

NUWAY MEDICAL INC
Form 10KSB
June 29, 2005

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

FORM 10-KSB
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 33-43423

NUWAY MEDICAL, INC.
(Name of Small Business Issuer in its Charter)

Delaware 65-0159115
(State or other jurisdiction of incorporation (IRS Employer Identification No.)
or organization)

2603 Main Street, Suite 1150, Irvine, CA 92614
(Address of principal executive offices, Zip Code)

Issuer's telephone number, including area code: (949) 235-8062

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, \$0.00067 par value

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB .

Issuer's revenue for its most recent fiscal year: \$ -0-

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of December 31, 2004 was \$0.01.

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The number of shares outstanding of the issuer's class of common equity as of May 31, 2005 was 51,981,236.

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Use of Forward Looking Statements in this Report

This Annual Report on Form 10-KSB (the "Annual Report") contains forward-looking statements. These forward-looking statements include predictions regarding our future:

- business plans;
- financing plans;
- general and administrative expenses;
- liquidity and sufficiency of existing cash;
- the outcome of pending or threatened litigation; and
- the effect of recent accounting pronouncements on our financial condition and results of operations.

You can identify these and other forward-looking statements by the use of words such as "may," "will," "expects," "anticipates," "believes," "estimates," "continues," or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the heading "Risk Factors." All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

The information contained in this Annual Report is as of December 31, 2004, unless expressly stated otherwise.

Overview

NuWay Medical, Inc., a Delaware corporation (the "Company") had no continuing business operations as of December 31, 2004. At this time, the Company is operating as a public shell and management is seeking merger and acquisition candidates with ongoing operations.

Over the course of several years, the Company has attempted to enter various businesses through the acquisitions of entities operating ongoing businesses or technology that needed to be developed and marketed. However, as a result of various factors, primarily inadequate capital and the inability to raise sufficient financing successfully, these acquisitions could not be properly exploited and integrated to produce profitable operations by the Company. Management of the Company has elected to dispose, through sales or other means, these acquisitions.

The Company was initially organized as Repossession Auction, Inc. under the laws of the State of Florida in 1989. In 1991, the Company merged into a Delaware corporation bearing the same name. In 1994, the Company's name was changed to Latin American Casinos, Inc. to reflect its focus on the gaming and casino business in South and Central America, and in 2001 the Company changed its name to NuWay Energy, Inc. to reflect its new emphasis on the oil and gas development industry. During October 2002, the Company's name was changed to NuWay Medical, Inc. coincident with the divestiture of its non-medical assets and the retention of new management.

Since March 2003, new management of the Company has struggled to deal with the following issues, often simultaneously:

- Limited capital resources in a prolonged period of difficulty in the capital markets, especially for small public companies, creating severe limitations on the Company's ability to maintain its reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and its business operations
- Trying to exploit technologies or businesses that existed when the Company's president, Dennis Calvert, took the helm of management
 - Determining which businesses were worth pursuing and which were not
 - Trying to acquire or develop new businesses
- Because of the scarcity of cash on hand, using common stock and securities convertible into common stock to bring on board employees, directors, consultants, professional service providers and advisors
- Because of the scarcity of cash on hand, using common stock and securities convertible into common stock to acquire businesses
- Dealing with inquiries from the SEC regarding certain practices and transactions in the Company's past, including questions raised about any continued involvement of Mark Roy Anderson in the ongoing business of the Company
 - Dealing with the NASDAQ Qualifications Panel hearing process in May 2003
 - Dealing with the delisting of the Company's common stock from the NASDAQ Small Cap Market
- Dealing with inquiries from the Federal Bureau of Investigations ("FBI") related to any past dealings with Mr. Anderson or his affiliates
- Dealing with litigation with former officers of the Company and related litigation stemming from their leadership of the Company

These issues present extraordinary challenges to management as it tries slowly to turn the situation around. The Company is presently focused primarily on maintaining the corporate entity, complying with its reporting obligations under the Securities Exchange Act and seeking new business opportunities, including without limitation, healthcare and technology businesses. The Company will need working capital resources to maintain the Company's status and satisfy its reporting obligations, and to fund other anticipated costs and expenses during the year ending December 31, 2004 and beyond. The Company's ability to continue as a going concern is dependent on the Company's ability to raise capital to, at a minimum, meet its corporate maintenance requirements and reporting obligations. If the Company is able to acquire an ongoing business and/or technology that must be exploited, it would need additional capital until and unless that prospective operation is able to generate positive working capital sufficient to fund the Company's cash flow requirements for operations.

