MEDIX RESOURCES INC
Form 10QSB
November 14, 2001

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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

Commission File Number: 0-24768

MEDIX RESOURCES, INC.
(Exact name of issuer as specified in its charter)

Colorado	84-1123311
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
305 Madison Avenue, Suite 2033, New York, New York	10165
(Address of principal executive offices)	(Zip Code)

(212) 697-2509
(Issuer's telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 9, 2001.

Common Stock, $0.001 par value	54,669,447
Class	Number of Shares

MEDIX RESOURCES, INC.

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MEDIX RESOURCES, INC.

Consolidated Balance Sheets

	September 30, 2001	December 31, 2000

	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 73,000	$ 1,007,000
Accounts receivable, net	36,000	49,000
Prepaid expenses and other	69,000	225,000
Total current assets	178,000	1,281,000
Software development costs, net	624,000	371,000
Property and equipment, net	391,000	418,000
Intangible assets, net	1,876,000	3,019,000
Other assets	19,000	--
Total assets	$ 3,088,000	$ 5,089,000
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable	$ 10,000	$ 137,000
Convertible note payable, net of discount of $188,000	312,000	--
Accounts payable	555,000	159,000
Accrued expenses	660,000	591,000
Liability for unissued warrants (Note 3)	590,000	--
Total current liabilities	2,127,000	887,000
Stockholders' equity		
1996 Preferred stock, 10% cumulative convertible, $1 par value; 488 shares authorized; 155 shares issued; 1 share outstanding	--	--
1997 Convertible preferred stock, $1 par value; 300 shares authorized; 167.15 shares issued; zero shares outstanding	--	--
1999 Series A convertible preferred stock, $1 par value; 300 shares authorized; 1,832 shares issued; zero shares outstanding	--	--
1999 Series B convertible preferred stock, $1 par value; 2,000 shares authorized; 1,832 shares issued; 50 shares outstanding	--	--
1999 Series C convertible preferred stock, $1 par value; 2,000 shares authorized; 1,995 shares issued; 375 and 875 shares outstanding	--	1,000
Common stock, $.001 par value; 100,000,000 authorized; 52,482,446 and 46,317,022 issued and outstanding	52,000	46,000
Dividends payable with common stock	7,000	5,000
Additional paid-in capital	31,401,000	27,573,000
Accumulated deficit	(30,499,000)	(23,423,000)
Total stockholders' equity	961,000	4,202,000
Total liabilities and stockholders' equity	$ 3,088,000	$ 5,089,000

MEDIX RESOURCES, INC.

Unaudited Consolidated Statements of Operations

	For the Three Months Ended September 30, 2001	For the Three Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001	For the Nine Months Ended September 30, 2000
Revenues	$ --	$ 104,000	$ 30,000	$ 294,000
Direct costs of services	5,000	73,000	38,000	96,000
Gross margin	(5,000)	31,000	(8,000)	198,000
Software research and development costs	348,000	427,000	947,000	427,000
Selling, general and administrative expenses	1,594,000	1,028,000	4,611,000	3,993,000
Impairment of Intangible Assets (Note 2)	1,111,000	--	1,111,000	--
Net loss from operations	(3,058,000)	(1,424,000)	(6,677,000)	(4,222,000)
Other income	11,000	47,000	11,000	135,000
Interest expense	(136,000)	(3,000)	(410,000)	(23,000)
Net loss from continuing operations	(3,183,000)	(1,380,000)	(7,076,000)	(4,110,000)
Net gain (loss) from discontinued operations	--	--	--	650,000
Net Loss	$ (3,183,000)	$ (1,380,000)	$ (7,076,000)	$ (3,460,000)
Net loss per common share-continuing operations .	$ (0.06)	$ (0.03)	$ (0.14)	$ (.10)
Net income (loss) per common share-discontinued operations	--	--	--	.02
Net loss per common share ...	$ (0.06)	$ (0.03)	$ (0.14)	$ (.08)
Weighted average shares outstanding	51,267,407	44,989,209	49,308,780	39,811,424

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MEDIX RESOURCES, INC.

