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CAREDECISION CORP  
Form 10QSB  
August 16, 2004

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: June 30, 2004

Or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-33187

CareDecision Corporation  
(Exact name of small business issuer as specified in its charter)

Nevada 91-2105842  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2660 Townsgate Road, Westlake Village, Suite 300, CA 91361  
(Address of principal executive offices)

(805) 446-1973  
(Issuer's telephone number)

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(Former name, former address and former fiscal year, if changed  
since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports  
required to be filed by Sections 12, 13 or 15(d) of the Exchange  
Act after the distribution of securities under a plan confirmed  
by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's  
classes of common equity as of the latest practicable date:  
197,905,421

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CareDecision Corporation  
(a Development Stage Company)

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Part I - Financial Information	
Item 1. Financial Statements	

CareDecision Corporation  
(a Development Stage Company)

Consolidated Balance Sheet  
as of  
June 30, 2004 (unaudited)

and

Consolidated Statements of Operations

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for the Three and Six Months Ended  
 June 30, 2004 (unaudited) and 2003 (unaudited),  
 and For the Period  
 July 6, 2000 (Inception) to June 30, 2004 (unaudited)

and

Consolidated Statements of Cash Flows  
 for the Six Months Ended  
 June 30, 2004 (unaudited) and 2003 (unaudited),  
 and For the Period  
 July 6, 2000 (Inception) to June 30, 2004 (unaudited)

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CareDecision Corporation  
 (a Development Stage Company)  
 Consolidated Balance Sheet  
 (unaudited)

Assets	June 30, 2004
-----	
Current assets:	
Cash and equivalents	\$ 715,185
Accounts receivable, net	54,237
-----	
Total current assets	769,422
-----	
Fixed assets, net	333,915
-----	
	\$ 1,103,337
-----	
Liabilities and Stockholders' Equity	
Current liabilities:	
Note payable to shareholder	\$ 10,497
Notes payable	52,250
-----	
Total current liabilities	62,747
-----	
Long-term debt	721,088
Convertible notes - related party	531
-----	
	784,366
-----	
Stockholders' equity:	
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, 207,526 shares issued and outstanding	208
Common stock, \$0.001 par value, 290,000,000 shares authorized, 197,905,421 shares issued and outstanding	197,906
Additional paid-in capital	8,469,121
(Deficit) accumulated during development stage	(8,348,263)

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-----  
 318,971  
 -----  
 \$ 1,103,337

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

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CareDecision Corporation  
 (a Development Stage Company)  
 Consolidated Statements of Operations  
 (unaudited)

	For the three months ended June 30,		For the six months ended June 30,		July 6, 2000 (Inception) to June 30, 2004
	2004	2003	2004	2003	
Revenue	\$ 57,550	\$ 1,350	\$ 112,942	\$ 1,850	\$ 190,755
Expenses:					
Small computer hardware cost	20,095	-	20,095	-	20,095
Wireless network and infrastructure computer cost	69,698	-	69,698	-	69,698
General and administrative expenses	49,228	45,111	108,310	83,989	354,379
Payroll expense	84,405	63,913	164,945	122,794	564,776
Professional fees	55,325	12,658	293,855	43,228	528,129
Stock-based compensation	503,400	125,000	988,519	356,000	4,066,798
Software development	16,667	2,950	86,308	3,950	276,279
Impairment loss on operating assets	166,955	-	278,428	-	1,279,198
Depreciation	24,630	80,623	57,945	165,652	235,842
Total expenses	990,403	330,255	2,068,103	775,613	7,395,194
Net operating (loss)	(932,853)	(328,905)	(1,955,161)	(773,763)	(7,204,439)
Other income (expense):					
(Loss) on debt settlement	(60,000)	(37,094)	(377,136)	(37,094)	(480,155)
Interest income	1,004	1	1,004	561	3,795
Financing costs	-	-	(408,255)	-	(408,255)
Interest (expenses)	(44,250)	(11,981)	(53,301)	(22,804)	(259,210)
Net (loss)	\$ (1,036,099)	\$ (377,979)	\$ (2,792,849)	\$ (833,100)	\$ (8,348,264)

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Weighted average number of common shares outstanding - basic and fully diluted	194,072,729	84,432,887	166,246,108	83,473,288
	=====	=====	=====	=====