Until April 2005, the Company also continued to deal with the effects of certain matters that arose (i) under prior management and (ii) from its business dealings with a former consultant and principal stockholder of the Company, Mark Roy Anderson.

Mr. Anderson is a former affiliate of the Company and was involved in the Company from June 2002 until March 2003 through a series of transactions between the Company and Mr. Anderson or companies affiliated with Mr. Anderson. See "Related Parties and Certain Transactions". Mr. Anderson became involved with the Company during a period of transition of management from the Company's prior management team led by Mr. Sanders and a shift in the Company's business focus from a variety of businesses in gaming, tobacco and oil and gas, to healthcare and health-related technology.

In June 2002, Mr. Anderson purchased 1,000,000 shares of the Company's common stock for \$250,000. In July 2002, Med Wireless, Inc. ("Med Wireless"), a company in which Mr. Anderson was the founder and principal stockholder, licensed certain medical-related technology to the Company for a 15-year term. In exchange for the license, the Med Wireless stockholders in the aggregate received 6,600,000 shares, or approximately 44%, of the Company's then outstanding common stock. Of that amount, Mr. Anderson and his affiliates received 2,868,928, or approximately 19%, of the Company's then outstanding common stock.

Camden Holdings, Inc. ("Camden Holdings"), another company controlled by Mr. Anderson, was active in the development of the business of Med Wireless, beginning prior to the acquisition of the Med Wireless technology by the Company.

In addition, Camden Holdings was actively involved in the Company's sale-leaseback program of ultrasound machines, which were marketed primarily to doctors, medical clinics and hospitals. Under this program, the Company attempted to arrange the purchase of ultrasound machines by investors, who would lease the machines to the Company. In turn, the Company would sub-lease the ultrasound machines to the end user. Camden Holdings secured purchase orders from both investors and prospective end-use lessees of the ultrasound machines. These purchase orders were conditioned upon the Company's ability to secure financing of its own lease obligations of the ultrasound machines from the investors. This was not accomplished because the Company lacked the financial resources and credit to obtain such financing. The Company continued to pursue attempts to arrange such financing through March 2003.

Also in June 2002, the Company purchased a marketing database of healthcare providers in the United States from Genesis Healthtech, Inc. ("Genesis"), a wholly-owned subsidiary of Camden Holdings, which was controlled by Mark Roy Anderson. The total purchase price of \$300,000 was satisfied by the issuance of 666,667 shares of the Company's common stock. The database was purchased with the intention of marketing the Company's sale-leaseback program of ultrasound machines. When the Company was unable to make the sale-leaseback program commercially viable, the marketing database became useless to the Company.

In order to focus the Company's then-primary business opportunity in healthcare technology, the Company divested its non-core businesses in gaming, oil and gas and tobacco, during the period that Mr. Anderson exerted his influence over the Company. In October 2002, the Company sold its Latin America gaming businesses, Latin American Casinos Del Peru S.A., a Peruvian corporation, and Latin American Casinos of Colombia LTDA, a Colombian corporation, to Casino Venture Partners ("CVP"), another entity controlled by Mr. Anderson.

Also in October 2002, the Company sold its Canadian oil and gas development businesses, NuWay Resources, Ltd., to Summit Oil & Gas, Inc. ("Summit Oil"), yet another entity which was controlled by Mr. Anderson. In November 2002, World's Best Rated Cigars, Inc., the Company's wholly-owned subsidiary, which was engaged in the distribution and sale of premium brand cigars, was shut down and discontinued.

As a result of all of the foregoing transactions with Mr. Anderson and companies controlled by Mr. Anderson, the Company believes that Mr. Anderson was the beneficial owner of an aggregate of 5,777,479 shares, or more than 30%, of the Company's common stock outstanding as of December 31, 2002, assuming Mr. Anderson beneficially owned all the shares at the same time. The Company believes that Mr. Anderson sold some of the shares which were issued pursuant to the Company's 2002 Consultant Equity Plan (the "2002 Plan"), and as such the number and percentage of the Company's common stock held by Mr. Anderson at any one time may have been less than that indicated above. In any event, Mr. Anderson failed to file any reports with the Securities and Exchange Commission ("SEC") on Schedules 13D or 13G, or on Forms 3 or 4, and, therefore, the Company cannot confirm any of these numbers at any given point in time.