Unaudited Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30,	
	2001	2000
Cash flows from operating activities		
Net loss	$(7,076,000)	$(3,460,000)
Adjustments to reconcile net income (loss) to net cash flows (used in) provided by operating activities		
Gain on sale of staffing business	--	(823,000)
Depreciation and amortization	375,000	274,000
Amortization of discount and warrants-convertible debt	374,000	--
Write off of unrecoverable intangible assets, net	1,111,000	--
Options and warrants issued in conjunction with stock issuance, and for litigation settlement, respectively	503,000	137,000
Net changes in current assets and current liabilities	1,130,000	535,000
Net cash flows (used in) provided by operating activities	(3,583,000)	(3,337,000)
Cash flows from investing activities		
Proceeds from the disposal of staffing business	--	500,000
Software development costs incurred	(366,000)	(347,000)
Purchase of property and equipment	(66,000)	(1,002,000)
Business acquisition costs, net of cash acquired	--	(94,000)
Net cash flows (used in) investing activities	(432,000)	(943,000)
Cash flows from financing activities		
Advances received on convertible note	1,500,000	--
Advances (payments) under financing agreement, net	--	(484,000)
Payments on capital leases and debt	(130,000)	(76,000)
Proceeds from the issuance of common stock	1,481,000	--
Net proceeds from exercise of options and warrants	230,000	5,884,000
Net cash flows provided by financing activities	3,081,000	5,324,000
Net (decrease) increase in cash and cash equivalents	(934,000)	1,044,000
Cash and cash equivalents at beginning of period	1,007,000	1,229,000
Cash and cash equivalents at end of period	$ 73,000	$ 2,273,000

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

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

Non-cash and investing and financing activities for the nine months ended September 30, 2000:
Disposal of staffing business.
$370,000 accrued liability for the purchase of a license.
Conversion of a $400,000 note payable into 800,000 shares of common stock.
Conversion of preferred stock into common stock.

MEDIX RESOURCES, INC.

Notes to Unaudited Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The unaudited consolidated financial statements as of September 30, 2001 have been derived from audited financial statements. The unaudited consolidated financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's Form 10-KSB for the fiscal year ended December 31, 2000. The results of operations for the nine months ended September 30, 2001 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2001.

2. INTANGIBLE ASSETS

	September 30, 2001
Goodwill acquired through the Cymedix acquisition, net	$ 1,876,000

During the third quarter of 2001, the Company, after evaluating the performance of each asset, ceased operation of its wholly owned subsidiary, Automated Design Concepts, Inc., and terminated its license agreement with ZirMed.com. As a result, a charge of $1,111,000 has been included in the results of operations for the three and nine months ended September 30, 2001. This amount represents the unamortized balance of each investment at the time of impairment.

3. EQUITY TRANSACTIONS

During the first nine months of 2001, 500 shares of the 1999 Series C preferred stock were converted into 1,000,000 shares of common stock.

Additionally, the Company received proceeds of $230,000 from the exercise of stock options and warrants resulting in the issuance of 899,309 shares of common stock.

In December 2000, the Company obtained a credit facility under which it issued a convertible promissory note and common stock purchase warrants. The credit facility provided that the Company could draw against this facility in tranches as follows: $750,000 upon closing, which occurred January 10, 2001; $250,000 within 10 days of an effective registration statement, which occurred February 13, 2001; and $500,000 draws at the 60th day, 90th day and the 150th day from the effective registration statement. These advances could be made only if the Company's common stock price remained above $1 for five business days prior to the draw. During the draw down periods, the Company drew $1,500,000 under the convertible note. Advances under the convertible note bear interest at an annual rate of 10% and provide for semi-annual payments on July 10, 2001 and January 10, 2002. All outstanding balances under this arrangement are due and payable no later than January 10, 2002. The note payable balance is also convertible at $.90 per share for up to $750,000 and any remaining balance at $1.00 per share. The initial $750,000 draw on this arrangement has an imputed discount recorded, which was valued at $75,000 for the in-the-money conversion feature of the first advance. In addition, the noteholder can force a redemption of the note or any portion thereof, for either cash or stock at the option of the Company, but if for stock, at a redemption price of eighty (80%) percent of the Volume Weighted Market Price (as defined) per common share during the twenty (20) Trading Days ending on the day of the notice delivered by the holder.

During February 2001, $100,000 of the convertible note was converted into 111,111 shares of common stock. During the period April through September, a further $900,000 of the note was redeemed. These redemptions were satisfied by the issuance of 1,507,366 shares of common stock. During July 2001, 52,928 shares of common stock was issued as payment of accrued interest through July 10, 2001.

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

The Company has imputed values for the 750,000 and 54,167 warrants issued to the provider of the credit facility and the finders using the Black-Scholes Option pricing model as is standard accounting convention. The first 500,000 warrants issued to the provider of the credit facility were valued at $249,000 and have been treated as a discount on the debt to be amortized over its remaining life. The related 54,167 warrants issued to finders were valued at $42,000 and have been recorded as debt issue costs and amortized over the remaining life of the debt. The values were determined using the following assumptions; lives of two years, exercise prices of $1.75, volatility of 117%, no dividend payment and a risk-free rate of 5.5%. In connection with the final draw under the credit facility in May, the Company issued 250,000 warrants to the provider of the credit facility. The 250,000 warrants issued to the provider of the credit facility were valued at $209,000 using the Black-Scholes pricing model and have been treated as a discount on the debt to be amortized over its remaining life. In connection with the final draw under the credit facility, The Company issued warrants to purchase 25,000 shares issued to the finders. The warrants have been valued at $21,000 using the Black-Scholes option-pricing model, and have been treated as a discount on the debt to be amortized over its remaining life.

