

I TRAX INC
Form 10-Q
August 09, 2007

**United States
Securities and Exchange Commission
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended: June 30, 2007
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: 001-31584

I-TRAX, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

23-3057155
(I.R.S. Employer
Identification Number)

4 Hillman Drive, Suite 130
Chadds Ford, Pennsylvania
(Address of principal executive offices)

19317
(Zip Code)

(610) 459-2405

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and large accelerated filer in Rule 12b-2 of Securities Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-Accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Securities Exchange Act). [] Yes [X] No

As of July 26, 2007, there were 40,929,729 shares of the registrant's \$0.001 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of I-trax, Inc. (a Delaware corporation) and Subsidiaries as of June 30, 2007, and the related condensed consolidated statements of operations for the three and six month periods ended June 30, 2007 and 2006, and the related condensed consolidated statements of cash flows for the six month periods ended June 30, 2007 and 2006. These interim financial statements are the responsibility of the company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows, for the year then ended (not presented herein); and in our report dated March 10, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York
August 9, 2007

I-TRAX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands, except share data)

ASSETS

	June 30, 2007 (Unaudited)	December 31, 2006
Current assets		
Cash and cash equivalents	\$ 7,134	\$ 6,558
Accounts receivable, net	26,420	21,704
Other current assets	1,096	1,526
Total current assets	34,650	29,788
Property and equipment, net	3,512	3,377
Goodwill	51,620	51,620
Customer list, net	17,417	18,159
Other intangible assets, net	225	402
Other long term assets	41	41
Total assets	\$ 107,465	\$ 103,387

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 8,400	\$ 10,376
Accrued payroll and benefits	4,479	4,444
Accrued restructuring charges	--	118
Other current liabilities	8,628	11,627
Total current liabilities	21,507	26,565
Senior secured credit facility	14,398	9,057
Note payable	99	129
Other long term liabilities	2,805	1,945
Total liabilities	38,809	37,696
Commitments and contingencies		
Stockholders' equity		
Preferred stock - \$.001 par value, 2,000,000 shares authorized, 241,285 and 559,101 issued and outstanding, respectively; Liquidation preference: \$6,032,000 and \$13,978,000 at June 30, 2007 and December 31, 2006, respectively	--	1
Common stock - \$.001 par value, 100,000,000 shares authorized 40,929,729 and 36,613,707 shares issued and outstanding, respectively	40	35
Additional paid in capital	139,673	136,623
Accumulated deficit	(71,057)	(70,968)
Total stockholders' equity	68,656	65,691

Total liabilities and stockholders' equity	\$	107,465	\$	103,387
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The accompanying notes are an integral part of these financial statements.

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I-TRAX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except share data)

	Three months ended June		Six months ended June 30	
	2007	2006	2007	2006
Net revenue	\$ 34,537	\$ 30,042	\$ 68,087	\$ 60,567
Costs and expenses				
Operating expenses	26,264	22,785	51,663	46,228
General and administrative expenses	7,611	5,926	14,675	11,918
Depreciation and amortization	1,039	828	1,849	1,687
Total costs and expenses	34,914	29,539	68,187	59,833
Operating income (loss)	(377)	503	(100)	734
Other expenses (income)				
Other income (Note 10)	(1,419)	--	(1,419)	--
Interest expense	163	115	308	229
Amortization of financing costs	--	57	58	113
Total other expenses (income)	(1,256)	172	(1,053)	342
Income before provision for income taxes	879	331	953	392
Provision for income taxes	197	90	279	180
Net income	682	241	674	212
Less preferred stock dividend	(137)	(283)	(346)	(620)
Net income (loss) applicable to common stockholders	\$ 545	\$ (42)	\$ 328	\$ (408)
Earnings (loss) per common share:				
Basic	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.01)
Weighted average number of shares outstanding:				
Basic	40,447,566	36,356,928	39,425,271	35,576,926
Diluted	42,793,190	36,356,928	41,758,031	35,576,926

The accompanying notes are an integral part of these financial statements.