Net (loss) per share - basic and fully diluted	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
	=====	=====	=====	=====

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

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CareDecision Corporation  
(a Development Stage Company)  
Consolidated Statements of Cash Flows  
(unaudited)

	For the six months ended June 30,		July 6,2000 (inception) to June 30,
	2004	2003	2004
	-----	-----	-----
Cash flows from operating activities			
Net (loss)	\$ (2,792,849)	\$ (833,100)	\$ (8,348,264)
Adjustment to reconcile net (loss) to net cash (used) by operating activities:			
Shares issued for stock-based compensation	988,519	356,000	4,087,660
Shares issued for professional fees	293,855	-	293,855
Shares issued for financing costs	423,977	-	423,977
Warrants issued for interest expense	-	-	112,800
Loss on impairment of operating assets	278,428	-	1,279,198
Loss on debt settlement	377,136	37,094	454,230
Depreciation	57,945	165,652	235,842
Changes in operating assets/liabilities			
(Increase) in accounts receivable	(54,237)	-	(54,237)
Decrease in notes receivable	50,000	5,376	-
Increase in accrued interest related to long-term debts	-	-	47,527
(Decrease) in other liabilities	(2,180)	-	-
	-----	-----	-----
Net cash (used) by operating activities	(379,406)	(268,978)	(1,467,412)
	-----	-----	-----

Cash flows from financing  
activities

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Convertible notes - related party	(13,869)	50,000	531
Proceeds from long-term debt	721,088	-	1,246,088
Proceeds from note payable to shareholder	35,334	124,790	132,302
Payments on note payable to shareholder	(102,635)	(5,000)	(117,035)
Issuance of common stock	425,400	-	920,711
	-----	-----	-----
Net cash provided by financing activities	1,065,318	169,790	2,182,597
	-----	-----	-----
Net increase in cash	685,912	(99,188)	715,185
Cash - beginning	29,273	111,101	-
Cash - ending	\$ 715,185	\$ 11,913	\$ 715,185
	=====	=====	=====
Supplemental disclosures:			
Interest paid	\$ -	\$ -	\$ -
	=====	=====	=====
Income taxes paid	\$ -	\$ -	\$ -
	=====	=====	=====
Non-cash transactions:			
Number of common shares issued for stock-based compensation	77,660,500	8,000,000	128,437,985
	=====	=====	=====
Number of warrants issued for interest expense	10,000,000	-	34,000,000
	=====	=====	=====
Number of common shares issued for debt settlement	6,510,000	741,875	8,251,875
	=====	=====	=====
Number of common shares issued to acquire software	-	2,500,000	2,500,000
	=====	=====	=====
Number of common shares issued as dividend	-	-	6,469,161
	=====	=====	=====
Number of stock options issued as compensation	-	-	19,750,000
	=====	=====	=====
Number of common shares issued for conversion of debt to equity	7,350,000	-	7,350,000
	=====	=====	=====
Number of preferred shares issued for financing costs	207,526	-	207,526
	=====	=====	=====

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

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Notes

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### Note 1 - Basis of presentation

The consolidated interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated interim financial statements be read in conjunction with the consolidated financial statements of the Company for the period ended December 31, 2003 and notes thereto included in the Company's Form 10-KSB. The Company follows the same accounting policies in the preparation of consolidated interim reports.

Results of operations for the interim periods are not indicative of annual results.

### Note 2 - Fixed assets

Depreciation expense totaled \$57,945 and \$165,652 for the six-month periods ended June 30, 2004 and 2003, respectively.

### Note 3 - Impairment loss on operating assets

On June 30, 2004, the Company determined that it should write down certain fixed assets acquired with the Medicius, Inc. merger as an impairment loss after comparing the carrying value of the assets with the estimated future cash flows expected to result from the use of the assets. Accordingly, the write down resulted in the realization of a \$278,428 impairment loss on operating assets recorded on the Statement of Operations for the six months ended June 30, 2004.

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CareDecision Corporation  
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Notes

### Note 4 - Notes payable

#### M and E Equities, LLC Renegotiated Note

Based on terms negotiated on March 4, 2002, and after a further documentation process that was completed on April 23, 2002, Medicius, Inc., the Company's merger partner in its June 2002 merger, was loaned \$475,000 from M and E Equities, LLC (M&E) (as previously discussed in Note 6). A condition of the loan stipulated that Medicius, Inc. complete its merger with the Company and become a fully reporting public company. As of

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December 31, 2003, after a partial payment of interest and principal and a settlement of a legal dispute that arose over this note and other issues, the remaining value of the note and accrued interest was \$522,527. On March 2, 2004, the Company renegotiated its debt with M&E. The terms of the agreement are stipulated as follows:

1. \$320,000 is paid to M&E by Wells & Company, Inc., Lima Capital, Inc., JC Financial, Inc. and Corporate Architects, Inc. to satisfy a remaining principal amount of \$400,000.
2. M&E agreed to transfer 10,000,000 of the Class A Warrants, formerly issued by Medicius, Inc., with an expiration date of January 5, 2005 to Empyrean.net Corp. for \$30,000, and 2,000,000 Class A Warrants to Mr. Moshe Mendlowitz for \$20.00. The Company incurred interest expense during the six months ended June 30, 2004 totaling \$405,700, the deemed value of the Warrants on the transfer date based on the Black-Scholes Valuation Model.
3. The outstanding note balance of \$200,526 was recapitalized into 207,526 shares of the Company's \$0.001 par value Class A 2002 Convertible Preferred Stock and registered in M&E's name. Each share of Class A 2002 Convertible Preferred Stock is convertible into 18 shares (3,717,468 total) of the Company's \$0.001 par value common stock at \$0.055556 per share. M&E agrees to hold the Preferred Shares for a minimum of one year, pursuant to Rule 144, with no conversions allowed during that period of time. After the one year, M&E may convert and sell only 500,000 shares of the Company's \$0.001 par value common stock every 60 days as permissible by Rule 144.

### Pinnacle Investment Partners, LP Promissory Note

On March 24, 2004, the Company was loaned \$700,000 from Pinnacle Investment Partners, LP (Pinnacle). The Secured Convertible Promissory Note bears interest at the rate of 12% per annum, matures September 25, 2004, except if extended for an additional six months at the option of the company, and is secured by 14,000,000 shares of the Company's \$0.001 par value common stock. Pinnacle may, at its option, at any time from time to time, elect to convert some or all of the then-outstanding principal of the Note into shares of the Company's \$0.001 par value common stock at a conversion price of \$0.08 per share, unless such conversion would result in Pinnacle being deemed the "beneficial owner" of 4.99% or more of the then-outstanding Common Shares within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended. In the event the Company fails to pay any installment or principal or interest when due, the interest rate will then accrue at a rate of 24% per annum on the unpaid balance until the payment default is cured.

The Company recorded interest expense totaling \$53,301 and \$22,804 during the six months ended June 30, 2004 and 2003. The Company also recorded financing costs totaling \$408,255 during the six months ended June 30, 2004.

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## Notes

### Note 5 - Stockholder's equity

The Company is authorized to issue 5,000,000 shares of \$0.001 par value preferred stock and 290,000,000 shares of \$0.001 par value common stock.

#### Preferred stock

The Company issued 207,526 of its \$0.001 par value preferred shares for financing costs of \$354,800. Each preferred share is convertible into 18 shares of the Company's \$0.001 par value common stock at \$1.00 per share.

#### Common stock

The Company issued 7,350,000 shares of its \$0.001 par value common stock to various individuals to convert \$522,000 in debt to equity during the six months ended June 30, 2004.

During the six months ended June 30, 2004, the Company issued 77,660,500 shares of its \$0.001 par value common stock to various individuals and entities for consulting services, finders' fees to two individuals who introduced the company to its proposed satellite e-broadcast partner, agent's fees associated with the company's proposed acquisition of MDU Services, Inc., agent's fees for the introduction and fees associated with the company's recent agreement with an e-business partner for its hotel sector product and technical expenses incurred associated with this agreement, documentation and initiation fees owing to the Pinnacle Note investment, collectively valued at \$988,519 and professional fees valued at \$293,855.

The Company issued 6,510,000 shares of its \$0.001 par value common stock in order to settle the dispute with investors and agents, which arose over the M&E Note, and which allowed the M&E Note to be settled and converted. The value of the shares was \$377,136 and is recorded as a loss on debt settlement during the six months ended June 30, 2004.

There have been no other issuances of preferred or common stock.

### Note 6 - Subsequent events

On July 31, 2004, a note holder elected to convert its \$50,000 face value loan into 2,000,000 shares of the Company's \$0.001 par value common stock in full satisfaction of the loan plus accrued interest.

On August 4, 2004 the Company received proposal for a possible merger with a division or divisions of a \$100-plus million company with interests in several areas related to the company's businesses. The Company's Board of Directors is considering this proposal.

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Item 2. Management's Discussion and Analysis or Plan of Operation

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### Forward-Looking Statements

This Quarterly Report contains forward-looking statements about our business, financial condition and prospects that reflect our assumptions and beliefs based on information currently available. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of our assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, our actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within our control and that may have a direct bearing on operating results include, but are not limited to, acceptance of our services, our ability to expand our customer base, our ability to raise capital in the future, the retention of key employees and changes in the regulation of our industry. There may be other risks and circumstances that we are unable to predict. When used in this Quarterly Report, words such as, "believes," "expects," "intends," "plans," "anticipates," "estimates" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions.

### General

Although we are still considered to be in the development stage, we have begun commercial delivery of our products and services. For the six-months ended June 30, 2004 we booked revenues of \$112,942 for our proprietary technologies and products directed toward the lodging sector, these revenues having resulted from commercial sales rather than a converted pre-commercial arrangement. Additional commercial sales orders have been received for our lodging sector products and services and additional deliveries have subsequently occurred and are increasing. In the current quarter we have expanded our services offered to the lodging sector by developing additional proprietary technology and executing a broad-based agreement with a large worldwide e-business reservation service. Management believes that this expanded service delivery coupled with the agreement with the e-business reservation service will greatly increase the commercial usage and viability of our products and services directed toward the lodging sector.

We have come to terms with a second company for the provision of commercial development, field implementation, field management and field support of our e-health products and services. This arrangement involves the delivery of our MD@Rx PDA-based products and services for electronic medication prescription fulfillment. Commercial delivery of the MD@Rx products as well as on-going development of same to better service the Medicaid and uninsured patients markets have begun in this quarter. We have also executed an agreement with a nationwide medical IT services company to license and provide services related to our proprietary medical technologies in return for a significant equity stake. This agreement also contemplates the integration of some of our proprietary technologies into the products and services of our new partner.

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On August 4, 2004 we received a proposal for a possible merger with a division or divisions of a \$100-plus million company with interests in several areas related to our businesses. Our Board of Directors is considering this proposal.

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Our proprietary products and services directed toward the satellite re-broadcast sector remain in the pre-commercial stage although the company is in later-stage discussions with a major marketer of satellite re-broadcast services that could conclude and thus lead to a commercial delivery or adoption of this third business line.

Our principal products are: an E-Health handheld information appliance (PDA) software application package, and a permanently affixed handheld information appliance and Wi-Fi (wireless) network designed for the hotel, motel and apartment marketplace and a handheld wireless information appliance for the satellite media market. We have applied for and received provisional approval for a family of trademarks making use of the mark MD@. The provisional approval applies to the first six individual marks applied for by us. In addition, we are in the process of applying for marks associated with our ResidenceWare hotel/motel products and technologies and our wireless SateLink products and technologies for the satellite media market.

We presently have a comprehensive suite of medical information technology, cooperative advertising, instant messaging and fulfillment, and electronic commerce applications that are Internet enhanced, integrated for medical professional use, and hotel management/guest use, both software suites functioning through networks of wireless PDA Internet appliances. Our applications have been designed to meet the needs of the inpatient and outpatient medical environments, and the hotel management and guest (consumer), and are not just commercially viable but also regulatory standard compliant. Our satellite media applications leverage information obtained from a communications satellite. Additionally, our software applications were conceived and implemented to offer the management level user, either the medical professional or hotel manager, the ability to manage prospective and retrospective commerce.

We have filed two broad based patent applications and intend to file derivative patent applications covering the processes, use and functionality of our technologies and products. Our satellite media product is designed for use by installation and customer support technicians and offers instant and secure communication between the individual subscriber and the satellite broadcast service.

Our software is designed to integrate point of service applications. The medical appliance, the longest available product, monitors treatment protocols and up to the moment patient histories coupled with real-time on-line medical insurance claims submission. Our ultimate key to success resides in providing the private practice physician with the capability to, sequentially, learn about the history of his or her patient

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during, or prior to, entering the examining room, treat the patient and update the insurer of the episode of care. Accomplishing these objectives resolves a major dilemma for the health care provider; instantaneous communication of vital patient related information at or before the patient encounter.

Our medical technologies, the focus of one of the broad based patent applications now in the patent prosecution stage, are grounded in the central need to furnish the doctor with crucial point-of-care patient information rapidly and reliably via a PDA. The technologies utilize the power of the Internet to move large amounts of data to and from a variety of platforms securely via a powerful Windows CE based PDA designed for portability and upgradability. Totally compliant with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), this PDA technology is among the first to offer complicated and real-time point of care applications, previously legacy (mainframe or PC network) system applications, on a totally portable (PDA) appliance.

The Wi-Fi hotel/motel and apartment software makes use of much of the foundation technologies resident in the medical product, however, given the differences in the two markets that the products service, the hotel/motel product is much more cooperative oriented, offering more consumer transactional services with the compliment of advertising.

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Our technologies and products for the hotel/motel marketplace are designed to furnish hotel and motel guests with a menu of food service, office services and other remote service (dry cleaning for instance) choices that can be electronically ordered through our PDA-based information appliance for delivery directly to the hotel/motel guest. Employing the latest in commercial Wi-Fi technology, we wrapped the time and volume tested commercial technologies into our patent pending PDA communication networking technologies, allowing us to be the first to offer complex and real-time point of sale applications through a totally wireless (PDA) appliance.

The satellite broadcast industry product also makes use of much of the foundation technologies resident in the medical product, however, given the differences in the two markets that the products service, the satellite broadcast product is much more security and customer service oriented, offering the satellite broadcast company the ability to better configure their services for the subscriber. This product also allows the office bound sales agent to be able to concentrate on the sale of additional services to subscribers.

Our technologies and products for the satellite broadcast marketplace are designed to allow the on-site technician the ability to configure a subscriber system in seconds while also allowing the satellite broadcast company to control the on-site technician, a person who is typically not employed by the satellite broadcast concern, thereby cutting down on fraud and waste inherent to their business models. Our product employs their proprietary technologies coupled with the latest off-the-shelf wireless communication devices into their patent pending

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PDA communication networking technologies, allowing us to be the first to offer complex and real-time point of sale applications through a wireless (PDA) appliance that communicates with a satellite.

Our PDA software operates on any Microsoft Windows CE "Pocket PC" based handheld device, either in a wireless or "wired" mode. The local host for our PDA devices is a Windows (9X, NT, XP or later) based PC, which, in turn, permits one to eight of the aforementioned PDAs to be linked to either a medical network or hotel/motel wide area network, or help-desk network, and allows each PDA to become a uniquely identified mobile node on that network, independent of PC linkage, thereby, assisting the professional, whether he be a doctor, hotel owner, hotel guest or satellite broadcast technician.

Our PDA software provides rules based software capabilities and the ability to receive order fulfillment information for over 5,000 users simultaneously, which represents approximately 3 years of user encounters in a typical network setting, and allows the user to access financial and technical data and/or rules, coverages and policies.

### Critical Accounting Policy and Estimates

Our Management's Discussion and Analysis or Plan of Operation section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the financial statements included in this Quarterly Report on Form 10-QSB for the period ended June 30, 2004.

### Results of Operations

The following is an itemization of our results of operations

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for the six-month period ended June 30, 2004 in comparison to our results of operations for the same period ended June 30, 2003.

**REVENUES.** Total revenues for the six-month period ended June 30, 2004 were \$112,942 as compared to total revenues of \$1,850 for the six-month period ended June 30, 2003. As a development stage company we have yet to generate significant revenues and we cannot guarantee with certainty when we will begin to generate significant revenues. Our future revenues will be reliant on the acceptance of our software systems, communication tools and suite of software applications.

**SMALL COMPUTER HARDWARE COST.** Small computer hardware cost for the six-month period ended June 30, 2004 was \$20,095. The Company incurred no such expense for the six-month period ended June 30, 2003.

**WIRELESS NETWORK AND INFRASTRUCTURE COMPUTER COST.** Wireless network and infrastructure computer cost for the six-month period ended June 30, 2004 was \$69,698. The Company incurred no such expense for the six-month period ended June 30, 2003.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and Administrative expenses relate to the operation and leasing costs of our corporate office. General and administrative expenses for the six-month period ended June 30, 2004 were \$108,310 compared to \$83,989 for the six-month period ended June 30, 2003. We anticipate purchases of equipment and other office related supplies in conjunction with the generation of revenues from business operations.

**PAYROLL EXPENSE.** Payroll expense consists primarily of management and employee salaries. Total payroll expense for the six-month period ended June 30, 2004 was \$164,945. The Company incurred payroll expense for the six-month period ended June 30, 2003 of \$122,794.

**PROFESSIONAL FEES.** Professional fees include fees paid to our accountants, attorneys and investment bankers. Our professional fees were \$293,855 for the six-month period ended June 30, 2004. The Company incurred professional fees for the six-month period ended June 30, 2003 of \$43,228.

**STOCK-BASED COMPENSATION.** Stock-based compensation expense represents stock paid to our executive officers in lieu of cash. Stock-based compensation expense for the six-month period ended June 30, 2004 was \$988,519 compared to \$356,000 for the six-month period ended June 30, 2003. Stock-based compensation is used to preserve cash for business operations.

**SOFTWARE DEVELOPMENT.** Software Development expense increased in the first half of 2004 as management focused on integrating our software systems; communication tools and suite of software applications with those of our partners. Software Development expense for the six-month period ended June 30, 2004 was \$86,308. The Company incurred software development expense for the six-month period ended June 30, 2003 of \$3,950.

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IMPAIRMENT LOSS ON OPERATING ASSETS. On June 30, 2004, management determined that we should write down certain fixed assets acquired with the Medicius, Inc. merger as an impairment loss after comparing the carrying value of the assets with the estimated future cash flows expected to result from the use of the assets. Accordingly, the write down resulted in the realization of a \$278,428 impairment loss on operating assets recorded on the Statement of Operations for the six months ended June 30, 2004. The Company incurred no such expense for the six-month period ended June 30, 2003.

DEPRECIATION. Depreciation was \$57,945 for the six-month period ended June 30, 2004 compared to \$165,652 for the six-month period ended June 30, 2003. This represents depreciation on the assets of the Company.

TOTAL OPERATING EXPENSES. Total operating expenses for the six-month period ended June 30, 2004 were \$2,068,103 compared to \$775,613 for the six-month period ended June 30, 2003. The increase in total operating expenses was mainly a result of an increase in professional fees, stock-based compensation, software development expense and the impairment loss on operating assets.

LOSS ON DEBT SETTLEMENT. Loss on debt settlement for the six-month period ended June 30, 2004 was \$377,136 compared to \$37,094 for the six-month period ended June 30, 2003. We will continue to retire our outstanding debt as our cash position allows.

INTEREST INCOME. The Company recorded \$1,004 in interest income for the six-month period ended June 30, 2004 compared to \$561 for the six-month period ended June 30, 2003.

FINANCING COSTS. In the six-month period ended June 30, 2004 the Company incurred financing costs of \$408,255. The Company incurred no such expense for the six-month period ended June 30, 2003.

INTEREST EXPENSE. Interest expense was \$53,301 for the six-month period ended June 30, 2004 compared to \$22,804 for the six-month period ended June 30, 2003.

NET LOSS. Our net loss was \$2,792,849 for the six-month period ended June 30, 2004 compared to \$833,100 for the six-month period ended June 30, 2003. It should be expected that we will continue to incur losses from operations until such time as revenues can be generated to cover such costs.

### Future Business

The elements of our future business strategy include: expanding geographically into key markets through a combination of opening new offices and developing relationships with clients to generate demand for our services, particularly for our hotel/motel and satellite products; recruiting qualified, medical software and other technical personnel to perform technical, implementation and support duties as contracts are entered into, although there can be no assurance that any such contracts will be secured; and pursuing entry into new markets complementary to our proposed operations. Future operations are dependent upon our ability to implement our business and marketing strategies and to establish relationships and contracts with health insurers

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and HMOs to provide our e-healthcare products and services, and to establish relationships with large hotel and/or motel chains for our hotel/motel products. In the six-month period ending June 30, 2004 the company expanded by opening regional offices for service in North Dakota and sales in Florida.

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### Liquidity and Capital Resources

Management believes our cash and equivalents on hand of \$715,185 will be sufficient to fund ongoing fiscal 2004 and 2005 operations and provide for our working capital needs given we have positive working capital of \$706,675. However, we may from time to time need to raise additional funds through capital markets. Our accountant has issued a note concerning our ability to continue as a going concern. As we are still considered to be in the development stage, our prospects of continuing as a going concern are contingent upon our ability to raise additional capital and to achieve and maintain profitable operations. Revenues generated over and above expenses will be used for further development of our services, to provide financing for marketing and promotion, to secure additional customers, equipment and personnel, and for other working capital purposes.

To date, we have financed our cash flow requirements through revenues generated from operations, an issuance of common stock and through the issuance of notes. During the three months ended June 30, 2004, we received a loan totaling \$700,000 at an interest rate of 12% maturing September 25, 2004.

During our normal course of business, we will experience net negative cash flows from operations, pending receipt of revenues. Further, we will be obtaining financing to fund operations through additional common stock offerings, note issuances and bank borrowings, to the extent available, or to obtain additional financing to the extent necessary to augment our available cash on hand.

All investor inquiries should be directed via mail to Mr. Keith Berman, Secretary, CareDecision Corporation, 2660 Townsgate Road, Suite 300, Westlake Village, California 91361.

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### Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and



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procedures performed as of June 30, 2004, our chief executive officer and the principal financial officer concluded that our disclosure controls and procedures were adequate.

- (b) Changes in internal controls. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

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### PART II - OTHER INFORMATION

#### Item 6(a) - Exhibits

Exhibit Number	Name and/or Identification of Exhibit
3.1	Articles of Incorporation & By-Laws (a) Articles of Incorporation of the Company filed March 2, 2001. Incorporated by reference to the exhibits to the Company's General Form For Registration Of Securities Of Small Business Issuers on Form 10-SB, previously filed with the Commission.  (b) Certificate of Amendment to the Articles of Incorporation of the Company filed May 9, 2001. Incorporated by reference to the exhibits to the Company's General Form For Registration Of Securities Of Small Business Issuers on Form 10-SB, previously filed with the Commission.  (c) Certificate of Amendment to the Articles of Incorporation of the Company filed August 2, 2002. Incorporated by reference to the exhibits to the Company's June 30, 2002 Quarterly Report on Form 10-QSB, previously filed with the Commission.
3.2	By-Laws of the Company adopted March 16, 2001. Incorporated by reference to the exhibits to the Company's General Form For Registration Of Securities Of Small Business Issuers on Form 10-SB, previously filed with the Commission.
31	Rule 13a-14(a)/15d-14(a) Certification
32	Certification under Section 906 of the Sarbanes-Oxley Act (SECTION 1350)

#### Item 6(b) - Reports Filed on Form 8-K

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For the quarter ended June 30, 2004 the Company filed the following reports on Form 8-K with the Securities and Exchange Commission:

On April 7, 2004, the Company announced, under Item 9. Regulation FD Disclosure that on March 30, 2004 we received primary institutional funding in the amount of \$700,000 from Pinnacle Investment Partners, LP ("Pinnacle"). The primary funding is to be used for the nationwide rollout of our ResidenceWare Wi-Fi products and for other business development purposes.

On April 20, 2004, the Company announced, under Item 9. Regulation FD Disclosure, new developments to our previously announced strategic partnership with DataFuzion Inc. ("Fuzion"). According to terms of the enhanced partnership, Fuzion is granted new licenses for use of our MD@Desktop and patent-pending MD@Practice-Probe medical technologies. In return for the additional technology sharing, valued by the two firms at \$2.8 million, CareDecision will receive a larger equity stake in Fuzion, a majority of this stake is expected to be distributed to our shareholders as a dividend.

On April 26, 2004, the Company announced, under Item 9. Regulation FD Disclosure that we are in the latter stages of negotiation with CareGeneration, Inc., a leading distributor of pharmaceutical products and a division of Kelly Co. World Group, Inc., for the implementation and on-going support of our patent pending MD@Rx, MD@Desktop, MD@Practice-Probe and MD@Server products and technologies, to be used in a nationwide e-health initiative.

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### SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CareDecision Corporation

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(Registrant)

Date: August 13, 2004

By: /s/ Robert Cox

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Robert Cox  
President and CEO

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Date: August 13, 2004

By: /s/ Keith Berman  
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Keith Berman  
Secretary and Treasurer/CFO

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