During March 2001, the Company received $350,000 from the noteholder for the issuance of 636,364 shares of its common stock as a private placement transaction independent of the credit facility. As a part of this common stock issuance, the Company issued warrants to purchase 636,364 shares of common stock at $.80 per share with a term of two years from the date of issuance. As a result of the share issuance, the Company has recorded an expense of $262,000 in the accompanying financial statements, using the Black-Scholes option-pricing model. The company also issued warrants to purchase 63,636 shares of common stock at $.80 per share with a term of two years to two finders assisting the transaction. The finders warrants have been valued at $40,000 using the Black-Scholes pricing model and have been included as equity issuance costs in the accompanying financial statements.

During the period May through September 2001, the Company received $600,000 from the noteholder for the issuance of 898,106 shares of its common stock, in additional private placement transactions.

The Company has entered into an Equity Line of Credit Agreement dated as of June 12, 2001. Under the agreement, the providers of the Equity Line of Credit have committed to advance to the Company funds in an amount of up to $10,000,000, as requested by the Company, over a 24-month period in return for common stock issued by the Company to the providers. The principal conditions to any such advance, which may be waived, are as follows:

- There must be thirteen stock market trading days between any two requests for advances made by the Company.
- The Company can only request an advance if the volume weighted average price of the common stock as reported by Bloomberg L.P. for the day before the request is made is equal to or greater than the volume weighted average price as reported by Bloomberg L.P. for the 22 trading days before a request is made.
- The Company will not be able to receive an advance amount that is greater than 175% of the average daily volume of its common stock over the 40 trading days prior to the advance request multiplied by the purchase price.

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

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

The Company will pay an aggregate of 7% of each amount advanced under the equity line financing to two parties affiliated with the providers of the Equity Line of Credit for their services relating thereto. In addition, upon the effective date of this Registration Statement registering the securities to be issued under the Equity Line of Credit, the Company issued to those same two parties an aggregate of 198,020 shares of common stock, and on December 9, 2001 (180 days after the date of the Equity Line of Credit Agreement) the Company will issue to them additional shares of our common stock in an amount equal to $200,000, divided by the purchase price, as described above, for shares advanced under the equity line financing as if an advance occurred on such date. In addition, the Company has paid legal fees in an aggregate amount of $15,000.

During the period August to September 2001, the company received $531,000, net of commissions and escrow fees from three equity line advances, resulting in the issuance of 862,220 shares of common stock.

The Company has an obligation to issue up to 6,000,000 warrants under an agreement with a pharmacy management company for the Company's proprietary software to be interfaced with core medical service providers. The agreement provides for 3,000,000 warrants with an exercise price of $.30 and 3,000,000 warrants with an exercise price of $.50 all expiring five years from the date of grant. The warrants to be issued by the Company are granted in increments based on certain performance criteria. At December 31, 1999, 1,000,000 of the warrants had been granted but have not yet been issued. In connection with the obligation to issue the 1,000,000 warrants earned, the Company recorded expense of $1,364,000 valued using the Black-Scholes option pricing model as of December 31, 1999. During 2001, 850,000 of the warrants had been granted but were not yet issued. In connection with the obligation to issue the 850,000 warrants earned, the Company recorded expense of $590,000 during the third quarter of 2001 valued using the Black-Scholes options pricing model.

4. STOCK OPTIONS

During the first nine months of 2001, the Company granted options to purchase 2,289,000 common stock at exercise prices of $.60 to $1.33 per share to current and former employees and consultants of the Company, under the Company's 1999 Stock Option Plan.

5. ACCUMULATED DEFICIT

Of the $30,499,000 cumulative deficit at September 30, 2001, the approximate amount relating to the Company's technology business from inception is $14,669,000. In addition, a premium of $2,332,000 was paid upon the acquisition of Cymedix Lynx in 1998, producing a total investment of $17,001,000 in the technology business to date.

6. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2001, the Company had paid approximately $35,000 to a related party for services. The President of the Company has an ownership interest in the related party.

During July 2001, the Company received $136,000 as a short- term advance from a related party, $50,000 of which was repaid during August 2001. An additional $30,000 was advanced to the company by the related party during September 2001, leaving an outstanding balance of $116,000 at September 30, 2001.

7. LITIGATION

During May 2001, the Company settled a lawsuit by paying to the plaintiff $20,000 and issuing to him, over a period of 18 months, 3-year warrants to purchase 137,500 shares of the Company's common stock at $0.50. The warrants issued in this settlement have been valued at $64,000 using the Black-Scholes pricing model, and have been included as an expense in the accompanying financial statements.

