

MEDIX RESOURCES INC  
Form 424B3  
July 30, 2002  
PROSPECTUS

**MEDIX RESOURCES, INC.**

**496,250 Shares of Common Stock**

The shareholders of Medix Resources, Inc. named herein will have the right to offer and sell up to an aggregate of 496,250 shares of our common stock under this Prospectus.

Medix will not receive directly any of the proceeds from the sale of these shares by the selling shareholders. However, Medix will receive the proceeds of the exercise of the options and warrants to purchase the shares to be sold hereunder. Medix will pay the expenses of registration of these shares.

The common stock is traded on the American Stock Exchange under the symbol "MXR". On July 24, 2002, the closing price of the common stock was reported as \$0.31.

Medix has available to it an equity line of credit that permits it to draw funds for its operations, from time to time, and issue shares of its common stock to the providers of such facility in connection with such draws. The shares issued are registered so that they can be sold to the public upon issuance. Currently, 4,796,763 shares are registered for sale by the equity line of credit providers in connection with future draws. See "Equity Line Financing."

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

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

The date of this Prospectus is July 25, 2002

**Supplements to this Prospectus**

A copy of each Form 10-Q and Form 8-K that is filed by Medix Resources, Inc. with the Securities and Exchange Commission after the date of this Prospectus shall be deemed to be a Supplement to this Prospectus, and must be physically delivered with this Prospectus to a prospective purchaser, together with a copy of the company's 2001 Form 10-K, as amended. Unless otherwise notified, this Prospectus, as amended or supplemented from time to time, may be used for sales by the persons named herein until April 30, 2003, at which time the audited financial statements incorporated herein by reference will become stale pursuant to Section 10(a)(3) of the Securities Act of 1933, as amended.

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in or incorporated by reference in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by us, the selling shareholders or any other person. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered

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hereby in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that there has been no change in our affairs since such date.

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### **SUMMARY**

This Prospectus covers the offering and sale of up to 496,250 shares of our common stock to the public by certain selling shareholders listed under the heading "Selling Shareholders" further back in this Prospectus. As of July 24, 2002, we had 62,923,624 shares of our common stock outstanding, and approximately 28,845,337 shares were issuable upon the exercise of outstanding options, warrants or other rights, and the conversion of outstanding preferred stock.

We are developing software products for Internet-based communications and information management by medical service providers. We have no revenue from operations and are funding the development of our software products through the sales of our securities. We have granted a security interest in all of our intellectual property assets to secure a financing. See "The Company-Recent Developments" and "Risk Factors."

Because of our continuing losses, and the lack of a certain source of capital to fund our development of software products, our independent accountants included a "going concern" exception in their audit report on our

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audited financial statements for the year 2001. The "going concern" exception signifies that significant questions exist about our ability to continue in business. See "Risk Factors."

Currently, we are funding our development and deployment activities through an equity line of credit financing, which is not an assured source of funds. The equity line of credit is provided by Cornell Capital Partners, L.P. and Duchess Private Equities Fund, L.P. (the "providers"), which jointly provide the facility under a single agreement. The agreement provides that we may draw down up to \$10,000,000 over its two-year term, ending June 12, 2003, subject to the conditions for the draws being satisfied, which can not be assured. We issue shares of our common stock to the providers of such facility in connection with such draws. The shares issued are registered so that they can be sold to the public immediately upon issuance. We have made 17 draws on the equity line of credit since August of 2001. As of July 24, 2002, we had received \$2,681,099 in advances, from which offering expenses of \$198,511 were paid, and had issued to the providers 4,703,237 shares of our common stock relating to the advances. An additional 542,847 shares have been issued to affiliates of the providers as fees for arranging the equity line facility. Currently, 4,796,763 shares are registered for sale by the providers in connection with future draws. The shares issued pursuant to the equity line advances to date have been priced from \$0.41 to \$0.77 per share. See "Risk Factors" and "Equity Line Financing."

Our principal executive office is located at 420 Lexington Avenue, Suite 1830, New York, NY 10170, and its telephone number is (212) 697-2509. Our principal administrative office is at 7100 East Belleview Ave., Greenwood Village, CO 80111, and its telephone number is (303) 741-2045.

### RISK FACTORS

An investment in our common stock:

- o has a high degree of risk;
- o is highly speculative;
- o should only be considered by those persons or entities who can afford to lose their entire investment.