By the end of 2002 and into the beginning of 2003, it had become apparent to the Company that Mr. Anderson had divergent business objectives to those of the Company, and the Company had concerns about additional dealings with Mr. Anderson. In March 2003, the relationship between the Company and Mr. Anderson reached a climax when the Company severed its business relationships with Mr. Anderson. At that time, the Company actively supported Dennis Calvert, the Company's current President, in his purchase of Mr. Anderson's interests in the Company. New Millennium Capital Partners, LLC, a Nevada limited liability company ("New Millennium") controlled by Mr. Calvert, purchased the Company's promissory note in the principal amount of \$1,120,000 and an aggregate of 4,182,107 shares of the Company's common stock from various entities controlled by Mr. Anderson, although the total number of shares purchased is in dispute.

The transaction was executed as part of a plan to remove Mr. Anderson totally from any involvement in the Company and provide a completely new focus and direction for the Company under new management led by Mr. Calvert. Please see "Related Parties and Certain Transactions" for more information regarding these businesses and the relationship between the Company and Mark Roy Anderson.

Impaired Assets and Discontinued Businesses

Med Wireless and PRLS Technologies

Management of the Company deemed it necessary to discontinue the Company's attempt to develop and market the Med Wireless and Player Record Library System ("PRLS") technologies, because the Company was unable to raise additional funds to further develop and market those technologies. The Med Wireless technology consists of software that is compliant with the Health Insurance Portability and Accountability Act ("HIPAA"), to electronically organize, store and retrieve medical records and medical images. Although the formal decision to discontinue the operations was made subsequent to December 31, 2003, the Company's financial statements for the year ended December 31, 2003 reflect a discontinued operations segment related to the abandonment of the exploitation of the Med Wireless and PRLS technologies after a charge to impairment in an amount equal to the remaining net book value of the acquired technology. See Note 3 to Notes to Consolidated Financial Statements.

Based on the rapid increase in the number of well-capitalized companies offering competing technologies, as well as the fact that the Company has been unable to continue funding any technology enhancements or development related to the Med Wireless technology, management came to believe that the Med Wireless technology had lost the ability to be a viable competing technology in its sector and that it was not in the Company's best interest to continue to pursue the Med Wireless technology. Moreover, management is doubtful if the Med Wireless technology will be considered of any significant value to a prospective buyer or licensee of the technology. The Company desires to sell this technology, if the opportunity presents itself, but expects to realize only nominal net proceeds, if any, for the technology.

In addition, the Company has abandoned its efforts to market a variety of products and services to the sports industry with an emphasis on health and technology related products. In 2003, the Company focused its primary efforts on developing and marketing PRLS, a technology product that is derived, in part, from the Med Wireless technology. In December 2002, the Company had established NuWay Sports, LLC ("NuWay Sports"), to develop and market the PRLS technology. NuWay Sports is owned 51% by the Company and 49% by former NFL football player Kenyon Rasheed. PRLS is a highly specialized electronic medical record and workflow process software application, designed to address the information technology needs of the sports industry relating to player health.

In 2004, the Company attempted to sell NuWay Sports to a third party; however, these negotiations were unsuccessful and a sale was not consummated. It is not likely that the Company will find a party to sell its interest in NuWay Sports. If it did, it is not likely that the Company would receive any up-front cash payments. It should also be noted that because Augustine II, LLC (the "Augustine Fund"), a creditor of the Company, has a lien on the Company's 51% membership interest in NuWay Sports, they would have to approve any such sale. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

Ultrasound Machine Sale-Leaseback Program

Under the Company's ultrasound machine sale-leaseback program, the Company attempted to arrange the purchase of ultrasound machines by investors, who would lease the machines to the Company. In turn, the Company would sub-lease the ultrasound machines to the end user. Camden Holdings secured purchase orders from both investors and prospective end-use lessees of the ultrasound machines. These purchase orders were conditioned upon the Company's ability to secure financing of its own lease obligations of the ultrasound machines from the investors. This was not accomplished because the Company lacked the financial resources and credit to obtain such financing.

The Company continued to pursue attempts to arrange such financing through March 2003. Thereafter, the Company focused primarily on the Med Wireless and PRLS technologies and, after occasional attempts to pursue the sale-leaseback program through mid-2003, this program was no longer pursued.

