 2001 (Note 7). These warrants and modifications have been valued at \$234,000 using the Black-Scholes option pricing model. (See assumptions used in Note 7).

The following table presents the activity for warrants outstanding:

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	Number of Warrants	Weighted Average Exercise Price
Outstanding - December 31, 1999	14,791,126 \$	0.53
Issued	35,000	3.96
Forfeited/canceled	(32,506)	0.71
Exercised	(9,352,620)	0.53
Outstanding - December 31, 2000	5,441,000	0.53
Issued	2,066,587	1.12
Forfeited/canceled	(36,000)	0.80
Exercised	(22,000)	0.19
Outstanding - December 31, 2001	7,449,587	0.69
Issued	17,493,016	0.51
Forfeited/canceled	(826,000)	0.51
Exercised	(1,388,975)	0.50
Outstanding - December 31, 2002	22,727,628 \$	0.58

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

**Note 9 - Income Taxes**

As of December 31, 2002, the Company has net operating loss (NOL) carryforwards of approximately \$29,105,000, which expire in the years 2002 through 2022. The utilization of the NOL carryforward is limited to \$469,000 on an annual basis for net operating loss carryforwards generated prior to September 1996, due to an effective change in control, which occurred as a result of the 1996 private placement. As a result of the significant sale of securities during 1999, the Company's net operating loss carryforwards will be further limited in the future to an annual amount of \$231,000 due to those changes in control. The Company also has a deferred tax liability of approximately \$141,000 related to capitalized software development costs. The Company has concluded it is currently more likely than not that it will not realize its net deferred tax asset and accordingly has established a valuation allowance of approximately \$9,900,000 and \$7,400,000, respectively. The change in the valuation allowance for 2002 and 2001 was approximately \$2,500,000 and \$2,413,000, respectively.

**Note 10 - Employee Benefit Plan**

Employees are eligible to participate in the company's 401(k) retirement. Payroll deductions are taken out of every payroll check and are "pre-tax" dollars. Employees may elect (in writing) at any time that their participation be "suspended", however, they may only apply for re-enrollment quarterly. Employees may elect up to a 15% contribution. There currently is no employer match policy.

**Note 11 - Related Party Transactions**

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

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

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

The Company has a consulting agreement with one of the Company's directors to assist with marketing of the Company's products. The Company paid the director \$20,000, \$0 and \$52,000 for such consulting services in 2002, 2001 and 2000, respectively.

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

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

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

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

On March 7, 2003, the Company purchased the assets of ePhysician, Inc. for \$300,000 and 100,000 shares of our common stock, from Comdisco Ventures, Inc., an ePhysician creditor. ePhysician point-of-care technologies enable physicians to securely access and send information to pharmacies, billing services, and practice management systems via the Palm OS(R)-based handheld device and the Internet. The Company intends to integrate various aspects of ePhysician's technologies with their existing products.

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

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

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

- (1) Earnings per share are computed independently for each quarter and the full year based upon respective average shares outstanding. Therefore, the sum of the quarterly net earnings per share amounts may not equal the annual amounts reported.
- (2) Included in third quarter 2001 operating expenses is \$1,111,000 of expenses related to the impairment of intangible assets. (Note 4)
- (3) Included in fourth quarter 2001 operating loss is \$1,022,000 in financing costs. (Notes 6 and 8)
- (4) Included in the fourth quarter 2002 operating expenses is \$1,066,000 of expenses related to the write-off of capitalized software project costs, \$374,000 of accrued lease abandonment costs, and \$309,000 of expenses associated with an acquisition which was terminated.

**ANNEX A**

**AGREEMENT AND PLAN OF MERGER**

**OF**

**MEDIX RESOURCES, INC.**

(A Colorado corporation)

**INTO**



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**MEDIX RESOURCES, INC.**

(A Delaware corporation)

FIRST: Medix Resources, Inc., a corporation organized under the laws of the State of Colorado (the "Merging Corporation"), shall merge with and into its wholly-owned subsidiary, Medix Resources, Inc., a corporation organized under the laws of the State of Delaware (the "Surviving Corporation"), and the Surviving Corporation shall assume the liabilities and obligations of the Merging Corporation.

SECOND: The presently issued and outstanding shares of capital stock of the Merging Corporation shall be converted on a one-for-one basis into shares of the capital stock, of the same class and series of the Surviving Corporation.

THIRD: The presently issued and outstanding shares of the common stock, \$0.001 par value, of the Surviving Corporation, issued to the Merging Corporation, shall be cancelled.

FOURTH: The authorized capital of the Surviving Corporation shall remain unchanged following the merger.

FIFTH: The Certificate of Incorporation of the Surviving Corporation, shall remain the Certificate of Incorporation of the Surviving Corporation.

SIXTH: The by-laws of the Surviving Corporation shall remain the by-laws of the Surviving Corporation.

SEVENTH: The directors and officers of the Surviving Corporation shall remain the directors and officers of the Surviving Corporation and shall serve until their successors are elected and have qualified.

EIGHTH: The officers of each corporation party to the merger shall be and hereby are authorized to do all acts and things necessary and proper to effect the merger.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Plan of Merger as of the \_\_\_\_\_ day of \_\_\_\_\_, 2003.

corporation) MEDIX RESOURCES, INC. (a Colorado

By:

Darryl Cohen  
Chief Executive Officer

corporation) MEDIX RESOURCES, INC. (a Delaware

By:

Darryl Cohen  
Chief Executive Officer

**ANNEX B**

**RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**MEDIX RESOURCES, INC.**

Medix Resources, Inc. (the "Corporation"), a Delaware corporation, hereby certifies as follows:

1. The name of the Corporation is Medix Resources, Inc.
2. The original certificate of incorporation of the Corporation was filed with the Secretary of State of Delaware on February 10, 2003.
3. This restated certificate of incorporation of the Corporation has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware by the favorable vote of the holders of a majority of the outstanding stock entitled to vote thereon and a majority of the outstanding stock of each class entitled to vote thereon as a class.
4. This restated certificate of incorporation amends, restates and integrates the provisions of the certificate of incorporation of the Corporation.
5. The text of the certificate of incorporation of the Corporation is hereby amended, restated and integrated to read in its entirety as follows:

**ARTICLE I  
NAME**

The name of the Corporation is Medix Resources, Inc.

**ARTICLE II  
REGISTERED OFFICE AND AGENT**

The address, including street, number, city, and county, of the registered office of the Corporation in the State of Delaware is 1013 Centre Road, City of Wilmington 19805, County of New Castle; and the name of the registered agent of the Corporation in the State of Delaware at such address is Corporation Service Company.

**ARTICLE III  
PURPOSE**

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

**ARTICLE IV  
CAPITAL STOCK**

Section 1. Classes and Shares Authorized. The total number of shares of Common Stock that the Corporation shall have authority to issue is Four Hundred Million (400,000,000) shares of Common Stock, \$0.001 par value per share. The total number of shares of Preferred Stock that the Corporation shall have

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authority to issue is Two Million Five Hundred Thousand (2,500,000) shares of Preferred Stock, \$1.00 par value per share.

Section 2. Preferred Stock. Shares of Preferred Stock may be divided into such series as may be established from time to time by the Board of Directors. The Board of Directors from time to time may fix and determine the relative rights and preferences of the shares of any series so established.

### Section 3. Common Stock.

(a) After the requirements with respect to preferential dividends on the Preferred Stock, if any, shall have been met, and after the corporation shall have complied with all the requirements, if any, with respect to the setting aside of sums as sinking funds or redemption or purchase accounts, and subject further to any other conditions which may be fixed in accordance with the provisions of Section 2 of this Article IV, then, and not otherwise, the holders of Common Stock shall be entitled to receive such dividends as may be declared from time to time by the Board of Directors of the corporation paid out any funds legally available therefor.

(b) After distribution in full of the preferential amount if any, to be distributed to the holders of the Preferred Stock in the event of voluntary or involuntary liquidation, distribution or sale of assets, dissolution, or winding-up of the corporation, the holders of the Common Stock shall be entitled to receive all of the remaining assets of the Corporation, tangible and intangible, of whatever kind available for distribution to stockholders, ratably in proportion to the number of shares of the Common Stock held by them respectively.

(c) Except as may otherwise be required by law, each holder of the Common Stock shall have one vote in respect of each share of the Common Stock held by him on all matters voted upon by the stockholders.

Section 4. General Provisions. The capital stock of the Corporation may be issued for money, property, services rendered, labor done, cash advanced to or on behalf of the Corporation, or for any other assets of value in accordance with an action of the Board of Directors, whose judgment as to the value of the assets received in return for said stock shall be conclusive, and said stock, when issued, shall be fully paid and nonassessable.

### Section 5. 1996 Preferred Stock.

#### I. Designation and Amount.

378 shares of the authorized shares of Preferred Stock of the Company are hereby designated "1996 Preferred Stock" (the "1996 Preferred Stock"). All shares of 1996 Preferred Stock shall rank prior, as to both payment of dividends and as to distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, to all of the Company's now or hereafter issued common stock (the "Common Stock"), and any other series of capital stock of the Company, other than the 12% Cumulative Convertible Preferred Stock, that is not, by its terms, senior to or pari passu with the 1996 Preferred Stock, and shall rank junior to the 12% Cumulative Convertible Preferred Stock of the Company.

#### II. Dividends.

(1) The registered owners of each share of 1996 Preferred Stock shall be entitled to receive out of assets of the Company legally available therefor, dividends at the rate of 10% per annum, calculated on the amount of the Liquidation Value of such share, which rate shall be 18% per annum for each day after the 180th day following the issuance of such share and prior to the date

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on which a registration statement under the Securities Act of 1993 (the "Act") registering the Common Stock of the Company into which such share of 1996 Preferred Stock is convertible first becomes effective. Dividends shall accrue without interest and be cumulative and shall be payable to the registered owners of 1996 Preferred Stock out of assets of the Company legally available therefore, quarterly in arrears on the last day of each fiscal quarter of the Company. Dividends shall be payable to shareholders of record on the fifteenth day immediately preceding such dividend payment date, or if such day is not a business day, on the immediately preceding business day.

(2) So long as any share of 1996 Preferred Stock is outstanding, the Company shall not (a) declare or pay any dividend or make any other distribution (other than dividends payable solely in Common Stock or other capital stock ranking junior as to dividend rights to the 1996 Preferred Stock) on the Common Stock or any other class or series of capital stock of the Company ranking, as to dividends, junior to the 1996 Preferred Stock, or set funds aside therefor, or (b) purchase, redeem or otherwise acquire any of the Common Stock, or any other class of capital stock of the Company ranking junior as to dividends to the 1996 Preferred Stock (other than in exchange for Common Stock or other class of capital stock ranking junior as to dividends to the 1996 Preferred Stock) or set funds aside therefor.

(3) If at any time any dividend on any capital stock of the Company ranking senior as to dividends to the 1996 Preferred Stock ("Senior Dividend Stock") shall be in default, in whole or in part, then no dividend shall be paid or declared and set apart for payment on the 1996 Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock shall have been paid or declared and set apart for payment. No dividends shall be paid or declared and set apart for payment on the 1996 Preferred Stock or on any capital stock ranking pari passu with the 1996 Preferred Stock in the payment of dividends (the "Parity Dividend Stock") for any period unless a pro rata dividend has been, or contemporaneously is, paid or declared and set apart for payment on the Parity Dividend Stock or the 1996 Preferred Stock, as the case may be, so that the amount of dividends paid or declared and set aside for payment per share on the 1996 Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of 1996 Preferred Stock and the Parity Dividend Stock bear to each other. Notwithstanding the foregoing, the Company agrees, to the extent that there are funds legally available therefore, to declare all outstanding Senior Dividend Stock and Parity Dividend Stock as may be necessary to permit the payment of the full dividends payable with respect to the 1996 Preferred Stock.

(4) Subject to the foregoing provisions, the holders of Common Stock, the Parity Dividend Stock and each other class of capital stock of the Company which is junior as to dividends to the 1996 Preferred Stock shall be entitled to receive, as and when declared by the Board of Directors out of the remaining assets of the Company legally available therefor, such dividends (payable in cash, capital shares or otherwise) as the Board of Directors may from time to time determine.

(5) Any reference to "distribution" contained in this Section II shall not be deemed to include any distribution made in connection with any liquidation, dissolution, or winding up of the Company.

### III. Liquidation.

(1) In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, then out of the assets of the Company before any distribution or payment to the holders of the Common Stock or any other class of capital stock of the Company ranking junior as to liquidation preferences to the 1996 Preferred Stock, but after distribution to and subject to the rights of holders of capital stock of the Company ranking senior as to

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liquidation rights to the Preferred Stock, the holders of the 1996 Preferred Stock shall be paid the Liquidation Value of the 1996 Preferred Stock then outstanding and the holders of the 1996 Preferred Stock shall be entitled to no other or further distribution.

