I TRAX INC
Form 10QSB
August 14, 2003

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT

Commission File Number: 0-30275

I-TRAX, INC.
(Exact name of small business issuer in its charter)

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: As of August 13, 2003, the Registrant had 10,930,409 shares of its $0.001 par value common stock outstanding.

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

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PART I. FINANCIAL INFORMATION

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I-TRAX, INC.
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(UNAUDITED)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of I-trax, Inc. (a Delaware corporation) and Subsidiaries as of June 30, 2003, and the related condensed consolidated statements of operations for the three month and six month periods ended June 30, 2003 and the consolidated statements of stockholders' equity and cash flows for the six month period ended June 30, 2003. These financial statements are the responsibility of the company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the condensed financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 5, 2003, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

GOLDSTEIN GOLUB KESSLER LLP

New York, New York

July 23, 2003

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I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

| | June 200 (unaud |
|---|---|
| Current assets: | |
| Cash | $ 3 |
| Deposit on potential acquisition | |
| Accounts receivable, net | 4 |
| Prepaid expenses | 1 |
| Other current assets | |
| Total current assets | 9 |
| Office equipment, furniture, leasehold improvements and software development costs, net | 7 |
| Deferred marketing costs, net | 1,0 |
| Goodwill | 8,4 |
| Intangible assets, net | 2,1 |
| Debt issuance cost, net | 1 |
| Security deposits | |
| Total assets | $ 13,5 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|---|
| Current liabilities | |
| Credit line payable | 3 |
| Accounts payable | 6 |
| Accrued expenses | 5 |
| Due to officers, directors and other related parties | 1 |
| Notes payable - other, net of discount | 2 |
| Capital lease payable | |
| Deferred revenue | 1 |
| Debenture payable, net of discount | 7 |
| Other current liabilities | |
| Total current liabilities | 2,7 |

| | |
|---|---|
| Capital lease obligation, net of current portion | |
| Promissory notes and debenture payable, net of discount | 3 |
| Due to officers and directors | 7 |
| Total liabilities | 4,0 |
| Total liabilities | |
| Commitments and contingencies (Note 8) | |
| Stockholders' equity | |
| Preferred stock - $.001 par value, 2,000,000 shares authorized, -0- issued and outstanding | |
| Common Stock - $.001 par value, 100,000,000 shares authorized, 10,930,409 and 9,372,727 shares issued and outstanding, respectively | |
| Additional paid in capital | 44,0 |
| Accumulated deficit | (34,5 |
| Total stockholders' equity | 9,5 |
| Total liabilities and stockholders' equity | $ 13,5 |

See accompanying notes to consolidated financial statements (unaudited).



I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002
(UNAUDITED)

| | Three months ended June 30, 2003 | Three months ended June 30, 2002 |
|---|---|---|
| Revenue: | | |
| Technology licenses | $ 395,354 | $ 135,000 |
| Services | 655,842 | 463,660 |
| Total revenue | 1,051,196 | 598,660 |
| Cost of revenue: | | |
| Technology licenses | 24,690 | 10,834 |
| Services | 317,462 | 354,319 |
| Total cost of revenue | 342,152 | 365,153 |

| | | |
|---|---|---|
| Gross profit | 709,044 | 233,507 |
| Operating expenses: | | |
| General and administrative | 188,197 | 440,995 |
| Salary and related benefits | 465,594 | 935,295 |
| Research and development | -- | 103,320 |
| Depreciation and amortization | 440,616 | 627,535 |
| Marketing and publicity | 1,522,852 | 156,636 |
| Total operating expenses | 2,617,259 | 2,263,781 |
| Operating loss | (1,908,215) | (2,030,274) |
| Other expenses: | | |
| Amortization of debt issuance costs | (179,753) | (54,576) |
| Interest expense and financing costs | (654,354) | (306,211) |
| Total other expenses | (834,107) | (360,787) |
| Net loss | $(2,742,322) | $(2,391,061) |
| Loss per common share: | | |
| Basic and diluted | $ (.28) | $ (.26) |
| Weighted average number of shares outstanding: | 9,873,184 | 9,307,164 |

See accompanying notes to consolidated financial statements (unaudited).



I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(UNAUDITED)

| | Six months ended June 30, 2003 |
|---|---|
| Revenue: | |
| Technology licenses | $ 1,310,056 |
| Services | 1,357,271 |

| | |
|---|---|
| Total revenue | 2,667,327 |
| Cost of revenue: | |
| Technology licenses | 40,704 |
| Services | 617,528 |
| Total cost of revenue | 658,232 |
| Gross profit | 2,009,095 |
| Operating expenses: | |
| General and administrative | 496,701 |
| Salary and related benefits | 1,324,457 |
| Research and development | -- |
| Depreciation and amortization | 877,164 |
| Marketing and publicity | 1,604,609 |
| Total operating expenses | 4,302,931 |
| Operating loss | (2,293,836) |
| Other expenses: | |
| Amortization of debt issuance costs | (237,278) |
| Costs in connection with uncompleted acquisition | (200,000) |
| Interest expense and financing costs | (974,881) |
| Total other expenses | (1,412,159) |
| Net loss | $ (3,705,995) |
| Loss per common share: | |
| Basic and diluted | $ (.39) |
| Weighted average number of shares outstanding: | 9,620,206 |

See accompanying notes to consolidated financial statements (unaudited).



I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2003
(UNAUDITED)

| | Common Stock | | Additional Paid-in Capital |
|---|---|---|---|
| | Shares | Amount | |
| Balances at December 31, 2002 | 9,372,727 | $ 9,372 | $ 39,236,119 |
| Issuance of compensatory stock options | 27,942 | 27,942 | |
| Mark to market of warrants granted for investor relations services and stock options granted to a former employee | -- | -- | (4,097) |
| Fair market value of detachable warrants and additional beneficial conversion value in connection with re-pricing of convertible debenture | -- | -- | 1,007,833 |
| Issuance of common stock for services | 205,833 | 206 | 330,842 |
| Contribution in the form of common stock given by shareholders for services rendered to the Company | 437,900 | 437,900 | |
| Sale of common stock, net of costs | 613,986 | 614 | 1,003,572 |
| Issuance of warrants for services | -- | -- | 645,000 |
| Fair value of detachable warrants issued in connection with convertible note | 68,000 | 68,000 | |
| Issuance of common stock for conversion of related party debt and assigned debt | 668,152 | 668 | 1,168,602 |
| Issuance of common stock for conversion of deferred salaries | 69,711 | 69 | 121,928 |
| Net loss for the six months ended June 30, 2003 | -- | -- | -- |
| Balances at June 30, 2003 | 10,930,409 | $ 10,929 | $ 44,043,641 |

See accompanying notes to consolidated financial statements (unaudited).



