I TRAX INC
Form 8-K
February 03, 2004

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 2, 2004

I-TRAX, INC.
(Exact name of registrant as specified in its charter)

Delaware	0-30275	23-3057155
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

Registrant's telephone number, including area code: (215) 557-7488

N/A
(Former name or former address, if changed since last report)

Item 5. Other Events.

On December 26, 2003, I-trax, Inc., a Delaware corporation ("I-trax"), DCG Acquisition, Inc., a Delaware corporation and a wholly owned subsidiary of I-trax, CHD Meridian Healthcare, LLC, a Delaware limited liability company of which I-trax is the sole member, and Meridian Occupational Healthcare Associates, Inc. (d/b/a CHD Meridian Healthcare), a Delaware corporation ("CHD Meridian") entered into a merger agreement.

The merger agreement provides for delivery to the CHD Meridian stockholders of 10,000,000 shares of I-trax common stock, 400,000 shares of I-trax convertible preferred stock and cash. CHD Meridian stockholders will also receive additional shares of I-trax common stock if CHD Meridian, continuing its operations following the closing of the merger as a subsidiary of I-trax, achieves certain calendar 2004 milestones for earnings before interest, taxes, depreciation and amortization (or EBITDA). If EBITDA equals or exceeds $8.1 million, the number of such additional I-trax common shares payable will be 3,600,000; the number of such shares increases proportionately up to a maximum of 4,000,000 such additional I-trax common shares if EBITDA equals or exceeds $9.0 million.

The amount of cash payable as part of the merger consideration will be $35 million less (1) the amount, if any, by which CHD Meridian's cash at closing is less than $13.3 million and (2) the amount CHD Meridian spends to redeem any of its outstanding common stock or options to acquire common stock, which may equal up to $11 million.

I-trax expects to fund the cash portion of the merger consideration by selling additional shares of convertible preferred stock yielding proceeds to I-trax of $15 to $25 million and obtaining a senior credit facility with a national lender, which allows a closing date draw of least $16 million.

The convertible preferred stock will accrue dividends at the rate of 8% per year. Dividends will be payable in I-trax common stock or cash, at the election of I-trax, when the convertible preferred stock is converted into I-trax common stock. The convertible preferred stock is convertible into I-trax common stock at a conversion price of $2.50 per share. Holders of convertible preferred stock may convert such shares into I-trax common stock at any time. In addition, shares of convertible preferred stock will convert into I-trax common stock automatically if (1) shares of I-trax common stock issuable upon conversion are registered for resale under the Securities Act of 1933, (2) the closing price of I-trax common stock is at least $7.50 per share for 20 of 30 consecutive trading days, (3) there is an effective registration statement and prospectus permitting resale of conversion shares during the 30 consecutive trading days, (4) the conversion shares are listed or admitted for trading on The Nasdaq National Market, The American Stock Exchange or the New York Stock Exchange and (5) I-trax otherwise honors all conversions. Notwithstanding the preceding, convertible preferred stock will not automatically convert into I-trax common stock with respect to a holder if conversion will result in such holder owning more than 4.9% of the outstanding I-trax common stock. Rather, such holder will have 90 days to reduce such holder's potential ownership to below 4.9%. The convertible preferred stock has a liquidation preference of $25 per share (the original purchase price), plus accrued dividends payable in the event of liquidation, dissolution or winding up of I-trax or in certain corporate transactions that would constitute a change of control of I-trax.

With regard to the senior credit facility, I-trax and CHD Meridian have received a loan commitment, subject to customary conditions for a facility from a national lender. The facility will permit the companies to borrow $16 million towards the cash portion of the merger consideration.

I-trax and CHD Meridian expect that the closing of the merger completed by the merger agreement will occur on or before April 30, 2004, subject to stockholder approval and other customary conditions. I-trax is filing this Current Report on Form 8-K to disclose the following:

- The unaudited financial statements of CHD Meridian and its Subsidiaries as of September 30, 2003 and December 31, 2002 and for the nine months ended September 30, 2003 and 2002.

- The audited financial statements of CHD Meridian and its Subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000.

- The unaudited pro forma condensed combined balance sheet at September 30, 2003 and pro forma condensed combined statements of operations for the nine months ended September 30, 2003 and for the year ended December 31, 2002 of I-trax and its Subsidiaries and CHD Meridian and its Subsidiaries. The unaudited pro forma condensed combined balance sheet gives effect to the proposed merger as of September 30, 2003 and the pro forma condensed combined statements of operations give effect to the proposed merger if it was consummated as of January 1, 2002.

- Certain risk factors relating to CHD Meridian and the proposed transaction.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Meridian Occupational Healthcare Associates, Inc. and Subsidiaries
(d/b/a CHD Meridian Healthcare)

Nine Months ended September 30, 2003 and 2002 (unaudited)

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Financial Statements
(Unaudited)
Nine Months ended September 30, 2003 and 2002

Contents

Consolidated Financial Statements

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Balance Sheet
(Unaudited)
(in thousands, except per share data)

	As of September 30, 2003
Assets	
Current assets:	
Cash and cash equivalents	$ 12,157
Accounts receivable, less allowance for doubtful accounts of $624 and $639 at September 30, 2003 and December 31, 2002, respectively	14,537
Other current assets	1,668
Total current assets	28,362
Property and equipment, net	2,840
Goodwill	8,181
Customer lists, net	7,201
Other intangibles, net	2
Other long-term assets	36
Total assets	$ 46,622 $
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable	$ 4,812
Accrued employee benefits	3,745
Deferred revenue	2,311
Net liabilities of discontinued operations	1,299
Other accrued liabilities	5,779
Total current liabilities	17,946
Other long-term liabilities	2,548
Stockholders' equity:	
Common stock, $0.001 par value; authorized 250,000 shares, 207,715 and 208,415 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	-
Additional paid-in capital	66,844
Accumulated deficit	(40,716)
Total stockholders' equity	26,128
Total liabilities and stockholders' equity	$ 46,622

See accompanying notes to consolidated financial statements (unaudited).

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Statements of Operations
(Unaudited)
(in thousands)

	For the Nine Months Ended September 30, 2003	For the Nine Mon Ended September 2002
Net revenues	$ 86,588	$ 78,634
Costs and expenses:		
Operating expenses	71,513	65,254
General and administrative expenses	10,316	10,156
Depreciation and amortization	1,125	1,447
Total costs and expenses	82,954	76,857
Operating income	3,634	1,777
Other (income) expense:		
Interest, net	(62)	(93)
Other, net	-	-
Total other (income) expense	(62)	(93)
Income from continuing operations before income taxes	3,696	1,870
Provision for income taxes	788	265
Net income	$ 2,908	$ 1,605

See accompanying notes to consolidated financial statements (unaudited).

