

Edgar Filing: MEDCOM USA INC - Form 10KSB

MEDCOM USA INC
Form 10KSB
September 25, 2003

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

OR

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

For the transition period from N/A to N/A
Commission File Number: 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)

Registrant's telephone number, including Area Code: (480) 675-8865
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.0001 PAR VALUE

Check whether the Registrant (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 -----

Check if disclosure of delinquent filers in response to Item 405 of Regulation
S-B is not contained in this form, and no disclosure will be contained, to the
best of the Registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendment to this Form 10-KSB. [X]

Registrant's revenues for the most recent fiscal year were \$2,199,823.

The aggregate market value of the common stock held by non-affiliates computed
based on the closing price of such stock on June 30, 2003, was approximately
\$5,749,267.

Edgar Filing: MEDCOM USA INC - Form 10KSB

PART I

- ITEM 1. Description of Business
- ITEM 2. Description of Property
- ITEM 3. Legal Proceedings
- ITEM 4. Submission of Matters to a Vote of Security Holders

PART II

- ITEM 5. Market for Common Equity and Related Stockholder Matters
- ITEM 6. Management's Discussion and Analysis or Plan of Operation
- ITEM 7. Financial Statements
- ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

PART III

- ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act
- ITEM 10. Executive Compensation
- ITEM 11. Security Ownership of Certain Beneficial Owners and Management
- ITEM 12. Certain Relationships and Related Transactions
- ITEM 13. Exhibits and Reports
- ITEM 14. Controls and Procedures
- ITEM 15. Signatures

PART I

2

ITEM 1. DESCRIPTION OF BUSINESS.

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 the Company's 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-KSB or incorporated herein by reference, including those set forth in Management's Discussion and Analysis or Plan of Operation.

Edgar Filing: MEDCOM USA INC - Form 10KSB

OVERVIEW

MedCom USA, Inc. (the "Company") a Delaware corporation was formed in August 1991 with 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 June 30, 2003, 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.

MEDCARD SYSTEM

The Company provides innovative technology-based solutions for the healthcare industry that enable users to efficiently collect, use, 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) and EFS Concord. 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.

3

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

Edgar Filing: MEDCOM USA INC - Form 10KSB

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 7-21 days. Health care providers will benefit from a 100% paperless claim processing system.

As of June 30, 2003 the MedCard system was able to retrieve on-line eligibility and authorization information from approximately 150 medical insurance companies and electronically process and submit billings for its healthcare providers to over 1,700 companies. These insurance providers include CIGNA, Prudential, Oxford Health Plan, United Health Plans, Blue Cross, Medicaid, Aetna, Blue Cross/Blue Shield, and Prudential.

COMPETITION

Competing health insurance claims processing and/or benefit verification systems include WebMD (HLTH), NDCHealth (NDC), Per-se Technologies (PSTI). There are similar companies that compete with the Company with respect to its financial transaction processing services performed by the MedCard system. These companies compete with the Company directly or to some degree. Many of these competitors are better capitalized than the Company, and maintain a significant market share in their respective industries.

4

REGULATORY COMPLIANCE

With the passage of the Health Insurance Portability and Accountability Act (HIPAA) of 1996, the United States Congress has mandated the establishment of standards for the privacy of individually identifiable health information. Specifically, the regulation entitled, Standards for Privacy of Individually Identifiable Health Information ("the Privacy Rule") promulgated by the Department of Health and Human Services (HHS), provides for a comprehensive federal protection for the privacy of health information. The Rule applies only to health plans, health care clearinghouses, and certain health care providers, which must comply with the new requirements. The Company's core operating business is not subject to the Privacy Rule, which defines the Company as a "business associate". A business associate is an entity that provides certain functions, activities, or services for or to a covered entity. These covered entities typically obtain contractual assurances that the business associate will use the information only for the purposes for which they were contracted and not for independent use by the business.