(2) The Liquidation Value of the 1996 Preferred Stock shall be \$10,000 per share plus the amount of any dividends which have accrued thereon to the close of business on the date of such liquidation, dissolution or winding up and remain unpaid, whether or not such dividends have been earned or declared.

(3) After payment in full to the holders of (a) any capital stock ranking senior as to liquidation rights to the 1996 Preferred Stock, (b) the 1996 Preferred Stock and (c) any class of stock hereafter issued that ranks on a parity as to liquidation rights with the 1996 Preferred Stock, of the sums which such holders are entitled to receive in such case, the remaining assets of the Company shall be distributed among and paid to the holders of the Common Stock and any other class of capital stock of the Company ranking junior to the 1996 Preferred Stock.

(4) If the assets of the Company available for distribution to its shareholders shall be insufficient to permit payment in full to the holders of the 1996 Preferred Stock and all other series of preferred shares ranking equally as to liquidation preferences with the 1996 Preferred Stock of sums which such holders are entitled to receive, then all of the assets available for distribution to such holders shall be distributed among and paid to such holders ratably in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full.

(5) The consolidation or merger of the Company with any other corporation or corporations or a sale of all or substantially all of the assets of the Company shall not be deemed a liquidation, dissolution or winding up of the Company within the meaning of this Section III.

### IV. Redemption.

(1) If on July 1, 1998 (a) a registration statement under the Act registering the Common Stock of the Company into which the 1996 Preferred Stock is convertible was not effective or (b) the Common Stock of the Company was not then traded on a national securities exchange (including NASDAQ National Market System, the NASDAQ Small Cap Market, the New York Stock Exchange or the American Stock Exchange, but excluding the NASDAQ Bulletin Board or other NASDAQ listings), the Company shall, at the written election of the holder of any outstanding shares of 1996 Preferred Stock received on or before July 31, 1998, redeem such shares of 1996 Preferred Stock at the redemption price per share of \$10,000 plus any accrued and unpaid paid dividends thereon, whether or not declared, to the date of redemption.

(2) The redemption price for any shares of 1996 Preferred Stock to be redeemed hereunder shall be payable in cash, out of funds legally available therefore, as soon as practicable after July 31, 1998. If the Company has insufficient funds legally available to pay the redemption price of all of the shares of 1996 Preferred Stock tendered for redemption, the Company shall redeem as many shares as it has funds legally available therefore pro rata among the shareholders tendering 1996 Preferred Stock for redemption and shall continue to be obligated to redeem the remaining shares tendered for redemption when and as funds become legally available therefore, subject to the right of any tendering shareholder to withdraw its election to have such shares redeemed. Any election to have any shares of 1996 Preferred Stock redeemed pursuant hereto shall be accompanied with the certificates representing the shares being tendered for redemption.

### V. Voting Rights.

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The holders of the 1996 Preferred Stock shall have no voting rights except as required by law.

### VI. Conversion; Anti-dilution Provisions.

The holders of the 1996 Preferred Stock shall have no right to convert their shares into Common Stock.

### Section 6. 1999 Series C Convertible Preferred Stock.

#### I. Designation and Amount.

Two Thousand (2,000) shares of the authorized shares of Preferred Stock of the Company are hereby designated "1999 Series C Convertible Preferred Stock" (the "Series C Preferred"). All shares of Series C Preferred shall rank prior, as to both payment of dividends and as to distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, to all of the Company's now or hereafter issued common stock (the "Common Stock"), and any other series of capital stock of the Company, other than the 1996 Preferred Stock, that is not, by its terms, senior to or pari passu with the Series C Preferred, and shall rank junior in all respects to the 1996 Preferred Stock.

#### II. Dividends.

(1) Except as specifically described herein, the registered owners of the Series C Preferred shall not be entitled to receive any dividends. If a registration statement under the Securities Act of 1933, as amended (the "Act"), registering the shares of Common Stock of the Company into which the Series C Preferred is convertible is not declared effective by March 31, 2000, or if any such registration statement ceases to be effective at any time prior to the second anniversary of the date on which such registration statement first becomes effective, the registered owners of each share of Series C Preferred shall be entitled to receive out of assets of the Company legally available therefor, dividends for any period during such two-year period and after March 31, 2000, during which such registration statement is not effective, at the rate of ten percent (10%) per annum, for each day during which the registration statement is not effective. Dividends shall be calculated on the amount of the Liquidation Value (as set forth below) of each share. Dividends, if any as provided hereunder, shall accrue without interest and be cumulative and shall be payable to the registered owners of Series C Preferred out of assets of the Company legally available therefore, quarterly in arrears on the last day of each fiscal quarter of the Company. Dividends shall be payable to shareholders of record on the fifteenth day immediately preceding such dividend payment date, or if such day is not a business day, on the immediately preceding business day.

(2) So long as any share of Series C Preferred is outstanding, the Company shall not (a) declare or pay any dividend or make any other distribution (other than dividends payable solely in Common Stock or other capital stock ranking junior as to dividend rights to the Series C Preferred) on the Common Stock or any other class or series of capital stock of the Company ranking, as to dividends, junior to the Series C Preferred, or set funds aside therefor, or (b) purchase, redeem or otherwise acquire, any of the Common Stock, or any other class of capital stock of the Company ranking junior as to dividends to the Series C Preferred (other than in exchange for Common Stock or other class of capital stock ranking junior as to dividends to the Series C Preferred) or set funds aside therefor.

(3) If at any time any dividend on any capital stock of the Company ranking senior as to dividends to the Series C Preferred ("Senior Dividend Stock") shall be in default, in whole or in part, then no dividend shall be paid or declared

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and set apart for payment on the Series C Preferred unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock shall have been paid or declared and set apart for payment. No dividends shall be paid or declared and set apart for payment on the Series C Preferred or on any capital stock ranking pari passu with the Series C Preferred in the payment of dividends (the "Parity Dividend Stock") for any period unless a pro rata dividend has been, or contemporaneously is, paid or declared and set apart for payment on the Parity Dividend Stock or the Series C Preferred, as the case may be, so that the amount of dividends paid or declared and set aside for payment per share on the Series C Preferred and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Series C Preferred and the Parity Dividend Stock bear to each other. Notwithstanding the foregoing, the Company agrees, to the extent that there are funds legally available therefore, to declare all outstanding Senior Dividend Stock and Parity Dividend Stock as may be necessary to permit the payment of the full dividends payable with respect to the Series C Preferred.

(4) Subject to the foregoing provisions, the holders of Common Stock, the Parity Dividend Stock and each other class of capital stock of the Company which is junior as to dividends to the Series C Preferred shall be entitled to receive, as and when declared by the Board of Directors out of the remaining assets of the Company legally available therefor, such dividends (payable in cash, capital shares or otherwise) as the Board of Directors may from time to time determine.

(5) Any reference to "distribution" contained in this Section II shall not be deemed to include any distribution made in connection with any liquidation, dissolution, or winding up of the Company.

### III. Liquidation.

(1) In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, then out of the assets of the Company before any distribution or payment to the holders of the Common Stock or any other class of capital stock of the Company ranking junior as to liquidation preferences to the Series C Preferred, but after distribution to and subject to the rights of holders of capital stock of the Company ranking senior as to liquidation rights to the Series C Preferred, the holders of the shares of Series C Preferred then outstanding shall be paid the Liquidation Value of the shares of Series C Preferred then outstanding and such holders shall be entitled to no other or further distribution.

(2) The Liquidation Value of each share of the Series C Preferred shall be \$1,000 per share plus the amount of any dividends which have accrued thereon to the close of business on the date of such liquidation, dissolution or winding up and remain unpaid, whether or not such dividends have been earned or declared.

(3) After payment in full to the holders of (a) any capital stock ranking senior as to liquidation rights to the Series C Preferred, (b) the Series C Preferred and (c) any class of stock hereafter issued that ranks on a parity as to liquidation rights with the Series C Preferred, of the sums which such holders are entitled to receive in such case, the remaining assets of the Company shall be distributed among and paid to the holders of the Common Stock and any other class of capital stock of the Company ranking junior to the Series C Preferred.

(4) If the assets of the Company available for distribution to its shareholders shall be insufficient to permit payment in full to the holders of the Series C Preferred and all other series of preferred shares ranking equally as to liquidation preferences with the Series C Preferred of sums which such holders are entitled to receive, then all of the assets available for distribution to such holders shall be distributed among and paid to such holders

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ratably in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full.

(5) The consolidation or merger of the Company with any other corporation or corporations or a sale of all or substantially all of the assets of the Company shall not be deemed a liquidation, dissolution or winding up of the Company within the meaning of this Section III.

### IV. Redemption.

(1) If on March 31, 2000 a registration statement under the Act registering the Common Stock of the Company into which the Series C Preferred is convertible was not effective, the Company shall, at the written election of the registered owner of any outstanding shares of Series C Preferred received on or before March 31, 2000, redeem such shares of Series C Preferred at the redemption price per share of \$1,000 plus any accrued and unpaid dividends thereon, whether or not declared, to the date of redemption.

(2) The redemption price for any shares of Series C Preferred to be redeemed hereunder shall be payable in cash, out of funds legally available therefore, as soon as practicable after March 31, 2000. If the Company has insufficient funds legally available to pay the redemption price of all of the shares of Series C Preferred tendered for redemption, the Company shall redeem as many shares as it has legally available therefore pro rata among the shareholders tendering Series C Preferred for redemption and shall continue to be obligated to redeem the remaining shares tendered for redemption when and as funds become legally available therefore, subject to the right of any tendering shareholder to withdraw its election to have such shares redeemed. Any election to have any shares of Series C Preferred redeemed pursuant hereto shall be accompanied with the certificates representing the shares being tendered for redemption.

(3) At the option of the Company, the shares of the Series C Preferred may be redeemed by the Company, in whole or in part, at any time, at a redemption price of \$1,000 per share, plus any accrued and unpaid dividends thereon, whether or not declared, to the date of redemption, if the holders of the shares to be redeemed are given at least thirty (30) days notice of such redemption in writing.

### V. Voting Rights.

The holders of the Series C Preferred shall have no voting rights except as required by law.

### VI. Conversion; Anti-Dilution Provisions.

The holders of the Series C Preferred shall have no right to convert their shares into Common Stock.

## ARTICLE V VOTING

Cumulative voting in the election of directors is not authorized.

## ARTICLE VI PREEMPTIVE RIGHTS

Shareholders of the corporation shall not have preemptive rights to acquire unissued or treasury shares of the corporation or securities convertible into



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such shares or carrying a right to subscribe to or acquire such shares.

### ARTICLE VII BOARD OF DIRECTORS

Section 1. Board of Directors; Number. The governing board of the corporation shall be known as the Board of Directors, and the number of directors may from time to time be increased or decreased in such manner as shall be provided in the Bylaws of the corporation, provided that the number of directors shall not be reduced to less than three unless the outstanding shares are held of record by fewer than three shareholders in which case there need only be as many directors as there are shareholders.

Section 2. Classification of Directors. The Board of Directors shall be divided into three classes, Class 1, Class 2, and Class 3, each class to be as nearly equal in number as possible. The term of office of Class 1 directors shall expire at the first annual meeting of shareholders following their election, that of Class 2 directors shall expire at the second annual meeting following their election, and the Class 3 directors shall expire at the third annual meeting following their election. At each annual meeting after such classification, a number of directors equal to the number of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting. No classification of directors shall be effective prior to the first annual meeting of shareholders. Notwithstanding the foregoing and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class to elect one or more directors of the Company, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of shareholders.

#### Section 3. Nomination of Directors.

(a) Nominations for the election of directors may be made by the Board of Directors, by a committee of the Board of Directors, or by any shareholder entitled to vote for the election of directors. Nominations by shareholders shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation, not less than 14 days nor more than 50 days prior to any meeting of the shareholders called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to shareholders, such written notice shall be delivered or mailed, as prescribed, to the Secretary of the Corporation not later than the close of the seventh day following the day on which notice of the meeting was mailed to shareholders.

(b) Each notice under subsection (a) shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, and (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee.

