

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

NUWAY MEDICAL INC
Form 10QSB
March 08, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2003

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.

(exact name of small business issuer as specified in its charter)

Delaware

65-0159115

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

23461 South Pointe Drive, Suite 200 Laguna Hills, California 92653

(Address of principal executive offices)

(949) 454-9011

(Issuer's telephone number)

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) has been subject to such filing requirements for the past 90 days.

Yes No

Number of shares outstanding of each of the issuer's classes of common equity, as of February 17, 2004: 36,386,486 shares of common stock, \$0.00067 par value per share.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PAGE

Item 1. Financial Statements

Consolidated Balance Sheets - as of September 30, 2003 (unaudited) and December 31, 2002

Consolidated Statements of Operations - for the three and nine months ended September 30, 2003 and September 30, 2002 (unaudited) 4

Consolidated Statements of Cash Flows - for the nine months ended September 30, 2003 and September 30, 2002 (unaudited)

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Signatures

Certifications

NUWAY MEDICAL, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

| ASSETS | September 30, 2003 (unaudited) | De |
|-----------------------------|-----------------------------------|-------|
| CURRENT ASSETS | ----- | ----- |
| Cash and Cash Equivalents | \$ 4,610 | ----- |
| Total Current Assets | 4,610 | ----- |
| PROPERTY AND EQUIPMENT, net | 22,430 | ----- |
| OTHER ASSETS | | |

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

| | | |
|---|--------------|-----------|
| Marketing Database, net | - | |
| Med Wireless License, net | 1,826,906 | |
| | ----- | |
| Total Other Assets | 1,826,906 | |
| | ----- | |
| TOTAL ASSETS | \$ 1,853,946 | ===== |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$ 944,472 | |
| Notes Payable, net | 1,384,986 | |
| Debentures Payable, net | 150,000 | |
| | ----- | |
| Total Current Liabilities | 2,479,458 | |
| | ----- | |
| COMMITMENTS AND CONTINGENCIES AND SUBSEQUENT EVENTS (Notes 8, 9, 10 and 11) | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Preferred Stock, \$.00067 Par Value, 25,000,000 Shares Authorized, 559,322 and No Shares Issued and Outstanding at September 30, 2003 and December 31, 2002, respectively | | 375 |
| Common Stock, \$.00067 Par Value, 100,000,000 Shares Authorized, 35,761,486 and 17,137,727 Shares Issued and Outstanding at September 30, 2003 and December 31, 2002, respectively | | 23,959 |
| Additional Paid-In Capital | 22,977,835 | |
| Accumulated Deficit | (23,500,677) | |
| Treasury Stock at cost, 44,900 shares as of September 30, 2003 and December 31, 2002 | | (127,004) |
| | ----- | |
| Total Stockholders' Equity (Deficit) | (625,512) | |
| | ----- | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 1,853,946 | ===== |
| | ===== | ===== |

3

NUWAY MEDICAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 and 2002

| Three Months | | |
|---------------------|-------------|---------|
| Ended September 30, | | |
| 2003 | 2002 | 2003 |
| ----- | ----- | ----- |
| (unaudited) | (unaudited) | (unaud) |

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Revenue

| | | | |
|---------------------|------|------|------|
| License of Software | \$ - | \$ - | \$ 4 |
| Total Sales | - | - | 4 |

Costs and Expenses

| | | | |
|--|-----------|---------|------|
| Selling, General and Administration | 614,075 | 737,317 | 2,61 |
| Depreciation and Amortization | 219,388 | 2,600 | 65 |
| Impairment of Intangible Assets (Note 4) | 1,866,344 | - | 1,86 |
| Cancellation of Stock Warrants Previously Expensed | - | - | |
| Total Costs and Expenses | 2,699,807 | 739,917 | 5,14 |

Operating (Loss) (2,699,807) (739,917) (5,102)

Other (Expenses) Income

| | | | |
|---------------------------|-----------|---|-------|
| Interest (Expense) Income | (121,567) | - | (196) |
| Net Other (Expenses) | (121,567) | - | (196) |

(Loss) Income Before Income Taxes (2,821,374) (739,917) (5,299)

Income Taxes (Provision) Benefit - -

Net (Loss) Income from Continuing Operations (2,821,374) (739,917) (5,299)

Discontinued Operations (Note 2) - (372,833)

Net (Loss) \$ (2,821,374) \$ (1,112,750) \$ (5,299)

(Loss) Earnings Per Common Share and Common Share
Equivalents Basic and Fully Diluted

| | | | |
|--------------------------------------|------------|-----------|-------|
| Common Share Equivalents Outstanding | 33,769,193 | 9,999,062 | 28,62 |
| Net (Loss) Income Per Share | \$ (0.08) | \$ (0.11) | \$ (|

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

NUWAY MEDICAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(unaudited)

| | Nine Months Ended Se 2003 | ----- |
|---|------------------------------|-------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$ (5,299,049) | \$ |
| Adjustments to Reconcile Net Loss to Cash Used in Operating Activities: | | |
| Depreciation and Amortization | 658,164 | |
| Impairment of Intangible Assets (Note 4) | 1,866,344 | |
| Amortization of Discount on Note | 93,092 | |
| Issuance of Stock for Services and Interest | 2,162,984 | |
| Cash Used in Discontinued Operations | -- | |
| Cancellation of Warrants Previously Recorded as Expense | -- | |
| Bad Debt Expense | 10,000 | |
| Increase in Prepaid Expenses and Other Current Assets | | |
| Decrease in Accounts Payable and Accrued Expenses | (187,107) | |
| | ----- | ----- |
| | (695,572) | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash Used in Discontinued Operations | -- | |
| Increase in Other Assets | -- | |
| | ----- | ----- |
| Net Cash Used in Investing Activities | -- | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of Convertible Debentures | -- | |
| Reduction of Loan from Officers & Affiliates | -- | |
| Proceeds from the Sale of Securities | -- | |
| Proceeds from the Sale of Preferred Stock | 279,661 | |
| Proceeds from Term Loan | 420,000 | |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 699,661 | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 4,089 | |
| CASH AND CASH EQUIVALENTS - BEGINNING | 521 | |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS - ENDING | \$ 4,610 | \$ |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash Paid During the Period for: | | |
| Interest | \$ -- | \$ |
| Income Taxes | \$ -- | \$ |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING TRANSACTIONS | | |
| Conversion of Debentures | \$ -- | \$ |
| ISSUANCE OF STOCK FOR CAPITALIZED ASSETS | | |

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

| | | | |
|---|----|---------|----|
| Software | \$ | -- | \$ |
| Med Wireless License, net | \$ | -- | \$ |
| Increase in Debt for Med Wireless License | \$ | -- | \$ |
| Effective Discount on Note Payable | \$ | 245,420 | \$ |

5

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

a) Principles of Consolidation and Basis of Presentation

In the opinion of the management of NuWay Medical, Inc. (the "Company") the accompanying unaudited consolidated financial statements contain all adjustments (which are normal recurring accruals) necessary to present fairly the consolidated financial position as of September 30, 2003; the consolidated results of operations for the three and nine months ended September 30, 2003 and 2002; and the consolidated cash flows for the nine months ended September 30, 2003 and 2002. Interim results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2002 included in the Company's Form 10-KSB, filed May 23, 2003.

The consolidated balance sheets at September 30, 2003 and December 31, 2002 include the accounts of NuWay Medical, Inc. and its joint venture subsidiary, NuWay Sports, LLC ("NuWay Sports") (collectively referred to as the "Company"). NuWay Medical, Inc. owns 51% of NuWay Sports and the remaining 49% is owned by Rasheed & Associates, and operations for NuWay Sports commenced in January 2003. Thus, operations are consolidated. As there is no equity in NuWay Sports, 100% of this entity is absorbed by NuWay Medical, Inc. All significant inter-company balances have been eliminated in consolidation.

b) Management's Plans

The Company had approximately \$3,000 of cash on hand at March 1, 2004. From June 2003 to August 2003 the Company received \$420,000 in the form of a Note Payable as described in Note 7 below. On November 20, 2003, the Company received \$50,000 in the form of a Promissory Note as described in Note 11 below. Notwithstanding these financing activities, the Company will need to raise additional capital to sustain operations and implement its growth strategy until such time, if ever, that the Company achieves profitability. As of the date of this filing, the Company was not a party to any definitive agreements to provide such financing. Although the Company is in the process of actively reviewing additional proposals made by private investors and

6

investment bankers, there can be no assurance that the Company will be able to consummate any such transactions on terms satisfactory to the Company, or at all, or if consummated, that such financings will

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

provide the Company with sufficient capital. If the Company is unable to secure additional financing within the next 120 days it would need to significantly curtail and perhaps shut down its operations. It is unlikely that the Company will be able to qualify for bank debt until such time as the Company is able to demonstrate sufficient financial strength to provide confidence for a lender.