SERVICE AND PRODUCTS

Edgar Filing: MEDCOM USA INC - Form 10KSB

The Company offers its healthcare providers, and health plan groups, a simple solution to expedite its Healthcare and financial transactions electronically through a processing terminal, and the Company maintains its website www.MedCard.com. The features of the terminals are as follows:

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 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.

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.

5

LICENSING AGREEMENTS

In May 2000 the license agreement with Dream Technologies, LLC, was amended whereby the Company acquired direct ownership of the MedCard System including all software programs, intellectual property, trade names and existing contracts. The amendment effectively terminated the original license agreement, except for the royalty provisions of the original license agreement. Subsequently, on January 14, 2002, the Company changed the terms of the royalties included in the original agreement with Dream Technologies, and as a result past royalties were waived in good faith, for the exception of \$30,000, which was agreed and payable in equal monthly installments. In connection with the past royalties, Dream Technologies, LLC was issued a certificate representing one-million unregistered shares of common stock with a par value of \$.001.

The Company is required to pay royalties to Dream equal to twenty percent of the first \$1,000,000 of net monthly revenue and ten percentMWMMark WeberI thought it was just a flat 20% of net monthly revenue in excess of \$1,000,000. The term net revenues is defined as gross revenues received from the use of the MedCard software less (a) terminal lease costs (b) commissions payable to agents that place terminals with end users (c) network costs that include: i) claim fees payable to data vendors, ii) charges for verification of insurance coverage iii) similar telecommunications charges related to obtaining claims processing

Edgar Filing: MEDCOM USA INC - Form 10KSB

and/or benefits verification information; and (d) cost of the terminal and shipping/handling.

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 with the benefit of accelerated reimbursements to healthcare providers.

During January 2002, the Company has entered into a service agreement with MedUnite. This 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.

During February 2003, the Company has entered into a service agreement with HD Brous & Company. This agreement provides that HD Brous & Company act as financial advisor and investment banking representative on the Company's behalf. Upon the execution of the contract the Company granted to HD Brous & Company warrants to purchase up to four hundred thousand shares of the Company's common stock at an exercise price of \$.50 per common share. The warrants will expire five years from the date of issuance.

PROCESSING TERMINAL LEASING AGREEMENTS

6

The Company has entered into leasing agreements with LADCO Financial Group for the purpose of leasing processing terminals. The Company has pledged in collateral in connection with the lease agreements one-million restricted common shares of stock. These common stock shares would be surrendered upon the default of such 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 48-60 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 48-60 months. At June 30, 2003, the remaining deferred equipment gain of \$2,904,848 is shown as "Deferred Revenue" in the Company's Balance Sheet. For the year ended June 30, 2003, the total interest expense incurred by the Company under these leases was \$407,200.

GROWTH STRATEGY

The Company's strategy is to become one of the dominant electronic transaction processing vendors in the Healthcare markets. MedCom USA will focus

Edgar Filing: MEDCOM USA INC - Form 10KSB

on providing Health Plan Administrators, Healthcare Clearinghouses, and Healthcare Providers, financial as well as verification electronic transaction processing solutions. The Company's strategy to date has included large select markets for its products and services, however the Company will work with partners who will ensure national distribution of its products and services.

On January 14, 2003 the Company announced a partnering with Paymentech to launch a national sales program for the Medcard system and Paymentech Financial Services. Significant elements of the partnering include marketing the Medcard system to Paymentech's existing healthcare customers, and also training to market the Medcard system.

On June 3, 2003 the Company announced a service solutions partnering with Global eTelecom a leader in the Electronic Check Conversion (ECC) industry. This customized technology will enable subscribers of the Medcard system the ease and convenience to accept and process paper checks electronically. This process is similar to ease of processing of credit card transactions. Integrating this enhancement increases efficiencies for healthcare providers and insurers nationwide. Announced on June 4, 2003, LML Payment Systems in accord with Global eTelecom the licensor for check services from LML Payment Systems is pleased to accommodate this alliance.