(c) The chairman of the shareholders' meeting, may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 4. Certain Powers of the Board of Directors. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

(a) to manage and govern the corporation by majority vote of members present at any regular or special meeting at which a quorum shall be present, to make, alter, or amend the Bylaws of the corporation at any regular or special

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meeting, to fix the amount to be reserved as working capital over and above its capital stock paid in, to authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation, and to designate one or more committees, such committee to consist of two or more of the directors of the corporation, which, to the extent provided in the resolution or in the Bylaws of the corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the corporation (such committee or committees shall have such name or names as may be stated in the Bylaws of the corporation or as may be determined from time to time to time by resolutions adopted by the Board of Directors);

(b) to sell, lease, exchange, or otherwise dispose of all or substantially all of the property and assets of the corporation in the ordinary course of its business upon such terms and conditions as the Board of Directors may determine without vote or consent of the shareholders;

(c) to sell, pledge, lease, exchange, liquidate, or otherwise dispose of all or substantially all of the property or assets of the corporation, including its goodwill, if not in the ordinary course of its business, upon such terms and conditions as the Board of Directors may determine; provided, however, that such transaction shall be authorized or ratified by the affirmative vote of the holders of at least a majority of the shares entitled to vote thereon at a shareholders' meeting duly called for such purpose or authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon; and provided, further, that any such transaction with any substantial shareholder or affiliate of the corporation shall be authorized or ratified by the affirmative vote of the holders of at least two-thirds of the shares entitled to vote thereon at a shareholders' meeting duly called for that purpose, unless such transaction is with any subsidiary of the corporation or is approved by the affirmative vote of a majority or the entire board of directors of the corporation, or is authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon;

(d) to merge, consolidate, or exchange all of the issued or outstanding shares of one or more classes of the corporation upon such terms and conditions as the Board of Directors may authorize; provided, however, that such merger, consolidation or exchange shall be approved or ratified by the affirmative vote of the holders of at least a majority of the shares entitled to vote thereon at a shareholders' meeting duly called for that purpose, or authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon; and provided, further, that any such merger, consolidation, or exchange with any substantial shareholder or affiliate of the corporation shall be authorized or ratified by the affirmative vote of the holders of at least two-thirds of the shares entitled to vote thereon at a shareholders' meeting duly called for that purpose, unless such merger, consolidation, or exchange is with any subsidiary of the corporation or is approved by the affirmative vote of a majority of the entire board of directors of the corporation, or is authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon; and

(e) to distribute to the shareholders of the corporation without the approval of the shareholders, in partial liquidation, out of stated capital or capital surplus of the corporation, a portion of the corporation's assets, in cash or in property, so long as the partial liquidation is in compliance with applicable law.

(f) as used in this Section 5, the following terms shall have the following meanings:

(i) an "affiliate" shall mean any person or entity which is an affiliate within the meaning of Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended:

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(ii) a "subsidiary" shall mean any corporation in which the corporation owns the majority of each class of equity security; and

(iii) a "substantial shareholder" shall mean any person or entity which is the beneficial owner, within the meaning of Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, of 10% or more of the outstanding capital stock of the corporation.

### **ARTICLE VIII CONFLICTS OF INTEREST**

#### Section 1. Related Party Transactions.

(a) No contract or transaction between the corporation and one or more of its directors, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers or have a financial interest shall be void or voidable solely for that reason or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes, approves, or ratifies the contract or transaction or solely because his or their votes are counted for such purpose if:

(i) the material facts as to his relationship of interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes, approves, or ratifies the contract or transaction by the affirmative vote of the majority of the disinterested directors, even though the disinterested directors are less than a quorum; or

(ii) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically authorized, approved, or ratified in good faith by a vote of the shareholders; or

(iii) the contract or transaction is fair as to the corporation as of the time it is authorized, approved, or ratified by the Board of Directors, a committee thereof, or the shareholders.

(b) Common or disinterested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes, approves, or ratifies the contract or transaction.

Section 2. Corporate Opportunities. The officers, directors, and other members of management of the corporation shall be subject to the doctrine of corporate opportunities only insofar as it applies to business opportunities in which the corporation has expressed an interest as determined from time to time by resolution of the Board of Directors. When such areas of interest are delineated, all such business opportunities within such areas of interest which come to the attention of the officers, directors, and other members of management of the corporation shall be disclosed promptly to the corporation and made available to it. The Board of Directors may reject any business opportunity presented to it, and thereafter any officer, director, or other member of management may avail himself of such opportunity. Until such time as the corporation, through its Board of Directors, has designated an area of interest, the officers, directors, and other members of management of the corporation shall be free to engage in such areas of interest or their own. The provisions hereof shall not limit the rights of any officer, director, or other member of

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management of the corporation to continue a business existing prior to the time that such area of interest is designated by the corporation, nor shall they be construed to release any employee of the corporation (other than an officer, director, or member of management) from any duties which such employee may have to the corporation.

### **ARTICLE IX LIABILITY OF DIRECTORS**

A director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

### **ARTICLE X INDEMNIFICATION**

For purposes of this Article X, a "Proper Person" means any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he is or was a director, officer, employee, fiduciary or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any foreign or domestic profit or nonprofit corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company, or other enterprise or employee benefit plan. The corporation shall indemnify any Proper Person against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding if it is determined by the groups set forth in Section 4 of this Article that he conducted himself in good faith and that he reasonably believed (1) in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation's best interests, or (ii) in all other cases (except criminal cases), that his conduct was at least not opposed to the corporation's best interests, or (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. A Proper Person will be deemed to be acting in his official capacity while acting as a director, officer, employee or agent on behalf of this corporation and not while acting on this corporation's behalf for some other entity.

No indemnification shall be made under this Article X to a Proper Person with respect to any claim, issue or matter in connection with a proceeding by or in the right of a corporation in which the Proper Person was adjudged liable to the corporation or in connection with any proceeding charging that the Proper Person derived an improper personal benefit, whether or not involving action in an official capacity, in which he was adjudged liable on the basis that he derived an improper personal benefit. Further, indemnification under this Section in connection with a proceeding brought by or in the right of the corporation shall be limited to reasonable expenses, including attorneys' fees, incurred in connection with the proceeding.

The corporation shall indemnify any Proper Person who was wholly successful, on the merits or otherwise, in defense of any action, suit, or proceeding as to which he was entitled to indemnification under this Article X against expenses (including attorneys' fees) reasonably incurred by him in connection with the proceeding without the necessity of any action by the

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corporation other than the determination in good faith that the defense has been wholly successful.

The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person seeking indemnification did not meet the standards of conduct described in his Article X Entry of judgment by consent as part of a settlement shall not be deemed an adjudication of liability.

Except where there is a right to indemnification as set forth in this Article or where indemnification is ordered by a court, any indemnification shall be made by the corporation only as authorized in the specific case upon a determination by a proper group that indemnification of the Proper Person is permissible under the circumstances because he has met the applicable standards of conduct set forth in this Article. This determination shall be made by the board of directors by a majority vote of those present at a meeting at which a quorum is present, which quorum shall consist of directors not parties to the proceeding ("Quorum"). If a Quorum cannot be obtained, the determination shall be made by a majority vote of a committee of the board of directors not parties to the proceeding, except that directors who are parties to the proceeding may participate in the designation of directors for the committee. If a Quorum of the board of directors cannot be obtained and the committee cannot be established, or even if a Quorum is obtained or the committee is designated and a majority of the directors constituting such Quorum or committee so directs, the determination shall be made by (1) independent legal counsel selected by a vote of the board of directors or the committee in the manner specified in this paragraph, or, if a Quorum of the full board of directors cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full board (including directors who are parties to the action) or (ii) a vote of the shareholders.

Any Proper Person may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction for mandatory indemnification under this Article, including indemnification for reasonable expenses incurred to obtain court-ordered indemnification. If the court determines that such Proper Person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standards of conduct set forth in this Article or was adjudged liable in the proceeding, the court may order such indemnification as the court deems proper except that if the Proper Person has been adjudged liable, indemnification shall be limited to reasonable expenses incurred in connection with the proceeding and reasonable expenses incurred to obtain court-ordered indemnification.

Reasonable expenses (including attorneys' fees) incurred in defending an action, suit or proceeding as described in Section 1 may be paid by the corporation to any Proper Person in advance of the final disposition of such action, suit or proceeding upon receipt of (1) a written affirmation of such Proper Person's good faith belief that he has met the standards of conduct prescribed by this Article X (ii) a written undertaking, executed personally or on the Proper Person's behalf, to repay such advances if it is ultimately determined that he did not meet the prescribed standards of conduct (the undertaking shall be an unlimited general obligation of the Proper Person but need not be secured and may be accepted without reference to financial ability to make repayment), and (iii) a determination is made by the proper group (as described in this Article X) that the facts as then known to the group would not preclude indemnification. Determination and authorization of payments shall be made in the same manner specified in this Article X.

### **ARTICLE XI ARRANGEMENTS WITH CREDITORS**

Whenever a compromise or arrangement is proposed by the corporation between it and its creditors or any class of them, an/or between the corporation and its shareholders or any class of them, any court of equitable jurisdiction may on summary application by the corporation or by a majority of its shareholders, or on the application of any receiver or receivers appointed for the corporation, or on the application of trustees in dissolution, order a meeting of the creditors or class of creditors and/or of the shareholders or class of shareholders of the corporation, as the case may be, to be notified in such manner as the court decides. If a majority in number representing at least three fourths in the dollar amount owed to the creditors or class of creditors and/or the holders of the majority of the stock or class of stock of the corporation, as the case may be, agrees to any compromise or arrangement and/or to any reorganization of the corporations as a consequence of such compromise or arrangement, then said compromise or arrangement and/or said reorganization shall, if sanctioned by the court to which the application has been made, be binding upon all the creditors or class of creditors and/or on all the shareholders or class of shareholders of the corporation, as the case may be, and also on the corporation.

**ARTICLE XII  
SHAREHOLDERS' MEETINGS**

Shareholders' meetings may be held at such time and place as may be stated or fixed in accordance with the Bylaws. At all shareholders' meetings, one third of all shares entitled to vote shall constitute a quorum.

**ARTICLE XIII  
DISSOLUTION**

Section 1. Procedure. The corporation shall be dissolved upon the affirmative vote of the holders of at least a majority of the shares entitled to vote thereon at a meeting duly called for that purpose, or when authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon.

Section 2. Revocation. The corporation shall revoke voluntary dissolution proceedings upon the affirmative vote of the holders of at least a majority of the shares entitled to vote at a meeting duly called for that purpose, or when authorized or ratified by the written consent of the holders of all of the shares entitled to vote thereon.

**ARTICLE XIV  
MISCELLANEOUS**

Meetings of stockholders may be held within or without the State of Delaware as the By-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-laws of the corporation. The election of directors need not be by written ballot unless the By-laws so provide. The Board of Directors of the corporation is authorized and empowered from time to time in its discretion to make, alter, amend or repeal the By-laws of the corporation.

Notwithstanding anything herein to the contrary, the number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the outstanding stock of the corporation entitled to vote generally irrespective of the provisions of Section 242(b)(2) of the

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General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Medix Resources, Inc. has caused this certificate to be signed by Mark Lerner, its Executive Vice President and Chief Financial Officer, on the \_\_\_ day of \_\_\_, 2003.

-----  
Mark Lerner,  
Executive Vice President and Chief Financial Officer

**ANNEX C**

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**BYLAWS**

**OF**

**MEDIX RESOURCES, INC.**

**A Delaware Corporation**  
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### BY-LAWS

### OF

### MEDIX RESOURCES, INC.



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(a Delaware corporation)

## ARTICLE I

### Offices

The principal office of the corporation shall be designated from time to time by the corporation and may be within or outside of Delaware.

The corporation may have such other offices, either within or outside Delaware, as the board of directors may designate or as the business of the corporation may require from time to time.

The registered office of the corporation required by the Delaware General Corporation Law to be maintained in Delaware may be, but need not be, identical with the principal office, and the address of the registered office may be changed from time to time by the board of directors.

## ARTICLE II

### Shareholders

Section 1. *Annual Meeting.* The annual meeting of the shareholders shall be held on the date and at a time fixed by the board of directors of the corporation (or by the president in the absence of action by the board of directors).

Section 2. *Special Meetings.* Unless otherwise prescribed by statute, special meetings of the shareholders may be called for any purpose by the president or by the board of directors. The president shall call a special meeting of the shareholders if the corporation receives one or more written demands for the meeting, stating the purpose or purposes for which it is to be held, signed and dated by holders of shares representing at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

Section 3. *Place of Meeting.* The board of directors may designate any place, either within or outside Delaware, as the place for any annual meeting or any special meeting called by the board of directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or outside Delaware, as the place for such meeting. If no designation is made, or if a special meeting is called other than by the board, the place of meeting shall be the principal office of the corporation.