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 2003 and 2002
(Unaudited)
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital
Balance at December 31, 2002	208,415	$ -	-	$ -	$ 66,944
Repurchase of common stock	(700)	-	-	-	(100)
Net income	-	-	-	-	-
Balance at September 30, 2003	207,715	$ -	-	$ -	$ 66,844

See accompanying notes to consolidated financial statements (unaudited).

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Statements of Cash Flows
(Unaudited)
(in thousands, except share data)

	For the Nine Months Ended September 30, 2003	For the Nine Months Ended September 30, 2002
Operating activities		
Net income from continuing operations	$ 2,908	$ 1,605
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,125	1,447
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(164)	749
Other current assets	(70)	(858)
Accounts payable	(984)	(1,634)
Accrued employee benefits	249	196
Deferred revenue	667	(1,497)
Other accruals and liabilities	1,713	(385)
Other long-term liabilities	(348)	182
Net cash provided by operating activities	5,096	(195)

Investing activities		
Purchase of property and equipment	(460)	(793)
Proceeds from sale of fixed assets		65
Net cash used in investing activities	(460)	(728)
Financing activities		
Repurchase of common stock	(100)	-
Proceeds from exercise of common stock options	-	
Net cash used in financing activities	(100)	
Discontinued operations		
Cash flows of discontinued operations	-	2,308
Net cash provided by discontinued operations	-	2,308
Net change in cash and cash equivalents	4,536	1,385
Cash and cash equivalents at beginning of year	7,621	3,155
Cash and cash equivalents at end of year	$ 12,157	$ 4,540
Supplemental cash flow information:		
Cash paid for interest	$ 19	$ 0
Cash paid for income taxes	$ 162	$ 250

See accompanying notes to consolidated financial statements (unaudited).

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements

September 30, 2003

1. Reporting Entity and Principles of Consolidation

Reporting Entity

Effective January 1, 2000, Meridian Occupational Healthcare Associates, Inc. ("Meridian") acquired Corporate Health Dimensions, based in Latham, New York. In conjunction with the acquisition, Meridian began doing business as CHD Meridian Healthcare ("CHD Meridian"), also referred to herein as the "Company".

CHD Meridian Healthcare is the nation's largest provider of outsourced health care services to the employer-sponsored market. The Company's model allows employers to contract directly for a wide range of health care services on behalf of employees, dependents, and retirees that are delivered through facilities located at or near the work site. CHD Meridian develops and manages custom designed facilities that address the pharmacy, primary care, occupational health, and corporate health demands of its clients. CHD Meridian currently provides employer-sponsored services to 90 clients at 156 locations in 30 states.

Physician services are provided at CHD Meridian's locations under management agreements with affiliated physician associations (the Physician Groups), which are organized professional corporations that hire licensed physicians who provide medical services.

Pursuant to the service agreements, the Physician Groups provide all medical aspects of CHD Meridian's services, including the development of professional standards, policies, and procedures for a fee. CHD Meridian provides a wide array of business services to the Physician Group, including administrative services, support personnel, facilities, marketing, and non-medical services in exchange for a management fee.

Principles of Consolidation

The consolidated financial statements include accounts of Meridian Occupational Healthcare Associates, Inc., its wholly owned subsidiaries, and the Physician Groups. The financial statements of the Physician Groups are consolidated with CHD Meridian in accordance with the nominee shareholder model of EITF 97-2, "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements". CHD Meridian has unilateral control over the assets and operations of the Physician Groups. Consolidation of the Physician Groups with CHD Meridian is necessary to present fairly the financial position and results of operations of CHD Meridian. Control of the Physician Groups is perpetual and other than temporary because of the nominee shareholder model and the management agreements between the entities. The net tangible assets of the Physician Groups were not material at September 30, 2003. All significant intercompany accounts and transactions have been eliminated in consolidation.

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

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. 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 September 30, 2003 and the results of the operations and cash flows for the nine months ended September 30, 2003 and 2002. The results for the nine months ended September 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.

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.

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 elsewhere in this filing.

3. Long-Term Debt

In January 2000, Bank of America purchased the Company's line of credit from First Union and extended the maturity date to May 2000. Effective May 15, 2000, the Company obtained a permanent $7.5 million credit facility from Bank of America that expired on November 15, 2002. Effective November 15, 2002, the Company amended the permanent $7.5 million credit facility from Bank of America. The permanent credit facility was reduced to $6.5 million and extended to November 15, 2005. The credit facility has a $2.25 million letter of credit portion with the remainder being a term loan revolver. The letter of credit of $2 million has been issued for the benefit of AIG, the Lexington Group, the Company's medical malpractice carrier. The credit facility is secured by substantially all of the Company's assets. At no time may the borrowings on the credit facility exceed 75% of the Company's assets. Borrowings, at the Company's election, may be either base rate loans or LIBOR loans. Base rate loans bear interest at the federal funds rate plus 5% per annum. The LIBOR loans bear interest at the LIBOR rate plus a range of 1.5% to 3.0% based on the Company's leverage ratio. At September 30, 2003, the Company had no debt outstanding on the term loan.

The credit facility includes certain financial covenants customary for the amount and duration of this commitment. The Company was in compliance with all such covenants at September 30, 2003.

4. Stockholders' Equity

Capital Stock

The Company has 93,500 authorized shares of Series A preferred stock and 60,000 authorized shares of Series B preferred stock. Through September 30, 2003, the Company has not issued any of the preferred series stock.

The Company has 250,000 authorized shares of common stock. During 2003, the company repurchased 700 shares of common stock. Through September 30, 2003, the Company has 207,715 issued and outstanding shares of common stock.

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

4. Stockholders' Equity (continued)

Stock Option Plan

The Company's 1997 Stock Incentive Plan (the "Plan"), provides for qualified and non-qualified incentive stock option grants which may be granted to key employees as designated by the Board of Directors. The options are exercisable commencing on dates specified in the option agreements and generally vest ratably over a four-year period. All option agreements stipulate immediate vesting upon a change of control of ownership. The options expire at the earlier of ten years from the date of grant or three months after the termination of the holder's employment with the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("Statement 148"), which amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). Statement 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Statement 148 is effective for financial statements issued for fiscal years ending after December 15, 2002. The Company has elected to account for stock-based compensation plans under the intrinsic value-based method of accounting prescribed by APB 25 that does not utilize the fair value method.