On July 6, 2001, the court approved an agreement entered into by the Company to settle a lawsuit. The Company agreed to pay to the plaintiff $35,000 and issue to him 2-year warrants to purchase 195,000 shares of the Company's common stock at $.50. The warrants issued in this settlement have been valued at $137,000 using the Black-Scholes pricing model, and have been included as an increase to goodwill in the accompanying financial statements,as a result of an unrecorded liability that existed at the time of the Cymedix merger.

On August 7, 2001, a former officer of the Company filed an action in the District Court of Arapahoe County, Colorado, against the Company and its former President and CEO, John Yeros, entitled Barry J. McDonald v. Medix Resources, Inc f/k/a/ International Nursing Services, Inc. and John Yeros, (Case No. 01CV2119). The plaintiff alleges (1) breach of an employment agreement, a stock option agreement and the related stock option plan, (2) a duty of good faith and fair dealing, and (3) violation of the Colorado Wage Claim Act. Plaintiff seeks unspecified damages to be determined at jury trial, including interest, punitive damages, plaintiff's attorneys fees, and a 50% penalty under the Colorado Wage Claim Act. The Company and its co-defendant have answered the plaintiff's complaint, denying any liability. The Court set discovery to be completed by July 31, 2002, and the trial to begin on September 9, 2002. Management of the Company intends to vigorously defend this action, and does not expect any resolution of this matter to have a material adverse effect on the Company's financial condition.

8. SUBSEQUENT EVENTS

The Company has reached an agreement in principle to settle litigation by issuing to one of the plaintiffs 90,000 shares of Company common stock, and extending the exercise period of the warrants of the other plaintiff until December 31, 2003. The settlement is subject to the execution of a definitive settlement agreement and the approval of the terms of settlement by the Court.

During October, the company received $276,000, net of commissions and escrow fees for two additional equity line advances, resulting in the issuance of 625,000 shares of common stock.

During October 2001, $500,000 of the convertible note was redeemed. These redemptions were satisfied by the issuance of 946,663 shares of common stock. At this filing date, this leaves with no "overhang", or unconverted debt representing anticipated dilution.

During October 2001, the Company received $250,000 from the noteholder for the issuance of 337,838 shares of its common stock, as another private placement transaction.

During October 2001, the company received $69,000 resulting in the issuance of 275,000 shares of common stock for the exercise of options.

9. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

In June 2001 the Financial Accounting Standards Board issued FASB Statements 141 and 142. These statements, among other items, deal with the accounting for business acquisitions and intangible assets including goodwill. The Company will be adopting these accounting pronouncements on January 1, 2002. Among other items, these new standards will change the accounting for amortization of goodwill expense and the impairment of goodwill in a manner different than they have been in the past. Had the statements been applied as of September 30, 2001, amortization expense of goodwill totaling $169,000 would have been excluded from the statement of operations and the reported loss for the six months ended September 30, 2001 would have been approximately $6,907,000 instead of $7,076,000.

The Company has not yet determined what impact, if any, the implementation of Statement 142 will have on it's testing for impairment of goodwill.

MEDIX RESOURCES, INC.

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

Overview

We are an information technology Company headquartered in New York City, with offices in Denver, Colorado; Thousand Oaks, California; East Brunswick, New Jersey; and Atlanta, Georgia. We specialize in the development, marketing and management of software and connectivity solutions for clinical and business transactions within the healthcare industry. Through our wholly owned subsidiary, Cymedix Lynx Corporation, a Colorado corporation, we have developed Cymedix(R), a unique healthcare communication technology product line. Cymedix(R)provides instantaneous access to patient clinical, financial and administrative information. Its software also supplies healthcare institutions, such as health plans, specialty payors, and hospitals, as well as practicing physicians with a set of non-invasive technology tools that can be attached to their existing software applications and provide Internet-enabled transaction capabilities that facilitate communication among the parties.

Implementation of the Cymedix(R)software suite promises to speed and improve the efficacy of daily interactions between health caregivers and their staffs, other ancillary providers (such as labs or pharmacy benefit managers), insurance companies, hospitals, Integrated Delivery Networks (IDNs) and Health Management Organizations (HMOs). We believe that the market for robust and practical healthcare solutions is growing rapidly, and that segment growth will continue to accelerate as the joined emphases of consumer choice, quality, administrative service and cost containment ratchets up demand for ever more efficient and user-friendly methods of delivering quality healthcare.

Forward-Looking Statements and Associated Risks

This Report contains forward-looking statements, which mean that such statements relate to events or transactions that have not yet occurred, our expectations or estimates for our future operations and economic performance, our growth strategies or business plans or other events that have not yet occurred. Such statements can be identified by the use of forward-looking terminology such as "might," "may," "will," "could," "expect," "anticipate," "estimate," "likely," "believe," or "continue" or the negative thereof or other variations thereon or comparable terminology. The following paragraphs contain discussions of important factors that should be considered by prospective investors for their potential impact on forward-looking statements included in this Report. These important factors, among others, may cause actual results to differ materially and adversely from the results expressed or implied by the forward-looking statements.