I-TRAX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six months ended June	
	30	
	2007	2006
Operating activities:		
Net income	\$ 674	\$ 212
Adjustments to reconcile net income to net cash used in operating activities:		
Stock issued as bonus compensation (Note 7)	31	--
Stock based compensation	819	556
FIN 48 Liability	99	--
Accrued loss on contracts	--	(306)
Depreciation and amortization	1,849	1,687
Modification of warrants	--	57
Issuance of stock below market value	--	73
Issuance of warrants for services	47	44
Amortization of financing costs	58	113
Changes in operating assets and liabilities:		
Accounts receivable	(4,716)	(465)
Other current assets	430	(688)
Accounts payable	(1,977)	(208)
Accrued payroll and benefits	35	211
Accrued restructuring charges	(118)	(194)
Other current liabilities	(1,365)	(1,261)
Other long term liabilities	--	(5)
Net cash used in operating activities	(4,134)	(174)
Investing activities:		
Purchases of property and equipment	(1,115)	(713)
Acquisition of intangible assets	(10)	(4)
Net cash used in investing activities	(1,125)	(717)
Financing activities:		
Proceeds from option exercises	524	120
Proceeds from stock issuance	--	58
Issuance of (repayment of) note payable	(30)	157
Proceeds from exercise of warrants	--	22
Proceeds from bank credit facility	5,341	1,578
Net cash provided by financing activities	5,835	1,935
Net increase in cash and cash equivalents	576	1,044
Cash and cash equivalents at beginning of period	6,558	5,386
Cash and cash equivalents at end of period	\$ 7,134	\$ 6,430

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$ 414	\$ 328
Income taxes	\$ 154	\$ 295

Schedule of non-cash investing and financing activities:

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Modification of warrants	\$	--	\$	57
Stock issuance below market value	\$	--	\$	73
Issuance of warrants for services	\$	47	\$	44
Preferred stock dividend	\$	346	\$	620
Conversion of accrued dividends to common stock	\$	1,878	\$	1,112

The accompanying notes are an integral part of these financial statements.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

1. Organization

I-trax, Inc. offers integrated workplace health and productivity management solutions. We operate on-site health centers which deliver primary care, pharmacy care management, acute care corporate health, and occupational health as well as disease, wellness and lifestyle management programs. We enhance the services we offer at our on-site centers with larger scale disease management and wellness programs that use telephonic and e-health tools and which benefit from the trusted relationships established with patients by our clinicians at the worksite. We are focused on helping our customers achieve employer of choice status, making the workplace safer, and improving the quality of care and productivity of the workforce while mitigating healthcare costs.

We conduct on-site services through CHD Meridian Healthcare, LLC, a Delaware limited liability company (“**CHD Meridian LLC**”), and its subsidiary companies, and our disease management and wellness programs through Continuum Health Management Solutions, LLC, a Delaware limited liability company, and I-trax Health Management Solutions, Inc., a Delaware corporation.

Physician services at our on-site locations are provided under management agreements with affiliated physician associations, which are organized professional corporations that hire licensed physicians who provide medical services (the “**Physician Groups**”). The Physician Groups provide all medical aspects of our on-site services, including the development of professional standards, policies, and procedures. We provide a wide array of business services to the Physician Groups, including administrative services, support personnel, facilities, marketing, insurance, and other non-medical services.

2. Basis of Presentation and Interim Results

The condensed consolidated financial statements include the accounts of I-trax, Inc. and its subsidiaries. We have prepared these statements without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the financial information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 16, 2007 (“**2006 Annual Report**”). All adjustments were of a normal recurring nature unless otherwise disclosed. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim period have been included. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

All material intercompany accounts and transactions have been eliminated. The financial statements of the Physician Groups are consolidated with CHD Meridian LLC in accordance with the nominee shareholder model of Emerging Issues Task Force (“**EITF**”) Issue No. 97-2, *Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements*. CHD Meridian LLC has unilateral control over the assets and operations of the Physician Groups.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

Consolidation of the Physician Groups with CHD Meridian LLC, and consequently, with I-trax, Inc. is necessary to present fairly the financial position and results of our operations. Control of the Physician Groups is perpetual and other than temporary because of the nominee shareholder model and the management agreements between the entities. The net tangible assets of the Physician Groups were not material at June 30, 2007 or December 31, 2006.