The Company's shares were delisted effective as of June 10, 2003 from trading on the Nasdaq SmallCap Market. The shares are currently quoted on the pink sheets. Although a market maker has submitted an application for quotation of the Company's shares on the Over-the-Counter Bulletin Board, there can be no assurance that this application will be approved by NASD (and, if not, that any other applications that may in the future be filed), or the Company will be cleared to trade on the Bulletin Board, in particular in light of the public interest concerns raised by Nasdaq in connection with the delisting of the Company's shares. This Nasdaq delisting has made it more difficult to effect trades and has led to a significant decline in the frequency of trades and trading volume. The delisting could also adversely affect the Company's ability to obtain financing due to the decreased liquidity of the Company's shares.

Although the primary development of the Player Record Library System ("PRLS") has been completed, management plans on periodically upgrading its PRLS software application through additional research and development, including tailoring its application to the specific needs of its clients as those needs are brought to the Company's attention. The Company will be unable to accomplish the foregoing on a long-term basis, however, unless and until the additional financing referred to above is secured.

Based on its current business plan, and assuming sufficient financing is obtained, management believes it will be able to generate meaningful sales of its PRLS software application and that it may be able to secure sales or license agreements as early as the first half of 2004. The Company has entered into an agreement with its first NBA franchisee to implement the PRLS system for that franchise. The Company's PRLS was introduced to the marketplace in January 2003 and generated a total of approximately \$40,000 in revenues during the first and second quarters of 2003 through the sale of a scaled-down version of the product to 18 National Football League ("NFL") teams at the 2003 NFL Combine. Pursuant to these transactions, the Company digitized over 60,000 medical images for use by NFL teams in their evaluation of potential draft picks. Management believes that its PRLS is already being referred by its customers and prospects as the best of brand for its sports industry focus. The Company is marketing the PRLS to multiple sports leagues and is actively seeking additional vertical market opportunities. There can be no assurance, however, that the Company will be able to secure any further agreements for its product, that such agreements will ever generate meaningful revenue for the Company, or that the Company will be able to successfully capture any such vertical market opportunities.

Ultimately, the Company's ability to continue as a going concern is dependent upon its ability to establish and grow a revenue stream, attain a reasonable threshold of operating efficiencies, achieve profitable operations and attract new sources of capital. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

c) Property and Equipment

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Property and Equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the respective asset. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

d) Impairment of Long-Lived Assets

The Company periodically reviews its long-lived assets for potential impairment as required by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which supercedes previous guidance. As discussed in Note 2, the Company discontinued several operations during the year ended December 31, 2002. Refer to Note 4

7

for discussion of impairment of certain intangible assets as of September 30, 2003.

e) Revenue Recognition

The Company recognizes revenue from its new medical technology business in accordance with SEC Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements." For hardware sales, revenue would be recognized upon shipment to customers. To date, no such sales have been made.

Revenue from the licensing of software products is recognized when a contract is executed (when applicable), all delivery obligations have been met, the fee is fixed or determinable, and collectability is probable. When licenses are sold together with services, in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), license fees are recognized upon delivery, provided that (1) the above criteria have been met, (2) payment of the license fees is not dependent upon the performance of the services, (3) the services do not include significant modifications to the features and functionality of the software, and (4) the services are not essential to the functionality of the software. If revenue is received from software maintenance agreements, it will be recognized ratably over the term of the agreement, as will annual software maintenance charges and upgrade fees be recognized ratably over the period covered. To date, no such maintenance revenue has been received by the Company.

f) Earnings (Loss) Per Share

The Company reports basic and diluted earnings per share ("EPS") for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by dividing reported earnings by the weighted average shares outstanding adjusted for all potentially dilutive shares, which include shares issuable upon the exercise of outstanding stock options, warrants and convertible preferred stock using the "if-converted" method. For the three and nine months ended September 30, 2003 and 2002, the denominator in the diluted EPS computation was the same as the denominator for basic EPS computation due to the antidilutive effect of the warrants and stock options on

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

the Company's net loss.

8

For the three and nine months ended September 30, 2003 and September 30, 2002, the computation of basic and diluted EPS was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Basic and Diluted EPS: | | | | |
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Numerator - Net (Loss) from Continuing Operations | \$ (2,821,374) | \$ (739,917) | \$ (5,299,049) | \$ (1,112,750) |
| Denominator - Weighted Average Shares Outstanding | 33,769,193 | 9,999,062 | 28,628,360 | 28,628,360 |
| (Loss) Income per Share | \$ (0.08) | \$ (0.07) | \$ (0.19) | \$ (0.04) |
| | | | | |
| Numerator - Net (Loss) Income from Discontinued Operations | \$ -- | \$ (372,833) | \$ -- | \$ -- |
| Denominator - Weighted Average Shares Outstanding | -- | 9,999,062 | -- | -- |
| (Loss) Income per Share | \$ -- | \$ (0.04) | \$ -- | \$ -- |
| | | | | |
| Numerator - Net (Loss) Income | \$ (2,821,374) | \$ (1,112,750) | \$ (5,299,049) | \$ (1,112,750) |
| Denominator - Weighted Average Shares Outstanding | 33,769,193 | 9,999,062 | 28,628,360 | 28,628,360 |
| (Loss) Income per Share | \$ (0.08) | \$ (0.11) | \$ (0.12) | \$ (0.04) |

g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could differ from those estimates. Estimates are used when accounting for stock-based transactions, uncollectable accounts receivable, asset impairment, depreciation and amortization, and taxes, among others.

h) Stock Options and Warrants Issued for Services

As permitted under the Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," the

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Company accounts for its stock-based compensation to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company provides the pro forma net earnings, pro forma earnings per share, and stock-based compensation plan disclosure requirements set forth in SFAS No. 123.

10

Had compensation cost for options issued under the 1994 Stock Option Plan, as described more fully in Note 6, been determined based upon fair value at the grant date for options granted, consistent with the provision of SFAS 123, the Company's net (loss) income and net (loss) income per share would have been reduced to the pro forma amounts indicated below:

| | Three Months Ended September 30, | | N Ended 2003 |
|---|-------------------------------------|----------------|--------------------|
| | 2003 | 2002 | |
| Net (Loss) - as reported | \$ (2,821,374) | \$ (1,112,750) | \$ (5,299,04 |
| Deduct: stock based employee compensation expenses determined under fair value based method | - | - | |
| Net (Loss) - pro forma | \$ (2,821,374) | \$ (1,112,750) | \$ (5,299,04 |
| Net (Loss) per share - as reported | | | |
| Basic | \$ (0.08) | \$ (0.11) | \$ (0.1 |
| Diluted | \$ (0.08) | \$ (0.11) | \$ (0.1 |
| Net (Loss) per share - pro forma | | | |
| Basic | \$ (0.08) | \$ (0.11) | \$ (0.1 |
| Diluted | \$ (0.08) | \$ (0.11) | \$ (0.1 |

For stock issued to consultants and other non-employees for services, the Company records the expense based on the fair market value of the securities as of the date of stock issuance or agreement for such services.

i) **Reclassifications**

Certain amounts in the accompanying 2002 consolidated financial statements have been reclassified to conform to 2003 presentation, primarily those items having to do with discontinued operations. (See Note 2)

NOTE 2. **DISCONTINUED OPERATIONS**

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Effective October 1, 2002, the Company sold its oil and gas operations, namely the stock of NuWay Resources Ltd., to Summit Oil and Gas, Inc. The purchase price for the stock was \$100,000 less all outstanding liabilities of NuWay Resources, Ltd. As the offsetting liabilities exceeded the purchase price, the Company received no funds. The Company recorded a loss from these operations through September 30, 2002 of \$68,650 and a loss of \$1,290,948 on disposal.

Effective October 1, 2002, the Company sold the stock of its wholly owned casino rental subsidiaries (Latin American Casinos del Peru S.A., and Latin American Casinos of Colombia, LTDA) to Casino Venture Partners, a Nevada partnership. The purchase price for the stock was \$300,000 less all outstanding liabilities of the two subsidiaries. As the offsetting liabilities exceeded the purchase price, the Company received no funds. The Company recorded a loss from these operations through September 30, 2002 of \$147,247 and a loss of \$1,376,733 on disposal.

The Company discontinued the operations of World's Best Rated Cigar Company on October 1, 2002 by donating any remaining inventory and terminating all outstanding warehouse lease agreements without penalty. A loss of \$385,089 was incurred from these operations until the point of disposal and a loss of \$179,750 was recorded upon disposal of the net assets.