We have reported net losses of ($5,415,000), ($4,847,000) and ($5,422,000) for the years ended December 31, 2000, December 31, 1999 and December 27, 1998. At September 30, 2001 we had an accumulated deficit of ($30,499,000) and a negative working capital of ($1,949,000). These losses and negative operating cash flow have caused our accountants to include a "going concern" qualification, as is standard audit reporting practice in such circumstances, in their report in connection with their audit of our financial statements for the year ended December 31, 2000.

In March 2001, the Company divested its web-hosting business and, in doing so, realized cost savings associated with the furlough of the seven related staff who were deemed to be nonessential to the Company's core technology business. In addition, five other administrative and support staff, not related to the web business but also deemed to be non-essential to the Company's core technology business, were furloughed as a general cost-saving measure.

We expect to continue to experience losses, in the near term, as our software products are not yet deployed in full-scale transaction production mode and therefore are not generating significant revenue at present. During 2001, we have been delinquent, from time to time, in the payment of our current obligations, including payments of withholding and other tax obligations. Working capital is required to support the ongoing development and marketing of the Cymedix(R)software products until such time as revenue generation can adequately support the Company. To address this need, in June the Company concluded an Equity Line financing, the terms of which are outlined in Note No. 3 to the Unaudited Consolidated Financial Statements. Additional capital will be needed to fund the projected increased staffing that will be necessary to meet the Company's commitments in deployment and further software development and to achieve the projections set forth in our business plan. To meet this need, we are presently in negotiations with institutional sources regarding a private placement of equity ("PIPE" transaction). While there can be no assurance that additional investments or financings will be available to us as needed, management fully expects to conclude the necessary financing in the near-to-medium term. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Cymedix(R)business at a distressed price or the financial failure of our Company.

As our products are only now entering the deployment stage, they have not yet proven their effectiveness or their marketability on a significant scale. As a developer of software products, we will be required to anticipate and adapt to evolving industry standards and new technological developments. The market for our software products is characterized by continued and rapid technological advances in both hardware and software development, requiring ongoing expenditures for research and development, and timely introduction of new products and enhancements to existing products. The establishment of standards is largely a function of user acceptance. Therefore, such standards are subject to change. Our future success, if any, will depend in part upon our ability to enhance existing products, to respond effectively to technology changes, and to introduce new products and technologies to meet the evolving needs of its clients in the healthcare information systems market. The introduction of software products in that market has been slow due to the large number of small practitioners who are resistant to change and the costs associated with change, particularly in a period of rising pressure to reduce costs in the market. We are currently devoting significant resources toward the development of products. There can be no assurance that we will successfully complete the development of these products in a timely fashion or that our current or future products will satisfy the needs of the healthcare information systems market. Further, there can be no assurance that products or technologies developed by others will not adversely affect our competitive position or render our products or technologies noncompetitive or obsolete.

Certain of our products provide applications that relate to patient medical histories and treatment plans. Any failure by our products to provide accurate, secure and timely information could result in product liability claims against us by our clients or their affiliates or patients. We maintain insurance that we believe is adequate to protect against claims associated with the use of our products, but there can be no assurance that our insurance coverage would adequately cover any claim asserted against us. A successful claim brought against us in excess of our insurance coverage could have a material adverse effect on our results of operations, financial condition or business. Even unsuccessful claims could result in the expenditure of funds in litigation, as well as diversion of management's time and resources.

We have been granted certain patent rights, trademarks and copyrights. However, patent and intellectual property legal issues for software programs, such as the Cymedix(R) products, are complex and currently evolving. Since patent applications are secret until patents are issued, in the United States, or published, in other countries, we cannot be sure that we are first to file any patent application. In addition, there can be no assurance that competitors, many of which have far greater resources than we do, will not apply for and obtain patents that will interfere with our ability to develop or market product ideas that we have originated. Further, the laws of certain foreign countries do not provide the protection to intellectual property that is provided in the United States, and may limit our ability to market our products overseas. We cannot give any assurance that the scope of the rights we have are broad enough to fully protect our Cymedix(R) software from infringement.

Litigation or regulatory proceedings may be necessary to protect our intellectual property rights, such as the scope of our patents. In fact, the computer software industry in general is characterized by substantial litigation. Such litigation and regulatory proceedings are very expensive and could be a significant drain on our resources and divert resources from product development. There is no assurance that we will have the financial resources to defend our patent rights or other intellectual property from infringement or claims of invalidity.

We also rely upon unpatented proprietary technology and no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to or disclose our proprietary technology or that we can meaningfully protect our rights in such unpatented proprietary technology. We will use our best efforts to protect such information and techniques, however, no assurance can be given that such efforts will be successful. The failure to protect our intellectual property could cause us to loose substantial revenues and to fail to reach our financial potential over the long term.