I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(UNAUDITED)

| | Six mont ended June 30, |
|---|---|
| Operating activities: | |
| Net loss | $(3,705 |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Accretion of discount on notes payable charged to interest expense | 254 |
| Accretion of beneficial conversion value of debenture | 525 |
| Amortization of option liability | (13 |
| Amortization of debt issuance costs | 237 |
| Amortization of deferred marketing costs | 226 |
| Depreciation and amortization | 650 |
| Expenses for compensatory stock options and warrants | 23 |
| Issuance of securities for services | 1,413 |
| Write off of deposit on cancelled acquisition | 200 |
| Changes in operating assets and liabilities, net of acquisitions: | |
| Decrease (increase) in: | |
| Accounts receivable | 135 |
| Prepaid expenses | (54 |
| Other current assets | (1 |
| (Decrease) increase in: | |
| Accounts payable | (230 |
| Accrued expenses | 79 |
| Deferred revenue | (1,255 |
| Net cash used in operating activities | (1,513 |
| Investing activities: | |
| Proceeds from repayment of note receivable | |
| Cash used for property, equipment and software development costs | (380 |
| Proceeds from partial release of security deposit | |
| Net cash to acquire WellComm Group, Inc. | |
| Net cash used in investing activities | (380 |
| Financing activities: | |
| Principal payments on capital leases | (34 |
| Proceeds from credit line payable | |
| Repayment to related parties | (140 |
| Proceeds from officers, directors and other related parties | 740 |
| Proceeds from sale of common stock | 1,004 |
| Proceeds from notes payable | 325 |
| Proceeds from sale of debenture option | |
| Costs of issuance of debenture | |
| Proceeds from issuance of debenture | |
| Net cash provided by financing activities | 1,894 |
| Net increase (decrease) in cash | |
| Cash at beginning of period | 360 |
| Cash at end of period | $ 361 |

| | ======= |
|---|---|
| Supplemental disclosure of non-cash flow information: Cash paid during the period for: | |
| Interest | $ |
| | ======= |

(Continues on following page.)



I-TRAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(Continues from previous page.)

| | Six months June 30, 2 |
|---|---|
| Schedule of non-cash investing and financing activities: | |
| Issuance of 1,488,000 shares of common stock and granting of 112,000 stock options in connection with acquisition of WellComm Group, Inc | $ |
| Issuance of common stock and warrants for finder fee | $ |
| Issuance of common stock for conversion of related party debt and assigned debt | $1,169 |
| Issuance of common stock for conversion of deferred salaries | $ 121 |

See accompanying notes to consolidated financial statements (unaudited).



I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1--ORGANIZATION

I-trax, Inc. (the "Company") provides focused disease management and comprehensive health management solutions designed to improve the health of the populations it serves while reducing the cost of medical care. The Company was incorporated in the State of Delaware on September 15, 2000. The Company's

common stock is traded on the American Stock Exchange under the symbol "DMX."

As of June 30, 2003, the Company had three wholly owned subsidiaries: I-trax Health Management Solutions, Inc. ("Health Management"), a corporation, iSummit Partners, LLC and WellComm Group, LLC, each a single member limited liability company.

NOTE 2--INTERIM RESULTS AND BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-QSB and Items 303 and 310(B) of Regulation S-B. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of June 30, 2003 and the results of the operations and cash flows for the three and six months ended June 30, 2003. The results for the three and six months ended June 30, 2003 are not necessarily indicative of the results to be expected for any subsequent quarter or the entire fiscal year ending December 31, 2003. The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations.

For the six months ended June 30, 2003, the Company capitalized software development costs amounting to $375,545 since technological feasibility has been achieved.

Loss per common share is computed pursuant to SFAS No. 128, "Earnings Per Share." Basic loss per share is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and convertible debt. As of June 30, 2003 and 2002, 5,444,093 and 2,038,051, respectively, of options and warrants were excluded from the diluted loss per share computation, as their effect would be anti-dilutive.

These unaudited financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2002 included in the Company's report on Form 10-KSB for the year ended December 31, 2002 filed on April 15, 2003.

For comparability, certain 2002 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2003.

Effective January 3, 2003, the Company completed a 1-for-5 reverse stock split. Accordingly, all information for 2002 presented herein has been adjusted retroactively to reflect this reverse stock split.



I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3--ACQUISITION OF WELLCOMM GROUP, INC.

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

The following unaudited pro forma results of operations of the Company give effect to the acquisition of WellComm for the six months ended June 30, 2002 as if the acquisition was consummated at the beginning of that period.

| | Six months ended June 30, 2002 |
|---|---|
| Total revenue | $ 1,258,796 |
| Total expenses | $ 5,786,062 |
| Net loss | $ (4,527,243) |
| Pro forma net loss per share: | $ (.48) |
| Basic and Diluted | |
| Weighted average number of shares outstanding: Basic and Diluted | 9,391,296 |

NOTE 4--RELATED PARTY TRANSACTIONS

At December 31, 2002, the Company had loans outstanding to certain officers and directors amounting to $1,024,598 and $225,000 to a relative of the Company's Chief Operating Officer.

During February 2003, pursuant to two promissory notes, two members of the Company's Board of Directors, advanced $200,000 to the Company for working capital. The notes accrue interest at 8% per year and mature in February 2004. In addition, during the six months ended June 30, 2003, the Company's Chief Executive and Operating Officers, along with a member of the Company's Board of Directors, advanced the Company a total of $540,000 for working capital at an interest rate of 8% per year. The Company's Chief Executive and Operating Officers have committed to continue to support the Company until it generates positive cash flow from operations, but at least through July 1, 2004.