We record pass-through pharmaceutical purchases on a net basis in compliance with EITF Issue No. 99-19, *Reporting Gross Revenue as a Principal vs. Net as an Agent*. The amounts of pass-through pharmaceuticals purchased by us for the three month period ended June 30, 2007 and 2006 were \$37,698 and \$37,783, respectively, and for the six months ended June 30, 2007 and 2006 were \$76,803 and \$75,225, respectively.

3. Initial Adoption of FIN 48

We adopted the provisions of Financial Accounting Standards Board (“**FASB**”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (“**FIN 48**”)*, on January 1, 2007. This interpretation increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in income taxes. FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The interpretation also requires expanded disclosure with respect to the uncertainty in income taxes. As a result of the implementation of FIN 48, we recognized approximately \$761 as a liability for unrecognized tax benefits, including estimated interest and penalties of \$135. This amount was included in other long-term liabilities on our condensed consolidated balance sheet as of March 31, 2007. We recorded a corresponding increase in our opening accumulated deficit of \$761. During the six months ended June 30, 2007, total unrecognized tax benefits increased to \$860. The increase is the result of additional uncertainties identified subsequent to the adoption date. Cumulative potential interest and penalties accrued related to unrecognized tax benefits at June 30, 2007 totaled \$165.

We file income tax returns in the U.S. federal jurisdiction and numerous state and local jurisdictions. With few exceptions, we are no longer subject to U.S. federal examinations by tax authorities for years before 2003 and state and local income tax examinations by tax authorities for years before 2001. The New York Department of Revenue is currently examining state income tax returns for one of our subsidiaries for years 2003 through 2005. The results of this examination are not expected to have a material impact on our financial position or results of operations.

4. Net Income (Loss) Per Share

We present both basic and diluted income (loss) per share on the face of the consolidated statements of operations. As provided by Statement of Financial Accounting Standards (“**SFAS**”) No. 128, *Earnings per Share*, basic income (loss) per share is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted income (loss) per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and convertible preferred stock.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
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The following shares issuable upon exercise of options, warrants, and convertible securities were excluded from the diluted income (loss) per share computation because their effect would be anti-dilutive for the three and six months ended June 30:

	2007	2006
Series A Convertible Preferred		
Stock	2,412,850	5,599,600
Warrants	400,000	2,904,603
Stock options	1,087,861	3,431,316
Anti-dilutive shares	3,900,711	11,935,519

5. Long Term Debt

On June 29, 2007, we amended our senior credit facility with Bank of America, N.A. to:

- Increase the amount we can borrow under the facility to \$20,000, comprised of the existing \$15,000 revolving loan facility and a new, separate \$5,000 loan facility (“**Swingline Commitment**”) which is not subject to a borrowing base limitation; however, the total Swingline Commitment will be reduced by \$313 on April 1, 2008 and on the first day of each succeeding July, October, January, and April thereafter;
- Extend the facility maturity date, covering both components of the facility, until July 1, 2009;
- Amend certain financial covenants required under the facility; and
- Reduce the interest rate spread and commitment fee under the facility by one percent and 1/8th percent, respectively.

We use the facility to finance operations, which includes the purchase of pharmaceuticals on a pass-through basis for the benefit of our pharmacy clients. Borrowings under the facility are secured by substantially all of our tangible assets and bear interest at rates specified in the credit agreement.

At June 30, 2007 and December 31, 2006, we had \$11,898 and \$9,057, respectively, of debt outstanding under the revolving loan facility. We also had \$2,500 outstanding under our Swingline Commitment at June 30, 2007. At June 30, 2007, the interest rate applicable under the revolving loan facility was 8.3%. In addition, at June 30, 2007, \$1,000 of the facility was outstanding to secure a standby letter of credit, which reduces the amount available under the facility for borrowings. Availability under the revolving loan facility was \$2,102 and \$4,943 at June 30, 2007 and December 31, 2006, respectively. As of June 30, 2007, we were in compliance with our facility covenants, including covenants measuring: (1) our fixed charges coverage ratio, (2) our ratio of funded indebtedness to earnings before income, taxes, depreciation and amortization, (3) our funded indebtedness to capitalization, and (4) minimum stockholders’ equity amounts.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