Section 4. *Notice of Meeting.* Written notice stating the place, date, and hour of the meeting shall be given not less than ten nor more than sixty days before the date of the meeting, except that (i) if the number of authorized shares is to be increased, at least thirty days' notice shall be given, or (ii) any other longer notice period is required by the Delaware General Corporation Law. Notice of a special meeting need not include a description of the purpose or purposes of the meeting except the purpose or purposes shall be stated with respect to (i) an amendment to the certificate of incorporation of the corporation: (ii) a merger or share exchange in which the corporation is a party and, with respect to a share exchange, in which the corporation's shares will be acquired, (iii) a sale, lease, exchange or other disposition, other than in the usual and regular course of business, of all or substantially all of the property of the corporation or of another entity which this corporation controls, in each case with or without the goodwill, (iv) a dissolution of the corporation, or (v) any other purpose for which a statement of purpose is required by the Delaware General Corporation Law. Notice shall be given personally or by mail, private carrier, telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at

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the direction of the president, the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed and if in a comprehensible form, such notice shall be deemed to be given and effective when deposited in the United States mail, addressed to the shareholder at his address as it appears in the corporation's current record of shareholders, with postage prepaid. If notice is given other than by mail, and provided that such notice is in a comprehensible form, the notice is given and effective on the date received by the shareholder.

If requested by the person or persons lawfully calling such meeting, the secretary shall give notice thereof at corporate expense. No notice need be sent to any shareholder if three successive notices mailed to the last known address of such shareholder have been returned as undeliverable until such time as another address for such shareholder is made known to the corporation by such shareholder. In order to be entitled to receive notice of any meeting, a shareholder shall advise the corporation in writing of any change in such shareholder's mailing address as shown on the corporation's books and records.

When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time or place of such meeting is announced before adjournment at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which may have been transacted at the original meeting. If the adjournment is for more than 30 days, or if a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting as of the new record date.

A shareholder may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such shareholder. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, by attending a meeting either in person or by proxy, a shareholder waives objection to lack of notice or defective notice of the meeting unless the shareholder objects at the beginning of the meeting to the holding of the meeting or the transaction of business at the meeting because of lack of notice or defective notice. By attending the meeting, the shareholder also waives any objection to consideration at the meeting of a particular matter not within the purpose or purposes described in the meeting notice unless the shareholder objects to considering the matter when it is presented.

Section 5. *Fixing of Record Date.* For the purpose of determining shareholders entitled to (i) notice of or vote at any meeting of shareholders or any adjournment thereof, (ii) receive distributions or share dividends, or (iii) demand a special meeting, or to make a determination of shareholders for any other proper purpose, the board of directors may fix a future date as the record date for any such determination of shareholders, such date in any case to be not more than sixty days, and, in case of a meeting of shareholders, not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed by the directors, the record date shall be the date on which notice of the meeting is mailed to shareholders, or the date on which the resolution of the board of directors providing for a distribution is adopted, as the case may be. When a determination of shareholders entitled to vote at any meeting of shareholders is made as provided in this Section, such determination shall apply to any adjournment thereof unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 30 days after use dire fixed for the original meeting.

Notwithstanding the above, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date a writing upon which the action is taken is first received by the corporation. The record date for determining shareholders entitled to demand a special meeting shall be the date of the earliest of any of

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the demands pursuant to which the meeting is called.

Section 6. *Voting Lists.* The secretary shall make, at the earlier of ten days before each meeting of shareholders or two business days after notice of the meeting has been given, a complete list of the shareholders entitled to be given notice of such meeting or any adjournment thereof. The list shall be arranged by voting groups and within each voting group by class or series of shares, shall be in alphabetical order within each class or series, and shall show the address of and the number of shares of each class or series held by each shareholder. For the period beginning the earlier of ten days prior to the meeting or two business days after notice of the meeting is given and continuing through the meeting and any adjournment thereof, this list shall be kept on file at the principal office of the corporation, or at a place (which shall be identified in the notice) in the city where the meeting will be held. Such list shall be available for inspection on written demand by any shareholder (including for the purpose of this Section 6 any holder of voting trust certificates) or his agent or attorney during regular business hours and during the period available for inspection. The original stock transfer books shall be prima facie evidence as to the shareholders entitled to examine such list or to vote at any meeting of shareholders.

Any shareholder, his agent or attorney may copy the list during regular business hours and during the period it is available for inspection, provided (i) the demand is for a purpose reasonably related to the demanding shareholder's interest as a shareholder, (ii) the shareholder describes with reasonable particularity the purpose and the records the shareholder desires to inspect, (iii) the records are directly connected with the described purpose, and (iv) the shareholder pays a reasonable charge covering the costs of labor and material for such copies, not to exceed the estimated cost of production and reproduction.

Section 7. *Recognition Procedure for Beneficial Owners.* The board of directors may adopt by resolution a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of such shareholder are held for the account of a specified person or persons. The resolution may set forth (1) the types of nominees to which it applies, (ii) the rights or privileges that the corporation will recognize in a beneficial owner, which may include rights and privileges other than voting, (iii) the form of certification and the information to be contained therein, (iv) if the certification is with respect to a record date, the time within which the certification must be received by the corporation, (v) the period for which the nominee's use of the procedure is effective, and (vi) such other provisions with respect to the procedure as the board deems necessary or desirable. Upon receipt by the corporation of a certificate complying with the procedure established by the board of directors, the persons specified in the certification shall be deemed, for the purpose or purposes set forth in the certification, to be the registered holders of the number of shares specified in place of the shareholder making the certification.

Section 8. *Quorum and Manner of Acting.* One-third of the votes entitled to be cast on a matter by a voting group shall constitute a quorum of that voting group for action on the matter. If less than one-third of such votes are represented at a meeting, a majority of the votes so represented may adjourn the meeting from time to time without further notice, for a period not to exceed 30 days for any one adjournment. If a quorum is present at such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, unless the meeting is adjourned and a new record date is set for the adjourned meeting.

Section 9. *Proxies.* At all meetings of shareholders, a shareholder may vote

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by proxy by signing an appointment form or similar writing, either personally or by his duly authorized attorney-in-fact. A shareholder may also appoint a proxy by transmitting or authorizing the transmission of a telegram, teletype, or other electronic transmission providing a written statement of the appointment to the proxy, a proxy solicitor, proxy support service organization, or other person duly authorized by the proxy to receive appointments as agent for the proxy, or to the corporation. The transmitted appointment shall set forth or be transmitted with written evidence from which it can be determined that the shareholder transmitted or authorized the transmission of the appointment. The proxy appointment form or similar writing, shall be filed with the secretary of the corporation before or at the time of the meeting. The appointment of a proxy is effective when received by the corporation and is valid for eleven months unless a different period is expressly provided in the appointment form or similar writing.

Any complete copy, including an electronically transmitted facsimile, of an appointment of a proxy may be substituted for or used in lieu of the original appointment for any purpose for which the original appointment could be used.

Revocation of a proxy does not affect the right of the corporation to accept the proxy's authority unless (1) the corporation had notice that the appointment was coupled with an interest and notice that such interest is extinguished is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment, or (ii) other notice of the revocation of the appointment is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. Other notice of revocation may, in the discretion of the corporation, be deemed to include the appearance at a shareholders' meeting of the shareholder who granted the proxy and his voting in person on any matter subject to a vote at such meeting.

The death or incapacity of the shareholder appointing a proxy does not affect the right of the corporation to accept the proxy's authority unless notice of the death or incapacity is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment.

The corporation shall not be required to recognize an appointment made irrevocable if it has received a writing revoking the appointment signed by the shareholder (including a shareholder who is a successor to the shareholder who granted the proxy) either personally or by his attorney-in-fact, notwithstanding that the revocation may be a breach of an obligation of the shareholder to another person not to revoke the appointment.

Subject to Section 11 and any express limitation on the proxy's authority appearing on the appointment form, the corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment.

Section 10. *Voting Shares.* Each outstanding share, regardless of class, shall be entitled to one vote, and each fractional share shall be entitled to a corresponding fractional vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by the certificate of incorporation as permitted by the Delaware General Corporation Law. Cumulative voting shall not be permitted in the election of directors or for any other purpose.

Section 11. *Corporation's Acceptance of Votes.* If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and give it effect as the act of the shareholder. If the name signed on a vote, consent, waiver, proxy appointment or proxy

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appointment revocation does not correspond to the name of a shareholder, the corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and to give it effect as the act of the shareholder if:

(i) the shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;

(ii) the name signed purports to be that of an administrator, executor, guardian or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;

(iii) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;

(iv) the name signed purports to be that of a pledgee, beneficial owner or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;

(v) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries, and the person signing appears to be acting on behalf of all the co-tenants or fiduciaries; or

(vi) the acceptance of the vote, consent, waiver, proxy appointment or proxy appointment revocation is otherwise proper under rules established by the corporation that are not inconsistent with this Section 11.

The corporation is entitled to reject a vote, consent, waiver, proxy appointment or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

Neither the corporation nor its officers nor any agent who accepts or rejects a vote, consent, waiver, proxy appointment or proxy appointment revocation in good faith and in accordance with the standards of this Section is liable in damages for the consequences of the acceptance or rejection.

Section 12. *Informal Action by Shareholders.* Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof and received by the corporation. Such consent shall have the same force and effect as a unanimous vote of the shareholders and may be stated as such in any document. Action taken under this Section 12 is effective as of the date the last writing necessary to effect the action is received by the corporation, unless all of the writings specify a different effective date, in which case such specified date shall be the effective date for such action. If any shareholder revokes his consent as provided for herein prior to what would otherwise be the effective date, the action proposed in the consent shall be invalid. The record date for determining shareholders entitled to take action without a meeting is the date the corporation first receives a writing upon which the action is taken.

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Any shareholder who has signed a writing describing and consenting to action taken pursuant to this Section 12 may revoke such consent by a writing signed by the shareholder describing the action and stating that the shareholder's prior consent thereto is revoked, if such writing is received by the corporation before the effectiveness of the action.

Section 13. *Meetings by Telecommunication.* Any or all of the shareholders may participate in an annual or special shareholders' meeting by, or the meeting may be conducted through the use of, any means of communication by which all persons participating in the meeting may hear each other during the meeting. A shareholder participating in a meeting by this means is deemed to be present in person at the meeting.

### ARTICLE III

#### Board of Directors

Section 1. *General Powers.* All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of its board of directors, except as otherwise provided in the Delaware General Corporation Law or the certificate of incorporation.

Section 2. *Number, Qualification and Tenure.* The number of the directors shall be fixed by resolution of the board of directors from time to time and may be increased or decreased by resolution adopted by the board of directors from time to time, but no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors shall be natural persons at least eighteen years old but need not be residents of the State of Delaware or shareholders of the corporation. The board of directors shall be elected at the annual meeting of the shareholders or at a special meeting called for that purpose. Each director shall be elected to hold office until the next annual meeting of shareholders and until the director's successor is elected and qualified.

Section 3. *Vacancies.* Any director may resign at any time by giving written notice to the corporation. Such resignation shall take effect at the time the notice is received by the corporation unless the notice specifies a later effective date. Unless otherwise specified in the notice of resignation, the corporation's acceptance of such resignation shall not be necessary to make it effective. Any vacancy on the board of directors may be filled by the affirmative vote of a majority of the shareholders or the board of directors. If the directors remaining in office constitute fewer than a quorum of the board, the directors may fill the vacancy by the affirmative vote of a majority of all directors remaining in office. If elected by the directors, the director shall hold office until the next annual shareholders' meeting at which directors are elected. If elected by the shareholders, the director shall hold office for the unexpired term of his predecessor in office; except that, if the director's predecessor was elected by the directors to fill a vacancy, the director elected by the shareholders shall hold office for the unexpired term of the last predecessor elected by the shareholders.

Section 4. *Regular Meetings.* A regular meeting of the board of directors shall be held without notice immediately after and at the same place as the annual meeting of shareholders. The boards of directors may provide by resolution the time and place, either within or outside Delaware, for the holding of additional regular meetings without other notice.

Section 5. *Special Meetings.* Special meetings of the board of directors may be called by or at the request of the chairman of the board, the president or

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any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or outside Delaware, as the place for holding any special meeting of the board of directors called by them.

Section 6. *Notice.* Notice of any special meeting shall be given at least one day prior to the meeting by written notice either personally delivered or mailed to each director at his business address, or by notice transmitted by telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (1) three days after such notice is deposited in the United States mail, properly addressed, with postage prepaid, or (ii) the date shown on the return receipt, if mailed by registered or certified mail return receipt requested. If notice is given by telex, electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent, and with respect to a telegram, such notice shall be deemed to be given and to be effective when the telegram is delivered to the telegraph company. If a director has designated in writing one or more reasonable addresses or facsimile numbers for delivery of notice to him, notice sent by mail, telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication shall not be deemed to have been given or to be effective unless sent to such addresses or facsimile numbers, as the case may be.