11

The results of operations of the Company's oil and gas, casino, and cigar distribution operations have been shown as discontinued operations as follows:

| | Three Months Ended September 30, 2002 | Nine Months Ended September 30, 2002 |
|-----------------------------------|--|---|
| Revenues | \$ 185,605 | \$ 629,415 |
| Operating Expenses | 558,438 | 1,230,401 |
| Loss from Discontinued Operations | \$ (372,833) | \$ (600,986) |

NOTE 3. PROPERTY AND EQUIPMENT

Property and Equipment are summarized as follows:

| | September 30, 2003 | December 31, 2002 |
|--|--------------------|-------------------|
| Furniture, Fixtures & Office Equipment | \$ 42,753 | \$ 42,753 |
| Less: Accumulated Depreciation | 20,323 | 13,909 |
| Property and Equipment, net | \$ 22,430 | \$ 28,844 |

Furniture, fixtures and office equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is estimated to be five years.

NOTE 4. INTANGIBLE ASSETS

The Company had the following Intangible Assets at September 30, 2003: a

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

marketing database purchased from Genesis Health Tech, Inc. on September 28, 2002 and certain software technology licensed from Med Wireless, Inc. on August 21, 2002. The database is a comprehensive listing of healthcare providers in the U.S. and represents what the Company believes to be a valuable tool for phone, mail and direct marketing activities related to the Company's new medical technology products. The technology licensed from Med Wireless relates to the movement of medical images and data over the Internet and via handheld wireless devices and is critical to the Company's PRLS product as well as potential future products. No amortization was recorded for these intangible assets in 2002 as the Company did not begin to utilize the database nor generate sales of products derived from this technology until 2003. In January 2003, the Company began to amortize both assets on a straight-line basis over estimated five year useful lives and a total of \$217,250 and \$651,750 in amortization expense was recorded for the three and nine month periods, respectively.

In Note 5 to the Company's audited financial statements for the year ended December 31, 2002 appearing in the Company's Form 10-KSB filed May 23, 2003, the Company disclosed the fact that the value of the database was discounted and the discount in the Med Wireless license was increased after discussions with "valuation experts" and the Company's accountants. To clarify this disclosure, it is noted that the discussions with the valuation experts were conducted by the Company's accountants in the course of their audit, and not by the Company, and that these experts did not evaluate or otherwise pass upon the value of the Company's assets (nor has the Company at any time had such an evaluation from a third party expert).

12

The Company is required to assess the impairment of goodwill and other intangible assets annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include significant underperformance relative to projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, and a market value of the Company's common stock lower than the Company's assets' book value. The net carrying value of goodwill and other intangible assets not recoverable is reduced to fair value. The Company's common stock traded at a high of \$0.34 on June 6, 2003, four days before the stock was de-listed from the Nasdaq SmallCap exchange on June 10, 2003. The stock value decreased to \$0.10 just after it was delisted, and stayed at approximately \$0.10 through the end of the second quarter 2003. It traded at a high of \$0.09 on the last day of the second quarter. During the third quarter, the stock continued to decrease in price, and traded as low as \$0.38 per share. On the last day of third quarter 2003, the stock closed at \$0.06. Because the Company's common stock had continually traded lower during the third quarter 2003, lowering the market capitalization of the Company to a low of \$1,609,266 during that period (on September 11, 2003), Management determined that it was appropriate during the third quarter to conduct an impairment analysis of the intangible assets on its books that were, in the aggregate, valued at over twice the market value of Company.

Management conducted an impairment analysis of the two intangible assets on its books: the marketing database and Med Wireless license. These two assets were listed on the Company's financial statements for the period ending June 30, 2003 at values of \$229,500 and \$3,681,000, respectively. Depreciation for the period ending September 30, 2003, would have decreased the value of those assets to \$216,750 and \$3,476,500 respectively.

With respect to the marketing database, although Management intends to use the database to market products offered by its recently acquired Premium Medical Group, Inc. subsidiary, it has no way of predicting what success it will

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

have in that marketing effort, and has not at this time used the marketing database to market any product or generate any revenue for the Company, and has thus determined to record a 100% impairment of that asset in the amount of \$216,750.

With respect to the Med Wireless license, Management analyzed the sales prospects of its PRLS system (which is based upon the technology licensed from Med Wireless) to the various professional and collegiate sports organizations, the limited successes the Company's NuWay Sports subsidiary has had thus far in its sales efforts, and the projected revenue from projected future sales, and has determined to record an impairment charge to the recorded value of the Med Wireless license of \$1,649,594. This amount was calculated projecting sales over a three year period (calendar years 2004, 2005 and 2006), factoring in the costs of sales and the product costs, discounting projected net revenue to their present value using a 7.5% interest factor, and further discounts of the Company's projections for uncertainties relative to the timing of acceptance of this technology.

Management does not believe that a further impairment of these assets will be necessary as of the period ending December 31, 2003.

NOTE 5. STOCK, STOCK OPTIONS AND WARRANTS

During the nine months ended September 30, 2003, the Company issued an aggregate of 18,623,759 shares of its common stock. Of these shares, 2,633,590 were issued in consideration for \$645,648 of obligations previously accrued at December 31, 2002, and 15,990,169 shares were issued as consideration for \$1,530,000 of services provided to the Company during the nine month period ended September 30, 2003. Of this amount approximately \$1,020,600 represents consulting expense, \$394,000 represents legal expenses, and the balance of \$115,000 represents compensation, advisory board fees, and board of directors' expenses.

13

In March 2003, Dennis Calvert, the Company's CEO and president, was granted 3,000,000 shares of common stock under the Company's 2003 Stock Compensation Plan as a bonus for services rendered by Mr. Calvert to the Company. Following this issuance, however, Mr. Calvert returned the shares to the Company pending a shareholder vote to approve or disapprove the issuance. Mr. Calvert and the Company have since agreed not to seek shareholder approval for the issuance and to rescind the issuance in its entirety. Mr. Calvert and the compensation committee of the Board of Directors plan to negotiate an alternative bonus arrangement with Mr. Calvert (which could be in the form of cash, shares of stock, or a combination thereof). The amount and timing of such bonus has not yet been determined.

The Company had the following outstanding convertible securities at September 30, 2003: (a) stock options issued under the 1994 Stock Option Plan to purchase up to 65,000 shares of the Company's common stock (see Note 6); (b) five-year warrants to acquire up to 300,000 shares of common stock at an exercise price of \$1.75 per share; (c) a warrant to purchase up to 100,000 shares of common stock at an exercise price of \$0.30 per share exercisable through February 23, 2004, issued in 2002 to a former executive of the Company; and (d) warrants to purchase up to 559,322 shares of common stock at an exercise price of \$.20 per share, exercisable for a period of three years, issued in conjunction with the Company's sale of 559,322 shares of Convertible Preferred Stock during the first quarter of 2003, and which are not convertible until nine months from the date of issuance (Note 9).

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

At September 30, 2003, the Company also had outstanding 1,725,000 publicly traded warrants (NMEDW) to purchase the Company's common stock at an exercise price of \$3.00 per share. These warrants expired December 11, 2003.

See Note 7 for discussion of warrants issued in conjunction with debt entered into in September 2003.

NOTE 6. INCENTIVE STOCK OPTION PLAN

On June 13, 1994, the Company adopted the 1994 Stock Option Plan providing for the issuance of options to purchase up to 1,000,000 shares of the Company's common stock. The term of each option may not exceed ten years from the date of grant (five years for options granted to employees owning more than 10 percent of the outstanding shares of the voting stock of the Company). The 1994 Plan will terminate in June 2004, unless terminated earlier by action of the board of directors. In June 1999, the Company increased the shares allocated under the plan to 1,500,000.

At September 30, 2003 and December 31, 2002, the Company had options outstanding and exercisable as follows:

14

| | Number of Shares | Price Per Share |
|---|---------------------|-----------------|
| | ----- | ----- |
| Options Outstanding at December 31, 2002 | 65,000 | \$1.00 - \$1.75 |
| Options Issued | - | |
| Options Expired | - | |
| Options Exercised | - | |
| | ----- | ----- |
| Options Outstanding at September 30, 2003 | 65,000 | \$1.00 - \$1.75 |
| | ===== | |

All outstanding stock options were fully exercisable at September 30, 2003.

NOTE 7. NOTES PAYABLE

In conjunction with the acquisition of the technology license from Med Wireless, Inc. on August 21, 2002, the Company assumed a \$1,120,000 note with interest at 10% per annum payable by Med Wireless to Summitt Ventures, Inc., a company controlled by Mark Anderson. The note is secured by the Company's assets and was originally due on June 15, 2003. On March 26, 2003, Summitt Ventures sold the note, together with 4,182,107 shares of the Company's common stock, to New Millennium Capital Partners LLC ("New Millennium"), a limited liability company controlled and owned in part by the Company's CEO and president, Dennis Calvert, in exchange for a \$900,000 promissory note issued by New Millennium in favor of Summitt Ventures. This note is secured by all of the stock of the Company owned by New Millennium and Mr. Calvert. On March 26, 2003, the Company's board of directors voted to convert the \$1,120,000 note held by New Millennium into 22,400,000 shares of restricted common stock of the Company (at a conversion price discounted 37.5% to the then market price of \$0.08). New Millennium agreed to this conversion. Subsequent to the vote by the board to convert the note, the Company received notification from Nasdaq's Listing Qualifications Department

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

that converting the note without shareholder approval violated certain Nasdaq Marketplace Rules. In response to this notification, the board, with the concurrence of New Millennium, voted to amend its resolution and withhold issuance of the shares to New Millennium until the Company's shareholders approved the conversion. This shareholder vote has not taken place as of the filing of this report, and the shares have not been issued to New Millennium.