During June 2003, certain officers, members of the Company's Board of Directors and a venture capital fund managed by the Company's Chief Executive Officer converted at a $1.75 per share a total of $909,421, comprised of loans and advances of $790,697 and accrued interest of $118,724, into 519,667 shares of common stock. In addition, certain of the same parties assigned additional loans in the principal amount of $246,342 and accrued interest of $13,507 thereon, to an investor relations firm, which thereafter converted the assigned loans into common stock also at $1.75 per share. The price of the conversions was determined with reference to a private placement of common stock to third parties completed by the Company contemporaneously with the conversions as disclosed in Note 9 below.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 4--RELATED PARTY TRANSACTIONS (cont'd)

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

At June 30, 2003, based on repayment terms agreed upon with certain related parties, the Company classified $780,230 of outstanding loans and advances as a non-current liability because they are not due within the next twelve months.

The Company recorded $27,349 and $13,792, and $56,735 and $28,084 of interest expense for the three months and six months ended June 30, 2003 and 2002, respectively, associated with these related party loans and advances.

NOTE 5--NOTES PAYABLE--OTHER

In April 2003, the Company borrowed $100,000 from a shareholder pursuant to a convertible promissory note. The note, with an eleven-month term, accrues interest at 6% per annum and a default interest rate of 12% per annum. The principal and related accrued and unpaid interest is convertible by the shareholder into common stock at anytime at $1.50 per share. As consideration for this loan, the Company also granted the shareholder a warrant to acquire 100,000 shares of common stock at an exercise price of $1.50 per share. The value assigned to the warrant of $68,000 is recorded as a discount to the promissory note using the relevant fair value of the debt and the warrant to the actual proceeds from the convertible promissory note. The discount is being accreted to interest expense over the life of the convertible promissory note. For the three months ended June 30, 2003, the discount accreted to interest expense associated with the convertible promissory note amounted to $18,546. At June 30, 2003 the carrying value of the note amounted to $50,546 and is included in "Notes payable - other" on the accompanying balance sheet.

Pursuant to a promissory note dated April 10, 2003, the Company borrowed $150,000 from a shareholder with an interest rate of 12% per annum, requiring monthly payments of $25,000 plus accrued interest with a final payment due on December 31, 2003. As of June 30, 2003, the outstanding principal balance is $125,000. For the three months ended June 30, 2003, interest expense amounted to approximately $3,750.

On May 29, 2003, the Company borrowed $100,000 from a shareholder. The loan is due on September 29, 2003 and is accruing 12% during the four-month period it is expected to be outstanding. For the three months ended June 30, 2003, interest expense associated with such loan amounted to approximately $12,000.

NOTE 6--PROMISSORY NOTES PAYABLE

On March 2, 2001 the Company borrowed $692,809 from an investor group that included $75,000 from a venture capital fund managed by the Company's Chief Executive Officer. The loan bears interest at 8% per annum, with a default rate of 12% per annum, and is due on March 2, 2006. The Company also granted this investor group warrants to purchase 364,694 shares of common stock at $0.50 per share, which were exercised in the first quarter of 2002.

The value assigned to detachable warrants of $459,854 is being accreted to interest expense over the five-year term of the underlying promissory notes. For the three and six months ended June 30, 2003 and 2002, the amount accreted to interest expense was $22,677 and $22,677, and $45,354 and $45,354, respectively. At June 30, 2003, the carrying value of the notes amounted to $373,390 and is included in the "Promissory notes" in the accompanying consolidated balance sheet.





NOTE 6--PROMISSORY NOTES PAYABLE (cont'd)

In June 2003, as part of certain related parties converting and assigning debt as discussed in Note 4 above, the venture capital fund managed by the Company's Chief Executive Officer, with the consent of the Company, assigned the fund's loan in the principal amount of $75,000 and a portion of the accrued interest amounting to $6,669 thereon, to an investment relations firm, which thereafter converted the assigned loan into common stock at $1.75 per share. The balance of the accrued interest not assigned amounting to $6,098 was converted into 3,484 shares of common stock also at $1.75 per share. The price of the conversion was determined with reference to a private placement of common stock to third parties completed by the Company contemporaneously with the conversion as disclosed in Note 9 below.

NOTE 7--CONVERTIBLE DEBENTURE

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

The initial value assigned to the warrant of $890,272 was recorded as a discount to the debenture and is being accreted to interest expense over the life of the debenture. As a result of the reset of the exercise price of the warrant in June 2003, the Company recorded $203,077 of interest expense for the additional market value of the warrant on the date of the reset. For the three and six months ended June 30, 2003, and 2002, the Company recorded $314,362 and $111,285, and $222,570 and $222,570, respectively, of interest expense associated with the accretion of the original discount and the reset of the warrant. The Company also recorded $203,897 and $118,581, and $322,478 and $237,162 of interest expense for the three months and six months ended June 30, 2003 and 2002, respectively, for the amortization of the portion of the beneficial conversion value of the debenture. Upon the initial sale of the debenture, the Company recorded a beneficial conversion value of $948,651. The

beneficial conversion value was increased by $682,528 as a result of the reset in June 2003. The beneficial conversion value represents the difference between the fair market value of the common stock on the date the debenture was sold (or the date the conversion price is changed) and the price at which the debt could be converted into common stock. As of June 30, 2003, the carrying value of the debenture amounted to $705,359 and it's classified as a current liability in the accompanying consolidated balance sheet.

Lastly, in connection with facilitating the transaction with Palladin, the Company initially recorded $416,610 of debt issuance costs comprised of $130,000 of cash, 6,200 shares of common stock valued at $40,610 and a warrant to acquire 40,000 shares of common stock at $5.00 per share valued at $246,000 delivered to a third party that brokered the transaction. In connection with the reset in June 2003 of the conversion price of Palladin's debenture and the exercise price of Palladin's warrant, the Company also, in accordance with a contractual commitment: (1) reset the exercise price of the warrant originally granted to the third party from $5.00 to $1.75 per share, resulting in a charge to operations of $26,400 for additional debt issuance costs; and (2) increased the shares issuable under the warrant by 74,285 shares of common stock, resulting in a further charge to operations of $95,828. For the three and six months ended June 30, 2003 and 2002 such amortization, inclusive of these one-time charges amounted to $179,753, $57,525 and $115,050 and $115,050, respectively.





NOTE 8--COMMITMENTS AND CONTINGENCIES

Nature of Business

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

Significant Customers

Financial instruments, which may expose the Company to concentrations of credit risk, consist primarily of accounts receivable. As of June 30, 2003, two customers represented 32% and 10%, respectively of the total accounts receivable. For the three and six months ended June 30, 2003, the Company had one customer, which accounted for 36% and 40% of total revenue, respectively.