A director may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such director. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, a director's attendance at or participation in a meeting waives any required notice to him of the meeting unless at the beginning of the meeting, or promptly upon his later arrival, the director objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 7. *Quorum.* A majority of the number of directors fixed by the board of directors pursuant to Section 2 or, if no number is fixed, a majority of the number in office immediately before the meeting begins, shall constitute a quorum for the transaction of business at any meeting of the board of directors.

If less than such a majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, for a period not to exceed thirty days at any one adjournment.

Section 8. *Manner of Acting.* The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 9. *Compensation.* By resolution of the board of directors, any director may be paid any one or more of the following: his expenses, if any, of attendance at meetings, a fixed sum for attendance at each meeting, a stated salary as director, or such other compensation as the corporation and the directory may reasonably agree upon. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 10. *Presumption of Assent.* A director of the corporation who is present at a meeting of the board of directors or committee of the board at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (1) the director objects at the beginning of the meeting, or promptly upon his arrival, to the holding of the meeting or the

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transaction of business at the meeting and does not thereafter vote for or assent to any action taken at the meeting, (ii) the director contemporaneously requests that his dissent or abstention as to any specific action taken be entered in the minutes of the meeting, or (iii) the director causes written notice of his dissent or abstention as to any specific action to be received by the presiding officer of the meeting before its adjournment or by the corporation promptly after the adjournment of the meeting. A director may dissent to a specific action at a meeting, while assenting to others. The right to dissent to a specific action taken at a meeting of the board of directors or a committee of the board shall not be available to a director who voted in favor of such action.

Section 11. *Committee.* By resolution adopted by a majority of all the directors in office when the action is taken, the board of directors may designate from among its members an executive committee and one or more other committees, and appoint one or more members of the board of directors to serve on them. To the extent provided in the resolution, each committee shall have all the authority of the board of directors, provided that no committee shall have any authority over matters which, under the Delaware General Corporation Law, may only be considered by the Board of Directors and not by any committee thereof.

Section 12. *Other Sections.* Sections 4, 5, 6, 7, 8 and 12 of Article III, which govern meetings, notice, waiver of notice, quorum, voting requirements and action without a meeting of the board of directors, shall apply to committees and their members appointed under this Section 11.

Neither designation of any such committee, the delegation of authority to such committee, nor any action by such committee pursuant to its authority shall alone constitute compliance by any member of the board of directors or a member of the committee in question with his responsibility to conform to the standard of care set forth in Article III, Section 14 of these bylaws.

Section 13. *Informal Action by Directors.* Any action required or permitted to be taken at a meeting of the directors or any committee designated by the board of directors may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the directors entitled to vote with respect to the action taken. Such consent shall have the same force and effect as a unanimous vote of the directors or committee members and may be stated as such in any document. Unless the consent specifies a different effective date, action taken under this Section 12 is effective at the time the last director signs a writing describing the action taken, unless, before such time, any director has revoked his consent by a writing signed by the director and received by the president or the secretary of the corporation.

Section 14. *Telephonic Meetings.* The board of directors may permit any directors (or any member of a committee designated by the board) to participate in a regular or special meeting of the board of directors or a committee thereof through the use of any means of communication by which all directors participating in the meeting can hear each other during the meeting. A director participating in a meeting in this manner is deemed to be present in person at the meeting.

Section 15. *Standard of Care.* A director shall perform his duties as a director, including without limitation his duties as a member of any committee of the board, in good faith, in a manner he reasonably believes to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In performing his duties, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by the persons herein



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designated. However, he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question, that would cause such reliance to be unwarranted. A director shall not be liable to the corporation or its shareholders for any action he takes or omits to take as a director if, in connection with such action or omission, he performs his duties in compliance with this Section 14.

The designated persons on whom a director is entitled to rely are (i) one or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matter presented, (ii) legal counsel, public accountant, or other person as to matters which the director reasonably believes to be within such person's professional or expert competence, or (iii) a committee of the board of directors on which the director does not serve if the director reasonably believes the committee merits confidence.

### ARTICLE IV

#### Officers and Agents

Section 1. *General.* The officers of the corporation shall be a president, one or more vice presidents, a secretary and a treasurer, each of whom shall be a natural person eighteen years of age or older. The board of directors or an officer or officers authorized by the board may appoint such other officers, assistant officers, committees and agents, including a chairman of the board, assistant secretaries and assistant treasurers, as they may consider necessary. The board of directors or the officer or officers authorized by the board shall from time to time determine the procedure for the appointment of officers, their term of office, their authority and duties and their compensation. One person may hold more than one office. In all cases where the duties of any officer, agent or employee are not prescribed by the bylaws or by the board of directors, such officer, agent or employee shall follow the orders and instructions of the president of the corporation.

Section 2. *Appointment and Term of Office.* The officers of the corporation shall be appointed by the board of directors at each annual meeting of the board held after each annual meeting of shareholders. If the appointment of officers is not made at such meeting or if an officer or officers are to be appointed by another officer or officers of the corporation, such appointments shall be made as soon thereafter as conveniently may be. Each officer shall hold office until the first of the following occurs: his successor shall have been duly appointed and qualified, his death, his resignation, or his removal in the manner provided in

Section 3. *Resignation and Removal.* An officer may resign at any time by giving written notice of resignation to the corporation. The resignation is effective when the notice is received by the corporation unless the notice specifies a later effective date.

Any officer or agent may be removed at any time with or without cause by the board of directors or an officer or officers authorized by the board. Such removal does not affect the contract rights, if any, of the corporation or of the person so removed. The appointment of an officer or agent shall not in itself create contract rights.

Section 4. *Vacancies.* A vacancy in any office, however occurring, may be filled by the board of directors, or by the officer or officers authorized by the board, for the unexpired portion of the officer's term. If an officer resigns and his resignation is made effective at a later date, the board of directors, or officer or officers authorized by the board, may permit the officer to remain in office until the effective date and may fill the pending

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vacancy before the effective date if the board of directors or officer or officers authorized by the board provide that the successor shall not take office until the effective date. In the alternative, the board of directors, or officer or officers authorized by the board of directors, may remove the officer at any time before the effective date and may fill the resulting vacancy.

Section 5. *President.* Subject to the direction and supervision of the board of directors, the president shall be the chief executive officer of the corporation, and shall have general and active control of its affairs and business and general supervision of its officers, agents and employees. Unless otherwise directed by the board of directors, the president shall attend in person or by substitute appointed by him, or shall execute on behalf of the corporation written instruments appointing a proxy or proxies to represent the corporation at, all meetings of the stockholders of any other corporation in which the corporation holds any stock. On behalf of the corporation, the president may in person or by substitute or by proxy execute written waivers of notice and consents with respect to any such meetings. At all such meetings and otherwise, the president in person or by substitute or proxy, may vote the stock held by the corporation, execute written consents and other instruments with respect to such stock, and exercise any and all rights and powers incident to the ownership of said stock, subject to the instructions, if any, of the board of directors. The president shall have custody of the treasurer's bond, if any.

Section 6. *Vice Presidents.* The vice presidents shall assist the president and shall perform such duties as may be assigned to them by the president or by the board of directors. In the absence of the president, the vice president, if any (or, if more than one, the vice presidents in the order designated by the board of directors, or if the board makes no such designation, the vice president designated by the president, or if neither the board nor the president makes any such designation, the senior vice president as determined by first election to that office), shall have the powers and perform the duties of the president.

Section 7. *Secretary.* The secretary shall (1) prepare and maintain as permanent records the minutes of the proceedings of the shareholders and the board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation, and a record of all waivers of notice of meetings of shareholders and of the board of directors or any committee thereof, (ii) see that all notices are duly given in accordance with the provisions of these bylaws and as required by law, (iii) serve as custodian of the corporate records and of the seal of the corporation and affix the seal to all documents when authorized by the board of directors, (iv) keep at the corporation's registered office or principal place of business a record containing the names and addresses of all shareholders in a form that permits preparation of a list of shareholders arranged by voting group and by class or series of shares within each voting group, that is alphabetical within each class or series and that shows the address of, and the number of shares of such class or series held by, each shareholder, unless such a record shall be kept at the office of the corporation's transfer agent or registrar, (v) maintain at the corporation's principal office the originals or copies of the corporation's certificate of incorporation, bylaws, minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting for the past three years, all written communications within the past three years to shareholders as a group or the holders of any class or series of shares as a group, a list of the names and business addresses of the current directors and officers, a copy of the corporation's most recent corporate report filed with the Secretary of State and financial statements showing in reasonable detail the corporation's assets and liabilities and results of operations for the last three years, (vi) have general charge of the stock transfer books of the corporation, unless the corporation has a transfer agent, (vii) authenticate records of the corporation,

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and (viii) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the president or by the board of directors. Assistant secretaries, if any, shall have the same duties and powers, subject to supervision by the secretary. The directors and/or shareholders may however respectively designate a person other than the secretary or assistant secretary to keep the minutes of their respective meetings.

Any books, records, or minutes of the corporation may be in written form or in any form capable of being converted into written form within a reasonable time.

Section 8. *Treasurer.* The treasurer shall be the principal financial officer of the corporation, shall have the care and custody of all funds, securities, evidences of indebtedness and other personal property of the corporation and shall deposit the same in accordance with the instructions of the board of directors. He shall receive and give receipts and acquittances for money paid in on account of the corporation, and shall pay out of the corporation's funds on hand all bills, payrolls and other just debts of the corporation of whatever nature upon maturity. He shall perform all other duties incident to the office of the treasurer and, upon request of the board, shall make such reports to it as may be required at any time. He shall, if required by the board, give the corporation a bond in such sums and with such sureties as shall be satisfactory to the board, conditioned upon the faithful performance of his duties and for the restoration to the corporation of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation. He shall have such other powers and perform such other duties as may from time to time be prescribed by the board of directors or the president. The assistant treasurers, if any, shall have the same powers and duties, subject to the supervision of the treasurer.

The treasurer keep complete books and records of account as required by the Delaware General Corporation Law, prepare and file all local, state and federal tax returns, prescribe and maintain an adequate system of internal audit and prepare and furnish to the president and the board of directors statements of account showing the financial position of the corporation and the results of its operations.

### ARTICLE V

#### Stock

Section 1. *Certificates.* The board of directors shall be authorized to issue any of its classes of shares with or without certificates. The fact that the shares are not represented by certificates shall have no effect on the rights and obligations of shareholders. If the shares are represented by certificates, such shares shall be represented by consecutively numbered certificates signed, either manually or by facsimile, in the name of the corporation by one or more persons designated by the board of directors. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nonetheless be issued by the corporation with the same effect as if he were such officer at the date of its issue. Certificates of stock shall be in such form and shall contain such information consistent with law as shall be prescribed by the board of directors. If shares are not represented by certificates, within a reasonable time following the issue or transfer of such shares, the corporation shall send the shareholder a complete written statement of all of the information required to be provided to holders of uncertificated shares by the Delaware General Corporation Law.

Section 2. *Consideration for Shares.* Certificated or uncertificated shares shall not be issued until the shares represented thereby are fully paid. The

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board of directors may authorize the issuance of shares for consideration consisting of any tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed or other securities of the corporation. Future services shall not constitute payment or partial payment for shares of the corporation. The promissory note of a subscriber or an affiliate of a subscriber shall not constitute payment or partial payment for shares of the corporation unless the note is negotiable and is secured by collateral, other than the shares being purchased, having a fair market value at least equal to the principal amount of the note. The corporation may place in escrow shares issued in consideration of a promissory note, or make other arrangement to restrict transfer of the shares issued for any such consideration, and may credit the distributions in respect of the shares against the purchase price until the note is paid, or the payments are received. If the note is not paid, the shares escrowed or restricted or the distributions credited may be cancelled in whole or part. For purposes of this Section 2, "promissory note" means a negotiable instrument on which there is an obligation to pay independent of collateral and does not include a non-recourse note.

Section 3. *Lost Certificates.* In case of the alleged loss, destruction or mutilation of a certificate of stock, the board of directors may direct the issuance of a new certificate in lieu thereof upon such terms and conditions in conformity with law as the board may prescribe. The board of directors may in its discretion require an affidavit of lost certificate and/or bond in such form and amount and with such surety as it may determine before issuing a new certificate.

Section 4. *Transfer of Shares.* Upon surrender to the corporation or to a transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and receipt of such documentary stamps as may be required by law and evidence of compliance with all applicable securities laws and other restrictions, the corporation shall issue a new certificate to the person entitled thereto, and cancel the old certificate. Every such transfer of stock shall be entered on the stock books of the corporation which shall be kept at its principal office or by the person and the place designated by the board of directors.