The business purpose of the original decision to convert the note into equity was to retire \$1,120,000 in debt owed by the Company thereby increasing shareholder equity by that amount and avoiding a default on the note and the insolvency and possible liquidation of the Company. In arriving at a conversion price, the board of directors determined that a 37.5% discount to market price was appropriate based on a number of factors, including that (i) with the quantity of the shares that would be issued, a block of shares that size could not be liquidated without affecting the market price of the shares, and (ii) the shares would be "restricted shares" and could therefore not be sold by New Millennium (an affiliate of the Company) in the public markets prior to two years from the date of the conversion, and thereafter would be subject to the volume and manner of sale limitations of Rule 144 under the Securities Act of 1933.

To allow time for a shareholder vote with respect to the conversion, New Millennium agreed to extend the terms of the note, from June 15, 2003 to October 1, 2003.

At the Company's June 6, 2003 board meeting, Mr. Calvert, on behalf of New Millennium, and the Company, through the unanimous action of the Board (with Mr. Calvert abstaining), agreed that, in light of current market conditions (namely the significant increase in the trading price of the Company's common stock since March 26, 2003, the date on which the conversion of the note to equity was originally approved by the Board, from \$0.08 to \$0.28 as of June 6, 2003), it would be inequitable for New Millennium to convert the note at the originally

15

agreed to \$0.05 per share price. In this regard, Mr. Calvert, on behalf of New Millennium, and the Company orally agreed to rescind the agreement to convert the note. In addition, New Millennium orally agreed with the Company to extend the maturity date of the note to a first payment due October 1, 2003 in the amount of \$100,000 and the balance of the principal due on April 1, 2004, with interest due according to the original terms of the note (to correspond to the payment terms of the note made by New Millennium in favor of Summitt), and furthermore to reduce the Company's obligation on the note to the extent that New Millennium is able to reduce its obligation on its note with Summitt Ventures. While the prior holder of the note, Summitt Ventures, purported to condition New Millennium's purchase on the conversion of the note, Mr. Calvert has represented to the Company that due to Mr. Anderson's actions (as previously described by the Company in its Form 10-QSB for the quarter ended March 31, 2003), Mr. Calvert now believes that conversion of the note is no longer a required term of the agreement between New Millennium and Summitt.

The Company was unable to pay the note at the due date of October 1, 2003. At the board meeting on October 15, 2003, the board determined to put the issue of conversion of the note to the Company's shareholders at a special meeting of the shareholders scheduled for December 9, 2003. On November 7, 2003, a Definitive 14a was filed by the Company with respect to that meeting. The shareholders meeting was held on December 9, 2003, but adjourned without a vote due to a lack of quorum. The meeting was rescheduled for December 30, 2003. At the December 30, 2003 shareholder meeting, the board was again advised that there was not a quorum, and therefore the vote could not be held. Because this was the second attempt to obtain a quorum, and more than 4,000,000 additional shares were

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

required to be voted to obtain a quorum, the board voted to adjourn the meeting indefinitely. As of January 1, 2004, the loan is in default status and has not been repaid.

On February 10, 2004, the board voted and resolved to convert the note into shares of the Company as required in its acquisition agreement with Premium Medical Group, Inc., a privately held Florida corporation. New Millennium Capital Partners, LLC agreed to convert its secured promissory note in the principal amount of \$1,120,000 (together with \$114,800 in accrued but unpaid interest thereon) into 30,869,992 shares of the Company's Common Stock. We expect the conversion to occur within the next 60 days.

On June 10, 2003 the Company entered into a Term Loan Agreement ("Loan Agreement") with Augustine II, LLC ("Augustine"), pursuant to which Augustine agreed to loan the Company \$420,000, payable in installments of \$250,000, \$100,000, and \$70,000 (the "Loan"). The Company received all scheduled installments, and principal and interest (at an annual rate of 10%) were due in full on February 29, 2004. The Company has spoken with representatives of the Augustine II, LLC, and have advised them that the Company is unable to pay the amount due under the note by February 29, 2004. The Augustine II, LLC representatives indicated a desire to restructure the terms of the note to allow a longer time frame for the Company to repay the obligation. Those negotiations are yet to be finalized. The Company recorded \$11,717 of interest expense as of September 30, 2003. The Loan Agreement is subject to certain requirements that the Company make mandatory prepayments of the Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, all or any portion of the Loan may be prepaid by the Company at any time without premium or penalty. The proceeds of the Loan were used by the Company for working capital.

As additional consideration for making the Loan, Augustine received five year warrants to purchase up to 6,158,381 shares of the Company's common stock at an exercise price of \$0.16 per share. The Company can require that the warrants be exercised if the Company's shares trade at or above \$0.60 per share for each trading day within the 30 calendar days prior to the maturity date of the Loan, trading volume of the shares equals or exceeds 100,000 shares per day during such period, and the shares of the Company's common stock underlying the

16

warrants have been included on a registration statement filed with and declared effective by the SEC prior to the maturity date. If these conditions are not fully satisfied by the maturity date, then Augustine may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the warrants pursuant to the "cashless exercise" provisions of the warrants. Using the Black-Scholes pricing model, the Company allocated approximately \$245,000 of the Loan proceeds to the warrants and \$175,000 to the note payable, which allocations were made on a pro rata basis based on the fair value of the warrants. The Black Scholes calculation assumed a discount rate of approximately four percent, volatility of 257 percent and no dividends. Given that the warrants were issued in conjunction with Loan Agreement, such fair value represents an effective discount on the debt and will be amortized over the term of the loan. Amortization of this discount for the quarter ended September 30, 2003 was approximately \$93,000 and is recorded as effective interest expense in the accompanying consolidated statement of operations.

As security for the Loan, New Millennium (an affiliate of Mr. Calvert) pledged 2.5 million shares of the Company's common stock owned by New Millennium, and the Company has granted Augustine a security interest in its ownership interest in the Company's subsidiary, NuWay Sports, LLC.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

NOTE 8. CONVERTIBLE DEBENTURES

In December 2000, the Company, through a private placement, issued \$3,500,000 principal amount of 6 percent Convertible Debentures to several investors. These debentures were originally due June 13, 2001 and their maturity date was subsequently extended to December 13, 2001. They are convertible into common stock at a price of \$1.75 per share. The interest on the debentures is payable either in cash or shares of common stock, at the discretion of the Company. During 2001, \$1,100,000 of the debentures plus accrued interest were converted into 666,283 shares of the Company's common stock. During 2002, \$2,250,000 of the remaining debentures plus accrued interest were converted into 1,332,570 shares of common stock. In December 2002 the Company received a notice from the remaining two debenture holders (the "Remaining Debenture Holders") requesting conversion of the remaining outstanding \$150,000 of debentures. The notice provided that, as a condition to conversion, the certificates representing the shares issuable upon conversion of the debentures would need to be delivered to the Remaining Debenture Holders prior to the end of 2002. Pursuant to the request, and to complete the conversion, the Company issued to the Remaining Debenture Holders 96,006 shares of common stock and promptly notified the Remaining Debenture Holders' counsel and the Company's transfer agent of the approval and ratification of the issuance. However, the actual certificates representing the shares were not delivered to the Remaining Debenture Holders until the first quarter of 2003. The Remaining Debenture Holders then refused acceptance of the shares, claiming that because the actual certificates representing the shares were not delivered in 2002 as specified in the conversion notice, the conversion was invalid and the debentures would therefore remain outstanding and continue to accrue interest until repaid in full. The Remaining Debenture Holders have since demanded full payment on their \$150,000 of debentures (plus accrued interest). In June 2003, the Remaining Debenture Holders filed suit in the Orange County Superior Court against the Company claiming it breached the debenture agreement by failing to honor the terms of the notice of conversion. Although the Company's financial statements reflect the \$150,000 of debentures as still being outstanding, the Company disputes the Remaining Debenture Holders' claims that the conversions were invalid. The Company and the Remaining Debenture Holders have, since the lawsuit was filed,

17

entered into a settlement agreement in which the remaining Debenture holders would convert the debentures into common stock equal to approximately \$70,000. The settlement agreement calls for conversion into stock over a period of three months. The Company has partially satisfied the obligations under this agreement, and expects to fully satisfy its obligations in the first quarter 2004.