Risk Based Contracts

The Company enters into risk-based contracts in certain disease management arrangements. These contracts are generally for terms of three to five years and provide that a percentage of the Company's fees may be refunded to a client if the Company does not save the client a certain percentage of the expenses incurred by individuals whose health is managed by the Company. As of June 30, 2003, the Company is not a party to any risk-based contracts.

NOTE 9--STOCKHOLDERS' EQUITY

Issuance of Common Stock

During May and June 2003 the Company issued an aggregate of 205,833 shares of common stock to four investor relations firms. The common stock, valued at $331,048, based on the market price of the Company's common stock on the date of issuance, has been charged to operations for the three months ended June 30, 2003.

During May 2003, certain shareholders of the Company contributed loans (which were thereafter converted into common stock) and common stock such that an investor relations firm retained by the Company received an aggregate of 290,000 shares of common stock as compensation for services. The benefit that the Company has received from these contributions amounted to $437,900, based on the market price of the Company's common stock on the date of the contribution, and was charged to operations.

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

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





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

NOTE 9--STOCKHOLDERS' EQUITY (cont'd)

Issuance of Common Stock (cont'd)

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

Issuance of Warrants

During May and June 2003, the Company granted fully vested, non-forfeitable warrants to purchase 375,000 shares of common stock with exercise prices ranging from $1.50 to $1.76 (based on market value at the date of issuance) to two individuals and an institution for investor relations services pursuant to three separate consulting agreements expiring in May and June 2004. The value of such warrants, utilizing the Black-Scholes model amounted to $645,000. Such amount has been charged to operations for the three months ended June 30, 2003.

During May 2003 pursuant to the approval of the Board of Directors, the Company granted an aggregate of 450,000 warrants with an exercise price of $1.80 per share (based on market value at the date of issuance) to its Chief Executive and Operating Officers for their continued financial support and for their

guarantees to continue to support the Company through January 2004. The granting of such warrants did not result in any charges to operations since they are granted to employees.

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

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





NOTE 9--STOCKHOLDERS' EQUITY (cont'd)

Issuance of Warrants (cont'd)

The following table summarizes the Company's activity as it relates to its warrants for the six months ended June 30, 2003:

| | |
|---|---|
| Balance outstanding at January 1, 2003 | 2,132,953 |
| Quarter ended March 31, 2003: | |
| Granted | -- |
| Exercised | -- |
| Balance outstanding at March 31, 2003 | 2,132,953 |
| Quarter ended June 30, 2003: | |
| Granted | 999,285 |
| Exercised | -- |
| Balance outstanding at June 30, 2003 | 3,132,238 |

Stock Options

The table below summaries the activity in the Company's stock option plans for the six months ended June 30, 2003:

| | Incentive Options | Non-Qualified Options | Non-Plan Non-Qualified Options |
|---|---|---|---|
| Outstanding as of | | | |
| January 1, 2003 | 735,829 | 535,973 | 439,000 |
| Granted | 20,000 | 40,000 | -- |
| Exercised | -- | -- | -- |
| Forfeited/Expired | (127,971) | (40,000) | -- |
| Outstanding as of March 31, 2003 | 627,858 | 535,973 | 439,000 |
| Granted | 130,000 | 300,000 | 300,000 |
| Exercised | -- | -- | -- |
| Forfeited/Expired | (13,976) | (10,000) | |
| Outstanding as of June 30, 2003 | 743,882 | 825,973 | 739,000 |
| Vesting Dates: | | | |
| December 31, 2003 | 125,144 | 139,004 | 189,164 |
| December 31, 2004 | 170,456 | 201,665 | 101,665 |
| December 31, 2005 | 88,796 | 83,165 | 75,006 |
| December 31, 2006 | 45,836 | 50,504 | -- |
| December 31, 2007 | -- | 333 | -- |
| Thereafter | -- | -- | 20,000 |

As of June 30, 2003, there were outstanding an aggregate of 1,018,117 of exercisable plan and non-plan options with exercise prices ranging from $.01 to $10.00.



I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 9--STOCKHOLDERS' EQUITY (cont'd)

Stock Options (cont'd)

The Company accounts for its employee incentive stock option plans and warrants issued to employees using the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. Had the Company determined compensation expense base on the fair value at the grant dates for those awards consistent with the method of SFAS 123, the Company's net loss per share would have been increased to the following pro forma amounts:

| | For the three months ended June 30, 2003 | For the three months ended June 30, 2002 | For the six months ended June 30, 2003 |
|---|---|---|---|
| Net loss as reported | $(2,742,322) | $(2,391,061) | $(3,705,995) |
| Add back intrinsic value of the options issued to employee and | -- | -- | -- |
| charged to operations | -- | -- | -- |
| Deduct total stock based employee | 5 | 3 | 4 |
| compensation expense determined under fair value based methods for all awards | (1,400,36) | (634,38) | (2,113,13) |
| Pro forma net loss | $(4,142,687) | $(3,025,444) | $(5,819,129) |
| Basic and diluted net loss per share as reported | $ (.28) | $ (.26) | $ (.39) |
| Pro forma basic and diluted net loss per share | $ (.42) | $ (.33) | $ (.60) |

NOTE 10--AGREEMENT TO ACQUIRE DxCG, INC.

On November 8, 2002, the Company entered into a merger agreement to acquire DxCG, Inc. for a total purchase price of approximately $10,000,000, of which the Company intended to pay $6,000,000 in cash and $4,000,000 in common stock. Under the terms of this agreement and at the time this agreement was executed, the Company deposited $200,000 into an escrow account. This sum was intended to be released to DxCG if DxCG terminated the merger agreement because the Company failed to satisfy certain conditions to closing, including third party financing for the cash portion of the purchase price. The Company did not secure the financing by January 31, 2003 and accordingly such agreement was terminated resulting in the Company charging the $200,000 to earnings in the first quarter 2003.

NOTE 11--SUBSEQUENT EVENT

Private Placement Memorandum

During August 2003, the Company expects to commence a private placement in order to raise additional funds.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussions of the financial condition and related results of operations of I-trax, Inc. and its subsidiaries should be reviewed in conjunction with our financial statements and related notes appearing on the preceding pages as well as our audited financial statements for the fiscal year ended December 31, 2002, incorporated into our Form 10-KSB, filed on April 15, 2003.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which are based upon current expectations and involve a number of risks and uncertainties. In order for I-trax, Inc. to utilize the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, investors are hereby cautioned that these statements may be affected by important factors, which are set forth below and elsewhere in this report, and consequently, actual operations and results may differ materially from those expressed in these forward-looking statements. The important factors include our ability to continue as a going concern and our ability to execute contracts for disease management services and software technology.