On June 16, 2003 the Company announces a joint-service offering with Moneris Solutions a comprehensive HIPAA-compliant solution for insurance eligibility verification, electronic referrals and electronic claims transaction processing. Moneris will integrate its bankcard platform with Medcom's POS hardware and delivery will be provided by United Processing Corporation. Both Moneris and United Processing Corporation are leaders in their respective industries.

7

ADDITIONAL INFORMATION

The Company 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.

ITEM 2. DESCRIPTION OF PROPERTY.

As of fiscal year end June 30, 2003, the Company maintains its executive offices in Scottsdale, Arizona. The Company leases 1,317 square feet of office space for approximately \$32,000 annually. The Company entered into a three-year lease in May 2002 for the Scottsdale facility. The Company also maintains a lease as of August 2003 in Irvine, California, for executive office space for approximately \$775 a month. The Company also leases 5,906 square feet of office space in Islandia, New York, for approximately \$104,389 annually; the lease expires March 31, 2008. In conjunction with the New York lease the Company maintains a sub-lease with Commercial Capital, Inc., which was executed on December 1, 2001, for approximately \$24,000

As of fiscal year end June 30, 2003, the Company had 34 employees of which approximately 29 are full-time equivalent employees as of June 30, 2003.

ITEM 3. LEGAL PROCEEDINGS

Edgar Filing: MEDCOM USA INC - Form 10KSB

Subsequent to June 30, 2001, several former employees filed complaints against the Company alleging unpaid payroll and breach of employment agreements. The total known claims being sought by the former employees at June 30, 2001 was approximately \$175,000. The Company believes that it has settled all former employee claims in amounts aggregating to an amount approximating the accrued amount of \$104,000. A former officer has a claim remaining with the Company. The Company is attempting to settle this claim. At June 30, 2003, there was \$164,000 accrued relating to this matter.

Several landlords are seeking damages from the Company due to the Company defaulting on several lease agreements. Certain landlords have obtained legal judgments against the Company. The total amount of such claims was \$634,000. The Company and its legal counsel believe that ultimate settlement will result in a much lower payout. The Company has accrued \$208,000 associated with these claims at June 30, 2003. This amount was estimated on the basis of advice from legal counsel whom has settled several similar suits. However, the ultimate result of any settlement could vary significantly from this estimate.

The Company had obligated shares of the Company's common stock and warrants exercisable into common stock under numerous consulting and fund raising agreements. Some such agreements obligated shares in cases of the occurrence of substantial dilution or price drop in the trading value of the Company's common stock. Management believes that it has fulfilled all such obligations. However, the Company has received claims related to these matters. One such claim alleges

8

1,066,666 shares of the Company's common stock is owed. Management believes that this claim has no merit.

The Company may be subject other unasserted claims associated with the abandonment of its operations. The Company is also involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, except as discussed above, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

At June 30, 2003, there was approximately \$553,000 estimated and accrued for claims related to the litigation matters.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company submitted no matters to a vote of its security holders during the fiscal year ended June 30, 2003.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MedCom common stock is traded in the over-the-counter market, and quoted in the National Association of Securities Dealers Inter-dealer Quotation System ("Electronic Bulletin Board) and can be accessed on the Internet at www.otcbb.com under the symbol "EMED."

At June 30, 2003, there were 36,792,878 shares of common stock of MedCom outstanding and there were approximately 476 shareholders of record of the Company's common stock.

The following table sets forth for the periods indicated the high and low bid quotations for MedCom's common stock. These quotations represent

Edgar Filing: MEDCOM USA INC - Form 10KSB

inter-dealer quotations, without adjustment for retail markup, markdown or commission and may not represent actual transactions.