The healthcare and medical services industry in the United States is in a period of rapid change and uncertainty. Governmental programs have been proposed, and some adopted, from time to time, to reform various aspects of the U.S. healthcare delivery system. Some of these programs contain proposals to increase government involvement in healthcare, lower reimbursement rates and otherwise change the operating environment for our customers. Particularly, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the regulations that are being promulgated thereunder are causing the healthcare industry to change its procedures and incur substantial cost in doing so. In addition many individual state legislatures have passed or proposed regulations relating to healthcare reform. We cannot predict with any certainty what impact, if any, proposals for healthcare reforms and HIPAA required regulations might have on our software business.

As of November 1, 2001, we had 54,669,447 shares of common stock outstanding. As of that date, approximately 20,984,583 shares were issuable upon the exercise of outstanding options, warrants or other rights, and the conversion of preferred stock. Most of these shares will be immediately saleable upon exercise or conversion under registration statements we have filed with the U.S. Securities and Exchange Commission (the "SEC"). The exercise prices of options, warrants or other rights to acquire common stock presently outstanding range from $0.19 per share to $4.97 per share. During the respective terms of the outstanding options, warrants, preferred stock and other outstanding derivative securities, the holders are given the opportunity to profit from a rise in the market price of the common stock, and the exercise of any options, warrants or other rights may dilute the book value per share of the common stock and put downward pressure on the price of the common stock. The existence of the options, conversion rights, or any outstanding warrants may adversely affect the terms on which we may obtain additional equity financing. Moreover, the holders of such securities are likely to exercise their rights to acquire common stock at a time when we would otherwise be able to obtain capital on terms more favorable than could be obtained through the exercise or conversion of such securities.

In connection with our equity line of credit financing, we have registered 9,500,000 additional shares with the SEC for sale by the providers of the financing, of which 8,012,780 shares remain available for issuance as of November 1, 2001. The resale of the common stock that may be issued by us under the equity line of credit described herein will substantially increase the number of our publicly traded shares ("float"). If existing shareholders perceive that this increased float is not accompanied by a commensurate increase in value to the Company, then shareholder value--real or perceived--will be diluted. Such dilution could cause holders of our shares of common stock to sell, thus depressing the price of our common stock. Therefore, the very existence of the equity line financing could depress the market price of our common stock.

The resale of the common stock that will be issued by us under our equity line of credit financing would substantially increase the number of our publicly traded shares, which could depress the market price of our common stock. This would occur if such resale took the form of heavy volume, or volume concentrated in a relatively short period, at levels greater than the trading activity of our stock could normally support. Since all of the shares that are issued by us in connection with advances under the equity line financing will be immediately available for resale under this prospectus, the very existence of the equity line financing could depress the market price of our common stock. Furthermore, the terms of the equity line financing provides that we will sell shares of our common stock to the providers of the financing at 91% of the average of the three lowest of the three closing daily volume-weighted average prices of our common stock during the 22-trading day period immediately before our request for the advance. Therefore, since all of the shares that are issued by us in connection with advances under the equity line financing will have a "built-in" discount of at least 9% upon issuance, this could produce an impetus for the providers of the equity line to resell their shares sooner or in greater quantity than they would otherwise. Such resale could have the effect of depressing our share price. The issuance of shares under the equity line will therefore dilute the equity market price of our common stock. Such dilution could cause holders of our shares of common stock to sell, further depressing the price of our common stock.

As with any business, growth in absolute amounts of selling, general and administrative expenses or the occurrence of extraordinary events could cause actual results to vary materially and adversely from the results contemplated by the forward-looking statements. Budgeting and other management decisions are subjective in many respects and thus susceptible to incorrect decisions and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditures or other budgets, which may, in turn, affect our results of operation. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans for the Company will be achieved.

Results of Operation

Comparison of The Three Months Ended September 30, 2001 and September 30, 2000

Total revenues for the three months ended September 30, 2001, were $0 compared with $104,000 for the three months ended September 30, 2000. The decrease is comprised of a $45,000 decrease in ADC revenues (ADC was acquired by the Company in February 2000 and divested in March 2001) and a $59,000 decrease in Cymedix pilot program fees relating to pilot programs subsequently concluded.

Research and development costs decreased approximately $79,000 or 19% from $427,000 for the three months ended September 30, 2000, to $348,000 for the three months ended September 30, 2001. This decrease represents the Company's salary reduction and layoff plan that was put into effect during the first quarter of 2001. This decrease is largely related to the divested ADC web development and hosting business.