Our Business

I-trax enables better healthcare through personalized health management programs.

We believe that our personalized disease and life-style management solutions enable organizations to evolve from fragmented care management practices into a cohesive and efficient system of healthcare. Our solutions are fully integrated, use a single-data platform that allows all caregivers to share records, and enable our clients to provide true coordination of care. We believe that by facilitating real-time communication between all stakeholders within today's complex healthcare system, our solutions reduce costs and enable the best possible delivery of care.

Health-e-LifeSM Program

We deliver our solutions through our proprietary Health-e-LifeSM Program. The Program is designed to deliver lifestyle, disease and risk reduction interventions to an entire population by utilizing predictive science, technology, clinical expertise and care coordination.

Predictive Science

Our Health-e-LifeSM Program incorporates predictive science to analyze our clients' medical claims and pharmacy and clinical data to predict future healthcare costs. We believe this is an essential step to effective disease and life-style management. Experts agree that predictive science provides a comprehensive advantage to health plans, employers and providers, and leads to cost effective medical management and greater profitability. Using predictive science, we analyze our clients' entire populations to accurately predict our clients' future healthcare costs, including avoidable costs, the health conditions that will drive those costs and the people within our clients' populations who are at risk for those conditions. Armed with this information, I-trax is able to target the most appropriate resources to achieve the best savings and return on investment.

Technology Solutions

All technology components of our Health-e-LifeSM Program utilize a single data platform--Medicive(R) Medical Enterprise Data System--a proprietary software architecture developed to collect, store, retrieve and analyze a broad range of information used in the healthcare industry.

Further, our web accessible solutions include portals for key stakeholders in the care delivery process--consumers, physicians and care managers--thus permitting real-time sharing of information and support the adherence to our health and disease intervention programs. The key technology we use for effective care coordination include:



- Health-e-Coordinator(TM), a web-based care management application;
- MyFamilyMD(TM), a consumer health management portal;
- CarePrime(R), a clinical care application for physicians and clinicians; and
- I-talk(TM), interactive smart voice technology.

Interventions and Clinical Expertise

Our personalized health and disease interventions include intensive programs for individuals who suffer from, or are at high risk for, active or chronic disease and tailored programs for individuals who are at low risk. Depending on the individual's level of risk, our custom tailored interventions include self-help programs available through the web or person-assisted programs administered through our Care Communication Center, which is staffed by skilled nurses and other health professionals 24 hours per day, 7 days per week. All interventions include life-style and risk reduction programs that follow evidence-based clinical guidelines to optimize health, fitness, productivity and quality of life.

We have designed and are implementing interventions for a number of specific chronic conditions, including congestive heart failure (CHF), coronary artery disease (CAD), asthma, diabetes, cancer management, cystic fibrosis lower back pain and chronic obstructive pulmonary disease (COPD).

Care Communication Center

Our Care Communications Center is staffed with registered nurses and other healthcare professionals 24 hours per day, 7 days per week. Through the Center, we effect targeted interventions to improve the health management of the populations we serve. The Center helps consumers make informed decisions about their health and provides ongoing support for those with chronic diseases. Our demand management and nurse triage services incorporate nationally recognized, evidence-based clinical guidelines to ensure that all caregivers and consumers are following the best practices.

Listing on the American Stock Exchange

Effective January 3, 2003 we completed a 1-for-5 reverse stock split. Our board of directors and stockholders authorized the reverse stock split in connection with the then pending application to list our common stock on the American Stock Exchange. We began trading on the American Stock Exchange on January 15, 2003 under the symbol "DMX."

Corporate Overview

I-trax was incorporated in the State of Delaware on September 15, 2000. We currently have three wholly owned subsidiaries: I-trax Health Management Solutions, Inc. (formerly known as I-Trax.com, Inc.) ("Health Management"), a corporation, and iSummit Partners, LLC and WellComm Group, LLC, each a single member limited liability company. We conduct our operations through Health

Management and WellComm Group, LLC.

Our Customers

As of the date of this filing, we serve approximately 64 customers. Our customers include physician groups, hospitals, health plans, including plans providing Medicaid and Medicare covered services, universities and colleges and agencies and branches of the United States government.

We continue to focus our marketing efforts on the following markets: health plans and health insurers; self-insured employers; military, government and public health agencies; college and university student health services; and hospital and health systems.



Results of Operations

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

Revenue for the three months ended June 30, 2003 was $1,051,196, an increase of $452,536 or 76% from $598,660 for the three months ended June 30, 2002. Total revenue was comprised of two components: (1) prevention and care services revenue of $655,842; and (2) technology license and services revenue of $395,354, of which approximately $375,000 represents revenue from the exclusive license of CarePrime(R) and MyFamilyMD(TM) we granted to UICI and certain related software development work. We contracted this revenue in the third quarter of 2002 and we are recognizing it based on delivering required deliverables. We expect that in future periods we will generate a significant portion of our revenue from delivery of care services through our Health-e-Life ProgramSM.

Cost of revenue for the three months ended June 30, 2003 was $342,152, a decrease of 6% from $365,153 for the three months ended June 30, 2002. The small decrease is attributable to streamlining our personnel costs required to service our prevention and care services contracts. We expect that in future periods our cost of revenue will increase or decrease in proportion to volume of business because we expect to derive a significant portion of our future revenue from prevention and care services contracts, which require human involvement proportionate to the size of the contract.

Outsourced and certain internal research and development costs of $188,045 were capitalized for the three months ended June 30, 2003 as compared to $103,320, which we expensed for the three months ended June 30, 2002. We expensed such costs during the quarter ended June 30, 2002 since the products had not reached technological feasibility and therefore could not be capitalized. We expect to continue to spend funds on improving our services and adding functionality to our technology products including to the MyFamilyMD(TM) application by adding MedWizard(R) tools, on CarePrime(TM) application, which interacts with MyFamilyMD(TM) and its MedWizard(R) tools, and on Health-e-Coordinator(TM) application by adding additional disease capabilities. Commencing in the first quarter of 2003, we have begun to capitalize development costs, which are primarily developer's salaries and outsourced expenses. As of June 30, 2003, we have capitalized an aggregate of $375,545.