Except as otherwise expressly provided in Article 11, Sections 7 and 11, and except for the assertion of dissenters' rights to the extent provided in the Delaware General Corporation Law, the corporation shall be entitled to treat the registered holder of any shares of the corporation as the owner thereof for all purposes, and the corporation shall not be bound to recognize any equitable or other claim to, or interest in, such shares or rights deriving from such shares on the part of any person other than the registered holder, including without limitation any purchaser, assignee or transferee of such shares or rights deriving from such shares, unless and until such other person becomes the registered holder of such shares, whether or not the corporation shall have either actual or constructive notice of the claimed interest of such other person.

Section 5. *Transfer Agent, Registrars and Paving Agents.* The board may at its discretion appoint one or more transfer agents, registrars and agents for making payment upon any class of stock, bond, debenture or other security of the corporation. Such agents and registrars may be located either within or outside Delaware. They shall have such rights and duties and shall be entitled to such compensation as may be agreed.

### ARTICLE VI

#### Indemnification of Certain Persons

Section 1. *General Indemnification.* The provisions of this Article VI and

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Article VII shall apply except to the extent inconsistent with the terms of the corporation's certificate of incorporation. For purposes of Article VI, a "Proper Person" means any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he is or was a director, officer, employee, fiduciary or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any foreign or domestic profit or nonprofit corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company, or other enterprise or employee benefit plan. The corporation shall indemnify any Proper Person against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding if it is determined by the groups set forth in Section 4 of this Article that he conducted himself in good faith and that he reasonably believed (i) in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation's best interests, or (ii) in all other cases (except criminal cases), that his conduct was at least not opposed to the corporation's best interests, or (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. A Proper Person will be deemed to be acting in his official capacity while acting as a director, officer, employee or agent on behalf of this corporation and not while acting on this corporation's behalf for some other entity.

No indemnification shall be made under this Article VI to a Proper Person with respect to any claim, issue or matter in connection with a proceeding by or in the right of a corporation in which the Proper Person was adjudged liable to the corporation or in connection with any proceeding charging that the Proper Person derived an improper personal benefit, whether or not involving action in an official capacity, in which he was adjudged liable on the basis that he derived an improper personal benefit. Further, indemnification under this Section in connection with a proceeding brought by or in the right of the corporation shall be limited to reasonable expenses, including attorneys' fees, incurred in connection with the proceeding.

Section 1. *Right to Indemnification.* The corporation shall indemnify any Proper Person who was wholly successful, on the merits or otherwise, in defense of any action, suit, or proceeding as to which he was entitled to indemnification under Section 1 of this Article VI against expenses (including attorneys' fees) reasonably incurred by him in connection with the proceeding without the necessity of any action by the corporation other than the determination in good faith that the defense has been wholly successful.

Section 2. *Effect of Termination of Action.* The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person seeking indemnification did not meet the standards of conduct described in Section 1 of this Article VI. Entry of judgment by consent as part of a settlement shall not be deemed an adjudication of liability, as described in Section 2 of this Article VI.

Section 3. *Groups Authorized to Make Indemnification Determination.* Except where there is a right to indemnification as set forth in Section 1 or 2 of this Article or where indemnification is ordered by a court in Section 5, any indemnification shall be made by the corporation only as authorized in the specific case upon a determination by a proper group that indemnification of the Proper Person is permissible under the circumstances because he has met the applicable standards of conduct set forth in Section 1 of this Article. This determination shall be made by the board of directors by a majority vote of

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those present at a meeting at which a quorum is present, which quorum shall consist of directors not parties to the proceeding ("Quorum"). If a Quorum cannot be obtained, the determination shall be made by a majority vote of a committee of the board of directors not parties to the proceeding, except that directors who are parties to the proceeding may participate in the designation of directors for the committee. If a Quorum of the board of directors cannot be obtained and the committee cannot be established, or even if a Quorum is obtained or the committee is designated and a majority of the directors constituting such Quorum or committee so directs, the determination shall be made by (1) independent legal counsel selected by a vote of the board of directors or the committee in the manner specified in this Section 4, or, if a Quorum of the full board of directors cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full board (including directors who are parties to the action) or (ii) a vote of the shareholders.

Section 4. *Court-Ordered Indemnification.* Any Proper Person may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction for mandatory indemnification under Section 2 of this Article, including indemnification for reasonable expenses incurred to obtain court-ordered indemnification. If the court determines that such Proper Person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standards of conduct set forth in Section 1 of this Article or was adjudged liable in the proceeding, the court may order such indemnification as the court deems proper except that if the Proper Person has been adjudged liable, indemnification shall be limited to reasonable expenses incurred in connection with the proceeding and reasonable expenses incurred to obtain court-ordered indemnification.

Section 5. *Advance of Expenses.* Reasonable expenses (including attorneys' fees) incurred in defending an action, suit or proceeding as described in Section 1 may be paid by the corporation to any Proper Person in advance of the final disposition of such action, suit or proceeding upon receipt of (1) a written affirmation of such Proper Person's good faith belief that he has met the standards of conduct prescribed by Section 1 of this Article VI, (ii) a written undertaking, executed personally or on the Proper Person's behalf, to repay such advances if it is ultimately determined that he did not meet the prescribed standards of conduct (the undertaking shall be an unlimited general obligation of the Proper Person but need not be secured and may be accepted without reference to financial ability to make repayment), and (iii) a determination is made by the proper group (as described in Section 4 of this Article VI) that the facts as then known to the group would not preclude indemnification. Determination and authorization of payments shall be made in the same manner specified in Section 4 of this Article VI.

### ARTICLE VII

#### Provision of Insurance

By action of the board of directors, notwithstanding any interest of the directors in the action, the corporation may purchase and maintain insurance, in such scope and amounts as the board of directors deems appropriate, on behalf of any person who is or was a director, officer, employee, fiduciary or agent of the corporation, or who, while a director, officer, employee, fiduciary or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary or agent of any other foreign or domestic corporation or of any partnership, joint venture, trust, profit or nonprofit unincorporated association, limited liability company or other enterprise or employee benefit plan, against any liability asserted against, or incurred by, him in that capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him

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against such liability under the provisions of Article VI or applicable law. Any such insurance may be procured from any insurance company designated by the board of directors of the corporation, whether such insurance company is formed under the laws of Delaware or any other jurisdiction of the United States or elsewhere, including any insurance company in which the corporation has an equity interest or any other interest, through stock ownership or otherwise.

### ARTICLE VIII

#### Miscellaneous

Section 1. *Seal*. The corporate seal of the corporation shall be circular in form and shall contain the name of the corporation and such other words as shall be required by law.

Section 2. *Fiscal Year*. The fiscal year of the corporation shall be as established by the board of directors.

Section 3. *Amendments*. The board of directors shall have power, to the maximum extent permitted by the Delaware General Corporation Law, to make, amend and repeal the bylaws of the corporation at any regular or special meeting of the board unless the shareholders, in making, amending or repealing a particular bylaw, expressly provide that the directors may not amend or repeal such by law. The shareholders also shall have the power to make, amend or repeal the bylaws of the corporation at any annual meeting or at any special meeting called for that purpose.

Section 4. *Gender*. The masculine gender is used in these bylaws as a matter of convenience only and shall be interpreted to include the feminine and neuter genders as the circumstances indicate.

Section 5. *Conflicts*. In the event of any irreconcilable conflict between these bylaws and either the corporation's certificate of incorporation or applicable law, the latter shall control.

Section 6. *Definitions*. Except as otherwise specifically provided in these bylaws, all terms used in these bylaws shall have the same definition as in the Delaware General Corporation Law.

### ANNEX D

#### MEDIX RESOURCES, INC.

#### 2003 STOCK INCENTIVE PLAN

1. Purposes. This 2003 Stock Incentive Plan (the "Program") is intended to secure for Medix Resources, Inc. (the "Corporation"), its direct and indirect present and future subsidiaries, including without limitation any entity which the Corporation reasonably expects to become a subsidiary (the "Subsidiaries"), and its shareholders, the benefits arising from ownership of the Corporation's common stock, par value \$.001 per share (the "Common Stock"), by those selected directors, officers, key employees and consultants of the Corporation and the Subsidiaries who are most responsible for future growth. The Program is designed to help attract and retain superior individuals for positions of substantial responsibility with the Corporation and the Subsidiaries and to provide these persons with an additional incentive to contribute to the success of the Corporation and the Subsidiaries.

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2. Elements of the Program. In order to maintain flexibility in the award of benefits, the Program is comprised of four parts -- the Incentive Stock Incentive Plan ("Incentive Plan"), the Supplemental Stock Incentive Plan ("Supplemental Plan"), the Stock Appreciation Rights Plan ("SAR Plan") and the Performance Share Plan ("Performance Share Plan"). Copies of the Incentive Plan, Supplemental Plan, SAR Plan, Performance Share Plan and Non-Employee Director Stock Incentive Plan are attached hereto as Parts I, II, III, IV and V, respectively. Each such plan is referred to herein as a "Plan" and all such plans are collectively referred to herein as the "Plans." The term "Plans" shall also refer to the Program in its entirety, including the General Provisions. The grant of an option or other award under one of the Plans shall not be construed to prohibit the grant of an option or other award under any of the other Plans.

3. Applicability of General Provisions. Unless any of the Plans specifically indicates to the contrary, all Plans shall be subject to the general provisions of the Program set forth below under the heading "General Provisions of the Stock Incentive Plan" (the "General Provisions").

### GENERAL PROVISIONS OF THE STOCK INCENTIVE PLAN

Article 1. Administration. The Plans shall be administered by the Board of Directors of the Corporation (the "Board" or the "Board of Directors") or any duly created committee appointed by the Board and charged with the administration of the Plans. To the extent required in order to satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), such committee shall consist solely of "Outside Directors" (as defined herein). The Board, or any duly appointed committee, when acting to administer the Plans, is referred to as the "Plan Administrator". Any action of the Plan Administrator shall be taken by majority vote at a meeting or by unanimous written consent of all members without a meeting. No Plan Administrator or member of the Board of the Corporation shall be liable for any action or determination made in good faith with respect to the Plans or with respect to any option or other award granted pursuant to the Plans. For purposes of the Plans, the term "Outside Director" shall mean a director who (a) is not a current employee of the Corporation or the Subsidiaries; (b) is not a former employee of the Corporation or the Subsidiaries who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the then current taxable year; (c) has not been an officer of the Corporation or the Subsidiaries; and (d) does not receive remuneration (which shall be deemed to include any payment in exchange for goods or services) from the Corporation or the Subsidiaries, either directly or indirectly, in any capacity other than as a director, except as otherwise permitted under Code Section 162(m) and the regulations thereunder.

Article 2. Authority of Plan Administrator. Subject to the other provisions of this Program, and with a view to effecting its purpose, the Plan Administrator shall have the authority: (a) to construe and interpret the Plans; (b) to define the terms used herein; (c) to prescribe, amend and rescind rules and regulations relating to the Plans; (d) to determine the persons to whom options, stock appreciation rights and performance shares shall be granted under the Plans; (e) to determine the time or times at which options, stock appreciation rights and performance shares shall be granted under the Plans; (f) to determine the number of shares subject to any option or stock appreciation right under the Plans and the number of shares to be awarded as performance shares under the Plans as well as the option price, and the duration of each option, stock appreciation right and performance share, and any other terms and conditions of options, stock appreciation rights and performance shares; and (g) to make any other determinations necessary or advisable for the administration of the Plans and to do everything necessary or appropriate to administer the



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Plans. All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in the Plans and on their legal representatives, heirs and beneficiaries.

Article 3. Maximum Number of Shares Subject to the Plans. The maximum aggregate number of shares issuable pursuant to the Plans shall be 10,000,000 shares of Common Stock. No one person participating in the Plans may receive options or other awards for more than 4,000,000 shares of Common Stock in any calendar year. All such shares may be issued under any of the Plans which is part of the Program. If any of the options (including incentive stock options) or stock appreciation rights granted under the Plans expire or terminate for any reason before they have been exercised in full, the unissued shares subject to those expired or terminated options and/or stock appreciation rights shall again be available for purposes of the Program. If the performance objectives associated with the grant of any performance shares are not achieved within the specified performance objective period or if the performance share grant terminates for any reason before the performance objective date arrives, the shares of Common Stock associated with such performance shares shall again be available for the purposes of the Plans. Any shares of Common Stock delivered pursuant to the Plans may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Article 4. Eligibility and Participation. All directors (including non-employee directors), officers, employees and consultants of the Corporation and the Subsidiaries shall be eligible to participate in the Plans, except that only employees shall be eligible to participate in the Incentive Plan. The term "employee" shall include any person who has agreed to become an employee and the term "consultant" shall include any person who has agreed to become a consultant.

