MEDCOM USA INC
Form 10QSB
November 25, 2002

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 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	65-0287558
State of Incorporation	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 April 30, 2002 was 35,901,297 shares of common stock.

Transitional Small Business Disclosure Format (check one):

Yes _____ No X

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MEDCOM USA, INC.
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FOR THE THREE MONTHS ENDED MARCH 31, 2002

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PART I - FINANCIAL INFORMATION

ITEM1 - FINANCIAL STATEMENTS

MEDCOM USA, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)
MARCH 31, 2002

ASSETS	
CURRENT ASSETS:	
Accounts receivable, net of allowance of $31,326	$ 68,838
Notes receivable	98,125
Inventories	148,218
Prepaid expenses and other current assets	23,166
Total current assets	338,347
PROPERTY AND EQUIPMENT, net	662,763
GOODWILL, net of accumulated amortization of $284,625	474,373
OTHER ASSETS	44,976
TOTAL ASSETS	$ 1,520,459

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 1,124,418
Accrued expenses and other liabilities	1,170,208
Bank overdraft	23,097
Dividend payable	23,750
Notes payable	106,589
Terminal equipment obligation (capital leases) - Current portion	74,754
Total current liabilities	2,522,816
DEFERRED GAIN ON SALE-LEASEBACK TRANSACTIONS	162,468
CAPITAL LEASES - long term portion	204,411
Total liabilities	2,889,695
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, 32,180,000 issued and outstanding.	3,218
Paid in capital	62,732,284
Accumulated deficit	(64,104,771)
Total stockholders' equity	(1,369,236)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,520,459

See the accompanying notes to these unaudited financial statements.

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

	Three Months Ended		Nine Months Ende	
	2002	2001	2002	20
REVENUES:				
Terminal sales	$ 94,571	$ 61,495	$ 162,658	$ 25
Service	138,495	72,474	320,063	24
Miscellaneous revenue	-	-	11,074	
Total	233,066	133,969	493,795	49
OPERATING EXPENSES:				
Cost of terminals and services	53,493	73,498	66,565	27
General and administrative expenses	186,920	1,037,261	1,840,601	3,78
Sales and marketing expenses	1,247	234,573	2,589	85
Research and development	-	-	-	10
Professional and consulting fees	21,500	-	49,260	
Royalties	129,614	-	129,614	
Depreciation and amortization	107,242	204,120	320,215	58

Total operating expenses	500,016	1,549,452	2,408,844	5,59
OPERATING LOSS	(266,950)	(1,415,483)	(1,915,049)	(5,09
OTHER (INCOME) AND EXPENSES				
Interest expense	4,729	45,670	12,604	6
Interest income		(5,293)		(2
Total other expense	4,729	40,377	12,604	4
INCOME TAX (BENEFIT) PROVISION	-	264	-	
LOSS FROM CONTINUING OPERATIONS	(271,679)	(1,455,596)	(1,927,653)	(5,13
LOSS ON DISPOSAL OF ASSETS	(64,620)		(170,266)	
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	(1,382,253)	(10,476)	(2,11
NET LOSS	(336,299)	(2,837,849)	(2,108,395)	(7,24
Prefered stock dividend	(28,500)	(85,500)		
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	(336,299)	(2,866,349)	(2,108,395)	(7,33
Foreign currency translation	-	98,843	-	3
TOTAL NET COMPREHENSIVE LOSS	$ (336,299)	$(2,767,506)	$(2,108,395)	$(7,29
NET LOSS PER SHARE:				
BASIC:				
Continuing operations	$ (0.01)	$ (0.20)	$ (0.08)	$
Discontinued operations	-	(0.19)	**	
Total Basic	$ (0.01)	$ (0.39)	(0.08)	$
DILUTED:				
Continuing operations	$ (0.01)	$ (0.20)	$ (0.08)	$
Discontinued operations	-	(0.19)	**	
Total Diluted	$ (0.01)	$ (0.39)	$ (0.08)	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	31,229,448	7,331,253	24,712,591	6,87
Diluted	31,229,448	7,331,253	24,712,591	6,87

** - less than $0.01 per share

See the accompanying notes to these unaudited financial statements.