In addition to the other information contained in this Prospectus, the following risk factors should be carefully considered in evaluating our business and an investment in our shares. The order in which the following risk factors are presented does not indicate the relative magnitude of the risks described.

**Our continuing losses endanger our viability and have caused our accountants to issue a "going concern" exception in their annual audit report.**

We reported net losses of (\$10,636,000), (\$5,415,000) and (\$4,847,000) for the years ended December 31, 2001, 2000 and 1999, respectively, and a net loss of (\$1,677,000) for the quarter ending March 31, 2002. At March 31, 2002, we had an accumulated deficit of (\$35,737,000) and a negative working capital of (\$1,396,000). Our Cymedix(R) products are still in the testing and deployment stage and have not generated any significant revenue to date. We are funding our operations through the sale of our securities. Our independent accountants have included a "going concern" exception in their audit reports on our audited 2000 and 2001 financial statements. See our Form 10-K, as amended, for the fiscal year ended December 31, 2001.

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

We expect to continue to experience losses, in the near term, until such time as our Cymedix(R) software products can be successfully deployed with

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customers and produce revenue. The continuing development, marketing and deployment of the Cymedix software products will depend upon our ability to obtain additional financing. Our Cymedix(R) products are still in the testing and deployment stage and have not generated any significant revenue to date. We are funding our operations through the sale of our securities. There can be no assurance that additional investments or financings will be available to us as needed to support the development and deployment of Cymedix products. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Cymedix business at a distressed price or the financial failure of our company. See "The Company-Recent Developments."

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

During 2001, from time to time, its lack of cash flow caused Medix to delay payment of its obligations as they came due in the ordinary of its business. In some cases, Medix was delinquent in making payments by the legally required due dates. At its four office locations, Medix had 48 monthly payments due in the aggregate during 2001. 31 of those payments were late. 23 of those payments were paid within 30 days of their due date, and 8 of those payments were between 31 and 60 days late. All payments plus any required penalties were ultimately paid in full during 2001. Medix had 33 Federal withholding and other payment due dates. Of those, 17 due dates were missed. The resulting delinquencies ranged from 1 to 58 days, before the required payments were made. Medix pays the resulting penalties as they are billed. Medix had state withholding obligations in five states, Colorado, California, Georgia, New Jersey and New York. Medix was late in making 45 of 97 withholding payments in those five states. The length of these delinquencies ranged from 3 to 60 days, before the required payments were made. Medix pays the resulting penalties as they are billed. Medix was late in making its deposits of its employees' 401(k) contributions 21 of 26 times during 2001. The length of these delinquencies ranged from 10 to 60 days. All of the above late payments were made before the end of 2001.

**We have granted a security interest in all of our intellectual property assets to secure a financing, which means if we default in our obligations to the lender, we may lose these assets in the foreclosure process.**

The use of secured borrowings increases the risk of loss of the assets used to secure the borrowing. If an event of default occurs under the security agreement, the lender will be able to foreclose on the assets used to secure the borrowing and sell those assets to the highest bidder. In addition, it is generally believed that foreclosure sales, which are "distress sales", will not maximize the proceeds that are paid for the assets being sold. The loan we entered into is secured by the grant of a security interest in all Medix's intellectual property, including its patent, copyrights and trademarks. While Medix can cure a payment default by the forced conversion of the loan into its common stock, a bankruptcy or similar event of default will trigger the foreclosure provision of the security agreement. See "The Company-Recent Developments."

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

- o We develop software for Internet-based communications and information management for medical service providers, through our wholly-owned subsidiary, Cymedix Lynx Corporation. Our Cymedix(R) products are still in the testing and deployment stage and have not generated any significant revenue to date. We are funding our operations through the sale of our securities. Our ability to continue to sell our securities

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can not be assured.

- o We are still in the process of gaining experience in marketing software products, providing software support services, evaluating demand for products, financing a software business and dealing with government regulation of software products. While we are putting together a team of experienced executives, they have come from different backgrounds and may require some time to develop an efficient operating structure and corporate culture for our company. We believe our structure of multiple offices serves our customers well, but it does present an additional challenge in building our corporate culture and operating structure.

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

The success of our products and services in generating revenue may be subject to the quality and completeness of the data that is generated and stored by the physician or other healthcare professional and entered into our interconnectivity systems, including the failure to input appropriate or accurate information. Failure or unwillingness by the healthcare professional to accommodate the required information quality may result in the payor refusing to pay Medix for its services.