Selling, general, and administrative expenses increased approximately $566,000 or 55% from $1,028,000 for the three months ended September 30, 2000, to $1,594,000 for the three months ended September 30, 2001. The decrease is attributed to decreases in administrative staffing levels, which occurred during the first quarter of 2001 and effected third quarter results, as well as Black-Scholes expenses incurred as a result of warrants earned under an agreement with a pharmacy management company.

Interest expense increased from $3,000 for the three months ended September 30, 2000 to $136,000 for the three months ended September 30, 2001. This increase is the result of interest expense incurred on the convertible note that was obtained during January 2001, as well as amortization of discounts attributed to the convertible note, warrants and offering costs.

Other income decreased 77% from $47,000 for the three months ended September 30, 2000 to $11,000 for the three months ended September 30, 2001. The decrease is due to a decrease in cash available for investment that was used for operations.

Loss from impairment increased 100% from $0 for the three months ended September 30, 2000 to $1,111,000 for the three months ended September 30, 2001, due to the write off of impaired goodwill relating to automated Design Concepts, Inc., and ZirMed.com.

Net loss increased approximately $1,803,000 from $1,380,000 for the three months ended September 30, 2000, to $3,183,000 for the three months ended September 30, 2001, due to the reasons discussed above.

Comparison of The nine Months Ended September 30, 2001 and September 30, 2000

Total revenues for the nine months ended September 30, 2001, were $30,000 compared with $294,000 for the nine months ended September 30, 2000. The decrease represents an increase in ADC revenues (ADC was acquired by the Company during February 2000), offset by a decrease in Cymedix pilot program fees.

Research and development costs increased approximately $520,000 or 122% from $427,000 for the nine months ended September 30, 2000, to $947,000 for the nine months ended September 30, 2001. This increase represents the Company's focus on the development of new products.

Selling, general, and administrative expenses increased approximately $618,000 or 15% from $3,993,000 for the nine months ended September 30, 2000, to $4,611,000 for the nine months ended September 30, 2001 due to decreases in administrative staffing levels, which occurred during the first quarter of 2001, as well as Black-Scholes expenses incurred as a result of warrants earned under an agreement with a pharmacy management company.

Interest expense increased approximately 1680% from $23,000 for the nine months ended September 30, 2000 to $410,000 for the nine months ended September 30, 2001. This increase is the result of interest expense incurred on the convertible note that was obtained during January 2001, as well as amortization of discounts attributed to the convertible note, warrants and offering costs.

Other income decreased 92% from $135,000 for the nine months ended September 30, 2000 to $11,000 for the nine months ended September 30, 2001. The decrease is due to a decrease in cash available for investment that was used for operations.

Loss from impairment increased 100% from $0 for the nine months ended September 30, 2000 to $1,111,000 for the nine months ended September 30, 2001, due to the write off of impaired goodwill relating to automated Design Concepts, Inc., and ZirMed.com.

Net loss from continuing operations increased approximately $2,966,000 from $4,110,000 for the nine months ended September 30, 2000, to $7,076,000 for the nine months ended September 30, 2001, due to all of the reasons discussed above.

Net loss increased approximately $3,616,000 from $3,460,000 for the nine months ended September 30, 2000, to $7,076,000 for the nine months ended September 30, 2001, due to the reasons discussed above.

Liquidity and Capital Resources

We have $73,000 in cash as of September 30, 2001 with net working capital deficit of $(1,949,000) at September 30, 2001. During the nine months ended September 30, 2001, net cash used in operating activities was $3,583,000. During the nine months ended September 30, 2001, we raised approximately $1,711,000 from the exercise of options and warrants, and the issuance of common stock. During such period, we have been delinquent, from time to time, in the payment of our current obligations, including payments of withholding and other tax obligations. At this filing date, all payroll related taxes are now current. As noted above, we are presently in negotiations with institutional sources regarding debt and equity instruments to fund the Company. While there can be no assurance that additional investments or financings will be available to us as needed, management fully expects to conclude the necessary financing in the near-to-medium term. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Cymedix(R)business at a distressed price or the financial failure of our Company.

In February of 2000, we sold the assets of our remaining staffing businesses for $1,000,000. The purchase price was paid with $500,000 cash at closing and a $500,000 subordinated note, which was payable in May 2001. The subordinated note was repaid on December 29, 2000.

During December 2000, the Company obtained a credit facility under which it has borrowed $1,500,000 pursuant to a convertible promissory note. $100,000 of the convertible note bas been converted into 111,111 shares of common stock. During the period April through September 2001, a further $900,000 principal amount of the note was redeemed. The redemption was satisfied by the issuance of 1,507,366 shares of common stock.

During March 2001, the Company received $350,000 for the issuance of 636,364 shares of its common stock. During May, 2001, the Company received $200,000 for the issuance of 307,692 shares of its common stock. During July 2001, the Company received $200,000 for the issuance of 296,296 shares of its common stock. During August 2001, the Company received $200,000 for the issuance of 294,118 shares of its common stock.