General and administrative expenses (excluding salary and related benefits which are discussed separately below) decreased from $440,995 for the three

months ended June 30, 2002 to $188,197 for the three months ended June 30, 2003, a decrease of 57%. Our ability to reduce general and administrative expenses is attributable to increased efficiencies and the implementation of stringent budgetary controls. Additionally, during the quarter we successfully negotiated the settlement of certain payables. We believe that we currently have the resources to handle increased revenue with minimal incremental fixed costs.

Salary and related benefits were $465,594 for the three months ended June 30, 2003 as compared to $935,295 for the three months ended June 30, 2002. The decrease in salary and related benefits from the three months ended June 30, 2002 to the three months ended June 30, 2003 was $469,701 or 50%. Again, the reduction in salary and related benefits expenses is a direct result of our continued efforts to consolidate positions and improve efficiencies.

Depreciation and amortization expenses were $440,616 for the three months ended June 30, 2003, as compared to $627,535 for the three months ended June 30, 2002. The decrease is primarily attributable to the write down of certain intangible assets during December 2002 thereby reducing future amortization charges.

Marketing and publicity expenses were $1,522,852 for the three months ended June 30, 2003 as compared to $156,636 for the three months ended June 30, 2002. The increase of 872% or $1,366,216 is a direct result of our ongoing marketing and investor relations campaigns to promote I-trax and our products and to penetrate the disease management market. Of the total expense of $1,522,852 for the quarter ended June 30, 2003, $1,467,395 was non-cash. The non-cash charges resulted from I-trax issuing common stock, granting warrants and having certain of its shareholders contribute shares to an investor relations firm as consideration for services rendered to us.

Interest expense and financing costs for the three months ended June 30, 2003 was $654,354, increasing by $348,143 or 114% from $306,211 for the three months ended June 30, 2002. For the three months ended June 30,



2003, interest expense includes charges for the amortization of the value assigned to the original beneficial conversion value of debenture and the associated warrants, with additional charges and amortization for additional beneficial conversion value resulting from the June 2003 reset of the conversion price of the debenture and the exercise price of the associated warrants. The charges for the quarter for all of these items amounted to $517,449. Generally, the beneficial conversion value represents the benefit to the investor that results from purchasing an immediately convertible debenture with a conversion price that is less than fair market value on the date of purchase after first allocating a portion of the proceeds from the debenture to the associated warrants. The remaining balance of interest expense of approximately $137,000 is associated with interest on other debt and the amortization of warrants granted to certain shareholders for loans made to us.

Amortization of debt issuance and conversion costs was $179,753 and $54,576 for the three months ended June 30, 2003 and 2002, respectively. These costs were incurred in selling the $2,000,000 debenture to Palladin and are being amortized over the two-year life of the debenture. During the three months ended June 30, 2003, we took a charge of $122,228 in connection with the reset of the exercise price of the warrant granted to the party that brokered the transaction along with increasing the number of shares covered by the warrant as per the broker agreement.

Our net loss was $2,742,322 for the three months ended June 30, 2003 as compared to a net loss of $2,391,061 for the three months ended June 30, 2002, an increase of 15%.

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

Revenue for the six months ended June 30, 2003 was $2,667,327, an increase of $1,662,310 or 165% from $1,005,017 for the six months ended June 30, 2002. Total revenue was comprised of two components: (1) prevention and care services revenue of $1,357,271; and (2) technology license and services revenue of $1,310,056, of which approximately $1,076,000 represents revenue from the exclusive license of CarePrime(R) and MyFamilyMD(TM) we granted to UICI and certain related software development work. We contracted this revenue in the third quarter of 2002 and we are recognizing it based on delivering required deliverables. We expect that in future periods we will generate a significant portion of our revenue from delivery of care services through our Health-e-Life ProgramSM.

Cost of revenue for the six months ended June 30, 2003 was $658,232, an increase of 5% from $627,318 for the six months ended June 30, 2002. The increase is attributable to the personnel costs required to service our prevention and care services contracts. We expect that in future periods our cost of revenue will increase or decrease in proportion to volume of business because we expect to derive a significant portion of our future revenue from prevention and care services contracts, which require human involvement proportionate to the size of the contract.

Outsourced and certain internal research and development costs amounting to $375,545 were capitalized for the six months ended June 30, 2003 as compared to $222,820, which we expensed for the six months ended June 30, 2002. We expensed such costs during the six months ended June 30, 2002 since the products had not reached technological feasibility and therefore could not be capitalized. We expect to continue to spend funds on improving our services and adding functionality to our technology products including to the MyFamilyMD(TM) application by adding MedWizard(R) tools, on CarePrime(TM) application, which interacts with MyFamilyMD(TM) and its MedWizard(R) tools, and on Health-e-Coordinator(TM) application by adding additional disease capabilities. Commencing in the first quarter of 2003, we began to capitalize certain costs, which are primarily developer salaries and out-sourced costs.

General and administrative expenses (excluding salary and related benefits which are discussed separately below) decreased from $986,311 for the six months ended June 30, 2002 to $496,701 for the six months ended June 30, 2003, a decrease of 50%. Our ability to reduce general and administrative expenses is attributable to increased efficiencies and the implementation of stringent budgetary controls. Additionally, during the six months ended June 30, 2003, we successfully negotiated the settlement of certain payables. We believe that we currently have the resources to handle increased revenue with minimal incremental fixed costs.

Salary and related benefits were $1,324,457 for the six months ended June 30, 2003 as compared to $1,954,997 for the six months ended June 30, 2002. The decrease in salary and related benefits from the six months



ended June 30, 2002 to the six months ended June 30, 2003 was $630,540 or 32%. Again, the reduction in salary and related benefits expenses is a direct result

of our continued efforts to consolidate positions and improve efficiencies.

Depreciation and amortization expenses were $877,164 for the six months ended June 30, 2003, as compared to $847,522 for the six months ended June 30, 2002.

Marketing and publicity expenses were $1,604,609 for the six months ended June 30, 2003 as compared to $327,092 for the six months ended June 30, 2002. The increase of 390% or $1,277,517 is a direct result of our ongoing marketing and investor relations campaigns to promote I-trax and our products and to penetrate the disease management market. Of the total expense of $1,604,609 for the six months ended June 30, 2003, $1,467,395 was non-cash. The non-cash charges resulted from I-trax issuing common stock, granting warrants and having certain of its shareholders contribute shares to an investor relations firm for services rendered to us.