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

- o As a developer of 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 that are functional and meet the evolving needs of our clients in the healthcare information systems market.
- o The introduction of software products in our 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.

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

Certain of our products provide applications that relate to patient medical

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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 currently 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. The limits of that coverage are \$2,000,000 in the aggregate and \$1,000,000 per occurrence. 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 time and resources.

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

The healthcare and medical services industry in the United States is in a period of rapid change and uncertainty. Governmental programs have been proposed, and some adopted, from time to time, to reform various aspects of the U.S. healthcare delivery system. Some of these programs contain proposals to increase government involvement in healthcare, lower reimbursement rates and otherwise change the operating environment for our customers. Particularly, the Health Insurance Portability and Accountability Act of 1996, and the regulations that are being promulgated thereunder, are causing the healthcare industry to change its procedures and incur substantial cost in doing so. Although we expect these regulations to have the beneficial effect of spurring adoption of our software products we cannot predict with any certainty what impact, if any, these and future healthcare reforms might have on our business.

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

- o Our wholly-owned subsidiary, Cymedix Lynx Corporation, has been granted certain patent rights, trademarks and copyrights relating to its software business. These patents and copyrights have been assigned by our subsidiary to the parent company, Medix. The patent rights 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 the 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. While we have no prospects for marketing or operations in foreign countries at this time, future opportunities for growth in foreign markets, for that reason, may be limited. We cannot give any assurance that the scope of the rights that we have been granted are broad enough to fully protect our Cymedix software from infringement.
- o Litigation or regulatory proceedings may be necessary to protect our intellectual property rights, such as the scope of our patent. 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

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we will have the financial resources to defend our patent rights or other intellectual property from infringement or claims of invalidity. We have been notified by a party that it believes our pharmacy product may infringe on patents that it holds. We have retained patent counsel who has made a preliminary investigation and determined that our product does not infringe on the identified patents. At this time no legal action has been instituted.

- o We also rely upon unprotected proprietary technology and no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to or disclose our proprietary technology or that we can meaningfully protect our rights in such unpatented proprietary technology. We will use our best 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 lose substantial revenues and to fail to reach its financial potential over the long term.

**Because our business is highly competitive and there are many competitors who are financially stronger than we are, we are at risk of being outperformed in staffing, marketing, product development and customer services, which could severely limit our ability to become profitable.**

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

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

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

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successfully seek such rescission or institute such suit, Medix could face severe financial demands that could material and adversely affect our financial position.

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

As of July 24, 2002, we had 62,923,624 shares of common stock outstanding. As of that date, approximately 28,845,337 shares were issuable upon the exercise of outstanding options, warrants or other rights, and the conversion of preferred stock. Most of these shares will be immediately saleable upon exercise or conversion under registration statements we have filed with the SEC. The exercise prices of options, warrants or other rights to acquire common stock presently outstanding range from \$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. See also the impact of our equity line of credit financing discussed in the following paragraphs.

**Because of dilution to our common stock outstanding from our equity line of credit, the market price of our stock may be depressed.**

- o In connection with our equity line of credit financing, we have registered 9,500,000 shares with the SEC for sale by the providers of the financing, of which 4,796,763 shares remain available for issuance as of July 24, 2002. See "Equity Line Financing."
- o The shares are issued to the equity line providers at a floating price based on a discount to market price of the common stock. As a result, the lower the stock price around the time the equity line is drawn on, the more common shares the holder gets.
- o To the extent that the equity line providers sells our common stock, the market price of the common stock may decrease due to the additional shares in the market. This could allow the providers to receive a greater amount of the stock in future draws on our equity line of credit, the sale of which could further depress the stock price.
- o The significant downward pressure on the price of our common stock as the equity line providers receive common stock in connection with draws on our equity line of credit and then sell material amounts of the stock, could encourage short sales, which could place further downward pressure on the price of our common stock.
- o The issuance of the common stock in connection with our equity line of credit may result in substantial dilution to the common stock holdings of other holders of our common stock.
- o Any agreement to sell, or convert debt or equity securities into, common stock at a future date and at a price based on the then current market price will provide an incentive to the investor or third parties to sell the common stock short to decrease the price and increase the number of shares they may receive in a future purchase,

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whether directly from us or in the market. Our equity line of credit is priced at a discount to the market price at the time of a future draw.