All options have been granted with exercise prices equal to or greater than management's estimate of the fair value of the Company's common stock on the date of grant. As a result, no compensation cost has been recognized. If the alternative method of accounting for stock option plans prescribed by Statement 123 and Statement 148 had been followed, the Company's net income (loss) would not have been materially different for the nine months ended September 30, 2003.

A summary of the status of the Company's options issued to employees is as follows at September 30, 2003:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2002	36,092	$ 137
Canceled	(625)	143
Outstanding at September 30, 2003	35,467	$ 112
Available for future grant	1,253	
Exercisable at September 30, 2003	29,960	$ 106

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

5. Employee Benefit Plan

The Company has a defined-contribution employee benefit plan that was established under provisions of Section 401(k) of the Internal Revenue Code. Substantially all full-time regular employees of the Company are eligible to participate in the plan. Under the plan's provisions, an employee may contribute, on a tax-deferred basis, up to 15% of total cash compensation within a calendar year, subject to Internal Revenue Code limitations. Matching contributions and discretionary contributions can be made by the Company. The Company made matching contributions of $440,000 for the nine months ended September 30, 2003.

6. Commitments and Contingencies

Concentration of Credit Risks

The Company's credit risks primarily relate to cash and cash equivalents and accounts receivable. Cash and cash equivalents are primarily held in bank accounts, whose balances may exceed federally-insured limits from time-to-time. Accounts receivable consist primarily of amounts due from corporate customers. The Company continually reviews collectibility of its accounts receivable and maintains allowances for doubtful accounts.

The Company had one customer for the Nine Months Ended September 30, 2003 that accounted for 11% of total revenue.

Estimated Medical Professional Liability Claims

The Company is insured for medical professional liability claims on a claims-made basis through commercial insurance policies. It is the Company's policy that provision for estimated medical professional liability costs be made for asserted and unasserted claims based on actuarially projected estimates, based on historical loss payment patterns. Provision for such professional liability claims includes estimates of the ultimate costs of such claims. The Company evaluates the financial condition of its insurers and reinsurers and monitors its credit risk related to insolvencies. September 30, 2003, certain of the Company's policy years were insured by two companies who are either insolvent or under regulatory supervision. The Company's provision for losses from professional liability claims assumes these policy years to be self-insured. The Company's estimated liability for its self-insured retention related to medical professional claims was $3,254,000 at September 30, 2003.

Litigation

The Company is involved in certain legal actions and claims on a variety of matters related to the normal course of business. It is the opinion of management that such legal actions will not have a material effect on the results of operations or the financial position of the Company.

Healthcare Regulations

The healthcare industry is subject to numerous laws and regulations of Federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

CONSOLIDATED FINANCIAL STATEMENTS

Meridian Occupational Healthcare Associates, Inc. and Subsidiaries
(d/b/a CHD Meridian Healthcare)
Years ended December 31, 2002, 2001 and 2000 with Report of Independent Auditors

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Financial Statements

Years ended December 31, 2002, 2001 and 2000

Contents

Report of Independent Auditors

The Board of Directors
CHD Meridian Healthcare

We have audited the accompanying consolidated balance sheets of Meridian Occupational Healthcare Associates, Inc. and subsidiaries (d/b/a CHD Meridian Healthcare), a Delaware corporation, as of December 31, 2002, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meridian Occupational Healthcare Associates, Inc. and subsidiaries at December 31, 2002, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2, in 2002 the Company changed its method of accounting for goodwill and other intangible assets.

As discussed in Note 3, in 2001 the Company changed its method of accounting for discontinued operations.

/s/ Ernst & Young LLP
Nashville, Tennessee
March 13, 2003

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Balance Sheets
(in thousands, except share data)

	December 31 2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$ 7,621	$ 3,155
Accounts receivable, less allowance for doubtful accounts of $639, $834, and $1,199 at December 31, 2002, 2001 and 2000, respectively	14,373	13,595
Income tax receivable	529	649
Net assets of discontinued operations	-	1,009
Other current assets	1,069	484
Total current assets	23,592	18,892
Property and equipment, net	3,063	2,977
Goodwill	8,181	8,181
Customer lists, net	7,645	8,394
Non-compete agreements, net	-	-
Other intangibles, net	-	-
Other long-term assets	36	36
Total assets	$ 42,517	$ 38,480

Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,796	$ 5,548
Accrued employee benefits	3,496	2,954
Deferred revenue	1,644	2,444
Income taxes payable	-	-
Net liabilities of discontinued operations	1,299	-
Other accrued liabilities	4,066	3,413
Total current liabilities	16,301	14,359
Line of credit	-	-
Other long-term liabilities	2,896	2,725
Stockholders' equity:		
Preferred stock, 153,500 authorized shares, none outstanding	-	-
Common stock, $0.001 par value; authorized 250,000 shares, 208,415 shares issued and outstanding at December 31, 2002, 2001 and 2000	-	-
Additional paid-in capital	66,944	66,944
Accumulated deficit	(43,624)	(45,548)
Total stockholders' equity	23,320	21,396
Total liabilities and stockholders' equity	$ 42,517	$ 38,480

See accompanying notes to consolidated financial statements.

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Statements of Operations
(in thousands)

	Year ended December	
	2002	2001
Net revenues	$ 107,124	$ 100,411
Costs and expenses:		
Operating expenses	88,858	82,950
General and administrative expenses	14,275	14,057
Depreciation and amortization	1,854	2,117
Total costs and expenses	104,987	99,124

Operating income	2,137	1,287
Other (income) expense:		
Interest, net	(124)	255
Other, net	-	-
Total other (income) expense	(124)	255
Income from continuing operations before income taxes	2,261	1,032
Provision for income taxes	337	139
Income from continuing operations	1,924	893
Gain on discontinued operations, net of income taxes of $80 and $418 at December 31, 2001 and 2000, respectively	-	527
Gain (loss) on disposal of discontinued operations, net of income tax benefit (expense) of $506 and $(134) at December 31, 2001 and 2000, respectively	-	(3,128)
Net income (loss)	$ 1,924	$ (1,708)

See accompanying notes to consolidated financial statements.

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Addition Paid-in Capital
Balance at December 31, 1999	14,609	$ -	104,044	$52,022	$ 50
Repurchase of common stock	(14,981)	-	-	-	(64
Conversion of preferred stock to common stock	104,043	-	(104,044)	(52,022)	52,02
Issuance of common stock in conjunction with acquisition	104,044	-	-	-	15,00
Options exercised	700	-	-	-	7
Net income	-	-	-	-	
Balance at December 31, 2000	208,415	-	-	-	66,94
Net loss	-	-	-	-	
Balance at December 31, 2001	208,415	-	-	-	66,94
Net income	-	-	-	-	

Balance at December 31, 2002	208,415	$ -	-	$	-	$66,94

See accompanying notes to consolidated financial statements.