Article 5. Effective Date and Term of the Program. The Program shall become effective immediately upon approval of the Program by the Board of Directors of the Corporation, subject to approval of the Program by the shareholders of the Corporation within twelve months after the date of approval of the Program by the Board of Directors. The Program shall continue in effect for a term of ten years from the date that the Program is adopted by the Board of Directors, unless sooner terminated by the Board of Directors of the Corporation.

Article 6. Adjustments. In the event that the outstanding shares of Common Stock of the Corporation are hereafter increased, decreased, changed into or exchanged for a different number or kind of shares or securities through merger, consolidation, combination, exchange of shares, other reorganization, recapitalization, reclassification, stock dividend, stock split or reverse stock split (an "Adjustment Event"), an appropriate and proportionate adjustment shall be made by the Plan Administrator in the maximum number and kind of shares as to which options, stock appreciation rights and performance shares may be granted under the Plans A corresponding adjustment changing the number or kind of shares allocated to unexercised options, stock appreciation rights and performance shares, or portions thereof, which shall have been granted prior to any such Adjustment Event shall likewise be made. Any such adjustment in outstanding options or stock appreciation rights shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option or stock appreciation right but with a corresponding adjustment in the price for each share or other unit of any security covered by the option or stock appreciation right. In making any adjustment pursuant to this Article 6, any fractional shares shall be disregarded.

Article 7. Termination and Amendment of Plans and Awards. No options, stock appreciation rights or performance shares shall be granted under any of the Plans after the termination of such Plan. The Plan Administrator may at any time amend or revise the terms of any of the Plans or of any outstanding option, stock appreciation right or performance share issued under such Plan, provided,

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however, that (a) any shareholder approval required by applicable law or regulation (including without limitation Section 422 of the Code) shall be obtained and (b) no amendment, suspension or termination of any of the Plans or of any outstanding option, stock appreciation right or performance share shall, without the consent of the person who has received such option or other award, impair any of that person's rights or obligations under such option or other award.

Article 8. Privileges of Stock Ownership. Notwithstanding the exercise of any option granted pursuant to the terms of the Plans or the achievement of any performance objective specified in any performance share granted pursuant to the terms of the Performance Share Plan, no person shall have any of the rights or privileges of a shareholder of the Corporation in respect of any shares of stock issuable upon the exercise of his or her option or achievement of his or her performance objective until certificates representing the shares of Common Stock covered thereby have been issued and delivered. No adjustment shall be made for dividends or any other distributions for which the record date is prior to the date on which any stock certificate is issued pursuant to the Plans.

Article 9. Reservation of Shares of Common Stock. During the term of the Program, the Corporation will at all times reserve and keep available such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of the Program.

Article 10. Tax Withholding. The exercise of any option, stock appreciation right or performance share is subject to the condition that, if at any time the Corporation shall determine, in its discretion, that the satisfaction of withholding tax or other withholding liabilities under any state or federal law is necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase of shares pursuant thereto, then, in such event, the exercise of the option, stock appreciation right or performance share or the elimination of the risk of forfeiture relating thereto shall not be effective unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Corporation.

Article 11. Employment; Service as a Director or Consultant. Nothing in the Program gives to any person any right to continued employment by the Corporation or the Subsidiaries or to continued service as a director or consultant of the Corporation or the Subsidiaries or limits in any way the right of the Corporation or the Subsidiaries at any time to terminate or alter the terms of that employment or service.

Article 12. Investment Letter; Lock-Up Agreement; Restrictions on Obligation of the Corporation to Issue Securities; Restrictive Legend. Any person acquiring or receiving Common Stock or other securities of the Corporation pursuant to the Plans, as a condition precedent to receiving the shares of Common Stock or other securities, may be required by the Plan Administrator to submit a letter to the Corporation (a) stating that the shares of Common Stock or other securities are being acquired for investment and not with a view to the distribution thereof and (b) providing other assurances determined by the Corporation to be necessary or appropriate in order to assure that the issuance of such shares is exempt from any applicable securities registration requirements. The Corporation shall not be obligated to sell or issue any shares of Common Stock or other securities pursuant to the Plans unless, on the date of sale and issuance thereof, the shares of Common Stock or other securities are either registered under the Securities Act of 1933, as amended, and all applicable state securities laws, or exempt from registration thereunder. All shares of Common Stock and other securities issued pursuant to the Plans shall, if determined to be necessary by the Plan Administrator, bear a restrictive legend summarizing any restrictions on transferability applicable thereto, including those imposed by federal and state securities laws.

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Article 13. Covenant Against Competition. The Plan Administrator shall have the right to condition the award to an employee of the Corporation or the Subsidiaries of any option, stock appreciation right or performance share under the Plans upon the recipient's execution and delivery to the Corporation of an agreement not to compete with the Corporation and its Subsidiaries during the recipient's employment and for such period thereafter as shall be determined by the Plan Administrator. Such covenant against competition shall be in a form satisfactory to the Plan Administrator.

Article 14. Rights Upon Termination of Employment, Service as a Consultant or Service as a Director. Notwithstanding any other provision of the Plans, any benefit granted to an individual who has agreed to become an employee of, or consultant to, the Corporation or any Subsidiary or to become an employee of or consultant to any entity which the Corporation reasonably expects to become a Subsidiary, shall immediately terminate if the Plan Administrator determines, in its sole discretion, that such person or entity, as the case may be, will not become such employee, consultant or Subsidiary. If a recipient ceases to be employed by or to provide services as a consultant or director to the Corporation or any Subsidiary, or a corporation or a parent or subsidiary of such corporation issuing or assuming a stock option in a transaction to which Section 424(a) of the Code applies:

(a) because of termination by the Company or a Subsidiary without cause, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until 90 days after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all Naked Rights (as defined in the Stock Appreciation Rights Plan) not payable on the date of termination and all performance share awards still subject to the achievement of performance objectives shall terminate immediately;

(b) because of termination by the Company or a Subsidiary for cause, all options and other awards shall lapse immediately on the date of such termination;

(c) because of voluntary termination at the election of the recipient, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until 30 days after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all Naked Rights (as defined in the Stock Appreciation Rights Plan) not payable on the date of termination and all performance share awards still subject to the achievement of performance objectives shall terminate immediately; and

(d) because of death or disability, all options and stock appreciation rights may be exercised, to the extent exercisable on the date of termination, until twelve months after the date on which the employment or service terminated, but in any event not later than the date on which the option or stock appreciation right would otherwise terminate pursuant to the Plans, and all other awards (including all Naked Rights and performance shares still subject to the achievement of performance objectives) shall terminate immediately.

No exercise permitted by this Article 14 shall entitle an optionee or his or her personal representative, executor or administrator to exercise any portion of any option or stock appreciation right beyond the extent to which such option or stock appreciation right is exercisable pursuant to the Program on the date the recipient's employment or service terminates.

Article 15. Non-Transferability. Options and other awards granted under the

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Plans may not be sold, pledged, assigned or transferred in any manner by the recipient otherwise than by will or by the laws of descent and distribution and shall be exercisable (a) during the recipient's lifetime only by the recipient and (b) after the recipient's death only by the recipient's executor, administrator or personal representative, provided, however, that the Plan Administrator may permit the recipient of a supplemental option granted pursuant to Part II of the Program to transfer such options to a family member or a trust, limited liability company or partnership created for the benefit of family members, subject to such conditions as the Plan Administrator shall determine to be appropriate. In the case of such a transfer, the transferee's rights and obligations with respect to the applicable options shall be determined by reference to the recipient and the recipient's rights and obligations with respect to the applicable options had no transfer been made. The recipient shall remain obligated pursuant to Articles 10 and 12 hereunder if required by applicable law.

Article 16. Change in Control. All options granted pursuant to the Plans shall become fully exercisable upon the occurrence of a Change in Control Event. As used in the Plans, a "Change in Control Event" shall be deemed to have occurred if any of the following events occur:

(a) the consummation of any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Common Stock would be converted into cash, securities or other property, other than (i) a merger of the Corporation in which the holders of the shares of Common Stock immediately prior to the merger own more than fifty percent (50%) of the common stock of the surviving corporation immediately after the merger; or

(b) the consummation of any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation, other than to a subsidiary or affiliate; or

(c) an approval by the shareholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation; or

(d) any action pursuant to which any person (as such term is defined in Section 13(d) of the Exchange Act), corporation or other entity (other than any person who owns more than ten percent (10%) of the outstanding Common Stock on the date of adoption of this Program by the Board of Directors, the Corporation or any benefit plan sponsored by the Corporation or any of its subsidiaries) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of shares of capital stock entitled to vote generally for the election of directors of the Corporation ("Voting Securities") representing more than fifty (50%) percent of the combined voting power of the Corporation's then outstanding Voting Securities (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board shall determine that such person so becoming such beneficial owner shall not constitute a Change in Control.

Article 17. Merger or Asset Sale. For purposes of the Plans, a merger or consolidation which would constitute a Change in Control Event pursuant to Article 16 and a sale of assets which would constitute a Change in Control Event pursuant to Article 16 are hereinafter referred to as "Article 17 Events". In the event of an Article 17 Event, each outstanding option shall be assumed or an equivalent benefit shall be substituted by the entity determined by the Board of Directors of the Corporation to be the successor corporation. However, in the event that any such successor corporation does not agree in writing, at least 15 days prior to the anticipated date of consummation of such Article 17 Event, to

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assume or so substitute each such option, then each option not so assumed or substituted shall be deemed to be fully vested and exercisable 15 days prior to the anticipated date of consummation of such Article 17 Event. If an option is not so assumed or subject to such substitution, the Plan Administrator shall notify the holder thereof in writing or electronically that (a) such holder's option shall be fully exercisable until immediately prior to the consummation of such Article 17 Event and (b) such holder's option shall terminate upon the consummation of such Article 17 Event. For purposes of this Article 17, an option shall be considered assumed if, following consummation of the applicable Article 17 Event, the option confers the right to purchase or receive, for each share of Common Stock subject to the option immediately prior to the consummation of such Article 17 Event, the consideration (whether stock, cash or other securities or property) received in such Article 17 Event by holders of Common Stock for each share of Common Stock held on the effective date of such Article 17 Event (and, if holders of Common Stock are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in such Article 17 Event is not solely common stock of such successor, the Plan Administrator may, with the consent of such successor corporation, provide for the consideration to be received in connection with such option to be solely common stock of such successor equal in fair market value to the per share consideration received by holders of Common Stock in the Article 17 Event.

Article 18. Method of Exercise. Any optionee may exercise his or her option from time to time by giving written notice thereof to the Corporation at its principal office together with payment in full for the shares of Common Stock to be purchased. The date of such exercise shall be the date on which the Corporation receives such notice. Such notice shall state the number of shares to be purchased. The purchase price of any shares purchased upon the exercise of any option granted pursuant to the Plans shall be paid in full at the time of exercise of the option by certified or bank cashier's check payable to the order of the Corporation or, if permitted by the Plan Administrator, by shares of Common Stock, provided that such shares have been owned by the optionee for more than six months on the date of surrender to the Corporation, or by a combination of a check and shares of Common Stock. The Plan Administrator may, in its sole discretion, permit an optionee to make "cashless exercise" arrangements, to the extent permitted by applicable law, and may require optionees to utilize the services of a single broker selected by the Plan Administrator in connection with any cashless exercise. No option may be exercised for a fraction of a share of Common Stock. If any portion of the purchase price is paid in shares Common Stock, those shares shall be valued at their then Fair Market Value as determined by the Plan Administrator in accordance with Section 4 of the Incentive Plan.

Article 19. Ten-Year Limitations. Notwithstanding any other provision of the Plans, (a) no option or other award may be granted pursuant to the Plans more than ten years after the date on which the Plans were adopted by the Board of Directors and (b) any option or award granted under the Plans shall, by its terms, not be exercisable more than ten years after the date of grant.

Article 20. Sunday or Holiday. In the event that the time for the performance of any action or the giving of any notice is called for under the Plans within a period of time which ends or falls on a Sunday or legal holiday, such period shall be deemed to end or fall on the next day following such Sunday or legal holiday which is not a Sunday or legal holiday.

Article 21. Applicable Option Plan. In the event that a stock option is granted pursuant to the Program and the Plan Administrator does not specify whether such option has been granted pursuant to the Incentive Plan or the Supplemental Plan, such option shall be deemed to be granted pursuant to the Supplemental Plan.