**Because of dilution to our common stock outstanding from the conversion feature of our \$1,000,000 convertible promissory note, the market price of our stock may be depressed.**

- o The conversion price of our \$1,000,000 promissory note may be equal to 80% of the then-current market value of Medix common stock if Medix is unable to obtain a written commitment for additional equity investments of the aggregate of \$4,000,000 by the close of business on September 30, 2002. As a result, the lower the stock price around the time the conversion is made, the more common shares the holder of the convertible promissory note gets. See "The Company - Recent Developments."
- o The significant downward pressure on the price of our common stock at the time the conversion price is set, could encourage short sales, which could place further downward pressure on the price of our common stock.
- o The issuance of the common stock in connection with the conversion may result in substantial dilution to the common stock holdings of other holders of our common stock.
- o Any agreement to sell, or convert debt or equity securities into, common stock at a future date and at a price based on the then current market price will provide an incentive to the investor or third parties to sell the common stock short to decrease the price and increase the number of shares they may receive in a future purchase, whether directly from us or in the market. The convertible promissory note may be priced at a discount to market at the time the conversion price is set, September 30, 2002.

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

Historically, our common stock has experienced significant price fluctuations. This has been caused by one or more of the following factors:

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

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

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

Trading of our common stock may be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended, unless an exemption from such rules is available. Broker-dealers making a market in our common stock will be required to provide disclosure to their customers regarding the risks associated with our common stock, the suitability for the customer of an investment in our common stock, the duties of the broker-dealer to the customer and information regarding bid and ask prices for our common stock, and the amount and description of any compensation the broker-dealer would receive in connection with a transaction in our common stock. The application of these rules may result in fewer market makers making a market of our common stock and further restrict the liquidity of our common stock.

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

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

### **FORWARD-LOOKING STATEMENTS**

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

### **THE COMPANY**

#### **General**

Medix Resources, Inc., a Colorado corporation, sold its supplemental staffing business, which operated under the tradenames "National Care Resources" and "TherAmerica" on February 19, 2000, and now principally develops software for Internet-based communications and information management for medical service providers, through its wholly-owned subsidiary, Cymedix Lynx Corporation.

We acquired the Cymedix business in January of 1998. Cymedix has developed Internet-based communications and information management product, which we began marketing to medical professionals in select markets nationwide. Growth of the medical information management marketplace is being driven by the need to share significant amounts of clinical and patient information between physicians,

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their outpatient service providers, hospitals, insurance companies and managed care organizations. This market is one of the fastest-growing sectors in healthcare today, commanding a projected two-thirds of health care capital investments. The Cymedix(R) software contains patented elements that can be used to develop secure medical communications products that make use of the Internet. Using the Cymedix software, medical professionals can order, prescribe and access medical information from participating insurance companies and managed care organizations, as well as from any participating outpatient service provider, such as a laboratory, radiology center, pharmacy or hospital. We will provide the software at minimal charges to physicians and clinics, and will collect user fees whenever these products are used to provide services on the Internet. The products' relational database technology will provide physicians with a permanent, ongoing record of each patient's name, address, insurance or managed care affiliation, referral status, medical history, personalized notes and an audit trail of past encounters. Physicians will be able to electronically order medical procedures, receive and store test results, check patient eligibility, make medical referrals, request authorizations, and report financial and encounter information in a cost-effective, secure and timely manner.

Our principal executive office is located at The Graybar Building, 420 Lexington Ave., Suite 1830 New York, NY 10170, and its telephone number is (212) 697-2509. Our principal administrative office is at 7100 East Belleview Ave., Greenwood Village, CO 80111, and its telephone number is (303) 741-2045. We also have offices in California and Georgia.

### **Recent Developments**

The introduction of our next generation of proprietary, point-of-care products, Cymedix(R)III, is proceeding with our six active sponsors. Our improved suite of software products is based upon a robust and device-neutral architecture that leverages proven workstation, handheld and wireless technologies and is being installed and tested for Pharmacy, Laboratory and PlanConnect services. We continue to be in the development and testing phase with each of our active contracts, and therefore receive no revenue. Revenue will begin when we reach certain milestones under each contract and we enter the production phase of the contract. The marketing and development of our Cymedix suite of software products is our sole business at this time, and a substantial portion of our net operating loss is due to such efforts. We are funding such expenses as well as our administrative expenses through the sale of our securities. We have no significant debt financing available to us.