NOTE 9. CONVERTIBLE PREFERRED STOCK

During the nine month period ended September 30, 2003, the Company entered into two Convertible Preferred Stock and Warrant Purchase Agreements whereby the Company sold an aggregate of 559,322 shares of a newly created series of Preferred Stock, Series A Convertible Preferred Stock, par value \$.00067, for a total consideration of \$279,661. Each share of the Series A Preferred Stock is convertible into one share of the Company's common stock. In addition, each share of preferred sold entitles the purchaser to one warrant to purchase one share of common stock at a price of \$0.20 per share. Using the Black-Scholes pricing model, the Company estimated the fair value of these warrants to be approximately \$35,000, and such amount has been netted in additional paid in capital on the September 30, 2003 consolidated balance sheet. The Black Scholes calculation assumed a discount rate of approximately five percent, volatility of 180 percent and no dividends. The Series A Preferred Stock may be converted by

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

the holder at any time after six months from the purchase date and the warrant is exercisable for a period of three years from the purchase date.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Litigation

During 2002, Ms. Geraldine Lyons, the Company's former Chief Financial Officer, sued the Company for breach of her employment contract. The lawsuit is venued in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County in the State of Florida and was initiated by the filing of a complaint in June 2002. The principal parties in the case are Ms. Lyons, the Company, and the Company's former president Todd Sanders. Ms. Lyons alleges that \$25,000 is due to her under her employment contract; that the contract requires the Company to guarantee that she can sell for \$300,000 the 100,000 shares of stock the Company is required to issue her; and, that Mr. Sanders promised to purchase from her for \$4.00 per share 100,000 shares of stock held by her. The Company has counter-sued Ms. Lyons for breach of fiduciary duty, fraud, violation of section 12(a)(2) of the 1933 Securities Act of 1933, violation of section 517.301 of the Florida Statutes, negligent misrepresentation, conversion, and unjust enrichment resulting from the restatement of the Company's financial statements for the years ended December 31, 2000 and December 31, 1999 that the Company believes was required as a result of her activities. The restatements corrected the previous omission of certain material expenses related primarily to compensation expense arising from warrants issued and repriced stock options, as well as other errors. The case is ongoing at this time. The Company intends to vigorously defend its actions and pursue its affirmative claims to the fullest extent possible. Management does not expect that this case will have a material adverse effect on the Company's financial position.

See Note 8 for a discussion of a claim relating to the conversion of the Company's 6% Convertible Debentures.

Employment Agreements

In December 2002, the Company entered into a five-year employment agreement with the Company's current President, Dennis Calvert. His agreement calls for a base monthly salary of \$14,000 plus performance bonuses and employee related benefits. Mr. Calvert serves as President, Chief Executive Officer, Interim CFO and Chairman of the Board.

18

In March 2003, the Company entered into a five-year employment agreement with Joseph Provenzano who serves the Company as Secretary, Board Member and Senior Executive reporting to Mr. Calvert. His agreement calls for him to receive not less than \$10,900 per month in salary plus incentive bonuses, stock ownership participation and employee related benefits. At the Company's discretion, the Company may choose to pay up to \$4,900 of this monthly salary with stock in lieu of cash.

Lease Commitment

The Company is obligated on a month-to-month office lease at its California facility. This lease required monthly rentals of \$7,850 through May 2003 and was increased to \$8,750 at June 2003. All other leases are of short duration or are on a month-to-month arrangement. Rent expense for the nine months ended September 30, 2003 and the year ended December 31, 2002 was approximately \$74,500 and \$96,500, respectively.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Stock-based Commitments

The Company currently utilizes the services of a number of consultants who are compensated with shares of common stock. While each agreement can generally be terminated with a 15 day notice, the Company may be obligated to issue additional shares to the consultants.

NOTE 11. SUBSEQUENT EVENTS

On October 29, 2003, the Company issued an unvested warrant to an individual to purchase 2,000,000 shares of common stock at \$0.05 a share. The warrant expires on October 29, 2004. The Warrant is not exercisable unless and until the Holder introduces to the Company an investor or investors which investor or investors invest net proceeds in the Company of at least \$250,000 within 3 months of the introduction. The closing of any such investment shall be in the sole and absolute discretion of the Company. In the event investments of at least \$250,000 are not so made by May 1, 2004, or are made by or through parties other than the Holder, the Warrant shall expire in its entirety and be of no further force or effect.

On November 20, 2003, the Company received proceeds of \$50,000 in exchange for a promissory note in which it agreed to pay \$65,000 to the investor 90 days from the date of the loan. The Company's CEO and president Dennis Calvert personally guaranteed the note. As of March 1, 2004 the Company has paid back \$23,000 to the investor, and has made arrangements with the investor to extend the terms of the note to allow payment of the remainder due by March 20, 2004.

On January 30, 2004, the Company entered into a tax free reorganization with Premium Medical Group, Inc., a Florida corporation ("Premium") pursuant to a Stock Purchase Agreement (the "Agreement") that called for the Company to acquire 100% of the shares of Premium from Eduardo A. Ruiz and Luis A. Ruiz, Premium's sole shareholders, in exchange for 30,000,000 shares of the Company's common stock, subject to adjustment as more fully described in the Agreement (the "Transaction"). Based on the closing bid price for the Company's common stock on January 31, 2004, the shares issued to the Premium shareholders in connection with the Transaction have been valued at approximately \$1,500,000. The Agreement was attached as Exhibit 2.1 to the Form 8-K filed by the Company on February 17, 2004, and the description of the Transaction contained herein is qualified in its entirety by reference to the Agreement.

19

The consideration for the Transaction was determined through arms'-length negotiation between the Company and Premium and its shareholders, giving due consideration to the market value of the Company's common stock and the estimated value of Premium. The 30,000,000 shares issued in the Transaction are being held in escrow and are subject to downward adjustment pursuant to an agreed upon formula, as more fully described in the Agreement. Eduardo A. Ruiz and Luis A. Ruiz retain the full voting rights of these shares while they are held in escrow. In addition, the consideration for the Transaction includes an earn out bonus pursuant to which the Premium shareholders shall be entitled to receive additional consideration equal to the following percentages of Premium's net income (calculated in accordance with generally accepted accounting principles) during calendar year 2004: (i) 20% of net income for net income of up to \$1,000,000; (ii) 15% of net income for net income of \$1,000,000 up to \$2,000,000; (iii) 10% of net income for net income over \$2,000,000. This additional consideration shall be paid in the form of warrants to purchase the Company's common stock.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Immediately following the Transaction, the Company's capitalization consisted of 66,386,486 shares of common stock outstanding, of which the Company's shareholders prior to the Transaction held 36,386,486 shares, and the former Premium shareholders held 30,000,000 shares. The 30,000,000 shares represent approximately 45% of the post-Transaction outstanding common shares of the Company.

As a condition to Premium entering into the Agreement, New Millennium Capital Partners, LLC (a company controlled by Dennis Calvert, the Company's CEO and President), agreed to convert its secured promissory note in the principal amount of \$1,120,000 (together with \$114,800 in accrued but unpaid interest thereon) into 30,869,992 shares of the Company's Common Stock. Following this conversion, the Company's capitalization will consist of 97,256,478 shares of common stock outstanding, and Mr. Calvert will be the beneficial owner of approximately 35,651,992 shares of common stock or approximately 37% of our outstanding stock, which includes the 4,782,000 shares he currently owns. We expect the conversion to occur within the next 60 days.

Additionally, pursuant to the Agreement, the Company agreed to appoint Mr. Luis A. Ruiz to the Company's Board of Directors, subject to Mr. Ruiz's formal acceptance of the position and a standard application and background check process that the Company expects to be completed within the next 30 days. Once Mr. Ruiz has been appointed to the board, our Board of Directors will consist of Mr. Dennis Calvert, Mr. Gary Cox, Mr. Steven Harrison, Mr. Joseph Provenzano and Mr. Luis A. Ruiz. There are no other material relationships between Premium or the shareholders thereof, and the Company or any of its affiliates or any of its officers or directors.

On February 23, 2004, the Company issued an unvested warrant to Sachi International, Inc. to purchase up to 3,000,000 shares of common stock at \$0.04 a share. The Warrant vests based on the amount of investment proceeds brought to the Company by the Holder, with 100% vesting if the Holder brings \$500,000 in investment capital. In the event less than \$500,000 is invested, the warrant vests in a pro-rata amount. The closing of any such investment shall be in the sole and absolute discretion of the Company.