6. Stockholders' Equity**Preferred Stock**

We have 2,000,000 authorized shares of preferred stock. As of June 30, 2007, 241,285 shares of Series A Convertible Preferred Stock were issued and outstanding. Each share of Series A Convertible Preferred Stock is convertible, at any time, into 10 shares of common stock, has a liquidation preference of \$25.00 per share, the original purchase price, and accrues dividends on that amount at a rate of 8% per year. Dividends are payable, at our option, in cash or common stock, and only upon the liquidation or conversion of the Series A Convertible Preferred Stock into common stock. We recorded \$1,584 and \$3,116 in accrued dividends at June 30, 2007 and December 31, 2006, respectively, which amounts are included in other current liabilities on the consolidated balance sheet.

During the second quarter of 2007, stockholders converted 50,466 shares of Series A Convertible Preferred Stock into 504,656 shares of common stock, and 76,220 shares of common stock were issued to satisfy the dividends accrued on the converted shares.

Warrants

The following table summarizes our warrant activity:

	Shares Underlying Warrants
Outstanding at December 31, 2006	2,508,611
Exercised	(482,000)
Outstanding at March 31, 2007	2,026,611
Exercised	(261,050)
Outstanding at June 30, 2007	1,765,561

At June 30, 2007, the outstanding warrants were exercisable at a weighted average exercise price of \$2.97 per share.

7. Share Based Compensation

As of June 30, 2007, the 2000 Equity Compensation Plan and the Amended and Restated 2001 Equity Compensation Plan (collectively, the “Plans”) authorize us to grant or issue up to 5,100,000 stock options or restricted stock shares. The number of shares authorized for issuance under the 2001 Plan increases automatically on the first day of each year by 300,000 shares. Under the terms of the Plans, awards may be granted to our employees, officers, directors, and certain consultants and advisors. At June 30, 2007, a total of 1,339,369 shares were available for future grants under the Plans.

Our outstanding stock options generally have a 10-year term. Outstanding stock options issued to employees generally vest over three years, and outstanding stock options issued to directors vest over two years. Share awards generally vest based upon continued employment (time-based).

I-TRAX, INC. AND SUBSIDIARIES
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(Unaudited)
(\$ in thousands, except per share amounts)

Prior to 2003, we also granted stock options outside of the Plans. As of June 30, 2007, 163,000 non-plan options were outstanding. Non-plan options have terms similar to options granted pursuant to Plans, including exercise price, vesting and exercise terms.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (“**SFAS 123R**”), using the modified prospective transition method. See Note 2, *Summary of Significant Accounting Policies*, in our 2006 Annual Report.

During the three months ended June 30, 2007 and 2006, we recorded \$819 and \$556, respectively, of share-based compensation as a component of general and administrative expenses in accordance with SFAS 123R.

Stock option activity during 2007 was as follows:

	Stock Options	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding on December 31, 2006	4,273,434	\$ 2.02		
Granted	106,000			
Exercised	(279,153)			
Forfeited	(50,010)			
Outstanding on March 31, 2007	4,050,271	\$ 2.10		
Granted	--			
Exercised	(46,935)			
Forfeited	(47,000)			
Outstanding on June 30, 2007	3,956,336	\$ 2.10	7.62	\$ 8,249
Vested and exercisable on June 30, 2007	2,435,712	\$ 1.77	6.93	\$ 5,950

(1) Calculated using \$4.16, the closing price of I-trax common stock (Amex: DMX) on June 29, 2007.

The aggregate intrinsic value of stock options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the three months ended June 30, 2007 was \$115. Net cash proceeds from the exercise of stock options were \$85 for the second quarter of 2007. No tax benefit has been recognized due to accumulated net operating losses.

Below is a summary of our non-vested stock option activity for the six months ended June 30, 2007:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2006	2,006,099	\$1.45
Granted	106,000	\$2.31

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Vested	(511,130)	\$1.06
Forfeited	(80,345)	\$1.22
Non-vested at June 30, 2007	1,520,624	\$1.64

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I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

At June 30, 2007, there was \$1,756 of unrecognized compensation expense related to stock options that is expected to be recognized over a weighted-average period of 1.89 years. Our assumptions used in estimating forfeiture rates are reviewed each reporting period and the total value of the awards is adjusted accordingly.