FISCAL 2003 -----	HIGH BID -----	LOW BID -----
Quarter Ended June 30, 2003	\$ 1.05	\$0.39
Quarter Ended March 31, 2003	0.50	0.14
Quarter Ended December 31, 2002	0.35	0.14
Quarter Ended September 30, 2002	0.35	0.19

9

FISCAL 2002 -----	HIGH BID -----	LOW BID -----
Quarter Ended June 28, 2001	\$ 0.25	\$ 0.25
Quarter Ended March 28, 2001	0.18	0.14
Quarter Ended December 28, 2000	0.03	0.03
Quarter Ended September 28, 2000	0.11	0.10

MedCom has never paid dividends on any of its common stock shares. MedCom does not anticipate paying dividends at any time in the foreseeable future and any profits will be reinvested in MedCom's business. MedCom's Transfer Agent and Registrar for the common stock is Corporate Stock Transfer located in Denver, Colorado.

SALE OF UNREGISTERED SECURITIES

During February 2003, the Company has entered into a service agreement with a consultant, whereby the consultant will act as financial advisor and investment banking representative on the Company's behalf. Upon the execution of the contract the Company granted the consultant warrants to purchase up to four hundred thousand shares of the Company's common stock at an exercise price of \$.50 per common share. The warrants expire five years from date of issuance. The persons who acquired these warrants were fully informed and advised about matters concerning the Company, including the Company's business, financial affairs and other matters.

STOCK SPLITS

Share data in this report have been adjusted to reflect the following stock splits relating to the Company's common stock: June 1995: 2-for-1 forward split, February 1996: 1-for-10 reverse split, February 1998: 1-for-4 reverse split, May 2001: 1-for-5 reverse split.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Management's discussion and analysis contains statements that are forward-looking and involve risks and uncertainties. Several factors could cause actual results to differ materially from those described in such forward-looking statements. This includes the Company's ability to manage

Edgar Filing: MEDCOM USA INC - Form 10KSB

growth, involvement in litigation, competition in the health electronic transaction processing, ongoing contractual relationships, dependence upon key personnel, changes in customer demand for product and services, and the adoption of new, or changes in, accounting policies, practices and estimates and the application of such policies, practices, and estimates, and federal and state governmental regulation, specifically in the areas of electronic transaction processing in the health care industries.

The following financial data should be read in conjunction with the consolidated financial statements of MedCom USA and related notes and other financial information appearing elsewhere in this report.

10

Statement of Operations Data:

	Years Ended June 30,	
	2003	2002
Revenues	\$ 2,199,823	\$ 647,514
Cost of Sales and Services	(222,181)	(193,767)
Operating and other Expenses	(5,701,779)	(3,350,466)
Loss from Discontinued Operations	-0-	(244,561)
Net Loss	\$ (3,724,137)	\$ (3,141,280)

Balance Sheet Data:

	June 30,	
	2003	2002
Current Assets	\$ 443,222	\$ 219,431
Total Assets	\$ 5,104,010	\$ 2,131,806
Current Liabilities	\$ 4,706,744	\$ 3,247,094
Non-Current Liabilities	\$ 5,960,775	\$ 898,685
Total Liabilities	\$10,667,519	\$ 4,145,799
Working Capital (Deficit)	\$ (4,263,522)	\$ (3,027,663)
Shareholders' Equity (Deficit)	\$ (5,563,509)	\$ (2,013,973)

The Company has declared no common stock dividends since its inception.

FISCAL 2003 OPERATIONS

General. As of June 30, 2003, the Company currently utilizes the MedCard System that is deployed through a processing terminal, PC software, or online processing, and offers electronic transaction processing to the health care

Edgar Filing: MEDCOM USA INC - Form 10KSB

industries. MedCom USA continues to focus on its primary operations and core business in medical transaction processing.

YEAR ENDED JUNE 30, 2003

RESULTS OF OPERATIONS

FISCAL YEAR END JUNE 30, 2003, COMPARED TO FISCAL YEAR END JUNE 30, 2002.