20

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION AND FORWARD LOOKING STATEMENTS

The following discussion and analyses should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements included elsewhere in this report.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other sections of this Form 10-QSB, contain "forward looking statements" within the meaning of Rule 175 under the Securities Act of 1933, as amended, and Rule 3b-6 under the Securities Act of 1934, as amended, including statements regarding, among other items, the Company's business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Company's expectations and

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among others, the following: the Company's ability to raise additional financing or generate revenue sufficient to sustain the Company's operations, demand for the Company's products, competitive pricing pressures, changes in the market price of technologies used in the Company's products, the level of expenses incurred in the Company's operations, the scope, duration and results of the SEC's inquiry into the Company, the possibility that such inquiry will result in a formal investigation of the Company by the SEC, the possibility that the Company or its officers and directors will become the subject of criminal proceedings, the possibility that stockholders or regulatory authorities may initiate proceedings against the Company and/or its officers and directors as a result of any past securities law violations, the possibility that the Company's securities will not become eligible for quotation on the OTC Bulletin Board, and the effect of the Company's recent Nasdaq delisting on the liquidity of the Company's stock and its ability to raise capital. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire or prove to be accurate. The Company disclaims any intent or obligation to update "forward looking statements."

OVERVIEW

NuWay Medical, Inc. (the "Company") recently began to offer medical and health related technology products and services with an initial focus on the health and information software technology needs of the sports industry. The Company's primary product is its Player Record Library System ("PRLS"), 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 including the need for technology that facilitates compliance with the Health Insurance Portability and Accountability Act ("HIPAA").

The Company markets its PRLS through its subsidiary NuWay Sports, LLC, a joint venture formed in December 2002 and owned 51% by the Company and 49% by Rasheed & Associates. NuWay Sports recently sold the scaled down version of the PRLS to several NFL teams and is promoting its service to other NFL teams, the NFL itself, the NFL Trainers Association, the NFL Players Association and the NFL Player Safety Council. NuWay Sports also markets the PRLS to teams, leagues, and

21

player associations in the National Basketball Association ("NBA"), Major League Baseball ("MLB"), and other sports such as hockey, soccer, boxing, motor sports, and entertainment sports. The Company believes that its PRLS would benefit not only professional sports leagues and participants, but also collegiate programs and in some cases, high school athletic programs.

The following discussion compares the three and nine month periods ended September 30, 2003 and September 30, 2002. Due to the recent complete material change in the Company's business focus and operations, this discussion will not address the discontinued operations in the areas of oil and gas exploration, cigar distribution, and gaming equipment rentals which constituted the majority of the Company's operations during the nine month period ended September 30, 2002.

ANALYSIS OF FINANCIAL CONDITION

The Company had approximately \$3,000 of cash on hand at March 1, 2004. In

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

September 2003, the Company received all scheduled installments of a total loan commitment of \$420,000 as described in Note 7 to the financial statements appearing elsewhere in this report. On November 20, 2003, the Company received \$50,000 in the form of a Promissory Note as described in Note 11 above. Notwithstanding this financing, the Company will still need to raise additional capital to sustain operations and implement its growth strategy until such time, if ever, that the Company achieves profitability. As of the date of this filing, the Company was not a party to any definitive agreements to provide such financing. Although the Company is in the process of actively reviewing additional proposals made by private investors and investment bankers, there can be no assurance that the Company will be able to consummate any such transactions on terms satisfactory to the Company, or at all, or if consummated, that such financings will provide the Company with sufficient capital. If the Company is unable to secure additional financing within the next 120 days it would need to significantly curtail and perhaps shut down its operations. It is unlikely that the Company will be able to qualify for bank debt until such time as the Company is able to demonstrate sufficient financial strength to provide confidence for a lender.

The Company's shares were delisted effective as of June 10, 2003 from trading on the Nasdaq SmallCap Market. The shares are currently quoted on the pink sheets. Although a market maker has submitted an application for quotation of the Company's shares on the Over-the-Counter Bulletin Board, there can be no assurance that this application will be approved by NASD (and, if not, that any other applications that may in the future be filed), or the Company will be cleared to trade on the Bulletin Board, in particular in light of the public interest concerns raised by Nasdaq in connection with the delisting of the Company's shares. This Nasdaq delisting has made it more difficult to effect trades and has led to a significant decline in the frequency of trades and trading volume. The delisting could also adversely affect the Company's ability to obtain financing due to the decreased liquidity of the Company's shares.

Although the primary development of the PRLS system has been completed, management plans on periodically upgrading its PRLS software application through additional research and development, including tailoring its application to the specific needs of its clients as those needs are brought to the Company's attention. The Company will be unable to accomplish the foregoing on a long-term basis, however, unless and until the additional financing referred to above is secured.

Based on its current business plan, and assuming sufficient financing is obtained, management believes it will be able to generate meaningful sales of its PRLS software application and that it may be able to secure sales or license agreements as early as the first half of 2004. The Company has entered into an agreement with its first NBA franchise to implement the PRLS system for that franchise. The Company's PRLS was introduced to the marketplace in January 2003 and generated a total of approximately \$40,000 in revenues during the first and second quarters of 2003 through the sale of a scaled-down version of the product to 18 NFL teams at the 2003 NFL Combine. Pursuant to these transactions, the Company digitized over 60,000 medical images for use by NFL teams in their evaluation of potential draft picks. Management believes that its PRLS is already being referred by its customers and prospects as the best of brand for its sports industry focus. The Company is marketing the PRLS to multiple sports leagues and is actively seeking additional vertical market opportunities. There can be no assurance, however, that the Company will be able to secure any further agreements for its product, that such agreements will ever generate meaningful revenue for the Company, or that the Company will be able to successfully capture any such vertical market opportunities.

Based on its current business plan, management anticipates that the Company will need to add additional staff over the next 12 months. Although it only had three full time employees as of September 30, 2003, the Company also relies on at

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

least 12 consultants who work on behalf of the Company. The Company intends to add some of these consultants to its full time staff as employees and add additional staff members on an as needed basis. Based on its anticipated growth in revenues, and subject to the availability of additional financing, the Company expects to add up to approximately 20 full time employees before the end of second quarter 2004.

22

During the latter half of 2002, because the Company was focused on implementing its new business, it generated no revenues, and thus received no cash from operations, resulting in negative working capital. Current assets increased from \$521 at December 31, 2002 to \$30,860 at September 30, 2003. The increase was due to the sale of \$279,661 of the Company's Preferred Series A shares, \$420,000 of proceeds from the Term Loan Agreement, and \$40,000 in revenues generated by the sale of the Company's PRLS since its introduction to the marketplace in the first quarter of 2003.

Other assets declined from \$4,345,000 at December 31, 2002 to \$3,693,250 at September 30, 2003. The decrease of \$651,750 was primarily related to amortization of our intangible assets.

Current liabilities increased from \$2,401,579 at December 31, 2002 to \$2,479,458 at September 30, 2003. The increase was due to an increase in Notes Payable of \$420,000 offset by the net effective discount on note of approximately \$155,000 related to the warrants attached to the Augustine II, LLC note payable and a reduction in accounts payable and accrued expenses of \$187,000. Accounts payable and accrued expense obligations were satisfied by cash payments and the issuance of the Company's common stock.

Total stockholders' equity decreased to a deficit of \$625,512 at September 30, 2003. This decrease was due to the net loss of \$5,299,049 for the nine month period ended September 30, 2003, net of the effect of the issuance of the Company's common stock to compensate consultants and others, approximately \$245,000 recorded as Additional Paid in Capital related to the effective discount on note and the sale of shares of Series A Preferred Stock, which generated net proceeds to the Company of \$279,661. The net loss for the nine months ended September 30, 2003 included an impairment charge of \$1,866,344 against the recorded value of intangible assets.

RECENT FINANCING

On June 10, 2003 the Company entered into a Term Loan Agreement ("Loan Agreement") with Augustine II, LLC ("Augustine"), pursuant to which Augustine agreed to loan the Company \$420,000, payable in installments of \$250,000, \$100,000, and \$70,000 (the "Loan"). The Company received has received all scheduled installments and principal and interest (at an annual rate of 10%) were due in full on February 29, 2004. The Company has spoken with representatives of the Augustine II, LLC, and have advised them that the Company is unable to pay the amount due under the note by February 29, 2004. The Augustine II, LLC representatives indicated a desire to restructure the terms of the note to allow a longer time frame for the Company to repay the obligation. Those negotiations are yet to be finalized. The Company recorded \$11,717 of interest expense as of September 30, 2003. The Loan Agreement is subject to certain requirements that the Company make mandatory prepayments of the Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, all or any portion of the Loan may be prepaid by the Company at any time without premium or penalty. The proceeds of the Loan are being used by the Company for working

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

capital.

23

As additional consideration for making the Loan, Augustine received five year warrants to purchase up to 6,158,381 shares of the Company's common stock at an exercise price of \$0.16 per share. The Company can require that the warrants be exercised if the Company's shares trade at or above \$0.60 per share for each trading day within the 30 calendar days prior to the maturity date of the Loan, trading volume of the shares equals or exceeds 100,000 shares per day during such period, and the shares of the Company's common stock underlying the warrants have been included on a registration statement filed with and declared effective by the SEC prior to the maturity date. If these conditions are not fully satisfied by the maturity date, then Augustine may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the warrants pursuant to the "cashless exercise" provisions of the warrants. Using the Black-Scholes pricing model, the Company allocated approximately \$245,000 of the proceeds of the Loan to the warrants and \$175,000 to the note payable, which allocations were made on a pro rata basis based on the fair value of the warrants. The Black Scholes calculation assumed a discount rate of approximately four percent, volatility of 257 percent and no dividends. Given that the warrants were issued in conjunction with Loan Agreement, such fair value represents an effective discount on the debt and will be amortized over the term of the loan. Amortization of this discount for the quarter ended September 30, 2003 was approximately \$93,000 and was recorded as effective interest expense in the accompanying consolidated statement of operations.