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Consolidated Statements of Cash Flows
(in thousands, except share data)

	Year ended Decemb	
	2002	2001
Operating activities		
Net income from continuing operations	$ 1,924	$ 893
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,854	2,117
Loss on disposal of fixed assets	72	-
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(778)	2,955
Other current assets	(585)	(581
Accounts payable	(17)	(466
Income taxes receivable	120	(270
Deferred revenue	(800)	1,103
Other accruals and liabilities	1,195	1,377
Other long-term liabilities	171	521
Net cash provided by (used in) operating activities	3,156	7,649
Investing activities		
Purchase of property and equipment	(1,170)	(1,266
Proceeds from sale of fixed assets	172	-
Cash paid for acquisitions	-	(43
Increase in other assets	-	-
Net cash provided by (used in) investing activities	(998)	(1,309
Financing activities		
(Payments) borrowings under line of credit, net	-	(6,030
Payments on debt and capital lease obligations	-	(22
Repurchase of common stock	-	-
Proceeds from exercise of common stock options	-	-
Net cash provided by (used in) financing activities	-	(6,052

Discontinued operations		
Cash flows of discontinued operations	2,308	959
Net cash provided by discontinued operations	2,308	959
Net change in cash and cash equivalents	4,466	1,247
Cash and cash equivalents at beginning of year	3,155	1,908
Cash and cash equivalents at end of year	$ 7,621	$ 3,155
Supplemental cash flow information:		
Cash paid for interest	$ -	$ 350
Cash paid for income taxes	$ 217	$ 1,392
Supplemental non-cash investing and financing information:		
Conversion of Series A and Series B preferred stock to 104,043 shares of common stock	$ -	$ -

See accompanying notes to consolidated financial statements.

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements

December 31, 2002

1. Reporting Entity and Principles of Consolidation

Reporting Entity

Effective January 1, 2000, Meridian Occupational Healthcare Associates, Inc. ("Meridian") acquired Corporate Health Dimensions, based in Latham, New York. In conjunction with the acquisition, Meridian began doing business as CHD Meridian Healthcare ("CHD Meridian"), also referred to herein as the "Company".

CHD Meridian Healthcare is the nation's largest provider of outsourced health care services to the employer-sponsored market. The Company's model allows employers to contract directly for a wide range of health care services on behalf of employees, dependents, and retirees that are delivered through facilities located at or near the work site. CHD Meridian develops and manages custom designed facilities that address the pharmacy, primary care, occupational health, and corporate health demands of its clients. CHD Meridian currently provides employer-sponsored services to 88 clients at 156 locations in 31 states.

Physician services are provided at CHD Meridian's locations under management agreements with affiliated physician associations (the Physician Groups), which are organized professional corporations that hire licensed physicians who provide medical services.

Pursuant to the service agreements, the Physician Groups provide all medical aspects of CHD Meridian's services, including the development of professional standards, policies, and procedures for a fee. CHD Meridian provides a wide array of business services to the Physician Group, including administrative services, support personnel, facilities, marketing, and non-medical services in exchange for a management fee.

Principles of Consolidation

The consolidated financial statements include accounts of Meridian Occupational Healthcare Associates, Inc., its wholly owned subsidiaries, and the Physician Groups. The financial statements of the Physician Groups are consolidated with CHD Meridian in accordance with the nominee shareholder model of EITF 97-2, "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." CHD Meridian has unilateral control over the assets and operations of the Physician Groups.

1. Reporting Entity and Principles of Consolidation (continued)

Principles of Consolidation (continued)

Consolidation of the Physician Groups with CHD Meridian is necessary to present fairly the financial position and results of operations of CHD Meridian. Control of the Physician Groups is perpetual and other than temporary because of the nominee shareholder model and the management agreements between the entities. The net tangible assets of the Physician Groups were not material at December 31, 2002, 2001 or 2000. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Revenue Recognition and Accounts Receivable

Revenue is recorded at estimated net amounts to be received from employers for services rendered. The allowance for doubtful accounts represents management's estimate of potential credit issues associated with amounts due from employers.

Concentration of Credit Risks

The Company's credit risks primarily relate to cash and cash equivalents and accounts receivable. Cash and cash equivalents are primarily held in bank accounts, whose balances may exceed federally-insured limits from time-to-time. Accounts receivable consist primarily of amounts due from corporate customers. The Company continually reviews collectibility of its accounts receivable and maintains allowances for doubtful accounts.

The Company had one customer in 2002, 2001 and 2000 that accounted for 11%, 11% and 10% of total revenue, respectively.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated on the basis of cost. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	Years
Furniture and equipment	5-7
Leasehold improvements	Remaining life of the lease

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of net tangible assets acquired. Through December 31, 2001, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally forty years. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("Statement 142"). Effective January 1, 2002, the amortization of all goodwill was discontinued upon the adoption of Statement 142. This statement prohibits the amortization of goodwill and other indefinite lived intangible assets over a set period, rather these assets must be tested for impairment at least annually using a fair value method. The Company performed a transitional goodwill impairment test, noting no impairment. Impairment is measured at the reporting unit level using a discounted cash flows model to determine the fair value of the reporting units.

The Company will perform a goodwill impairment test whenever events or changes in facts or circumstances indicate that impairment may exist, or at least annually during the fourth quarter each year.

Other intangible assets represent customer lists, which are amortized on a straight-line basis over the expected periods to be benefited, generally 16 years. The Company evaluates impairment of its customer lists through SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement 144"), as discussed below.

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

The Company adopted Statement 144 on September 1, 2001. Statement 144 supersedes Statement 121 and addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of.

Management evaluates the carrying value of long-lived assets, including property and equipment in accordance with Statement 144. Statement 144 requires that companies consider whether events or changes in facts and circumstances, both internally and externally, may indicate that an impairment of long-lived assets held for use is present. If this review indicates that such long-lived assets will not be recoverable based on undiscounted cash flows of the related assets, the Company would record an impairment charge, representing the difference between carrying value and fair value (generally determined based on discounted cash flows). Other than as described in Note 3, management has determined that there was no impairment of long-lived assets at December 31, 2002, 2001 or 2000.

Stock Option Plan

The Company applies the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees," and related interpretations in accounting for its options. As such, compensation expense would generally be recorded on the date of grant only if the then current market price of the underlying stock exceeded the exercise price.