During August and September 2001, the company received approximately $531,000, net of commissions and escrow fees, from advances under its equity line of credit for the issuance of 862,220 shares of common stock.

Subsequent to September 30, 2001 and through November 10, 2001, the Company received approximately $69,000 from the exercise of options and warrants, $276,000, net of commissions and escrow fees, for the issuance of 625,000 shares of its common stock under its equity line of credit, and $250,000 for the issuance of 337,838 shares of common stock in a private placement transaction.

As of August 10, 2001, we had outstanding 5,136,000 warrants with a total exercise price of $2,568,000, which are callable for $.01 per warrant upon thirty days written notice. However, there can be no assurance that any of these warrants will be exercised

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On September 27, 2000, an action was filed in the United States District Court, Eastern District of New York, against Medix Resources, Inc., under the caption, <u>Yecheskel Munk and The Nais Corporation, v. Medix Resources, Inc. f/k/a International Nursing Services, Inc.</u> (CV 00 5816), alleging that the Company had failed to properly and fully convert the Company's convertible preferred stock held by one of the Plaintiffs, and had failed to maintain the registration for public sale with the Securities and Exchange Commission of shares underlying warrants held by both Plaintiffs. Plaintiffs seek damages of approximately $2,700,000, plus interest thereon. Management intends to vigorously defend this action and does not expect any resolution of this matter to have a material adverse effect on the Company's financial condition.[As at this filing date the Company has reached an agreement in principle to settle the litigation by issuing to one of the plaintiffs 90,000 shares of Company common stock, and extending the exercise period of the warrants of the other plaintiff until December 31, 2003. The settlement is subject to the execution of a definitive settlement agreement and the approval of the terms of settlement by the Court.]

On August 7, 2001, a former officer of the Company filed an action in the District Court of Arapahoe County, Colorado, against the Company and its former President and CEO, John Yeros, entitled <u>Barry J. McDonald v. Medix Resources, Inc f/k/a/ International Nursing Services, Inc. and John Yeros</u>, (Case No. 01CV2119). The plaintiff alleges (1) breach of an employment agreement, a stock option agreement and the related stock option plan, (2) breach of the duty of good faith and fair dealing, and (3) violation of the Colorado Wage Claim Act. Plaintiff seeks unspecified damages to be determined at jury trial, including interest, punitive damages, plaintiff's attorneys fees, and a 50% penalty under the Colorado Wage Claim Act. The Company's and its co-defendant have answered the plaintiff's complaint, denying any liability. The Court has set discovery to be completed by July 31, 2002, and the trial to begin on September 9, 2002. Management of the Company intends to vigorously defend this action and does not expect any resolution of this matter to have a material adverse effect on the Company's financial condition.

From time to time, the Company is involved in claims and litigation that arise out of the normal course of business. Currently, other than as discussed above, there are no pending matters that in Management's judgment might be considered potentially material to us. Management does not believe that any of the litigation described above will have a material adverse effect on the Company.

Item 2. Changes in Securities and Use of Proceeds

Set forth below are the unregistered sales of securities by the Company for the quarter reported on. See Note 6 to the unaudited consolidated financial statements elsewhere herein for a description of the terms of the Units of Preferred Stock and warrants.

Security Issued	Date	Number of Shares	Consideration	Purchasers	Exemption Claimed
Common Stock	July 2001	529,943	Redemption of $400,000 principal amount of note	RoyCap, Inc.	Section 4(2)
Common Stock	July 2001	25,000	Exercise of options	Private Investor	Section 4(2)
Common Stock	July 2001	52,928	Payment of accrued interest	RoyCap, Inc.	Section 4(2)
Common Stock	July 2001	296,296	$200,000	RoyCap, Inc.	Section 4(2)
Common Stock	August 2001	562,220	$432,909	Cornell Capital partners, LP and Dutchess Private Equities Fund, LP	Section 4(2)
Common Stock	September 2001	300,000	$153,010	Cornell Capital partners, LP and Dutchess Private Equities Fund, LP	Section 4(2)
Common Stock	August 2001	294,118	$200,000	RoyCap, Inc.	Section 4(2)

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Included as exhibits are the items listed on the Exhibit Index. The Registrant will furnish a copy of any of the exhibits listed below upon payment of $5.00 per exhibit to cover the costs to the Registrant of furnishing such exhibit.

None

b. Reports on Form 8-K during the quarter reported on:

1) Form 8-K, filed with the Commission on July 30, 2001, reporting in Item 5 a press release announcing Medix and Wellpoint Pharmacy Management are to begin joint development of web-based transaction services to physicians.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 14, 2001

MEDIX RESOURCES, INC.
(Registrant)

/s/ Gary L. Smith

Gary L. Smith
Executive Vice President
(Principal Financial and Chief Financial Officer)