Interest expense and financing costs for the six months ended June 30, 2003 was $974,881, increasing by $483,911 or 99% from $490,970 for the six months ended June 30, 2002. For the six months ended June 30, 2003, interest expense includes charges for the amortization of the value assigned to the original beneficial conversion value of debenture and the associated warrants, with additional charges and amortization for additional beneficial conversion value resulting from the June 2003 reset of the conversion price of the debenture and the exercise price of the associated warrants. The charges for the six months for all of these items amounted to $748,125. Generally, the beneficial conversion value represents the benefit to the investor that results from purchasing an immediately convertible debenture with a conversion price that is less than fair market value on the date of purchase after first allocating a portion of the proceeds from the debenture to the associated warrants. The remaining balance of interest expense of approximately $227,000 is associated with interest on other debt and the amortization of warrants granted to certain shareholders for loans.

Amortization of debt issuance and conversion costs was $237,278 and $90,960 for the six months ended June 30, 2003 and 2002, respectively. These costs were incurred in selling the $2,000,000 debenture to Palladin and are being amortized over the two-year life of the debenture. During the three months ended June 30, 2003, the Company took a one-time charge of $122,228 in connection with the re-pricing of the warrants granted to the party, which brokered the transaction along with increasing the number of shares covered by the warrant as per the broker agreement.

During the quarter ended March 31, 2003, in connection with the termination of our agreement to acquire DxCG, Inc., a Boston-based predictive modeling company, we charged $200,000 to earnings. This sum was released to DxCG following DxCG's termination of the merger agreement because certain conditions to closing were not satisfied, including third party financing for the cash portion of the purchase price.

Our net loss was $3,705,995 for the six months ended June 30, 2003 as compared to a net loss of $4,542,973 for the six months ended June 30, 2002, a decrease of 18%.

Liquidity and Capital Resources

Working Capital Deficiency

As of June 30, 2003, we had a working capital deficiency of $1,821,084. Through June 30, 2003 and the date of this report, we have been able to finance these deficits with loans from our senior management team, their affiliates, a director and through the continued sale of equity. Although we continue to run cash flow deficits as of the date of this report, we also continue to make

progress towards producing positive cash flow from operations and we expect, although no assurances exist, that we will reach operating cash flow break even in the third quarter of 2003.

Additionally, during the six months ended June 30, 2003 and through the date of this report, our Chief Executive and Operating Officers, along with certain stockholders advanced to us in the form of loans $740,000 for working capital. Our Chief Executive and Operating Officers have committed to continue to fund us until we generate positive cash flow from operations, but at least through July 1, 2004.



Sources and Uses of Cash

Despite our negative cash flows from operations, which amounted to $1,513,292 for the six months ended June 30, 2003 and $2,787,377 for the six months ended June 30, 2002, we have been able to secure funds to support our operations. During the six months ended June 30, 2002, we secured funding by selling equity securities and a debenture, which aggregated approximately $3,800,000. Of the $3,800,000, we used approximately $2,200,000 to acquire WellComm and the remainder to fund operations. During the six months ended June 30, 2003, we borrowed, (net of repayments) $925,000 from officers, related parties and certain shareholders. Additionally, during June of 2003, we raised approximately $1,000,000 in a private placement. The funds were used primarily to fund operating activities and to continue the investment in our technology.

As of June 30, 2003, our current liabilities were $2,799,059, of which $107,330 is due to related parties. The remainder of current liabilities of approximately $2,700,000 is made up, primarily, of trade payables of approximately $690,000, accrued expenses of approximately $540,000, $300,000 credit line payable, which was assumed with the acquisition of WellComm, approximately $125,000 of deferred revenue, carrying value $700,000 of convertible debenture (with a face value of $2,000,000 maturing in February 2004) and $275,000 of loans from shareholders. We have good relationships with all of our vendors.

As of June 30, 2003, the face value of our long-term debt amounted to $617,809 (but carrying value of $373,390) held by a group of investors led by Psilos Group Partners, L.P., for which principal and interest is not due until March 2006. Additionally, $780,230 is owed to officers and directors for advances made to the Company. This amount has been classified as non-current since neither us nor the officers and directors expect these advances to be repaid within the next twelve months unless circumstances change.

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

During the quarter ended June 30, 2003, we also issued stock for services. Specifically, we issued 205,833 shares of common stock for investor relations services valued at $331,048.

During May 2003, certain of our shareholders contributed loans (which were thereafter converted into common stock) and common stock such that an investor relations firm retained by us received an aggregate of 290,000 shares of common stock as compensation for services. The benefit that we have received from these

contributions amounted to $437,900, based on the market price of our common stock on the date of the contribution, and was charged to operations.

During May and June 2003, we granted 375,000 warrants with exercise prices ranging from $1.50 to $1.76 to two individuals and an institution for investor relations services pursuant to three separate consulting agreements expiring in May and June 2004. The value of such warrants, utilizing the Black-Scholes model, amounted to $645,000. Such amount has been charged to operations for the three months ended June 30, 2003.

During May 2003 pursuant to the approval of our Board of Directors, we granted an aggregate of 450,000 warrants with an exercise price of $1.80 per share to our Chief Executive and Operating Officers for their continued financial support and for their guarantees to continue to support us through July 2004. The granting of such warrants did not result in any charges to operations since they are deemed to be granted to our employees and accordingly are treated similar to incentive stock options.

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



recorded as a discount to the convertible promissory note using the relevant fair value of the debt and the warrants to the actual proceeds from the convertible promissory note.

Critical Accounting Policies

Impairment of Goodwill and Intangible

We operate in an industry that is rapidly evolving and extremely competitive. It is reasonably possible that our accounting estimates with respect to the useful life and ultimate recoverability of our carrying basis of goodwill and intangible assets could change in the near term and that the effect of such changes on the financial statements could be material.