Use of Estimates

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

2. Summary of Significant Accounting Policies (continued)

Estimated Medical Professional Liability Claims

The Company is insured for medical professional liability claims on a claims-made basis through commercial insurance policies. It is the Company's policy that provision for estimated medical professional liability costs be made for asserted and unasserted claims based on actuarially projected estimates, based on historical loss payment patterns. Provision for such professional liability claims includes estimates of the ultimate costs of such claims. The Company evaluates the financial condition of its insurers and reinsurers and monitors its credit risk related to insolvencies. At December 31, 2002, certain of the Company's policy years were insured by two companies who are either insolvent or under regulatory supervision. The Company's provision for losses from professional liability claims assumes these policy years to be self-insured. The Company's estimated liability for its self-insured retention related to medical professional claims was $3,098,000, $2,178,000 and $1,373,000 at December 31, 2002, 2001 and 2000, respectively.

Disclosure About Fair Value of Financial Instruments

The fair value of the Company's cash and cash equivalents, accounts receivable, other current assets, accounts payable, and accrued expenses approximate carrying amounts because of the short maturity of those instruments.

The fair value of the Company's debt instruments is estimated based on the current rates offered to the Company for similar instruments of the same maturities and approximates the carrying amounts.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation. Such reclassifications had no effect on the net results of operations as previously reported.

Business Segment

The Company operates in a single reportable business segment.

3. Discontinued Operations

During 2001, the Company was notified of the cancellation of two government contracts, located in Fairfax, VA and Woodbridge, VA. The cancellation of these contracts met the requisite requirements to be accounted for as discontinued operations under Statement 144 because of the distinct financial information of the component entities that was available and reviewed by management. In accordance with Statement 144, the gain on discontinued operations of these two contracts of $607,000 and $1,232,000 for the years ended December 31, 2001 and 2000 was reclassified and reflected separately in the accompanying Consolidated Statements of Operations. In accordance with Statement 144, the Company recorded a loss on disposal of the discontinued operations of $3,716,000 for the year ended December 31, 2001, which consisted predominantly of the write-down of the equipment and intangible assets. Any remaining gains or losses on the discontinued operations will be recorded in the period incurred, in accordance with the requirements of Statement 144. At December 31, 2001, the net assets of discontinued operations consisted of accounts receivable ($2,509), net of severance accruals of ($201) and contract staffing accruals of ($1,299). At December 31, 2002, the net liabilities of discontinued operations consisted of the contract staffing accruals. The contract staffing accruals represent management's estimate of the Company's obligations related to the government's right to audit the contract terms and conditions.

The Company divested of its 11 freestanding occupational healthcare clinics located in Northern California (California Operations) during 1998. The sale of the California Operations was accounted for as discontinued operations in the accompanying consolidated financial statements. During 2000, one of two remaining leases was cancelled through an early payment settlement, resulting in a gain on discontinued operations of $350,000, which represents the difference between the obligation and the settlement payment. During 2001, the remaining lease expired, resulting in a gain on disposal of discontinued operations of $82,000. There was no impact to the financial statements related to the California Operations during 2002.

4. Business Combinations

2000 Acquisition

Effective January 1, 2000, the Company acquired all of the assets and liabilities of Corporate Health Dimensions, Inc. in exchange for 104,044 shares of common stock.

4. Business Combinations (continued)

2000 Acquisition (continued)

The aggregate purchase price of $15,000,000 for this acquisition is summarized as follows (in thousands):

Fair value of tangible assets acquired	$ 11,581
Liabilities assumed	(10,749)
Goodwill	5,723
Customer lists	8,445
Common stock issued	$ 15,000

Corporate Health Dimensions, Inc. operated and managed on-site healthcare clinics for large employers. Their delivery model for employer-sponsored healthcare services was very similar to the Company's model. They operated in the primary care, pharmacy and occupational areas and had been a competitor on most large contracts prior to the merger. From a strategic standpoint, Corporate Health Dimensions, Inc. was the only nationwide competitor for the Company, and thus, an excellent candidate for merger. Their client list was a complement to the Company's own client list, and together established the combined Company as the single source for on-site healthcare for Fortune 1000 companies.

5. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31		
	2002	2001	2000
Furniture and equipment	$ 6,089	$ 5,894	$ 4,709
Leasehold improvements	180	264	183

	6,269	6,158	4,892
Less accumulated depreciation	(3,206)	(3,181)	(2,106)
	$ 3,063	$ 2,977	$ 2,786

Depreciation expense was $1,105,000, $1,083,000 and $895,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

6. Goodwill and Other Intangible Assets

In accordance with Statement 142, the Company discontinued the amortization of goodwill effective January 1, 2002. A reconciliation of previously reported net income (loss) to the pro forma amounts adjusted for the exclusion of goodwill amortization net of the related income tax effect follows (in thousands):

	Year ended December 31, 2002	2001	2000
Reported net income (loss)	$1,924	$(1,708)	$1,218
Add: goodwill amortization	-	200	153
Pro forma adjusted net income (loss)	$1,924	$(1,508)	$1,371

The Company's separately identifiable intangible assets, which consists of customer lists, are as follows:

	December 31, 2002	2001	2000
Amortized intangible assets:			
Carrying amount	$ 10,691	$ 10,691	$ 10,679
Accumulated amortization	(3,046)	(2,297)	(1,464)
Net	$ 7,645	$ 8,394	$ 9,215

Amortization expense for the year ended December 31, 2002 was $749,000. Estimated amortization expense for each of the succeeding five fiscal years is as follows:

Year ending December 31	
2003	$ 637,833
2004	609,688
2005	609,688
2006	609,688
2007	609,688

7. Long-Term Debt

In January 2000, Bank of America purchased the Company's line of credit from First Union and extended the maturity date to May 2000. Effective May 15, 2000, the Company obtained a permanent $7.5 million credit facility from Bank of America which expired on November 15, 2002. Effective November 15, 2002, the Company amended the permanent $7.5 million credit facility from Bank of America. The permanent credit facility was reduced to $6.5 million and extended to November 15, 2005. The credit facility has a $1 million letter of credit portion with the remainder being a term loan revolver. The letter of credit of $1 million has been issued for the benefit of The Reciprocal Alliance, the Company's medical malpractice carrier. The credit facility is secured by substantially all of the Company's assets. At no time may the borrowings on the credit facility exceed 75% of the Company's assets. Borrowings, at the Company's election, may be either base rate loans or LIBOR loans. Base rate loans bear interest at the federal funds rate plus 5% per annum. The LIBOR loans bear interest at the LIBOR rate plus a range of 1.5% to 3.0% based on the Company's leverage ratio. At December 31, 2002, and 2001, the Company had no debt outstanding on the term loan. At December 31, 2000, the Company had $6,030,000 outstanding on the term loan.