Information regarding options outstanding at June 30, 2007 was as follows:

Range of Exercise Price	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.01-\$2.00	2,397,012	7.44	\$ 1.40	1,971,527	\$ 1.34
\$2.01-\$4.00	1,493,263	8.06	\$ 3.06	398,124	\$ 2.89
\$4.01-\$6.00	39,361	4.37	\$ 4.76	39,361	\$ 4.76
\$6.01-\$8.00	16,100	4.55	\$ 6.19	16,100	\$ 6.19
\$8.01-\$10.00	10,600	3.60	\$ 10.00	10,600	\$ 10.00
	3,956,336	7.62	\$ 2.10	2,435,712	\$ 1.77

Restricted stock grants consist of our common stock and typically vest over three years. The fair value of each restricted share grant is equal to the market price of our common stock at the date of grant using fair market value. Expense relating to restricted shares is amortized ratably over the vesting period.

A summary of our restricted stock activity and related information during the six month period ending June 30, 2007 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2006	104,840	\$3.08
Granted	4,500	\$3.73
Forfeited	(5,710)	\$3.09
Outstanding at June 30, 2007	103,630	\$3.11

At June 30, 2007, there was \$220,000 of unrecognized compensation expense related to restricted stock grants that is expected to be recognized over a weighted-average period of 2.15 years.

8. Commitments and Contingencies

Litigation

We are involved in legal disputes on a variety of matters in the ordinary course of business. After reasonable diligence, we expect these matters will be resolved without a material adverse effect on our consolidated financial position or results of operations. Further, after reasonable diligence, we believe that our estimated losses from such matters have been adequately reserved in other current and other long term liabilities to the extent probable and

reasonably estimable. Nonetheless, it is possible that our future results of operations for any particular quarterly or annual period may be materially affected by changes in such matters. See Note 9, *Professional Liability and Related Reserves*, for further details.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

Compliance with Healthcare Regulations

Because we operate in the healthcare industry, we are subject to numerous laws and regulations of Federal, state, and local governments. These laws and regulations include, but are not limited to, matters regarding licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity remains high with respect to investigations and allegations concerning possible violations of fraud and abuse laws and regulations by healthcare providers. Violations of these laws and regulations could result in, among other things, expulsion from government healthcare programs, fines, penalties, and restitution for billed services.

We believe we are in compliance with laws and regulations applicable to our business. Further, compliance with such laws and regulations in the future is subject to further government review, changing interpretations and other regulatory actions. Accordingly, major changes in healthcare laws, regulations or regulatory interpretations may have an adverse effect on our future results of operations.

Significant Customers

One customer represented 28% and 19% of our trade accounts receivable at June 30, 2007 and 2006, respectively. This customer also represented 12% and 13% of our net revenue for the three and six month periods ended June 30, 2007, respectively.

For both the three and six month periods ended June 30, 2007, an additional customer represented 13% of our net revenue. This same customer accounted for 13% of our net revenue for both the three and six month periods ended June 30, 2006.

9. Professional Liability and Related Reserves

Since 2004, we have secured professional and general liability insurance for certain of our direct and indirect subsidiaries through Green Hills Insurance Company, a Risk Retention Group (“**GHIC**”), incorporated as a subsidiary of CHD Meridian LLC under the laws of the State of Vermont. GHIC provides professional and general liability insurance to I-trax, Inc., its subsidiaries, and the Physician Groups and professional liability insurance to our medical professionals. The professional liability insurance is a claims-made policy, which covers claims made during a given period of time regardless of when the causable event occurred. We purchase excess insurance to mitigate risk in excess of GHIC’s policy limits. In years prior to 2004, we secured similar insurance in the commercial market.

The operations of GHIC are reflected in our consolidated financial statements.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

We maintain professional liability reserves as follows:

	Total
Reserves at December 31, 2006	\$ 5,759
Payments	(777)
Charged to operating expenses	404
Adjustment ⁽¹⁾	(253)
Reserves at March 31, 2007	\$ 5,133
Payments	(87)
Charged to operating expenses	404
Adjustment ⁽¹⁾	(42)
Reserves at June 30, 2007	\$ 5,408

⁽¹⁾ Represents changes in estimates of outstanding reported claims and unreported claims.