Revenues for Fiscal 2003 increased to \$2,199,823 from \$647,514 during Fiscal 2002. This increase in revenue is directly the result of changes in the Company's strategic direction in core operations. This included discontinuing declining or unprofitable business sectors and officer and management changes. The Company continues to aggressively pursue and devote its resources and focus its direction in electronic transaction processing. The Company's agreement with its credit facility in connection with the sale-leaseback transactions therewith, the Company must defer revenue gains on the sale of the terminals. Those gains are generally recognized over a period of 48-60 months.

11

Selling expenses for Fiscal 2003 increased to \$1,135,364 from \$141,162 during Fiscal 2002. This increase is primarily the result of marketing efforts and includes commissions to outside Independent Sales Organizations ("ISO's") that markets the Company's products and services.

General and administrative expenses for Fiscal 2003 increased to \$2,623,642 from \$2,325,184 during Fiscal 2002. This increase is attributed to the Company's hiring of additional employees as growth has occurred in the area of providing technical support for our products and services in relation to the increases in sales.

Professional and consulting expenses for Fiscal 2003 increased to \$253,155 from \$108,364 during Fiscal 2002. These expenses primarily are the result of the recognition of stock/warrants granted for various services to the Company. The expense recognized is determined from the bid and ask price of the common stock at the date of the transaction.

Interest expense for Fiscal 2003 increased to \$438,099 from \$30,654 for Fiscal 2002. This increase is a result of increased sales volume and sales-leaseback transactions with the Company's credit facility. Also, expenses were incurred and paid on notes the Company has outstanding.

The loss for Fiscal 2003 was (\$3,724,137) from (\$3,141,280) for Fiscal 2002. Sales and marketing expenses along with interest expenses have increased for Fiscal 2003. The Company has incurred these marketing and sales expenses in relation to increased demand for the Company's products and services.

As of June 30, 2003, MedCom had a federal net operating loss carry forward of \$56,215,000 expiring 2011 to 2022. MedCom had a state net operating loss carry forward of \$51,214,000 expiring from 2004 to 2007. MWM Mark Weber Doug: You are supposed to leave in the discussion on the comparison of 2000 to 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its working capital requirements from the sale-leaseback transactions and selling shares of its common stock in private placements. Cash used in operating activities for Fiscal 2003 was (\$3,303,080) compared to (\$2,042,289) for Fiscal 2002. The Company experienced losses from discontinued operations and abandonment of assets attributable to discontinued

Edgar Filing: MEDCOM USA INC - Form 10KSB

business segments. The Company's pared down operations will result in lower accounts receivable and inventory levels. The Company receives payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days.

Cash provided by investing activities was \$754,489 for Fiscal 2003, compared to cash used in investing activities of (\$50,058) for Fiscal 2002. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for the Company.

Cash provided by financing activities was \$2,575,623 in Fiscal 2003, compared to \$2,119,775 for Fiscal 2002. Financing activities primarily consisted of proceeds from the sale-leaseback transactions during the fiscal period.

12

The Company has relied upon a significant shareholder to fund its operating cash flow deficiencies since August 2001. An entity that is controlled by the Company's chairman and chief executive officer has funded \$1,022,600 as of June 30, 2002, to the Company in the form of common stock purchased at the closing price as of the date the funds are transferred to the Company.

As of June 30, 2003 the Company maintains a note payable to this entity for the amount of \$778,300 including accrued interest. The Company requires capital to finance the purchases of the electronic terminals, and the future amounts of such requirements will be dependent upon the rate of growth experienced. The Company has been successful in obtaining lease financing for its equipment. The nature of the business is such that large accounts receivable balances are not carried. Management believes that current trends in its electronic transaction processing to the health care industries business will provide cash flow to be self-sustaining from operations.

The Company is delinquent on operating lease obligations as well as obligations to other creditors as of June 30, 2003. The Company is attempting to negotiate settlements or make counter claims against most of these creditors. There can be no assurances that the Company will be successful in negotiating settlements and preventing creditors from filing claims and litigating for claims.