The termination of the sale-leaseback program also rendered useless the marketing database, which the Company had purchased from Genesis, a wholly-owned subsidiary of Camden Holdings. The database had been purchased with the intention of marketing the Company's sale-leaseback program of ultrasound machines.

Please see Part II, Item 12, "Certain Relationships and Related Transactions" for more information regarding these businesses and the relationship between the Company and Mr. Anderson.

Abandoned Acquisition

On January 31, 2004, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Premium Medical Group, Inc., a Florida corporation ("PMG") and PMG's sole stockholders, Eduardo A. Ruiz and Luis A. Ruiz (the "PMG Stockholders"). Prior to this transaction, there was no business or other relationship between the Company and its affiliates and PMG or the PMG Stockholders and, to the Company's knowledge, there was no business or other relationship between PMG or the PMG Stockholders and Mark Roy Anderson.

Pursuant to the Stock Purchase Agreement, the Company agreed to acquire 100% of the shares of PMG from the PMG Stockholders in exchange for 30,000,000 shares of the Company's common stock, subject to certain adjustments. The exact number of Company Shares to be issued to the PMG Stockholders was subject to adjustment in the event certain revenue was or was not generated by PMG during one year following the closing of the transaction. PMG had been organized in June 2003 to provide medical products to hospitals and medical clinics in South America, primarily Venezuela. Luis A. Ruiz became a director of the Company in connection with the transaction.

The parties had a difference in expectations regarding who would be ultimately responsible for paying for the audit of PMG that was required in order for the Company to complete its disclosure obligations under the Securities Exchange Act. Additionally, the Company did not have a sufficient number of authorized and unissued shares of its common stock to both satisfy its obligations to the PMG Stockholders and to issue shares of common stock in a meaningful financing transaction, given the low price per share at which the Company's common stock trades. The Company lacked the financial resources to schedule a stockholders' meeting, prepare a proxy statement and solicit proxies for the purpose of amending its Certificate of Incorporation to increase its authorized capital stock.

As a result of these and other factors, the Company and PMG never consolidated their operations, the Company never exercised control over PMG or its operations and the parties never exchanged stock certificates evidencing their ownership in each other.

Therefore, the parties entered into discussions and concluded amicably that it was in the mutual best interest of the respective companies and their respective stockholders, to rescind the transactions provided for in the Stock Purchase Agreement and return all parties to their respective positions prior to the transactions contemplated in the Stock Purchase Agreement.

The parties entered into a Rescission Agreement on October 14, 2004 that provides, in relevant part, that (i) all transactions contemplated by the Stock Purchase Agreement shall be rescinded as if the Stock Purchase Agreement had never been executed and delivered; (ii) the parties forever waive all rights to receive stock in PMG and the Company, as the case may be; (iii) Luis A. Ruiz shall resign as a director of the Company; and (iv) the Company and PMG shall file appropriate documents with the Secretary of State of the State of Florida with respect to the rescission of the exchange of shares provided for in the Stock Purchase Agreement.

Employees

At December 31, 2004, the Company employed two full-time employees, reflecting the reduced operations of the Company at that time.

Risk Factors

The Company faces a number of significant risks associated with its current plan of operations. These include the following:

We have a limited operating history and a history of losses.

The Company has no current operations and, as such, may not be able to overcome unanticipated difficulties that may be encountered related to the implementation of its business plan. The Company has a limited operating history, limited revenue from operations and a history of losses. In addition, because the Company currently has no operations, the Company faces all of the risks inherent with a start-up business, including the possibility that the Company cannot acquire or develop a business that is viable. There is no assurance that, if the Company does find or develop a business, to acquire, whether such business will ever be profitable. The Company may also face unforeseen problems, difficulties, expenses or delays in implementing its business plan.

We need additional funds.

If it necessary for the Company to seek to secure additional funds for any new business, general and administrative expenses and period reporting requirements, there can be no assurance that such funds will be available, or will be available on favorable terms. Failure to secure needed funds will directly impact the Company's ability to maintain its publicly-traded status and, potentially, the corporate entity itself. While management has dedicated itself to the efforts to secure needed funds, the outcome and ultimate success of those efforts is uncertain.

The cost of maintaining our reporting obligations is high.