As security for the Loan, New Millennium (an affiliate of Mr. Calvert) pledged 2.5 million shares of the Company's common stock owned by New Millennium, and the Company has granted Augustine a security interest in its ownership interest in the Company's subsidiary, NuWay Sports, LLC.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

Revenues

During the three months ended September 30, 2002, there were no revenues from continuing operations, compared to no revenues in the three months ended September 30, 2003. During the last half of 2002, the Company changed its business to focus on fulfilling information technology needs of the sports industry. This change led to the development of the Company's PRLS. Consequently, the results of our prior business line operations in gaming machine rental, oil and gas development and distribution of cigars were reclassified in our consolidated statements of operations as "discontinued operations."

Selling, General and Administration Expense ("SG&A")

During the three months ended September 30, 2003, SG&A increased by 10 percent to \$614,075 from \$559,100 for the three months ended September 30, 2002. The largest components of these expenses were:

24

- a. Salaries and Payroll-Related Expenses: These expenses were \$129,000 for the three months ended September 30, 2003 as compared to \$75,000 in the

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

same period in 2002. These expenses increased as the Company issued stock for services in lieu of salary totaling approximately \$52,000 which was needed to continue its current marketing strategy related to the development of PRLS vertical markets.

- b. Consulting Expenses: These expenses were consistent for the three months ended September 30, 2003, totaling \$297,000 as compared to \$300,000 for the three months ended September 30, 2002. This amount of consulting expense is consistent with management's strategy of maintaining a very low permanent staffing level and supplementing that with consultants on a project-by-project basis. Further, the development of new products and technology related to the Company's change of business required additional consulting assistance in the areas of applications development, sales, marketing and administration. These positions were primarily staffed by independent contractors who were compensated with shares of the Company's common stock.
- c. Legal Expenses: These expenses increased from \$75,000 for the three months ended September 30, 2002 to \$118,000 for the three months ended September 30, 2003, an increase of 57 percent. This increase was due to the high level of legal assistance required in 2003 for matters such as (i) addressing NASDAQ compliance issues (ii) a major shift in the Company's core business, (iii) numerous stock issuances, (iv) addressing subpoenas and interview requests by the grand jury investigating Mark Anderson, and (v) addressing the SEC's request for documents as part of its informal investigation.

During the three months ended September 30, 2003, the Company issued an aggregate of 4,932,840 shares of its common stock as consideration for \$443,956 of services provided to the Company during the quarter. It is likely that, until the Company has sufficient cash on hand, it will continue to utilize an equity plan registered pursuant to form S-8 to allow compensation for consultants and employees that provide services to the Company.

Impairment of Intangible Assets

The Company is required to assess the impairment of goodwill and other intangible assets annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include significant underperformance relative to projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, and a market value of the Company's common stock lower than the Company's assets' book value. The net carrying value of goodwill and other intangible assets not recoverable is reduced to fair value. The Company's common stock traded at a high of \$0.34 on June 6, 2003, four days before the stock was de-listed from the Nasdaq SmallCap exchange on June 10, 2003. The stock value decreased to \$0.10 just after it was delisted, and stayed at approximately \$0.10 through the end of the second quarter 2003. It traded at a high of \$0.09 on the last day of the second quarter. During the third quarter, the stock continued to decrease in price, and traded as low as \$0.38 per share. On the last day of third quarter 2003, the stock closed at \$0.06. Because the Company's common stock had continually traded lower during the third quarter 2003, lowering the market capitalization of the Company to a low of \$1,609,266 during that period (on September 11, 2003), Management determined that it was appropriate during the third quarter to conduct an impairment analysis of the intangible assets on its books that were, in the aggregate, valued at over twice the market value of Company.

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Management conducted an impairment analysis of the two intangible assets on its books: the marketing database and Med Wireless license. These two assets were listed on the Company's financial statements for the period ending June 30, 2003 at values of \$229,500 and \$3,681,000, respectively. Depreciation for the period ending September 30, 2003, would have decreased the value of those assets to \$216,750 and \$3,476,500 respectively.

With respect to the marketing database, although Management intends to use the database to market products offered by its recently acquired Premium Medical Group, Inc. subsidiary, it has no way of predicting what success it will have in that marketing effort, and has not at this time used the marketing database to market any product or generate any revenue for the Company, and has thus determined to record a 100% impairment of that asset in the amount of \$216,750.

With respect to the Med Wireless license, Management analyzed the sales prospects of its PRLS system (which is based upon the technology licensed from Med Wireless) to the various professional and collegiate sports organizations, the limited successes the Company's NuWay Sports subsidiary has had thus far in its sales efforts, and the projected revenue from projected future sales, and has determined to record an impairment charge to the recorded value of the Med Wireless license of \$1,649,594. This amount was calculated projecting sales over a three year period (calendar years 2004, 2005 and 2006), factoring in the costs of sales and the product costs, discounting projected net revenue to their present value using a 7.5% interest factor, and further discounts of the Company's projections for uncertainties relative to the timing of acceptance of this technology.

Management does not believe that a further impairment of these assets will be necessary as of the period ending December 31, 2003.

Discontinued Operations

As discussed above and in the notes to our consolidated financial statements, effective October 1, 2002, the Company disposed of several operations through the sale of two foreign subsidiaries, Latin American Casinos and NuWay Resources, and, effective November 2002, ceased operations of its World's Best Rated Cigar Company subsidiary. Due to the discontinuance of these operations, the Company has reclassified the historical operating results from these ventures for the three months ended September 30, 2002 and disclosed such results below the results from continuing operations in the consolidated statements of operations. These businesses generated losses from operations of \$261,173 for the three months ended September 30, 2002.

Net (Loss) Income

Net loss for the three months ended September 30, 2003 was \$2,821,374, or \$(0.08) per share compared to a net loss of \$1,112,750, or \$(0.11) per share, for the three months ended September 30, 2002. Besides the significant growth in total costs and expenses and the intangible asset impairment charge recorded as of September 30, 2003 totaling \$1,866,344, the net loss per share was affected by the larger number of weighted average common share equivalents outstanding at September 30, 2003 as compared to 2002 (33,769,193 at September 30, 2003 as compared to 9,999,062 at September 30, 2002).

COMPARISON OF THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

Revenues

During the nine months ended September 30, 2002, there were no revenues from continuing operations compared to approximately \$40,000 of revenue in the nine month period ended September 30, 2003 as a result of the sale of a scaled down version of the Company's PRLS product to 18 NFL teams at the 2003 NFL Combine and to customers at the Texas High School Combine. During the last half of 2002, the Company changed its business to focus on fulfilling information technology needs of the sports industry. This change led to the development of the Company's PRLS. Consequently, the results of our prior business line operations in gaming machine rental, oil and gas development and distribution of cigars were reclassified in our consolidated statements of operations as "discontinued operations."

Selling, General and Administration Expense ("SG&A")

During the nine months ended September 30, 2003, SG&A increased by 43 percent to \$2,618,183 from \$1,825,205 for the nine months ended September 30, 2002. The largest components of these expenses were:

- a. Salaries and Payroll-Related Expenses: These expenses were \$262,000 for the nine months ended September 30, 2003 versus \$225,000 in the same period in 2002, an increase of \$37,000. This increase reflects the additional expense recorded from shares issued as compensation.
- b. Consulting Expense: These expenses increased for the nine months ended September 30, 2003 to \$1,466,000 from \$1,084,000 for the nine months ended September 30, 2002, an increase of 26 percent. This increase was directly related to new management's strategy of maintaining a very low permanent staffing level and supplementing that with consultants on a project-by-project basis. Further, the development of new products and technology related to the Company's change of business required additional consulting assistance in the areas of applications development, sales, marketing and administration. These positions were primarily staffed by independent contractors who were compensated with shares of the Company's common stock.
- c. Legal Expenses: These expenses increased from \$225,000 for the nine months ended September 30, 2002 to \$647,000 for the nine months ended September 30, 2003, an increase of 188 percent. This increase was due to the high level of legal assistance required in 2003 for matters such as (i) addressing NASDAQ compliance issues (ii) a major shift in the Company's core business, (iii) numerous stock issuances, (iv) addressing subpoenas and interview requests by the grand jury investigating Mark Anderson, and (v) addressing the SEC's request for documents as part of its informal investigation.