During 2001, our Automated Design Concepts Division (ADC) ceased operations in connection with our cost reduction program, which had been brought on by our inability to raise budgeted capital. It was determined that the business of the subsidiary was not part of our core business operations and therefore did not justify our continued financial support. In connection with the termination of our subsidiaries operations we took a write-off of goodwill in the amount of \$443,000. We also determined that our license of proprietary software from Zirmed.com had no value to us and had no more than a nominal market value. As a result, we wrote-off the unamortized value of the related intangible asset, which was \$668,000. We had acquired ADC in early 2000 from an officer and director of the Company for cash and stock valued at \$474,000. He resigned his positions with us on March 2, 2001.

During 2001, net cash used in operating activities was approximately \$5,397,000. During the year, we raised approximately \$5,205,000 from the exercise of options and warrants, and the issuance of common stock, net of offering expenses, and debt. Since December 31, 2001 to June 30, 2002, we have used approximately \$2,298,000 in our operating activities, and raised approximately \$3,460,000 from the exercise of options and warrants, and the issuance of common stock and warrants, net of offering expenses, and debt. We

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had approximately \$281,000 in cash as of June 30, 2002 with a net working capital deficit of approximately \$1,212,000. We have been delinquent, from time to time, in the payment of our current obligations, including payments of withholding and other tax obligations. We continue in discussions and negotiations with institutional sources regarding debt and equity financings to fund our operations and to permit us to remove the "going concern" qualification in our auditor's report in connection with the audit of our annual financial statements. There can be no assurance that additional investments or financings will be available to us as needed. Failure to obtain such capital on a timely basis could result in lost business opportunities, the sale of the Cymedix business at a distressed price or our financial failure.

We executed an Amended and Restated Common Stock Purchase Warrant with WellPoint Pharmacy Management, dated February 18, 2002, to restructure our obligations to issue warrants to WellPoint. Under that Warrant, we are obligated to issue up to 7,000,000 shares of our common stock at exercise prices of \$0.30 per share for 3,000,000, \$0.50 per share for 3,000,000 shares and \$1.75 per share for 1,000,000 shares, if various performance related vesting requirements are satisfied by WellPoint. Currently, WellPoint has satisfied certain of these requirements giving WellPoint the right to purchase 1,850,000 shares of our common stock at \$0.30 per share have been earned by WellPoint. WellPoint's rights to purchase our shares under the Warrant expire on September 8, 2004. The Warrant grants to WellPoint certain registration rights to require us to register with the SEC the shares issued to WellPoint for resale to the public. In the Warrant, WellPoint has agreed to restrict sales to the public of these shares during the first year after they have been issued to 200,000 shares per month and 100,000 shares in any five trading days. The Warrant contains anti-dilution provisions providing that the number of shares that may be purchased by WellPoint under the Warrant may be adjusted in certain circumstances.

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

On May 15, 2002, we completed a private placement of our securities for \$1,381,000. In connection therewith, we are issuing 3,452,500 shares of common stock and warrants to purchase an equal number of shares of common stock at the exercise price of \$0.50 per share. We are obligated to register all of those shares with the SEC for resale by their holders as soon as reasonably possible.

**EQUITY LINE FINANCING**

**Agreement**

We have entered into an Equity Line of Credit Agreement with Cornell Capital Partners, L.P. ("Cornell"), and Dutchess Private Equities Fund, L.P. ("Dutchess"), dated as of June 12, 2001. Under the agreement, the two providers have committed to advance to us funds in an amount of up to \$10,000,000, as requested by us, over a 24-month period in return for common stock issued by us to the providers. As of July 24, 2002, we had received \$2,681,099 in advances, from which offering expenses of \$198,511 were paid, under the financing, and had issued to the providers 4,703,237 shares of our common stock relating to the advances and an additional 542,847 shares to their affiliates as fees for arranging the equity line facility. The shares issued pursuant to the equity line advances to date have been priced from \$0.41 to \$0.77 per share.