The credit facility includes certain financial covenants customary for the amount and duration of this commitment. The Company was in compliance with all such covenants at December 31, 2002.

8. Income Taxes

Income tax expense is comprised of the following for the years ended December 31 (in thousands):

	2002	2001	2000
Current:			
Federal	$ -	$ (128)	$ 162
State	337	267	206
Deferred	-	-	-
Income tax expense	$ 337	$ 139	$ 368

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

During the year ended December 31, 2001 and all years prior to December 31, 2000, the Company generated net operating loss (NOL) carryforwards for federal and state income tax purposes. The NOL carryforwards are applicable to both discontinued and continuing operations. As a result of each period's loss and existing NOL carryforwards, the Company has not recorded a provision for current federal income tax for the years ended December 31, 2002, 2001 and 2000. At December 31, 2002, 2001 and 2000, the Company has a cumulative NOL carryforward for federal income tax purposes of $18.2 million, $19.8 million, and $19.5 million, respectively, which expires between 2011 and 2021. At December 31, 2002, 2001 and 2000, the Company has cumulative NOL carryforwards for state income tax purposes of $33.7 million, $25.0 million, and $16.3 million, respectively, which expire between 2006 and 2021. For financial reporting purposes, a valuation allowance has been recorded against the deferred tax assets related to these carryforwards.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's deferred tax assets and liabilities for continuing and discontinued operations are as follows (in thousands):

	2002	2001	
Deferred tax assets:			
Net operating loss carryforwards	$ 7,880	$ 7,989	$
Allowance for doubtful accounts	249	325	
Accrued expenses	1,712	1,805	
Amortization	1,387	1,549	
Other	331	323	
Total gross deferred tax assets	11,559	11,991	
Less: Valuation allowance	(11,248)	(11,775)	
Total deferred tax assets	311	216	
Deferred tax liability:			
Depreciation	(311)	(216)	
Net deferred tax asset (liability)	$ -	$ -	$

Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

The provision for income taxes for continuing operations for the years ended December 31, 2002, 2001 and 2000 differs from the amount computed by applying the statutory rate of 34% due to the following (in thousands):

	2002	2001	2000
Tax at federal statutory rate	$ 769	$ 351	$ 189
State income taxes	223	176	136
Nondeductible amortization	225	309	285
Other	24	129	69
Change in valuation allowance	(904)	(826)	(311)
Income tax provision (benefit)	$ 337	$ 139	$ 368

During 2001, the valuation allowance changed by approximately $1.2 million for the tax effect of discontinued operations.

9. Stockholders' Equity

Capital Stock

The Company has 93,500 authorized shares of Series A preferred stock and 60,000 authorized shares of Series B preferred stock. Through December 31, 2002, the Company has not issued any of the preferred series stock.

On January 1, 2000, all holders of Meridian common stock, representing 14,609 shares, exchanged their shares for $593,000. Thereafter, just prior to the acquisition of Corporate Health Dimensions, Inc., all holders of Series A and Series B preferred stock converted their shares into 104,043 shares of Meridian common stock at a conversion price of $500 per preferred share. Effective January 1, 2000, Meridian issued an additional 104,044 shares of common stock to the shareholders of Corporate Health Dimensions stock in exchange for 100% of the outstanding shares of Corporate Health Dimensions stock.

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

9. Stockholders' Equity (continued)

Stock Option Plan

The Company's 1997 Stock Incentive Plan (the "Plan"), provides for qualified and non-qualified incentive stock option grants which may be granted to key employees as designated by the Board of Directors. The options are exercisable commencing on dates specified in the option agreements and generally vest ratably over a four-year period. The options expire at the earlier of ten years from the date of grant or three months after the termination of the holder's employment with the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("Statement 148"), which amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). Statement 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Statement 148 is effective for financial statements issued for fiscal years ending after December 15, 2002. The Company has elected to account for stock-based compensation plans under the intrinsic value-based method of accounting prescribed by APB 25 that does not utilize the fair value method.

All options have been granted with exercise prices equal to or greater than management's estimate of the fair value of the Company's common stock on the date of grant. As a result, no compensation cost has been recognized. If the alternative method of accounting for stock option plans prescribed by Statement 123 and Statement 148 had been followed, the Company's net income (loss) would not have been materially different for the years ended December 31, 2002, 2001 and 2000, respectively.

9. Stockholders' Equity (continued)

Stock Option Plan (continued)

A summary of the status of the Company's options issued to employees is as follows at December 31, 2002, 2001 and 2000:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1999	5,503	$ 100
Granted	31,397	143
Canceled	(998)	108
Exercised	(700)	100
Outstanding at December 31, 2000	35,202	137
Granted	2,890	143

Canceled	(1,545)	139
Exercised	-	-
Outstanding at December 31, 2001	36,547	$ 137
Granted	-	-
Canceled	(455)	141
Exercised	-	-
Outstanding at December 31, 2002	36,092	$ 137
Available for future grant	628	
Exercisable at December 31, 2002	18,276	$ 136
Exercisable at December 31, 2001	10,363	$ 130
Exercisable at December 31, 2000	1,986	$ 100

10. Employee Benefit Plan

The Company has a defined-contribution employee benefit plan that was established under provisions of Section 401(k) of the Internal Revenue Code. Substantially all full-time regular employees of the Company are eligible to participate in the plan. Under the plan's provisions, an employee may contribute, on a tax-deferred basis, up to 15% of total cash compensation, not to exceed, within a calendar year, subject to Internal Revenue Code limitations. Matching contributions and discretionary contributions can be made by the Company. The Company made matching contributions of $498,000, $565,000 and $181,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

11. Lease Obligations

The Company leases corporate office space, operating facilities, and equipment under various operating lease agreements. Future minimum lease payments under noncancelable operating leases as of December 31, 2002, are as follows (in thousands):

Year ending December 31	
2003	$ 1,167
2004	1,055
2005	846
2006	815
2007	706
Thereafter	1,199
	$ 5,788

Rent expense on operating leases for the years ended December 31, 2002, 2001 and 2000 was $2,753,000, $3,117,000, and 3,557,000, respectively.

12. Commitments and Contingencies

Litigation

The Company is involved in certain legal actions and claims on a variety of matters related to the normal course of business. It is the opinion of management that such legal actions will not have a material effect on the results of operations or the financial position of the Company.