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MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED MARCH 31, 2002 AND 2001

	2002	2001

CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	$(2,108,395)	$(7,246,
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on disposal of assets	170,266	
Discontinued operations	10,476	2,110,
Depreciation and amortization	320,215	584,
Value of common stock and warrants granted as compensation for services	-	191,
Impairment of assets	-	270,
Allowance for uncollectable receivables	-	42,
Deferred Revenue	-	(207,
Deferred gain on sale leaseback transactions	162,468	
Payment of expenses through issuance of common stock	636,050	
Changes in assets and liabilities:		
Trade accounts receivable	14,266	13,
Inventories	(29,619)	(35,
Royalty advances	-	32,
Prepaid and other current assets	58,387	106,
Other assets	(1,415)	(8,
Accounts payable and accrued liabilities	(6,922)	526,
Net cash used in continuing operations	(774,223)	(3,618,
Net cash used in discontinued operations	126,423	(436,
NET CASH (USED IN) OPERATING ACTIVITIES	(647,800)	(4,055,
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(244,592)	(1,119,
Proceeds on sale of equipment	-	
Advances to affiliate	(112,000)	(66,
Repayments on advances to affiliates	30,000	4,
NET CASH (USED IN) INVESTING ACTIVITIES	(326,592)	(1,182,
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on capital leases	(44,511)	(211,
Proceeds on sale of terminals under captial leases	219,244	
Principal repayments on notes payable	(2,849)	(6,
Proceeds from the exercise of options and warrants	-	1,634,
Proceeds from sale of common stock	839,985	1,845,
Bank overdraft	(37,477)	
Currency translation loss	-	35,
NET CASH PROVIDED BY FINANCING ACTIVITIES	974,392	3,297,
INCREASE (DECREASE) IN CASH	-	(1,940,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	2,043,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ -	$ 103,
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 12,559	$ 22,
Income taxes paid	$ -	$ 14,

See the accompanying notes to these unaudited financial statements.

MEDCOM USA, INC.
NOTES TO FINANCIAL STATEMENTS
INTERIM PERIODS ENDED SEPTEMBER 30, 2002

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements represent the financial position of MedCom USA, Inc. ("Company") as of March 31, 2002 and includes results of operations of the Company for the three and nine months ended March 31, 2002 and cash flows for the nine months ended March 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 three months ended March 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 year ended June 30, 2001, 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 terminals and spare parts that are held for sale. Also, included in inventories are movie videocassettes that remain from a discontinued segment of business. 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.

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Property and Equipment

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 values are reviewed on a regular basis to determine that depreciation amounts are appropriate. Depreciation expense relating to leased terminal assets was $11,002 for the quarter ended March 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 excluded from net income. For the Company, such items consist primarily of foreign currency translation gains and losses.

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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 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

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 March 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. Goodwill is amortized on a straight-line basis over 5 years.

Research and Development Expenditures

Research and development costs are expensed as incurred.

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 three months and nine months ended March 31, 2002, to conform with the presentation for accounts in the March 31, 2001 financial statements.

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 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 March 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 is under development. The Company is in the process of assessing the feasibility of offering a service bundled package that would include an on-line enabled computer that has the capability of processing unlimited claims and eligibility verification for monthly fees. This application and service offering will be made available after the on-line version is complete.

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.

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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 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 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. 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

The MedCard System is marketed through the Company's sales personnel, and independent sales representatives and institutions such as EFS National Bank, Physicians Management Group, and Healthtech Systems. Company sales personnel generally receive a commission for the initial sale of the terminals, and collect a portion of residual income for the processing of insurance claims and verifying insurance eligibility. Independent sales representatives purchase the terminals directly from the Company and receive residual income.