**PART I**

**INCENTIVE STOCK INCENTIVE PLAN**

The following provisions shall apply with respect to options granted by the Plan Administrator pursuant to Part I of the Program:

Section 1. General. This Incentive Stock Incentive Plan ("Incentive Plan") is Part I of the Corporation's Program. The Corporation intends that options granted pursuant to the provisions of the Incentive Plan will qualify and will be identified as "incentive stock options" within the meaning of Section 422 of the Code. Unless any provision herein indicates to the contrary, this Incentive Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant incentive stock options to purchase Common Stock to any employee of the Corporation or its Subsidiaries. The terms and conditions of options granted under the Incentive Plan may differ from one another as the Plan Administrator shall, in its discretion, determine, as long as all options granted under the Incentive Plan satisfy the requirements of the Incentive Plan.

Section 3. Duration of Options. Each option and all rights thereunder granted pursuant to the terms of the Incentive Plan shall expire on the date determined by the Plan Administrator, but in no event shall any option granted under the Incentive Plan expire later than ten years from the date on which the option is granted. Notwithstanding the foregoing, any option granted under the Incentive Plan to any person who owns more than 10% of the combined voting power of all classes of stock of the Corporation or any Subsidiary shall expire no later than five years from the date on which the option is granted.

Section 4. Purchase Price. The option price with respect to any option granted pursuant to the Incentive Plan shall not be less than the Fair Market Value of the shares on the date of the grant of the option; except that the option price with respect to any option granted pursuant to the Incentive Plan to any person who owns more than 10% of the combined voting power of all classes of stock of the Corporation shall not be less than 110% of the Fair Market Value of the shares on the date the option is granted. For purposes of the Plans, the phrase "Fair Market Value" shall mean the fair market value of the Common Stock on the date of grant of an option or other relevant date. If on such date the Common Stock is listed on the American Stock Exchange or another stock exchange or is quoted on the automated quotation system of Nasdaq, the Fair Market Value shall be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) of a share Common Stock on such date. If no such closing sale price or bid and asked prices are available, the Fair Market Value shall be determined in good faith by the Plan Administrator in accordance with generally accepted valuation principles and such other factors as the Plan Administrator reasonably deems relevant.

Section 5. Maximum Amount of Options in Any Calendar Year. The aggregate Fair Market Value (determined as of the time the option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any employee during any calendar year (under the terms of the Incentive Plan and all incentive Stock Incentive Plans of the Corporation and the Subsidiaries) shall not exceed \$100,000.

Section 6. Exercise of Options. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set

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forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted options, incentive stock options may only be exercised to the following extent during the following periods of time:

During -----	Maximum Percentage of Shares Covered by Option Which May be Purchased -----
First 12 months after grant	0
First 24 months after grant	25%
First 36 months after grant	50%
First 48 months after grant	75%
Beyond 48 months after grant	100%

Section 7. Failure to Satisfy Applicable Requirements. To the extent that an option intended to be granted pursuant to the provisions of this Incentive Plan fails to satisfy one or more requirements of this Incentive Plan, it shall be deemed to be a supplemental stock option granted pursuant to the Supplemental Plan set forth as Part II of the Program.

### PART II

#### SUPPLEMENTAL STOCK INCENTIVE PLAN

The following provisions shall apply with respect to options granted by the Plan Administrator pursuant to Part II of the Program:

Section 1. General. This Supplemental Stock Incentive Plan ("Supplemental Plan") is Part II of the Corporation's Program. Any option granted pursuant to this Supplemental Plan shall not be an incentive stock option as defined in Section 422 of the Code. Unless any provision herein indicates to the contrary, this Supplemental Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant supplemental stock options to any person eligible under Article 4 of the General Provisions. The terms and conditions of options granted under this Supplemental Plan may differ from one another as the Plan Administrator shall, in its discretion, determine as long as all options granted under this Supplemental Plan satisfy the requirements of this Supplemental Plan.

Section 3. Duration of Options. Each option and all rights thereunder granted pursuant to the terms of this Supplemental Plan shall expire on the date determined by the Plan Administrator, but in no event shall any option granted under this Supplemental Plan expire later than ten years from the date on which the option is granted.

Section 4. Purchase Price. The option price with respect to any option granted pursuant to this Supplemental Plan shall be determined by the Plan Administrator at the time of grant. In the absence of such a determination, the option price of any such option shall equal the Fair Market Value of one share of Common Stock, as determined pursuant to Part I of this Program.

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Section 5. Exercise of Options. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted options, supplemental stock options may only be exercised to the following extent during the following periods of time:

During -----	Maximum Percentage of Shares Covered by Option Which May be Purchased -----
First 12 months after grant	0
First 24 months after grant	25%
First 36 months after grant	50%
First 48 months after grant	75%
Beyond 48 months after grant	100%

### PART III

#### STOCK APPRECIATION RIGHTS PLAN

Section 1. General. This Stock Appreciation Rights Plan ("SAR Plan") is Part III of the Corporation's Program.

Section 2. Terms and Conditions. The Plan Administrator may grant stock appreciation rights to any person eligible under Article 4 of the General Provisions. Stock appreciation rights may be granted either in tandem with supplemental stock options or incentive stock options as described in Section 4 of this SAR Plan or as naked stock appreciation rights as described in Section 5 of this SAR Plan.

Section 3. Mode of Payment. At the discretion of the Plan Administrator, payments to recipients upon exercise of stock appreciation rights may be made in (a) cash by bank check, (b) shares of Common Stock having a Fair Market Value (determined in the manner provided in Section 4 of the Incentive Plan) equal to the amount of the payment, (c) a note in the amount of the payment containing such terms as are approved by the Plan Administrator or (d) any combination of the foregoing in an aggregate amount equal to the amount of the payment.

Section 4. Stock Appreciation Right in Tandem with Supplemental or Incentive Stock Option. A SAR granted in tandem with a supplemental stock option or an incentive stock option (in either case, an "Option") shall be on the following terms and conditions:

(a) Each SAR shall relate to a specific Option or portion of an Option granted under the Supplemental Stock Incentive Plan or Incentive Stock Incentive Plan, as the case may be, and may be granted by the Plan Administrator at the same time that the Option is granted or at any time thereafter prior to the last day on which the Option may be exercised.

(b) A SAR shall entitle a recipient, upon surrender of the unexpired related Option, or a portion thereof, to receive from the Corporation an amount equal to the excess of (i) the Fair Market Value (determined in accordance with Section 4 of the Incentive Plan) of the shares of Common Stock which the recipient would have been entitled to purchase on that date pursuant to the portion of the Option surrendered over (ii) the amount



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which the recipient would have been required to pay to purchase such shares upon exercise of such Option.

(c) A SAR shall be exercisable only for the same number of shares of Common Stock, and only at the same times, as the Option to which it relates. SARs shall be subject to such other terms and conditions as the Plan Administrator may specify.

(d) A SAR shall lapse at such time as the related Option is exercised or lapses pursuant to the terms of the Program. On exercise of the SAR, the related Option shall lapse as to the number of shares exercised.

Section 5. Naked Stock Appreciation Right. SARs granted by the Plan Administrator as naked stock appreciation rights ("Naked Rights") shall be subject to the following terms and conditions:

(a) The Plan Administrator may award Naked Rights to recipients for periods not exceeding ten years. Each Naked Right shall represent the right to receive the excess of the Fair Market Value of one share of Common Stock (determined in accordance with Section 4 of the Incentive Plan) on the date of exercise of the Naked Right over the Fair Market Value of one share of Common Stock (determined in accordance with Section 4 of the Incentive Plan) on the date the Naked Right was awarded to the recipient.

(b) Unless otherwise provided by the Plan Administrator at the time of award or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted Naked Rights, Naked Rights may only be exercised to the following extent during the following periods of employment or service as a consultant or director:

During -----	Maximum Percentage of Naked Rights Which May Be Exercised -----
First 12 months after award	0%
First 24 months after award	25%
First 36 months after award	50%
First 48 months after award	75%
Beyond 48 months after award	100%

(c) The Naked Rights solely measure and determine the amounts to be paid to recipients upon exercise as provided in Section 5(a). Naked Rights do not represent Common Stock or any right to receive Common Stock. The Corporation shall not hold in trust or otherwise segregate amounts which may become payable to recipients of Naked Rights; such funds shall be part of the general funds of the Corporation. Naked Rights shall constitute an unfunded contingent promise to make future payments to the recipient and shall not reduce the number of shares of Common Stock available under the Program.

**PART IV**

**PERFORMANCE SHARE PLAN**

Section 1. General. This Performance Share Plan ("Performance Share Plan") is Part IV of the Corporation's Program. Unless any provision herein indicates

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to the contrary, this Performance Share Plan shall be subject to the General Provisions of the Program.

Section 2. Terms and Conditions. The Plan Administrator may grant performance shares to any person eligible under Article 4 of the General Provisions. Each performance share grant shall confer upon the recipient thereof the right to receive a specified number of shares of Common Stock of the Corporation contingent upon the achievement of specified performance objectives within a specified performance objective period including, but not limited to, the recipient's continued employment or status as a consultant through the period set forth in Section 5 of this Performance Share Plan. At the time of an award of a performance share, the Plan Administrator shall specify the performance objectives, the performance objective period or periods and the period of duration of the performance share grant. Any performance shares granted under this Plan shall constitute an unfunded promise to make future payments to the affected person upon the completion of specified conditions.

Section 3. Mode of Payment. At the discretion of the Plan Administrator, payments of performance shares may be made in (a) shares of Common Stock, (b) a check in an amount equal to the Fair Market Value (determined in the manner provided in Section 4 of the Incentive Plan) of the shares of Common Stock to which the performance share award relates, (c) a note in the amount specified above in Section 3(b) containing such terms as are approved by the Plan Administrator or (d) any combination of the foregoing in the aggregate amount equal to the amount specified above in Section 3(b).

Section 4. Performance Objective Period. The duration of the period within which to achieve the performance objectives shall be determined by the Plan Administrator. The period may not be more than ten years from the date that the performance share is granted. The Plan Administrator shall determine whether performance objectives have been met with respect to each applicable performance objective period. Such determination shall be made promptly after the end of each applicable performance objective period, but in no event later than 90 days after the end of each applicable performance objective period. All determinations by the Plan Administrator with respect to the achievement of performance objectives shall be final, binding on and conclusive with respect to each recipient.

Section 5. Vesting of Performance Shares. Unless otherwise provided by the Plan Administrator at the time of grant or unless the installment provisions set forth herein are subsequently accelerated pursuant to the General Provisions of the Program or otherwise by the Plan Administrator with respect to any one or more previously granted performance shares, the Corporation shall pay to the recipient on the date set forth in Column 1 below ("Vesting Date") the percentage of the recipient's performance share award set forth in Column 2 below.

Column 1 Vesting Date -----	Column 2 Percentage -----
1 year from Date of Grant	25%
2 years from Date of Grant	25%
3 years from Date of Grant	25%
4 years from Date of Grant	25%

[Form of Proxy Card]

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MEDIX RESOURCES, INC.  
420 Lexington Ave., Suite 1830  
New York, New York 10170

PROXY FOR SPECIAL MEETING OF SHAREHOLDERS  
MAY 21, 2003

The undersigned hereby appoints each of Darryl R. Cohen, Patrick Jeffries and Mark W. Lerner, as proxy and attorney-in-fact for the undersigned, with full power of substitution, to vote on behalf of the undersigned at a special meeting of the Company's shareholders to be held on May 21, 2003 and at any adjournment(s) or postponement(s) thereof, all shares of the Common Stock, \$.001 par value, of Medix Resources, Inc. (the "Company") standing in the name of the undersigned or which the undersigned may be entitled to vote as follows:

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" ITEMS 1, 2 and 3. In their discretion, the proxies are hereby authorized to vote upon such other business as may properly come before the special meeting or any adjournments or postponements thereof, hereby revoking any proxy or proxies heretofore given by the undersigned. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

- 1. To approve the proposed amendment to the Company's Articles of Incorporation to increase the number of shares of the Company's Common Stock authorized for issuance from 125 million to 400 million.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

- 2. To approve the reincorporation merger agreement providing for the merger of the Company into its wholly-owned Delaware subsidiary, effecting the reincorporation of the Company as a Delaware corporation.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

- 3. To approve the proposed 2003 Stock Incentive Plan.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

Please sign exactly as name appears at left:

Signature: \_\_\_\_\_

Second Signature (if held jointly): \_\_\_\_\_

Date: \_\_\_\_\_

When shares are held by joint tenants, both must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in the corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

PLEASE MARK, SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.