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Meridian Occupational Healthcare Associates, Inc.
and Subsidiaries (d/b/a CHD Meridian Healthcare)

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Healthcare Regulations

The healthcare industry is subject to numerous laws and regulations of Federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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Unaudited Pro Forma Condensed Combined Financial Information of I-trax, Inc. and its Subsidiaries and Meridian Occupational Healthcare Associates, Inc. and Subsidiaries (d/b/a CHD Meridian Healthcare)

General

On December 26, 2003, I-trax, Inc. ("I-trax") entered into a merger agreement with Meridian Occupational Healthcare Associates, Inc. and Subsidiaries (d/b/a CHD Meridian Healthcare) ("CHD Meridian"), a privately held company and a leading provider of outsourced, employer-sponsored healthcare services to Fortune 1,000 companies.

The merger agreement provides for delivery of: 10,000,000 shares of I-trax common stock, 400,000 shares of I-trax convertible preferred stock and cash. CHD Meridian stockholders will also receive additional shares of I-trax common stock if CHD Meridian, continuing its operations following the closing of the merger as a subsidiary of I-trax, achieves certain calendar 2004 milestones for earnings before interest, taxes, depreciation and amortization (or EBITDA). If EBITDA exceeds $8.1 million, the number of such additional I-trax common shares payable will be 3,600,000; the number of such shares increases proportionately up to a maximum of 4,000,000 such additional I-trax common shares if EBITDA exceeds $9.0 million.

The amount of cash payable as part of the merger consideration will be $35 million less (1) the amount, if any, by which CHD Meridian's cash at closing is less than $13.2 million and (2) the amount CHD Meridian spends to redeem any of its outstanding common stock or options to acquire common stock, which may equal up to $11 million.

I-trax expects to fund the cash portion of the merger consideration by selling 800,000 shares of convertible preferred stock at $25 per share and convertible into common stock at a price of $2.50 per share, for gross proceeds of $20 million, and obtaining a senior credit facility with a national lender, which allows a closing date draw of least $16 million.

Pro Forma Condensed Combined Financial Statements

The following information has been provided to aid you in your analysis of the financial aspects of the merger. This information was derived from the audited consolidated financial statements of each of I-trax and CHD Meridian for year 2002 and the unaudited condensed consolidated financial statements of each of I-trax and CHD Meridian for the nine months ended September 30, 2003. The information should be read together with the historical financial statements and related notes contained in I-trax's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002, Quarterly Report on Form 10-QSB for the fiscal quarter ended September 30, 2003 and Current Reports on Form 8-K filed since January 1, 2003 filed with the Securities and Exchange Commission.

The unaudited pro forma adjustments are based on management's preliminary estimates of the value of the tangible and intangible assets and liabilities acquired. As a result, the actual determination of the value of the tangible and intangible assets and liabilities acquired may differ materially from those presented in these unaudited pro forma condensed combined financial statements. A change in the unaudited pro forma condensed combined balance sheet adjustments of the purchase price for the acquisition would primarily result in the reallocation affecting the value assigned to tangible and intangible assets. The income statement effect of these changes will depend on the nature and the amount of the assets or liabilities adjusted.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only and are not necessarily indicative of the financial position or results of operations of I-trax that would have occurred had the purchase been consummated as of the dates indicated above. In addition, the unaudited pro forma condensed combined financial statements are not necessarily indicative of the future financial condition or operating results of I-trax.

Accounting Treatment

The merger will be accounted for under the purchase method of accounting, with I-trax treated as the acquirer. As a result, I-trax will record the assets and liabilities of CHD Meridian at their estimated fair values and will record as goodwill the excess of the purchase price over such estimated fair values. The unaudited pro forma condensed combined financial statements reflect preliminary estimates of the allocation of the purchase price for the acquisition that may be adjusted. The operating results of CHD Meridian will be combined with the results of I-trax from the date of the merger. As a result, I-trax's earnings for 2004 will not include CHD Meridian's 2004 earnings prior to the merger.

Periods Covered

The following unaudited pro forma condensed combined balance sheet as of September 30, 2003, is presented as if the merger had occurred on September 30, 2003. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2003, and for the year ended December 31, 2002, are presented as if the companies had merged as of January 1, 2002.

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Pro Forma Condensed Combined Balance Sheet September 30, 2003 (Unaud

(In thousands, except per share price.)

	I-trax, Inc. and Subsidiaries September 30, 2003 (a)	Adj. Ref.	Activity Adjustment (b)	I-trax, Inc. and Subsidiaries September 30, 2003 as adjusted (c)	Meridian Occupational Healthcare Associates, Inc., and Subsidiaries September 30, 2003 (d)	Adj Ref
Current assets						
Cash and cash equivalents	$ 245	1	$ 1,676	$ 2,197	$ 12,157	A
		2	175			F
		4	(300)			F
		5	(50)			C
		8	451			E
						H
Due from insurance company	500	6	(500)	--	--	
Accounts receivable, net	564			564	14,537	
Other current assets	269			269	1,668	
Total current assets	1,578		1,452	3,030	28,362	
Investments in CHD Meridian						F
						G
Property, equipment						

and furniture, net	925			925	2,840	
Deferred marketing costs, net	944			944	--	
Goodwill	8,424			8,424	8,181	G
Customer lists\relations, net	946			946	7,201	G
Non-compete agreements, net	961			961		
Other intangibles, net	77			77	2	
Other long term assets	32			32	36	
Total assets	$ 13,887		$ 1,452	$ 15,339	$ 46,622	

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	I-trax, Inc. and Subsidiaries September 30, 2003 (a)	Adj. Ref.	Activity Adjustment (b)	I-trax, Inc. and Subsidiaries September 30, 2003 as adjusted (c)	Meridian Occupational Healthcare Associates, Inc., and Subsidiaries September 30, 2003 (d)	Adj Ref
Current liabilities						
Credit line payable	$ 300	4	$ (300)	$ --	$ --	
Accounts payable	710			710	4,812	
Accrued expenses	443			443	9,524	
Due to related parties	548	6	(500)	48	--	
Deferred revenue	--			--	2,311	
Promissory notes and debenture payable	1,220	3	(175)	845	--	
		7	(200)			
Other current liabilities	61			61	1,299	
Total current liabilities	3,282		(1,175)	2,107	17,946	
Credit lines payable, long term				--	--	A
Due to related parties	315	5	(50)	265	--	
Promissory notes, net of discount	398			398	--	
Other long term liabilities	34			34	2,548	

Total liabilities	4,029		(1,225)	2,804	20,494	
Preferred stock				--	--	A F
Common stock and additional paid -in-capital	46,020	1	1,676	48,697	66,834	F
		2	175			C
		3	175			E
		7	200			B
		8	451			D
						D
						G
						H
Accumulated deficit and other	(36,162)			(36,162)	(40,706)	G B H
Total stockholders' equity	9,858		2,677	12,535	26,128	
Total liabilities and stockholder's equity	$ 13,887		$ 1,452	$ 15,339	$ 46,622	

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(a) Represents historical balance sheet of I-trax, Inc. as of September 30, 2003 derived from the unaudited consolidated financial statements included in the Quarterly Report on Form 10-QSB.