The amount that may be advanced at any time under the equity line is limited as follows (which conditions may be waived by the providers):

- o There must be thirteen stock market trading days between any two of our requests for advances.
- o We 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 our request, is equal to or greater than the volume weighted average price as reported by Bloomberg L.P. for the 22 trading days before we make a request.
- o We will not be able to receive an advance amount that is greater than 175% of the average daily volume of our common stock over the 40 trading days prior to our advance request multiplied by the purchase price (calculated as provided in the next sentence).

The purchase price of our common stock issued in each advance will be equal to 91% of the three lowest daily volume weighted average prices during the 22 trading days before we make a request for an advance.

**Registration Rights**

We have agreed to maintain an effective registration statement for the sale of the shares issued to the providers of our equity line financing, as described above. If, at any time, the number of shares available under a registration statement is insufficient to cover all securities issued to the providers, we have agreed to use our best efforts to cause an amendment or new registration statement containing those shares to be declared effective. Our agreement with the providers of our equity line financing contains mutual indemnities against losses, costs and expenses arising out of the violation of by the other party of state and Federal securities laws. Insofar as indemnification for liabilities under the Securities Act of 1933, as amended, may be permitted under such agreement, we have been informed that in the opinion of the U.S. Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. Our agreements as to registration rights are only with the providers of our equity line financing and we have no obligations to assist or indemnify any other holder of the shares sold by them or to any underwriter designated by such holders.

Currently, 4,796,763 shares are registered for sale by the providers in connection with future draws. If additional shares are to be issued under the equity line of credit, they would have to be registered with the SEC and listed on the AMEX. Listing of additional shares on the AMEX would require a vote of our shareholders under the AMEX rules the limit the number of shares that can be issued in below market transactions.

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Since April 30, 2002, we have not been able to draw on the equity line of credit because the SEC has not declared a post-effective amendment to the registration statement registering these shares effective. The SEC has informed us that it has "serious concerns" about certain aspects of the compensation structure discussed in the following paragraph, and will not permit the post-effective amendment to the registration statement to become effective, and therefore further draws under the equity line of credit, until those concerns are resolved.

### Compensation

We are selling our shares to the providers of our equity line financing at a 9% discount from the market price as described above. Yorkville Advisors's Management, LLC, an affiliate of Cornell, has been and will be paid by us 2.31% of each amount advanced to us under the equity line financing. Dutchess Advisors Limited, an affiliate of Dutchess, has been and will be paid by us 4.69% of each amount advanced to us under the equity line financing. Through July 24, 2002, we have paid an aggregate of \$175,511 in such fees. Furthermore, for their assistance in arranging our equity line facility, we have issued to Yorkville Advisors and Dutchess Advisors 179,140 shares and 363,707 shares, respectively, of our common stock, which was also registered for sale under the above-described registration statement. In addition, through July 24, 2002, we have paid \$15,000, in the aggregate, to counsels to Cornell and Dutchess, and paid \$8,000 for escrow fees and other expenses in connection with this transaction.

### Potential Dilution

We have made 17 draws under the equity line since August 15, 2001, received \$2,681,099 in advances and issued 4,703,237 shares of common stock to the equity line providers. The issue price of that stock has been between \$0.41 and \$0.77 during a period when the market prices on the draw dates has ranged from \$0.50 to \$0.94.

The following table is intended to indicate the future impact of our equity line on the number of shares of our common stock outstanding, assuming the draw down of all the remaining availability under the equity line, all at one time, for hypothetical variations in the price of our common stock. The numbers in the table are hypothetical and it is highly unlikely that we will draw down all of the amount available under the equity line at one time. As of June 18, 2002, the closing price of our common stock on the AMEX was \$0.38 per share, and the number of shares of our common stock outstanding was 62,923,624 shares.

Under our equity line of credit, the purchase price of our common stock issued to the equity line providers is contractually set at 91% of the average of the three lowest daily volume weighted average prices ("VWAPs") during the 22 trading days before a draw is made. On July 24, 2002, the average of the three lowest VWAPs for the prior 22-trading day period was \$0.37. On that date, we had \$7,318,901 available to be drawn down under the equity line. In the following table we present the number of shares that could be issued, and the issue price thereof, in six different hypothetical situations, if the average of the three lowest VWAPs for the pricing of the shares to be issued in an equity line draw down were 25%, 50% and 75% above and below that average on July 24, 2002.

Assumed average of three lowest VWAPs	Price to equity line providers	Number of shares that could be issued if remaining availability was drawn at the price in the prior column	Shares shown in the prior column are percentage of the assumed resulting outstanding shares
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\$0.0925	\$0.0842	86,948,631	58.02%
\$0.1850	\$0.1684	43,474,315	40.86%
\$0.2775	\$0.2525	28,982,877	31.54%
\$0.4625	\$0.4209	17,389,726	21.65%
\$0.5550	\$0.5051	14,491,438	18.72%
\$0.6475	\$0.5892	12,421,233	16.49%

**USE OF PROCEEDS**

The net proceeds from the sale of shares will be received by the selling shareholders. Medix will not receive any of the proceeds from any sale of the shares by the selling shareholders. However, Medix will receive the proceeds from the exercise of warrants and options to purchase the shares to be sold hereunder. If all related warrants and options are exercised, Medix would receive proceeds of \$234,625. However, rights to exchange the equity value of some warrants and options in the exercise of other warrants and options could reduce the amount received in cash upon the exercise the warrants and options referred to in this Prospectus. Any such proceeds will be used as working capital.

**SELLING SHAREHOLDERS**

The table below sets forth information as of July 24, 2002, with respect to the selling shareholders, including names, holdings of shares of common stock prior to the offering of the shares, the number of shares being offered for each account, and the number and percentage of shares of common stock to be owned by the selling shareholders immediately following the sale of the shares, assuming all of the offered shares are sold. We have been informed that the voting and investment control of Nais Corporation is exercised by its sole shareholder, Mrs. Pauline Winter, and its board of directors, Mrs. Winter, Mr. Eric Ehrenhaus, Dr. Michael Ehrenhaus and Ms. Fawn Spirgel.

Name	Shares of Common Stock Beneficially Owned Before the Offering	Shares of Common Stock Being Offered	Shares of Common Stock to be Beneficially Owned After the Offering	
			Number	Percentage
Michael I. Ruxin	243,750	243,750	0	0
Nais Corporation	250,000	90,000	160,000	*
Lyle B. Stewart	200,000	75,000	125,000	*
Fritz & Miller, P.C.	15,035	9,568	5,467	*
Shapiro Forman Allen & Miller LLP	30,800	19,600	11,200	*
Guli R. Rajani	30,555	19,444	11,111	*
Nicole S. Rajani	30,555	19,444	11,111	*
Ajay G. Rajani	30,555	19,444	11,111	*
Total	831,250	496,250		

\*less than 1%

### **Relationship Between Medix and the Selling Shareholders**

The selling shareholders have or will acquire the shares of common stock indicated above upon the exercise of warrants or options issued for services rendered or in settlement of litigation. None of the persons listed above are affiliates or controlled by affiliates of the Company. We have a separate contractual obligation to file this registration with certain of the selling shareholders.

All of the other selling shareholders, other than Mr. Stewart, received their shares as a result of the settlement of three litigations with us, Michael I. Ruxin v. Cymedix Lynx Corporation, and Medix Resources, Inc., Guli R. Rajani v. Medix Resources, Inc., and Yechezkel Munk and the Nais Corporation v. Medix Resources, Inc. f/k/a International Nursing Services, Inc. They were all discussed in our 2000 Form 10-KSB. In the first two cases the settlement involved issuing warrants to the plaintiffs giving them the right to purchase 243,750 and 137,500 shares, respectively, of our common stock at the exercise price of \$0.50 per share. In the third litigation, the plaintiff Nais Corporation was issued 90,000 shares of our common stock in the negotiated settlement of the matter. In each settlement the case against us was dismissed with prejudice. Mr. Rajani has directed a portion of the warrants he received in the settlement to his wife and son and to the counsel who represented him in his litigation against us. 50,000 shares covered by Mr. Rajani's settlement warrants were registered in an earlier registration statement declared effective by the SEC.

Mr. Stewart, our outside legal counsel, has received a compensatory grant of options under our 1999 Stock Option Plan covering the shares registered in his name. They are exercisable at \$0.92 per share.

### **DESCRIPTION OF SECURITIES**

Our authorized capital consists of 100,000,000 shares of common stock, par value \$.001 per share, and 2,500,000 shares of preferred stock. As of July 24, 2002, we had outstanding 62,923,624 shares of common stock, 1 share of 1996 Preferred Stock, 50 shares of 1999 Series B Preferred Stock and 100 shares of 1999 Series C Preferred Stock. As of such date, our common stock was held of record by approximately 430 persons and beneficially owned by approximately 9,000 persons.