During the nine months ended September 30, 2003, the Company issued an aggregate of 18,623,759 shares of its common stock. Of these shares, 2,633,590 were issued in consideration for \$645,648 of obligations previously incurred and 15,990,169 were issued as consideration for \$1,530,000 of services provided to the Company during the nine month period ended September 30, 2003.

Impairment of Intangible Assets

The Company is required to assess the impairment of goodwill and other intangible assets annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include significant underperformance relative to projected future operating results, significant changes in the manner of our use

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, and a market value of the Company's common stock lower than the Company's assets' book value. The net carrying value of goodwill and other intangible assets not recoverable is reduced to fair value. The Company's common stock traded at a high of \$0.34 on June 6, 2003, four days before the stock was de-listed from the Nasdaq SmallCap exchange on June 10, 2003. The stock value decreased to \$0.10 just after it was delisted, and stayed at approximately \$0.10 through the end of the second quarter 2003. It traded at a high of \$0.09 on the last day of the second quarter. During the third quarter, the stock continued to decrease in price, and traded as low as \$0.38 per share. On the last day of third quarter 2003, the stock closed at \$0.06. Because the Company's common stock had continually traded lower during the third quarter 2003, lowering the market capitalization of the Company to a low of \$1,609,266 during that period (on September 11, 2003), Management determined that it was appropriate during the third quarter to conduct an impairment analysis of the intangible assets on its books that were, in the aggregate, valued at over twice the market value of Company.

Management conducted an impairment analysis of the two intangible assets on its books: the marketing database and Med Wireless license. These two assets were listed on the Company's financial statements for the period ending June 30, 2003 at values of \$229,500 and \$3,681,000, respectively. Depreciation for the period ending September 30, 2003, would have decreased the value of those assets to \$216,750 and \$3,476,500 respectively.

With respect to the marketing database, although Management intends to use the database to market products offered by its recently acquired Premium Medical Group, Inc. subsidiary, it has no way of predicting what success it will have in that marketing effort, and has not at this time used the marketing database to market any product or generate any revenue for the Company, and has thus determined to record a 100% impairment of that asset in the amount of \$216,750.

With respect to the Med Wireless license, Management analyzed the sales prospects of its PRLS system (which is based upon the technology licensed from Med Wireless) to the various professional and collegiate sports organizations, the limited successes the Company's NuWay Sports subsidiary has had thus far in its sales efforts, and the projected revenue from projected future sales, and has determined to record an impairment charge to the recorded value of the Med Wireless license of \$1,649,594. This amount was calculated projecting sales over a three year period (calendar years 2004, 2005 and 2006), factoring in the costs of sales and the product costs, discounting projected net revenue to their present value using a 7.5% interest factor, and further discounts of the Company's projections for uncertainties relative to the timing of acceptance of this technology.

Management does not believe that a further impairment of these assets will be necessary as of the period ending December 31, 2003.

Net (Loss) Income

Net loss for the nine months ended September 30, 2003 was \$5,299,049, or \$(0.19) per share, compared to a net loss \$767,612, or \$(0.10) per share, for the nine month period ending September 30, 2002. In addition to the significant growth in total costs and expenses and the intangible asset impairment charge recorded as of September 30, 2003 totaling \$1,866,344, the net loss per share was affected by the cancellation of stock warrants previously expensed of \$1,659,750, and the larger number of weighted average common share equivalents outstanding for the nine month period ending September 30, 2003 as compared to 2002 (28,628,360 at September 30, 2003 as compared to 7,437,069 at September 30, 2002).

ITEM 3. CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company's management, with the participation of the President, Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President, Chief Executive Officer and Interim Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

b) Changes in internal controls.

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On October 29, 2003, the Company issued an unvested warrant to an individual to purchase 2,000,000 shares of common stock at \$0.05 a share. The warrant expires on October 29, 2004. The Warrant is not exercisable unless and until the Holder introduces to the Company an investor or investors which investor or investors invest net proceeds in the Company of at least \$250,000 within 3 months of the introduction. The closing of any such investment shall be in the sole and absolute discretion of the Company. In the event investments of at least \$250,000 are not so made by May 1, 2004, or are made by or through parties other than the Holder, the Warrant shall expire in its entirety and be of no further force or effect.

On November 20, 2003, the Company received proceeds of \$50,000 in exchange for a promissory note in which it agreed to pay \$65,000 to the investor 90 days from the date of the loan. The Company's CEO and president Dennis Calvert personally guaranteed the note. The Company has paid back \$23,000 to the investor, and has made arrangements with the investor to extend the terms of the note to allow payment of the remainder due by March 20, 2004.

On January 30, 2004, the Company entered into a tax free reorganization with Premium Medical Group, Inc., a Florida corporation ("Premium") pursuant to a Stock Purchase Agreement (the "Agreement") that called for the Company to acquire 100% of the shares of Premium from Eduardo A. Ruiz and Luis A. Ruiz, Premium's sole shareholders, in exchange for 30,000,000 shares of the Company's common stock, subject to adjustment as more fully described in the Agreement (the "Transaction"). Based on the closing bid price for the Company's common stock on January 31, 2004, the shares issued to the Premium shareholders in

Edgar Filing: NUWAY MEDICAL INC - Form 10QSB

connection with the Transaction have been valued at approximately \$1,500,000. The Agreement was attached as Exhibit 2.1 to the Form 8-K filed by the Company on February 17, 2004, and the description of the Transaction contained herein is qualified in its entirety by reference to the Agreement.

29

The consideration for the Transaction was determined through arms'-length negotiation between the Company and Premium and its shareholders, giving due consideration to the market value of the Company's common stock and the estimated value of Premium. The 30,000,000 shares issued in the Transaction are being held in escrow and are subject to downward adjustment pursuant to an agreed upon formula, as more fully described in the Agreement. Eduardo A. Ruiz and Luis A. Ruiz retain the full voting rights of these shares while they are held in escrow. In addition, the consideration for the Transaction includes an earn out bonus pursuant to which the Premium shareholders shall be entitled to receive additional consideration equal to the following percentages of Premium's net income (calculated in accordance with generally accepted accounting principles) during calendar year 2004: (i) 20% of net income for net income of up to \$1,000,000; (ii) 15% of net income for net income of \$1,000,000 up to \$2,000,000; (iii) 10% of net income for net income over \$2,000,000. This additional consideration shall be paid in the form of warrants to purchase the Company's common stock.

Immediately following the Transaction, the Company's capitalization consisted of 66,386,486 shares of common stock outstanding, of which the Company's shareholders prior to the Transaction held 36,386,486 shares, and the former Premium shareholders held 30,000,000 shares. The 30,000,000 shares represent approximately 45% of the post-Transaction outstanding common shares of the Company.

As a condition to Premium entering into the Agreement, New Millennium Capital Partners, LLC (a company controlled by Dennis Calvert, the Company's CEO and President), agreed to convert its secured promissory note in the principal amount of \$1,120,000 (together with \$114,800 in accrued but unpaid interest thereon) into 30,869,992 shares of the Company's Common Stock. Following this conversion, the Company's capitalization will consist of 97,256,478 shares of common stock outstanding, and Mr. Calvert will be the beneficial owner of approximately 35,651,992 shares of common stock or approximately 37% of our outstanding stock, which includes the 4,782,000 shares he currently owns. We expect the conversion to occur within the next 60 days.

Additionally, pursuant to the Agreement, the Company agreed to appoint Mr. Luis A. Ruiz to the Company's Board of Directors, subject to Mr. Ruiz's formal acceptance of the position and a standard application and background check process that the Company expects to be completed within the next 30 days. Once Mr. Ruiz has been appointed to the board, our Board of Directors will consist of Mr. Dennis Calvert, Mr. Gary Cox, Mr. Steven Harrison, Mr. Joseph Provenzano and Mr. Luis A. Ruiz. There are no other material relationships between Premium or the shareholders thereof, and the Company or any of its affiliates or any of its officers or directors.

On February 23, 2004, the Company issued an unvested warrant to Sachi International, Inc. to purchase up to 3,000,000 shares of common stock at \$0.04 a share. The Warrant vests based on the amount of investment proceeds brought to the Company by the Holder, with 100% vesting if the Holder brings \$500,000 in investment capital. In the event less than \$500,000 is invested, the warrant vests in a pro-rata amount. The closing of any such investment shall be in the sole and absolute discretion of the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A) EXHIBITS

| EXHIBITS | DESCRIPTION OF EXHIBIT |
|----------|------------------------|
|----------|------------------------|

- | | |
|------|--|
| 31.1 | Certification of President, Chief Executive Officer and Interim Chief Financial Officer pursuant to 15 U.S.C. section 7241, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of President, Chief Executive Officer and Interim Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |

REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the three months ended September 30, 2003.

SIGNATURES

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

DATED: March 5, 2004

NUWAY MEDICAL, INC.

By: /s/ Dennis Calvert

Dennis Calvert, President,
Chief Executive Officer, and
Interim Chief Financial Officer