(b) To give effect to certain material transactions as of September 30, 2003, which occurred during October 2003.

(c) Represents the historical balance sheet of I-trax, Inc. as of September 30, 2003 adjusted for certain material transactions which occurred during October 2003.

(d) Represents historical balance sheet of Meridian Occupational Healthcare Associates, Inc. and subsidiaries as of September 30, 2003, derived from the unaudited consolidated financial statements.

(e) The pro forma adjustments give effect to the financings of the acquisition and the acquisition of CHD Meridian Healthcare as if it were consummated as of September 30, 2003.

See accompanying notes to unaudited pro forma condensed combined financial information.

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2003
(UNAUDITED)

(In thousands, except per share price.)

	I-trax, Inc. and Subsidiaries for the nine months ended September 30, 2003 (Unaudited) (a)	Meridian Occupational Healthcare Associates, Inc. and Subsidiaries for the nine months ended September 20, 2003 (Unaudited) (b)	Adj. Ref.
Revenue	$ 3,668	$ 86,588	
Cost and expenses:			
Operating expenses	977	71,513	
General and administrative	3,095	10,316	H
Depreciation and amortization	1,318	1,125	I
Marketing and publicity	1,677	--	
Total costs and expenses	7,067	82,954	
Operating (loss) income	(3,399)	3,634	
Other income (expenses):			
Proceeds from life insurance policy	500	--	
Costs in connection with uncompleted acquisition	(200)	--	
Amortization of debt issuance costs	(295)	--	
Interest (expense) income and financing costs	(1,922)	62	J
Total other expenses	(1,917)	62	
Net income (loss) before provision for income taxes	(5,316)	3,696	
Provision for income taxes	--	788	
Net Income (loss)	(5,316)	2,908	
Less: dividends applicable to preferred stockholders	--	--	

Net income (loss) applicable to common stock	$ (5,316)	$ 2,908
Loss per common share:		
Basic and diluted	$ (0.53)	
Weighted average number of shares outstanding:	10,112	

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(a) Represents historical statement of operations of I-trax for the nine months ended September 30, 2003 derived from the unaudited statements included in the quarterly report on Form 10-QSB.

(b) Represents historical statement of operations for CHD Meridian and subsidiaries for the nine months ended September 30, 2003 included in its unaudited consolidated financial statements.

(c) The pro forma adjustments give effect to the financings of the acquisition and the acquisition of CHD Meridian as if it were consummated on January 1, 2002.

See accompanying notes to unaudited pro forma condensed combined financial information.

(In thousands, except per share price.)

	I-trax, Inc. and Subsidiaries for the year ended December 31, 2002 (a)	Meridian Occupational Healthcare Associates, Inc. and Subsidiaries for the year ended December 31, 2002 (b)	Adj. Ref.	Pro adj (Unau

Revenue	$ 3,932	$ 107,124		
Cost and expenses:				
Operating expenses	1,229	88,858		
General and administrative	5,955	14,275	H	
Depreciation and amortization	2,045	1,854	I	
Marketing and publicity	774	--		
Research & Development	410	--		
Impairment charges related to intangible assets	1,648	--		
Total costs and expenses	12,061	104,987		
Operating (loss) income	(8,129)	2,137		
Other income (expenses):				
Amortization of debt issuance costs	(187)	--		
Interest (expense) income and financing costs	(1,108)	124	J	
Total other expenses	(1,295)	124		
Net income(loss) before provision for income taxes	(9,424)	2,261		
Provision for income taxes	--	337		
Net Income (loss)	(9,424)	1,924		
Less: dividends applicable to preferred stockholders	--	--	B	
Net income (loss) applicable to common stock	$ (9,424)	$ 1,924		
Loss per common share:				
Basic and diluted	$ (1.04)			
Weighted average number of shares outstanding:	9,097			

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(a) Represents historical statement of operations of I-trax for the year ended December 31, 2002 derived from the audited statements included in the annual report on Form 10-KSB.

(b) Represents historical statement of operations for CHD Meridian and subsidiaries for the year ended December 31, 2002 included in its audited consolidated financial statements.

(c) The pro forma adjustments give effect to the financings of the acquisition and the acquisition of CHD Meridian as if it were consummated on January 1, 2002.

See accompanying notes to unaudited pro forma condensed combined financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The activity adjustments below give effect to material transactions as if they were consummated as of September 30, 2003.

1. To give effect as of September 30, 2003, the sale of I-trax common stock during October 2003 in a private placement commenced in August 2003. I-trax realized proceeds of $1,676 after expenses for these October sales.

2. To give effect as of September 30, 2003, the receipt of $175 during October 2003 as a result of the exercise of warrants from a debenture holder.

3. To give effect as of September 30, 2003, the conversion of $175 of debenture principal into equity during October 2003 from the Company's debenture holder.

4. To give effect as of September 30, 2003, the repayment of I-trax's credit line during October 2003 amounting to $300.

5. To give effect as of September 30, 2003, the repayment of $50 to a related party during October 2003.

6. To give effect as of September 30, 2003, the repayment of $500 of related party loans during October 2003, using proceeds from a pledged from a life insurance policy on the life of a deceased senior executive officer and director of I-trax.

7. To give effect for the granting of 50,000 warrants to I-trax's debenture holder for extending the maturity date of the debenture for one year. The warrants were valued at $200 utilizing the Black-Scholes Model. The value of the warrant is recorded as a discount to the

debenture and will be accreted to interest expense over the remaining life of the debenture.

8. To give effect to the exercise of 257,692 warrants from the Company's debenture holder yielding the Company $451.

The pro forma adjustments to the condensed combined balance sheet below give effect to the financing of the CHD Meridian acquisition and the acquisition of CHD Meridian as if they were both consummated as of September 30, 2003. The pro forma adjustments to the condensed combined statement of profit and loss below give effect to the financing of the CHD Meridian acquisition and the acquisition of CHD Meridian as if they w