Reported Claims

Our reported claims reserves include our estimated exposure for claims pre-dating GHIC as well as claims that have been reported under GHIC's policies. These reserves are included in other current liabilities on our consolidated balance sheet. These reserves are estimated using individual case-basis valuations, statistical analyses, and independent third-parties valuations. These reserves represent our best estimate of the ultimate net cost of satisfying all obligations associated with the claims. Our estimates are reviewed and adjusted as experience develops or new information becomes known. We also record loss and loss adjustment expenses, which include changes in exposure estimates, related to reported claims on a monthly basis. Any changes in estimates are reflected in operating expenses. At June 30, 2007 and December 31, 2006, the reserves for reported claims included in other current liabilities on our consolidated balance sheet were \$1,036 and \$1,745, respectively.

Unreported Claims

We maintain additional reserves for potential claims that may be reported in the future. On an annual basis, we use independent actuaries to estimate our exposure for unreported claims. Our estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for losses and loss adjustment expenses are adequate. The estimates are reviewed and adjusted as experience develops or new information becomes known and such adjustments are included in current operations. Reserves for unreported claims that have been transferred to GHIC or relate to current operations are recorded as current liabilities. Unreported claims reserves that have not yet been transferred to GHIC are included in other long-term liabilities.

At June 30, 2007 and December 31, 2006, unreported claims reserves were \$4,372 and \$4,014, respectively. Of these amounts, unreported claims exposure not transferred to GHIC of \$1,638 was included in other long-term liabilities on our consolidated balance sheet. The remaining amount is classified as other current liabilities.

I-TRAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(\$ in thousands, except per share amounts)

10. Insurance Policy Commutation

We purchase excess insurance policies to mitigate risk in excess of GHIC's policy limits as discussed in Note 9, *Professional Liability and Related Reserves*. During the second quarter, we secured a new excess insurance policy. We also allowed our old excess policy to expire. The terms of our old excess policy allowed us to receive a refund of a portion of the premiums we paid during the policy period. This absolutely and unconditionally released and discharged the insurer from and against any and all obligations to us for claims covered during the policy's three year period. Management does not believe this release impacts our exposure to insurance-related losses.

We have recorded a refund of premiums of \$1,419 in other income on our consolidated income statements for the three and six months ended June 30, 2007. This amount is also included in accounts receivable on our balance sheet as of June 30, 2007.

11. Lease Amendment

Under the terms of a Lease Agreement dated January 25, 2002, as amended on May 17, 2005, we lease from Burton Hills IV Investments, Inc. approximately 31,000 square feet of office space in Nashville, Tennessee for use as executive, administrative and sales offices. The Lease Agreement expires in June 2010.

On June 22, 2007, we entered into a Second Amendment to the Lease Agreement. Under the Second Amendment, we agreed to relinquish the majority of the office space on May 1, 2008 in consideration of an early termination payment of \$1 million. On July 31, 2007, we nullified the Second Amendment as permitted by its terms.

On August 9, 2007, we executed an Amended and Restated Second Amendment to the Lease Agreement with Burton Hills IV Investments. The terms of the Amended and Restated Second Amendment are substantially identical to the Second Amendment described above. We have the right to nullify Amended and Restated Second Amendment without penalty on or before August 14, 2007.

On August 9, 2007, CHD Meridian Healthcare, LLC also executed an Office Facility Lease with First Industrial Development Services, Inc. Under the terms of this Office Facility Lease:

- First Industrial will pay Burton Hills IV Investments on our behalf the early termination payment of \$1 million required under the Amended and Restated Second Amendment.
- First Industrial will build for us a 50,000 square foot office building in Franklin, Tennessee, which we expect to occupy on May 1, 2008.
 - The total cost of the leased facility is approximately \$9.4 million.
 - The facility lease is for a term of 11 years.

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

We believe the primary goals of successful financial reporting are transparency and understandability. We are committed to providing our stockholders with informative financial disclosures and presenting an accurate view of our financial position and operating results.