The Company is obligated to maintain its periodic public filings and public reporting requirements, on a timely basis, to remain a public company and maintain its registration as a listed stock. In order to meet these obligations, the Company will need to continue to raise capital. If adequate funds are not available to the Company, it will be unable to comply with those requirements and could cease to be qualified to have its stock traded in the public market. The Company has a history of delinquencies in its filing obligations with the Securities and Exchange Commission.

Our stockholders face potential dilution in any new financing.

Any additional equity that the Company raises would dilute the interest of the current stockholders and any persons who may become stockholders before such financing. Given the low price of the Company's common stock, such dilution in any financing of a meaningful amount, could be substantial.

Our stockholders face potential adverse effect from the terms of any newly issued preferred stock.

In order to raise capital to meet expenses or to acquire a business, the Board of Directors of the Company may issue additional stock, including preferred stock. Any preferred stock which the Company may issue may have voting rights, liquidation preferences, redemption rights and other rights, preferences and privileges. The rights of the holder's of the Company's Common Stock will be subject to, and in many respect subordinate to, the rights of the holders of any such preferred stock. Furthermore, such Preferred Stock may have other rights, including economic rights, senior to the Company's Common Stock that could have a material adverse effect on the value of the Company's Common Stock. Preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, can also have the effect of making it more difficult for a third party to acquire a majority of outstanding voting stock of the Company, thereby delaying, deferring or preventing a change in control of the Company.

We have been unable to obtain a quorum and schedule a vote of stockholders to approve certain material transactions.

The Company will be required to obtain stockholder approval to approve certain material transactions and amend its charter to increase the authorized number of shares to approve a transaction with New Millennium, which is controlled by our President Dennis Calvert; raise funds; or effect a conversion of the convertible notes beyond the number of shares of common stock currently authorized but unissued. Obtaining stockholder approval is both costly and uncertain as to its success. The Company has attempted to secure stockholder votes for certain corporate actions in the past and has been unable to secure a quorum. As a result, the Company has been unable to effect certain material transactions, and this inability to act could threaten the viability of the Company.

If we acquire any business, we will be dependent upon market acceptance and competitive factors.

The success of any business the Company acquires or develops will be highly dependent upon, among other things, gaining market acceptance from customers that will use the company's products and services. More specifically, these factors include, among other things, how well its products or services perform (ease of implementation, ease of use by customers, reliability, and scope of products and services), competitive forces, the level of consumer demand for products and services offered, the selling prices of its products and services, and the effectiveness of the Company's marketing activities.

Our common stock is thinly traded and largely illiquid.

In June 2003, our common stock was delisted from the NASDAQ SmallCap Market. Our stock currently trades on the Pink Sheets. The delisting has made it more difficult to buy or sell our stock and has led to a significant decline in the frequency of trades and trading volume. The delisting will likely adversely affect the Company's ability to obtain financing in the future due to the decreased liquidity of the Company's shares. There can be no assurance when or if the Company's common stock will be quoted on the OTC Bulletin Board, in light of the public interest concerns previously raised by NASDAQ in connection with the delisting of the Company's shares.

Our common stock is subject to "penny stock" regulations that may affect the liquidity for our common stock.

Our common stock is subject to the rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the Securities and Exchange Commission, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading
 - a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of Securities' laws
- a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and significance of the spread between the "bid" and "ask" price
- a toll-free telephone number for inquiries on disciplinary actions; definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks, and
- such other information and is in such form (including language, type, size and format), as the Commission shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock
 - the compensation of the broker-dealer and its salesperson in the transaction
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock
 - the depth and liquidity of the market for such stock, and
 - monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock such as our common stock if it is subject to the penny stock rules.

The Company, some of its directors and its officers face risks in connection with the criminal investigation of a former consultant and principal stockholder of the Company.

In or about May 2003, the Company learned through verbal discussions with representatives of NASDAQ, in preparation for the Company's pending NASDAQ qualifications hearing, that Mark Roy Anderson had a criminal background. In or about May and June 2003, the Company was informed in writing by the United States Attorney's office in Los Angeles, that Mr. Anderson (i) was the target of a criminal investigation (the "Investigation") pertaining to the sale of securities by Med Wireless (from which the Company licensed certain assets in 2002), and (ii) had been convicted of multiple felonies unrelated to Med Wireless in the 1990s. Mr. Anderson was the founder and principal stockholder of Med Wireless, and first introduced the concept of licensing the Med Wireless software application and contracts to the Company in May 2002.

Dennis Calvert had been approached initially by Mr. Anderson some time in 1996 to consider entering into a business consulting relationship with Anderson-controlled entities. Over the period from 1996 to 2001, Mr. Calvert worked as a consultant periodically with Anderson-related entities for the purpose of evaluating potential new businesses and potential investment opportunities being considered by Mr. Anderson and these entities. In June 2002, Mr. Calvert agreed to become president of Med Wireless, primarily for the purpose of completing the Med Wireless transaction with the Company. As consideration for his agreeing to become President of Med Wireless, Mr. Calvert received 1,327,700 shares of Med Wireless stock from Mr. Anderson's holdings. These shares were subsequently converted into 600,000 shares of the Company's common stock pursuant to the terms of the transaction between Med Wireless and the Company.

On June 28, 2002, Mr. Calvert was appointed president of the Company. At the same time, Joseph Provenzano, who at that time was an employee of Camden Holdings, another affiliate of Mr. Anderson, joined the Company's board of directors. In addition to the Med Wireless transaction, and as disclosed elsewhere in this Annual Report, entities that Mr. Anderson controls, including Camden Holdings, Genesis, Summit Oil and CVP, invested \$250,000 in the Company, sold the Company additional assets and purchased the Company's previous operating businesses. See Part II, Item 12, "Certain Relationships and Related Transactions". Although Mr. Anderson never served as an officer or director of the Company, he served as a consultant to the Company and received consulting fees in the form of an aggregate 1,241,884 shares of the Company's common stock. Since December 2002 Mr. Anderson has not been a consultant to the Company and since March 2003 has not been involved in any way in the Company's operations.

In the purchase agreement between Mr. Anderson, his affiliates and New Millennium in March 2003 (the "New Millennium Agreement"), Mr. Anderson represented that he was selling 100% of his stock to New Millennium and would no longer own any of the Company's stock. Mr. Calvert is the Manager and, together with his wife, the sole members of New Millennium, and this transaction was engaged in to eliminate Mr. Anderson as a stockholder of the Company and to remove him from any involvement in the operations of the Company.

Subsequent to the closing of that transaction, management learned through the Company's transfer agent that Camden Holdings still owns 340,894 shares of the Company's common stock. The Company and New Millennium believe that the existence of these 340,894 shares of the Company's common stock owned by Camden Holdings Inc. is a material breach of the New Millennium Agreement, and the Company and New Millennium are reviewing their respective legal rights with regards to this matter.

Technically, under the terms of the New Millennium Agreement, it is possible that Camden Holdings or Mr. Anderson has the right to reacquire the shares of the Company's common stock that were sold to New Millennium, if New Millennium defaults on the promissory note issued by New Millennium to Camden Holdings to purchase the shares (the "New Millennium Note"). See " Part II, Item 12, "Certain Relationships and Related Transactions". The New Millennium Note is purportedly secured by the purchased shares of the Company's common stock; however, New Millennium and Mr. Calvert believe that Camden Holdings and Mr. Anderson have not perfected their security interest in those shares. New Millennium has defaulted on the New Millennium Note. However, New Millennium believes that Camden Holdings failed to deliver all the shares of the Company held by Camden Holdings, and thus breached the terms of their purchase agreement, making the New Millennium Note void by its terms. In addition, the Augustine Fund is the pledgee of 2,500,000 of these shares and holds those shares as pledgee.

On or about May 17, 2003, the Company was served by a subpoena issued by the grand jury impaneled to investigate Mr. Anderson, requesting documents relating to Mr. Anderson and his affiliates, including Med Wireless, Camden Holdings, Summit Oil and Gas, and Summit Health Care. Additionally, the subpoena requested information relating to the identity of the Company's officers, directors, stockholders and consultants (legal, accounting and otherwise), and that the Company provide copies of its filings and correspondence with the SEC, the National Association of Securities Dealers and the NASDAQ Stock Market. The Company cooperated fully with that request by providing the requested information and intends to continue to fully cooperate with any future investigative requests.

The Company has learned that private placement memoranda distributed to Med Wireless investors stated that Dennis Calvert was the president of Med Wireless as early as 2001, and additionally believes that Mr. Anderson apparently made a number of similar false