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 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 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 to the purchaser for a period of 12 months. The Company is accounting for the leaseback as an operating lease, and gains on terminal assets of $7,556 have been realized to date. The remaining equipment gains have been deferred and are being amortized to income in proportion to interest charged over the term of the lease with the credit facility generally for a period of 48 months. At March 31, 2002, the remaining deferred equipment gains of $162,468 is shown as "Deferred Gain on Sale-Leaseback" in the Company's Balance Sheet. For the quarter ended March 31, 2002, the total interest expense incurred by the Company under these leases was $4,229.

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.

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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 March 31, 2002 were $233,066 as compared to during the quarter ended March 31, 2001 of $133,969. The Company has divested of all its business segments other than the MedCard business. The Company began to concentrate on its MedCard business in the three months ended March 31, 2002. In the first two quarters, management devoted efforts and resources to completing the divestures of the Company's other business segments.

Cost of sales for the quarter ended March 31, 2002 was $53,493 as compared to quarter ended March 31, 2001 of $73,498. Margins will generally be higher as the Company's sales mix is greater in the provision of medical billing services.

Selling expenses for the quarter ended March 31, 2002 was $1,247 as compared quarter ended March 31, 2001 of $234,573. This decrease was primarily the result of cost curtailment efforts and discontinued marketing expenditures for unprofitable business segments.

General and administrative expenses for quarter ended March 31, 2002 was $186,920 as compared to quarter ended March 31, 2001 of $1,037,261. These expenses have been reduced due to reductions in personnel and consultant fees. Also, streamlining operations and divesting of unprofitable business segments has greatly contributed to this reduction.

Interest expense for the quarter ended March 31, 2002 was $4,729 as compared to March 31, 2001 of $45,670. Interest expense decreased as a result of decreases in outstanding debt and financing by the company.

No tax benefit was recorded on the expected operating loss for the quarter ended March 31, 2002 as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. For the year 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 March 31, 2002 was ($336,299) or ($0.01) per basic and diluted share compared net loss for quarter ended March 31, 2001 of ($2,837,849) or ($0.39) per basic and diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities for the nine months ended March 31, 2002, was ($647,800) as compared to cash used in operating activities for the nine months ended March 31, 2001 of ($4,055,713). The Company has significantly reduced its operating cash requirements as staffing was cut and other cost cutting measures were implemented. However, the Company covered $636,050 of expenses during the nine months ended March 31, 2002 through the issuance of common stock.

Cash used in investing activities for the nine months ended March 31, 2002, was ($326,592) as compared to cash used in investing activities for the nine months ended March 31, 2001 of ($1,182,119). There were significant computer equipment purchases in the nine-month period ended March 31, 2001.

Cash provided in financing activities was $974,392 for the nine months ended March 31, 2002 compared to cash provided from financing activities for the nine months ended March 31, 2001 of $3,297,582. The Company sold $839,985 of common stock primarily to its most significant shareholder during the nine months ended March 31, 2002. The Company has also started to finance its terminal purchases through sale-leaseback transactions.

SOURCES OF CAPITAL

The Company has relied upon its most significant shareholder to fund its operating cash flow deficiencies since June 30, 2001. This funding is accomplished in the form of common stock purchased at the closing price as of the date the funds are transferred to the Company. Management believes that current trends in its electronic transaction processing to the health care industries will provide positive cash flow to be self-sustaining from operations sometime in the near fiscal period. 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.

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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, 2001. No material developments occurred in any of these proceedings during the quarter ended March 31, 2001. The costs and results associated with these legal proceedings could be significant and could affect the results of future operations.

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ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

NO REPORTS ON FORM 8-K

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CERTIFICATION

I, Bill Williams, President and Chief Executive Officer of MedCom USA, certify that:

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

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; and

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.

MEDCOM USA, INC.

By /s/ W.P. Williams

Chairman, President, CEO

November 25, 2002