Forward Looking Statements

The following discussion also contains forward-looking statements. All statements, other than statements of historical facts, included in this quarterly report regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements, and readers of this report should not place undue reliance on our forward-looking statements. Actual results or events could differ, possibly materially, from the plans, intentions and expectations disclosed in our forward-looking statements. We have identified important factors in the cautionary statements below and in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 16, 2007 ("**2006 Annual Report**") that we believe could cause actual results or events to differ, possibly materially, from our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We undertake no duty to update these forward-looking statements, even though our situation may change in the future.

Risk Considerations

You are cautioned not to place undue reliance on the statements and other discussion set forth in this quarterly report. These statements and other discussion speak only as of the date this quarterly report is filed with the Securities and Exchange Commission, and these statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Factors that may cause actual results to differ materially from management expectations include, but are not limited to:

- effects of increasing competition for contracts to establish and manage employer-dedicated pharmacies and clinics;
 - loss of advantageous pharmaceutical pricing;
 - inability to meet covenants and financial tests under the terms of our senior secured credit facility;
 - long and complex sales cycles;
 - loss of a major client;
 - cost pressures in the healthcare industry;
 - exposure to professional liability claims and a failure to manage effectively our professional liability risks;
 - economic uncertainty; and

- each of the factors discussed under “Item 1A. – Risk Factors” in our 2006 Annual Report.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Regulation S-X. In our opinion, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments necessary to present fairly our financial position as of June 30, 2007 and the results of the operations and cash flows for the three and six month periods ended June 30, 2007. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the covered periods. We base our estimates and judgments on our historical experience and on various other factors that we believe are reasonable under the circumstances. We evaluate our estimates and judgments, including those related to revenue recognition, bad debts, and goodwill and other intangible assets on an ongoing basis. Notwithstanding these efforts, there can be no assurance that actual results will not differ from the respective amount of those estimates.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations (“**MD&A**”), is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

- Overview
 - Critical Accounting Policies
 - Results of Operations
 - Liquidity and Capital Resources
 - Material Equity Transactions

Overview

I-trax, Inc. provides integrated workplace medical, pharmacy, wellness, and disease management services to enhance the health and productivity of the employees, dependents, and retirees of our clients. We deliver these services at or near the client’s worksite by opening, staffing and managing health centers and pharmacies dedicated to our clients and their eligible populations. We enhance our on-site services with larger scale disease management and wellness programs through the use of telephonic and e-health tools and pharmaceutical benefits management programs. We believe our clinicians deliver excellent care in part because of the trusted relationship they establish with their patients at the worksite.

We believe our services improve the health status of client populations and mitigate the upward cost trend experienced by employers, employees, and government agencies with respect to healthcare. By proactively managing the healthcare needs of our clients’ eligible populations, we believe our programs improve health, increase productivity, reduce absenteeism, reduce the need for future critical care, and manage overall costs. We also believe the breadth of our services allows our clients the flexibility to meet many of their needs in a cost-effective and professional manner.

As of June 30, 2007, we were providing services to over 102 clients, including large financial institutions, consumer products manufacturers, automotive and automotive parts manufacturers, diversified industrial companies, and a variety of other employers. As of June 30, 2007, we were operating 225 on-site facilities in 34 states. Our client retention rate is high due to strong client relationships that are supported by the critical nature of our services, the benefits achieved by employer and employee constituents, and the utilization of multi-year service contracts.

Historically, our on-site services separated into four general categories: occupational health, primary care and corporate health centers, and pharmacies. Traditional lines among the occupational health, primary care and corporate health categories are blurring, however, as employers seek unique combinations of services to challenge rising healthcare costs. Accordingly, although we continue to use the general categories to emphasize the primary purpose of a specific facility, we do so with the recognition that many components of excellent care are uniform across all of our facilities.

Critical Accounting Policies

A summary of significant accounting policies is disclosed in Note 2 to the consolidated financial statements included in our 2006 Annual Report. Our critical accounting policies are further described under the caption “Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2006 Annual Report.

Results of Operations

Second Quarter Summary

During the quarter ended June 30, 2007, we: