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MEDCOM USA INC
Form 10QSB
February 28, 2003

U.S. 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 December 31, 2002.

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act

For the transition period from N/A to N/A

Commission File No. 0-25474

MEDCOM USA, INCORPORATED

(Name of small business issuer as specified in its charter)

DELAWARE
State of Incorporation

65-0287558
IRS Employer Identification No.

7975 NORTH HAYDEN ROAD, SUITE C-260
SCOTTSDALE, AZ 85258
(Address of principal executive offices)

(480) 675-8865
(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 X
----- -----

The number of shares of the issuer's common equity outstanding as of
January 31, 2003 was 36,979,865 shares of common stock.

Transitional Small Business Disclosure Format (check one):

Yes No X
----- -----

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FOR THE SIX MONTHS ENDED DECEMBER 31, 2002

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

MEDCOM USA, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS OF DECEMBER 31, 2002

| | |
|--|-----------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | \$ 39,970 |
| Accounts receivable, net of allowance of \$10,728 | 86,802 |
| Inventories | 26,756 |
| Prepaid expenses and other current assets | 3,952 |
| Total current assets | 157,480 |
| PROPERTY AND EQUIPMENT, net \$1,299,016 | 2,855,688 |
| GOODWILL, net of accumulated amortization of \$322,575 | 436,423 |
| OTHER ASSETS | 17,657 |

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| | |
|---|--------------|
| TOTAL ASSETS | \$ 3,467,248 |
| ----- | |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 1,215,265 |
| Accrued expenses and other liabilities | 1,005,211 |
| Deferred revenue | 1,862,415 |
| Dividend payable | 23,750 |
| Notes payable - current portion | 109,437 |
| Capital lease obligations - current portion | 666,678 |
| Note Payable - affiliate | 329,000 |
| Total current liabilities | 5,211,756 |
| CAPITAL LEASE OBLIGATIONS - long-term portion | 2,006,414 |
| Total liabilities | 7,218,170 |
| ----- | |
| STOCKHOLDERS' EQUITY: | |
| Convertible preferred stock, Series A \$.001par value, 52,900 shares designated, 4,250 issued and outstanding | 4 |
| Convertible preferred stock, Series D \$.01par value, 50,000 shares designated, 2,850 issued and outstanding | 29 |
| Common stock, \$.0001 par value, 80,000,000 shares authorized, 36,979,865 issued and outstanding | 3,699 |
| Paid in capital | 63,129,803 |
| Accumulated deficit | (66,884,457) |
| Total stockholders' equity | (3,750,922) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 3,467,248 |
| ===== | |

See the accompanying notes to these unaudited financial statements.

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2002

| | Three Months Ended | | Six Months Ended | |
|-----------------------|--------------------|---------|------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| | ----- | | ----- | |
| REVENUES: | | | | |
| Terminal sales | \$ 200,507 | \$ 935 | \$ 233,782 | \$ 68,087 |
| Service | 362,153 | 133,677 | 634,987 | 181,568 |
| Miscellaneous revenue | - | 1,279 | - | 8,108 |
| | ----- | ----- | ----- | ----- |
| | 562,660 | 135,891 | 868,769 | 257,763 |

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| | | | | |
|--|--------------|--------------|----------------|----------------|
| COST OF SALES AND SERVICE: | 41,288 | - | 72,830 | 13,073 |
| GROSS PROFIT | 521,372 | 135,891 | 795,939 | 244,690 |
| OPERATING EXPENSES: | | | | |
| General and administrative | 651,518 | 511,357 | 1,455,915 | 1,653,681 |
| Sales and marketing | 319,633 | - | 485,525 | 1,342 |
| Professional and consulting fees | 22,500 | - | 27,400 | 27,760 |
| Royalties | 22,093 | - | 87,989 | |
| Depreciation and amortization | 217,036 | 88,492 | 384,241 | 212,973 |
| Total operating expenses | 1,232,780 | 599,849 | 2,441,070 | 1,895,756 |
| OPERATING LOSS | (711,408) | (463,958) | (1,645,131) | (1,651,066) |
| OTHER (INCOME) AND EXPENSES | | | | |
| Interest expense | 73,854 | 500 | 117,982 | 7,876 |
| Interest income | - | - | - | - |
| Total other expense | 73,854 | 500 | 117,982 | 7,876 |
| LOSS FROM CONTINUING OPERATIONS | (785,262) | (464,458) | (1,763,113) | (1,658,942) |
| LOSS ON DISPOSAL OF ASSETS | - | - | - | (105,646) |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | - | 42,829 | - | (10,476) |
| NET LOSS | (785,262) | (421,629) | (1,763,113) | (1,775,064) |
| Preferred stock dividend | - | (28,500) | - | (57,000) |
| TOTAL NET COMPREHENSIVE LOSS | \$ (785,262) | \$ (450,129) | \$ (1,763,113) | \$ (1,832,064) |
| NET LOSS PER SHARE: | | | | |
| Basic: | | | | |
| Continuing operations | \$ (0.02) | \$ (0.02) | \$ (0.05) | \$ (0.08) |
| Discontinued operations | - | - | - | - |
| Total Basic | \$ (0.02) | \$ (0.02) | \$ (0.05) | \$ (0.08) |
| Diluted: | | | | |
| Continuing operations | \$ (0.02) | \$ (0.02) | \$ (0.05) | \$ (0.08) |
| Discontinued operations | - | - | - | - |
| Total Diluted | \$ (0.02) | \$ (0.02) | \$ (0.05) | \$ (0.08) |
| Weighted Average Common Shares Outstanding | | | | |
| Basic | 36,979,865 | 26,175,713 | 36,929,865 | 21,524,998 |
| Diluted | 36,979,865 | 26,175,713 | 36,929,865 | 21,524,998 |

See the accompanying notes to these unaudited financial statements.

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MEDCOM USA, INC.
STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2002 AND 2001

| | 2002 | 2001 |
|--|----------------|----------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) | \$ (1,763,113) | \$ (1,775,064) |
| Adjustments to reconcile net income to net cash (used in) operating activities: | | |
| Loss from discontinued operations | - | 10,476 |
| Loss on disposal of assets | - | 105,646 |
| Depreciation and amortization | 182,311 | 212,973 |
| Payment of expenses through the issuance of common stock | 26,000 | 519,550 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (45,499) | 46,841 |
| Inventories | (181,718) | 45,888 |
| Prepaid and other current assets | - | 71,303 |
| Other assets | - | (1,415) |
| Accounts payable and accrued liabilities | 152,832 | 222,037 |
| | ----- | ----- |
| Cash used by continuing operations | (1,629,187) | (541,765) |
| Cash provided by discontinued operations | - | 72,931 |
| | ----- | ----- |
| Net cash used in operating activities | (1,629,187) | (468,834) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of equipment | - | (78,034) |
| Purchase of software upgrades | (55,041) | - |
| Advances from affiliates | 411,000 | (82,000) |
| | ----- | ----- |
| Net cash provided (used) in investing activities | 355,959 | (160,034) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal repayments on capital leases | (226,950) | (2,849) |
| Proceeds from sale of common stock | - | 619,600 |
| Proceeds from capital sale-leaseback transactions | 1,512,720 | 78,034 |
| Payment on bank draft | - | (60,574) |
| | ----- | ----- |
| Net cash provided by financing activities | 1,285,770 | 634,211 |
| | ----- | ----- |
| INCREASE (DECREASE) IN CASH | 12,542 | 5,343 |
| CASH, BEGINNING OF PERIOD | 27,428 | - |
| | ----- | ----- |
| CASH, END OF PERIOD | \$ 39,970 | \$ 5,343 |
| | ===== | ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | \$ 116,982 | \$ 7,876 |
| | ===== | ===== |
| Income taxes paid | - | - |
| | ===== | ===== |

See the accompanying notes to these unaudited financial statements.

MEDCOM USA, INC.
NOTES TO FINANCIAL STATEMENTS
INTERIM PERIODS ENDED DECEMBER 31, 2002

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements represent the financial position of MedCom USA, Inc. ("Company") as of December 31, 2002 and includes results of operations of the Company for the six months ended December 31, 2002 and cash flows for the six months ended December 31, 2002. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions for Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments to these unaudited financial statements necessary for a fair presentation of the results for the interim period presented have been made. The results for the six months ended December 31, 2002 may not necessarily be indicative of the results for the entire fiscal year. These financial statements should be read in conjunction with the Company's Form 10-KSB for the fiscal year ended June 30, 2002, including specifically the financial statements and notes to such financial statements contained therein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company, and the methods of applying those policies, which affect the determination of its financial position, results of operations or cash flows are summarized below:

Cash and Cash Equivalents

Cash and cash equivalents include all short-term liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. At times cash deposits may exceed government insured limits.

Concentration of Credit Risk

The Company maintains its operating cash balances in banks in Islandia, New York, and in Scottsdale, Arizona. The Federal Depository Insurance Corporation (FDIC) insures accounts at each institution up to \$100,000.

Inventories

Inventories consist primarily of processing terminals that deploy the MedCard system, and demonstration terminals and spare parts that are held for sale. Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value). Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, the Company evaluates inventory levels and expected usage on a periodic basis and records adjustments as required.

Property and Equipment

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Property and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years. The Company's leaseback transactions of processing terminals to healthcare providers are generally for a period of 48 months. Depreciation expense for the leased terminal assets are on the straight-line method over the term of the lease in amounts necessary to reduce the carrying amount of the terminal asset. Estimated and actual residual

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values are reviewed on a regular basis to determine that depreciation amounts are appropriate. Depreciation expense relating to leased terminal assets was \$267,343 for the six months ended December 31, 2002.

Assets Held under Capital Leases

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Amortization of Leasehold Improvements

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Revenue Recognition

Sales Revenues: The Company's sales revenues are derived from the sale of processing terminals, computer equipment and other items and are recognized upon shipment. Revenues from the licensing of equipment software are recognized upon acceptance by customers, if the license agreement includes such an acceptance provision, otherwise it is recognized upon shipment.

Service Fee Revenues: Revenue related to the processing of insurance eligibility verification and medical claim processing is recorded at the time the transaction is completed. Financial transactions involve approvals of credit card and debit card payments from the use of processing terminals or personal computers and are recorded at the time the transactions are completed.

Deferred Gains on Sale Leasebacks: Gains related to processing terminal equipment sales in the form of sale-leaseback transactions are amortized generally over the lease term of 48 months and are recognized proportionately over the lease term. Gains are initially realized when terminals are sold to a third party that finances the terminals used by the Company's customers through the sale leaseback with the Company. The Company purchases the terminals from a supplier and when the Company enters into a service agreement with a customer, the customer may rent the terminal from the Company. When the customer rents the terminal, the Company generally will sell that terminal to the third party leasing company and in turn leases back that terminal.

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are

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excluded from net income. For the Company, such items consist primarily of foreign currency translation gains and losses.

Income Taxes

The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax

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bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities or a change in tax rates is recognized as income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

Fair Value of Financial Instruments

Financial instruments consist primarily of accounts receivable, and obligations under accounts payable, accrued expenses, capital lease obligations and notes payable. The carrying amounts of accounts receivable, accounts payable, accrued expenses and notes payable approximate fair value because of the short maturity of those instruments. The carrying value of the Company's capital lease arrangements approximates fair value because the instruments were valued at the cost of the equipment at the time the Company entered into the arrangements. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

Net Loss Per Share

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, Earnings Per Share.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation

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Statements of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, ("SFAS 123") established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation. In accordance with SFAS 123, the Company has elected to continue accounting for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Intangible Assets

Intangible assets at December 31, 2002 consist of goodwill associated with the Company's acquisition of MedCard, and the difference between the purchase price of the acquired business and the fair value of the identifiable net assets.

Research and Development Expenditures

Research and development costs are expensed as incurred.

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Impairment of Assets

The Company performs an assessment of impairment of long-lived assets periodically whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

Reclassifications

Certain reclassifications have been made to the financial statements for the six months ended December 31, 2002, to conform with the presentation for accounts in the December 31, 2001 financial statements.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding future events and plans and expectations. Actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-QSB (incorporated herein Forward-Looking Statements).

OVERVIEW

MedCom USA, Inc. (the "Company") a Delaware corporation was formed in August 1991 under the name Sims Communications, Inc. The Company's primary business was providing telecommunications services. In 1996 the Company introduced four programs to broaden the Company's product and service mix: (a) cellular telephone activation, (b) sale of prepaid calling cards, (c) sale of long

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distance telephone service and (d) rental of cellular telephones using an overnight courier service. With the exception of the sale of prepaid calling cards, these four programs were discontinued in December 1997. During the fiscal year of 1998, the Company diversified its operations and moved into the area of medical information processing.

The Company changed its name to MedCom USA, Inc. in October 1999. During the fiscal years of 1999 and continuing through 2000, the Company directed its efforts in medical information processing. As of December 31, 2002, the Company currently operates the MedCard System (MedCard) that is deployed through a point-of-sale terminal or personal computer offering electronic transaction processing, as well as insurance eligibility verification. The Company has aggressively focused on its primary operations in Electronic Data Interchange (EDI) and core business in electronic Medical Transaction Processing.

MEDICAL TRANSACTION PROCESSING

MEDCARD SYSTEM

The Company provides innovative technology-based solutions for the healthcare industry that enable users to efficiently collect, utilize, analyze and disseminate data from payers, health care providers and patients. The MedCard System currently operates through a point-of-sale terminal or a personal computer. The point-of-sale terminals are purchased from Hypercom Corporation (Hypercom). The MedCard System also operates in a PC version and an on-line version. The Company is in the process of assessing the feasibility of offering a service bundled package that would have the capability of processing unlimited claims and eligibility verification for monthly service fees.

FINANCIAL SERVICES

The Company's credit card center and check services, provides the healthcare industry an unprecedented combination of services designed to improve collection and approvals of credit/debit card payments along with the added benefit and convenience of personal check guarantee from financial institutions.

Flex-pay is an accounts receivable management program that allows a provider to swipe a patient's credit card and store the patient's signature in the terminals, and bill the patient's card at a later date when it is determined what services rendered were not covered by the patient's insurance. Also, an easy-pay option is offered which allows patient's the added benefit and

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convenience of a one-time payment option or a recurring installment payments that will be processed on a specified date determined by the provider and patient. These options insure providers that payments are timely processed with the features of electronic accounts receivable management. These services are all deployed thorough point-of-sale terminals or a personal computer. Using the MedCard system, medical providers are relieved of the problems associated with billings and account management, and results in lower administrative documentation and costs.

PATIENT ELIGIBILITY

The MedCard System is also an electronic processing system that consolidates insurance eligibility verification, processes medical claims, and monitors referrals. The MedCard System allows a patient's primary care physician to request approval from the patient's insurance carrier or managed care plan for a referral to a secondary physician or specialist. The secondary physician

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or specialist can use the MedCard system to verify referrals are approved by the patient's insurance carrier. The MedCard system's referral capabilities reduce documentation and administrative costs which results in increased productivity and greater patient information for the specialist, as well as a written record of the referral authorization.

The MedCard System can record and track encounters between patients and health care providers for performance evaluation and maintenance of records. After examining a patient the physician enters a patient's name, procedure code and diagnostic code at a nearby terminal. This information is then uploaded to MedCom's computer network, processed and transmitted back to the provider formatted in both summary and/or detailed reports, and as a result healthcare providers' reimbursements are accelerated and account receivables are reduced. The average time it takes the healthcare providers to collect payments from insurance carriers and plans decreases from an average of 89 days to 7 to 21 days. Health care providers will benefit from a 100% paperless claim processing system.

TECHNICAL SUPPORT ASSISTANCE

The Company offers multiple training options for its products and services and is easily accessed at www.Medcard.com. The online E-learning tools

enable health care professionals and health providers an opportunity to familiarize themselves with the Health Insurance Portability and Accountability Act (HIPAA) and also the mandates and compliance issues. Onsite training and teleconferencing, and technical support assistance are also features offered to health care providers. Also, a 24-hour terminal replacement program and system upgrades are offered.

MARKETING STRATEGY

MedCard's marketing plan is built around a strategy of expanding its sales capacity by using experienced external Independent Sales Organizations (ISO) and putting less reliance on an internal sales force. MedCom has set-up these Independent Sales Organizations (ISOs) to market and distribute the MedCard System throughout the U.S. Currently, there are 16 active ISOs promoting the MedCard system, with an average ISO that contains approximately 10 Sales people, some selling the MedCard System exclusively. Financial service companies comprise an important sales channel that views the healthcare industry as an important growth opportunity. Only 6% of all healthcare payments are made with a credit card today, although according to a recent survey 55% of all consumers would prefer to pay doctor and hospital visits by credit/debit card.

SERVICE AGREEMENTS

During September 1998, the Company entered into a service agreement with WebMD Envoy. This agreement encompasses the process of Electronic Data Interchange (EDI) and related services. The services provided are complimentary to the Company's core business, and accomplishes transaction processing services

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that allows healthcare providers and payers to process medical transactions quickly and accurately, and results in reduced administrative costs and an increase in healthcare reimbursements to healthcare providers.

During January 2002, the Company has entered into a service agreement with MedUnite. This strategic alliance will encompass the utilization of proprietary technologies and will enhance the existing network of healthcare constituents. Strategically both companies share the same vision of transforming the

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healthcare transactions systems affecting how healthcare providers, health plans, and other groups transacting business with one another by significantly reducing claim and payment processing time, and reducing healthcare administrative costs.

PROCESSING TERMINAL LEASING AGREEMENTS

The Company has entered into leasing agreements with LADCO Financial Group for the purpose of leasing processing terminals. The Company has pledged and granted for collateral in connection with the lease agreements one million restricted common shares. These common shares would be surrendered upon default of the leasing agreements. This pledge and granting of security interest was executed on January 3, 2002.

The Company has arranged its terms with this credit facility as an equipment lessor whereby the Company sells terminals to the lessor when it has obtained a service contract with a provider. Under these agreements, the Company is leasing back the processing terminals from the lessor and in turn leases them to the purchaser for a period of 48 months however; the customer may terminate the agreement after 12 months. The Company is accounting for the transactions as sale-leasebacks. The leases with the customers are inclusive with the monthly service contracts and are effectively accounted for as operating leases. Gains on terminal sales under sale-leaseback transactions are deferred and are being amortized to income in proportion to amortization of the assets, generally over the term of the lease with the credit facility generally for a period of 48 months. At December 31, 2002, the remaining deferred equipment gain of \$1,862,415 is shown as "Deferred Revenue" in the Company's Balance Sheet. For the six months ended December 31, 2002, the total interest expense incurred by the Company under these leases was \$116,982.

REVENUES

Revenues from the MedCard system are generated through the sale of terminals, and processing insurance eligibility/verification, insurance claims, and financial transaction processing. The Company receives a fixed amount per terminal, and also receives fees for each transaction processed through the MedCard System. Revenue sources include fees for financial transactions processed through the terminal, fees for collection of receivables if the Company provides billing services, fees associated with reimbursements made by insurance carriers for submitting claims that are processed electronically, fees for using the system's referral program and, fees for processing uploaded data. The Company also markets a complete billing service using the MedCard System for hospitals and large practice groups. The Company receives a percentage of the billing amount collected under these arrangements.

ADDITIONAL INFORMATION

Medcom files reports and other materials with the Securities and Exchange Commission. These documents may be inspected and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C., 20549. You can obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also get copies of documents that the Company files with the Commission through the Commission's Internet site at www.sec.gov.

RESULTS OF OPERATIONS

Revenues for the quarter ended December 31, 2002 were \$562,660 as compared to

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the quarter ended December 31, 2001 of \$135,891. The Company has divested of all its business segments other than the MedCard business, which it intends to devote its full resources. Revenues are primarily derived from monthly service fees collected and revenues related to the leasing of terminal assets.

Cost of sales for the quarter ended December 31, 2002 was \$41,288 as compared to quarter ended December 31, 2001 of \$-0-. Margins have increased as the Company's sales and service offerings have increased in the area of medical transaction processing.

General and administrative expenses for quarter ended December 31, 2002 was \$651,518 as compared to quarter ended December 31, 2001 of \$511,357. These expenses have slightly increased as promotional efforts to market and secure outside sales personnel to promote and sell the Company's equipment and services.

Selling expenses for the quarter ended December 31, 2002 was \$319,633 as compared to the quarter ended December 31, 2001 of \$-0-. These expenses are directly attributed to the Company's aggressive marketing and outside sales organizations that market the Company's equipment and services.

Interest expense for the quarter ended December 31, 2002 was \$73,854 as compared to quarter ended December 31, 2001 of \$500. Interest expense increased as a result of an increased volume of leased terminal assets by the Company.

No tax benefit was recorded on the expected operating loss for the quarter ended December 31, 2002 as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. For the quarter ended we do not expect to realize a deferred tax asset and it is uncertain, therefore we have provided a 100% valuation of the tax benefit and assets until we are certain to experience net profits in the future to fully realize the tax benefit and tax assets.

Net loss for the quarter ended December 31, 2002 was (\$785,262) compared net loss for the quarter ended December 31, 2001 of (\$450,129).

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities for the six months ended December 31, 2002, was (\$1,629,187) as compared to cash used in operating activities for the six months ended December 31, 2001 of (\$468,834). The Company has significantly reduced its operating cash requirements as streamlining of operations and cost curtailment measures were implemented and adhered to.

Cash provided by investing activities for the six months ended December 31, 2002, was \$355,959 as compared to cash used in investing activities for the six months ended December 31, 2001 of (\$160,034). There were advances from an affiliate to fund operations for deficiencies in operating cash requirements as of December 31, 2002.

Cash provided by financing activities was \$1,285,770 for the six months ended December 31, 2002 compared to cash provided by financing activities for the six months ended December 31, 2001 of \$634,211. The Company has financed its equipment through the sales-leasebacking of terminals and as a result has increased its debt obligations.

SOURCES OF CAPITAL

The Company has relied upon a significant shareholder to fund its operating cash flow deficiencies since June 30, 2001. Presently, this funding is

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accomplished in the form of loans to the Company. Management believes that current trends in its electronic transaction processing to the health care industries will provide positive cash flow in the near fiscal period to be self-sustaining from operations. The amount of such will be dependent upon the rate of growth experienced and demand for the Company's product and services.

As noted above, the Company has secured an arrangement with a third party leasing company to provide funds upon the execution of a rental and service agreement with a customer. Generally, the health care provider customer will enter into an agreement with the Company to rent a terminal and subscribe to the transaction processing and insurance verification service. At that time, the Company will sell the terminal associated with the service contract to the lessor and then leaseback that terminal. The leasing transactions provide for funding to the Company to cover its cost of the terminal, placement of the terminal with the customer and a profit margin. The Company is generally required to pay the lease rentals to the lessor over a 48-month period. The source of funds for those repayments is the rental payments from the health care provider customer.

OTHER CONSIDERATIONS

There are numerous factors that affect our business and the results of its operations. Sources of these factors include general economic and business conditions, federal and state regulation of business activities, the level of demand for the Company's product or services, the level and intensity of competition in the medical transaction processing industry and the pricing pressures that may result, the Company's ability to develop new services based on new or evolving technology and the market's acceptance of those new services, the Company's ability to timely and effectively manage periodic product transitions, the services, customer and geographic sales mix of any particular period, and the ability to continue to improve the infrastructure (including personnel and systems) to keep pace with the growth in its overall business activities.

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, this Form 10-QSB contains express or implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. The Company may make written or oral forward-looking statements from time to time in filings with the SEC, in press releases, or otherwise. The words "believes," "expects," "anticipates," "intends," "forecasts," "project," "plans," "estimates" and similar expressions identify forward-looking statements. Such statements reflect the current views with respect to future events and financial performance or operations and are only as of the date the statements are made.

Forward-looking statements involve risks and uncertainties and readers are cautioned not to place undue reliance on forward-looking statements. The Company's actual results may differ materially from such statements. Factors that cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-QSB, as well as those discussed in Form 10-KSB which is incorporated by reference in this Form 10-QSB.

Management believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking information should not be regarded, as a representation that the future events, plans, or expectations contemplated will be achieved. The Company undertakes no obligation to publicly update, review, or revise any

forward-looking statements to reflect any change in expectations or any change in events, conditions, or circumstances on which any such statements are based. Our filings with the Securities Exchange Commission, including the Form 10-KSB, and may be accessed at the SEC's web site, www.sec.gov.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

MedCom is involved in various legal proceedings and claims as described in our Form 10-KSB for the year ended June 30, 2002. No material developments occurred in any of these proceedings during the quarter ended December 31, 2002. The costs and results associated with these legal proceedings could be significant and could affect the results of future operations.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that information required to be disclosed in this report is recorded, processed, accumulated, and reported to its management, including the chief executive officer, to allow timely decisions regarding the required disclosure. Within the 90 days prior to the filing date of this report, MedCom's management, with the participation of its chief executive officer performed an evaluation of the effectiveness of the design and operation of these disclosure controls and procedures. Management has concluded that such disclosure controls and procedures are effective at ensuring that required information is disclosed in the Company's reports.

CHANGES IN INTERNAL CONTROLS

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the evaluation date.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

NO REPORTS ON FORM 8-K

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

CERTIFICATIONS

I, Bill Williams, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of MedCom USA, INC.;

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2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's corporate management and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's corporate management and I have disclosed, based on our most recent evaluation, to the registrant's board of directors:

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's corporate management and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

MEDCOM USA, INC.

By /s/ W.P. Williams

Chairman, President, CEO

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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In connection with this Quarterly Report of MedCom USA, INC., (the "Company") on Form 10-QSB for the period ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bill Williams, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, That to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

MEDCOM USA, INC.

By /s/ W.P. Williams

Chairman, President, CEO
(Sole executive officer of the registrant)

February 28, 2003