#### **Common Stock**

Each share of common stock is entitled to one vote at all meetings of shareholders. Shareholders are not permitted to cumulate votes in the election of directors. Currently, the Board of Directors consists of six directors, who serve for staggered terms of three years, with at least two directors elected at every annual meeting. All shares of common stock are equal to each other with respect to liquidation rights and dividend rights. There are no preemptive rights to purchase any additional common stock. In the event of liquidation, dissolution or winding up of Medix, holders of the common stock will be entitled to receive on a pro rata basis all assets of Medix remaining after satisfaction of all liabilities and preferences of the outstanding preferred stock. The outstanding shares of common stock and the shares of common stock issuable upon conversion or exercise of derivative securities are or will be, as the case may be, duly and validly issued, fully paid and non-assessable.

#### **Transfer Agent and Registrar**

We have retained Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401, as Transfer Agent and Registrar, for the our

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common stock, at telephone number (303) 262-0600.

### PLAN OF DISTRIBUTION

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

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

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling shareholders may also engage in short sales against the box, puts and calls and other transactions in securities of the Company or derivatives of Company securities and may sell or deliver shares in connection with these trades. The selling shareholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling shareholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling shareholders have advised the Company that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares other than ordinary course brokerage arrangements, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of shares by the selling shareholders.

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

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

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shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

The Company is required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to certain of the selling shareholders. Otherwise, all discounts, commissions or fees incurred in connection with the sale of the common stock offered hereby will be paid by the selling shareholders. The Company has agreed to indemnify certain selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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

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

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

### **INDEMNIFICATION OF OFFICERS AND DIRECTORS**

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

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

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Insofar as indemnification for liabilities under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers or persons controlling Medix pursuant to the foregoing provisions, Medix has been informed that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### AVAILABLE INFORMATION

We are a reporting company and file our annual, quarterly and current reports, proxy material and other information with the SEC. Reports, proxy statements and other information concerning Medix filed with the Commission may be inspected at the Public Reference Room maintained by the Commission at its office, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information about the Public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available at the SEC's Website at "<http://www.sec.gov>".

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

### INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" information that we file with them, which means that we can disclose important information to you by referring you to the documents filed with the SEC that contains that information. The information incorporated by reference is an important part of this Prospectus, and it is important that you review it before making your investment decision. We hereby incorporate by reference the documents listed below:

- (a) a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed with the SEC on April 1, 2002;
- (b) a copy of our Form 10-K/A, filed with the SEC on April 5, 2002;
- (c) a copy of our Form 10-K/A, filed with the SEC on April 15, 2002;
- (d) a copy of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001, as amended, and as filed with the SEC on May 24, 2002;
- (e) a copy of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002, as filed with the SEC on May 15, 2002;
- (f) copies of the our Forms 8-K, filed with the SEC on January 18, March 4, and March 25, April 12, May 24, June 4, June 14 (2 Forms 8-K), and June 26, 2002.

We are delivering with this Prospectus copies of the most recent Form 10-K/A and Form 10-Q referred to above. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus, or made herein, shall be deemed to be modified or superseded for purposes of this

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Prospectus to the extent that a statement contained herein or in any subsequently filed document, which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superceded, to constitute a part of this Prospectus.

All other documents filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Prospectus and prior to the termination of the Offering pursuant to this Prospectus shall be deemed to be incorporated by reference and to be a part of this Prospectus from the date of filing of such documents.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, upon oral or written request of any such person, a copy of any or all of the documents incorporated herein by reference, other than the exhibits to such documents (unless such exhibits are specifically incorporated by reference into the information that this Prospectus incorporates). Requests should be directed to Investor Relations Department, Medix Resources, Inc., 7100 E. Belleview Avenue, Suite 301, Greenwood Village, Colorado 80111, telephone (303) 741-2045.

### LEGAL MATTERS

The validity of the shares offered hereby is being passed upon for us by Lyle B. Stewart, P.C. Lyle B. Stewart, P.C. has been granted options to purchase 25,000 shares of Medix common stock at an exercise price of \$0.26 per share, and Mr. Stewart, individually, has been granted options to purchase 100,000 and 75,000 shares of Medix common stock at exercise prices of \$3.38 and \$0.92 per share, respectively.

### EXPERTS

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