Revenue Recognition

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

We license our software products for a specific term or on a perpetual basis. Most of our license contracts also require maintenance and support. We apply the provisions of Statement of Position 97-2, "Software Revenue Recognition," as amended by Statement of Position 98-9 "Modification of SOP

97-2, Software Revenue Recognition, With Respect to Certain Transactions" to all transactions involving the sale of software products and hardware transactions where the software is not incidental. For hardware transactions where software is not incidental, we do not unbundle the fee and we do not apply separate accounting guidance to the hardware and software elements. For hardware transactions where no software is involved we apply the provisions of Staff Accounting Bulletin 101 "Revenue Recognition." In addition, we apply the provisions of Emerging Issues Task Force Issue No. 00-03 "Application of AICPA Statement of Position 97-2 to Arrangements that Include the Right to Use Software Stored on Another Entity's Hardware" to our hosted software service transactions.

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

At the time of the transaction, we assess whether the fee associated with our revenue transactions is fixed and determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed and determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after our normal payment terms, which are 30 to 90 days from invoice date, we account for the fee as not being fixed and determinable. In these cases, we recognize revenue as the fees become due.

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

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

We recognize revenue for maintenance services ratably over the contract term. Our training and consulting services are billed based on hourly rates, and we generally recognize revenue as these services are performed. However, at the time of entering into a transaction, we assess whether or not any services included within the arrangement require us to perform significant work either to alter the underlying software or to build additional



complex interfaces so that the software performs as the customer requests. If these services are included as part of an arrangement, we recognize the entire fee using the percentage of completion method. We estimate the percentage of completion based on our estimate of the total costs estimated to complete the project as a percentage of the costs incurred to date and the estimated costs to complete.

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

Although as of the date of these financials, we have not entered into any risk-based contracts, we expect that we will do so in the very near future. These types of contracts are generally for terms of three to five years, provide for an automatic renewal and typically provide that a percentage of our fees may be refundable ("performance based") based on achieving a targeted percentage reduction in the customer's healthcare costs.

Material Equity Transactions

Through June 30, 2003 we have executed equity transactions with related and unrelated parties in connection with the raising funds for working capital along with issuing securities in lieu of compensation for services received. We believe that we have valued all such transaction pursuant to the various accounting rules and that they ultimately represent the economic substance of each transaction.

Item 3. Controls and Procedures

Within the 90-day period prior to the filing of this report, we carried out an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of this evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect the disclosure controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

Effective as of April 1, 2003, we issued a convertible promissory note in the principal amount of $100,000 and convertible into common stock at $1.50 per share and a warrant to acquire 100,000 shares of our common stock at $1.50 per share to a an existing stockholder. The shareholder is an accredited investor. In undertaking this issuance, we relied on an exemption from registration under Section 4(2) of the Securities Act and Regulation D thereunder.

Effective as of June 2, 2003, we issued warrants to acquire 250,000 shares of our common stock at $1.50 per share to two consultants as consideration for investor relations services. We recorded an accounting expense of $430,000 in connection with this issuance. Each of the consultants is an accredited investor. In undertaking this issuance, we relied on an exemption from registration under Section 4(2) of the Securities Act and Regulation D thereunder.

Effective as of May 23, 2003, we issued a warrant to acquire 125,000 shares of our common stock at $1.76 per share to seven principals of an investment bank as consideration for investment banking services. We recorded an accounting expense of $215,000 in connection with this issuance. Each of the principals is an accredited

investor. In undertaking this issuance, we relied on an exemption from registration under Section 4(2) of the Securities Act and Regulation D thereunder.

Effective as of May 15,2003 we issued 200,000 shares of our common stock to a consultant as consideration for investor relations and other services. We recorded an investor relations expense of $241,348 in connection with this issuance. The consultant is an accredited investor. In undertaking this issuance, we relied on an exemption from registration under Section 4(2) of the Securities Act and Regulation D thereunder.

As of June 30, 2003, we issued a total of 1,311,682 shares of common stock at $1.75 per share pursuant to a private placement initiated on June 2, 2003 in exchange for cash, loans and interest accrued on such loans, and accrued salaries. In undertaking this offering, we relied on an exemption from registration under Section 4(2) of the Securities Act and Regulation D thereunder. We filed a Form D with the Securities and Exchange Commission in connection with the issuance of our common stock in this transaction.

In June 2003, in accordance with a contractual commitment, we reset the exercise price of the warrant originally granted to a third party from $5.00 to $1.75 per share and amended the warrant to increase the number of shares issuable thereunder by 74,285 shares of common stock. In undertaking this offering, we relied on an exemption from registration under Section 4(2) of the Securities Act and Regulation D thereunder.

Item 3. Defaults upon Senior Securities

We did not default upon any senior securities during the quarter ended June 30, 2003.

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

We held our annual meeting of stockholders in Philadelphia, Pennsylvania on May 21, 2003. Of the 9,372,727 shares outstanding as of the record date, 6,578,387 shares were present or represented by proxy at the meeting. At this meeting the following actions were voted upon:

(1) To elect the following directors to serve for a term ending upon the 2004 Annual Meeting of Stockholders or until their successors are elected and qualified:

| | For | Against |
|---|---|---|
| John Blazek | 6,529,988 | 2,000 |
| David R. Bock | 6,573,487 | 2,000 |
| Philip D. Green | 6,529,988 | 2,000 |
| Dr. Michael M.E. Johns | 6,529,988 | 2,000 |
| Dr. Arthur N. Leibowitz | 6,573,487 | 2,000 |
| Frank A. Martin | 6,529,988 | 2,000 |
| Dr. David Nash | 6,573,487 | 2,000 |
| John R. Palumbo | 6,529,988 | 2,000 |
| Dr. Carol Rehtmeyer | 6,529,588 | 2,000 |
| R. Dixon Thayer | 6,573,487 | 2,000 |
| William S. Wheeler | 6,573,487 | 2,000 |

(2) Ratify the appointment of Goldstein Golub Kessler LLP as the Company's independent auditors for the fiscal year ending December 31, 2003.

| For | Against | Abstain |
| --- | --- | --- |
| 6,489,776 | 86,811 | 1,800 |

Item 5. Other Information

None.



Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

We filed a current report on Form 8-K with the Securities and Exchange Commission on April 22, 2003 to report a Regulation FD disclosure.

We filed a current report on Form 8-K with the Securities and Exchange Commission on May 19, 2003 to report a Regulation FD disclosure.



SIGNATURE

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

I-TRAX, INC.

Date: August 14, 2003

By: /s/ Frank A. Martin

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Name: Frank A. Martin
Title: Chief Executive Officer