OTHER CONSIDERATIONS

There are numerous factors that affect the 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 product services, the level and intensity of competition in the healthcare electronic transaction processing industry, and the 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 our ability to continue to improve our infrastructure including personnel and systems to keep pace with the Company's anticipated rapid growth.

ITEM 7. FINANCIAL STATEMENTS

13

MEDCOM USA, INC.

Edgar Filing: MEDCOM USA INC - Form 10KSB

TABLE OF CONTENTS	PAGE
-----	----
INDEPENDENT AUDITORS' REPORT: Epstein, Weber & Conover, PLC	F-2
CONSOLIDATED FINANCIAL STATEMENTS: Consolidated Balance Sheet at June 30, 2003	F-3
Consolidated Statements of Operations for the years ended June 30, 2003 and 2002	F-4
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2003 and 2002	F-5
Consolidated Statements of Cash Flows for the years ended June 30, 2003 and 2002	F-6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-7

F-1

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
MedCom USA, Inc.:

We have audited the accompanying consolidated balance sheet of MedCom USA, Inc. as of June 30, 2003 and the related statements of operations, stockholders' equity and cash flows for the each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MedCom USA, Inc. as of June 30, 2003, and the results of its operations and cash flows for each of the two years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company continues to incur operating losses and has limited working capital reserves. The Company has begun to generate revenue from its electronic transaction business segment but expects to face many operating challenges in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are discussed in Note 1. The financial statements do not include any adjustments relating to the

Edgar Filing: MEDCOM USA INC - Form 10KSB

recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ Epstein, Weber & Conover, PLC
 Scottsdale, Arizona
 September 18, 2003

F-2

MEDCOM USA, INC.
 CONSOLIDATED BALANCE SHEET
 JUNE 30, 2003

 ASSETS

CURRENT ASSETS

Cash	\$	54,460
Accounts receivable, net of allowance of \$37,530		189,612
Inventories		196,023
Prepaid expenses and other current assets		3,127

Total current assets		443,222
----------------------	--	---------

PROPERTY AND EQUIPMENT, net		268,656
-----------------------------	--	---------

PROCESSING TERMINALS, net		3,938,052
---------------------------	--	-----------

GOODWILL, net of accumulated amortization of \$322,575		436,423
--	--	---------

OTHER ASSETS		17,657
--------------	--	--------

TOTAL ASSETS	\$	5,104,010
--------------	----	-----------

LIABILITIES AND STOCKHOLDERS' EQUITY:

CURRENT LIABILITIES:

Accounts payable	\$	1,359,049
Accrued expenses and other liabilities		1,344,802
Deferred revenue		817,077
Dividend payable		23,750
Notes payable - current portion		109,437
Capital lease obligations - current portion		1,052,629

Total current liabilities		4,706,744
---------------------------	--	-----------

CAPITAL LEASE OBLIGATIONS - long-term portion		3,094,696
---	--	-----------

DEFERRED REVENUE - long-term portion		2,087,771
--------------------------------------	--	-----------

NOTE PAYABLE - affiliate		778,308
--------------------------	--	---------

Total liabilities		10,667,519
-------------------	--	------------

STOCKHOLDERS' DEFICIT:

Convertible preferred stock, Series A \$.001par value, 52,900 shares

Edgar Filing: MEDCOM USA INC - Form 10KSB

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 36,792,878 outstanding	3,698
Paid in capital	63,278,188
Accumulated deficit	(68,845,428)

Total stockholders' deficit	(5,563,509)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 5,104,010
	=====

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

F-3

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2003 AND JUNE 30, 2002

	2003	2002
	-----	-----
REVENUES:		
Terminal sales	\$ 769,883	\$ 164,800
Service	905,142	443,760
Equipment lease income	524,798	38,940
	-----	-----
	2,199,823	647,510
COST OF SALES AND SERVICE	222,181	193,760
	-----	-----
GROSS PROFIT	1,977,642	453,740
	-----	-----
OPERATING EXPENSES:		
General and administrative expenses	2,623,642	2,325,180
Sales and marketing expenses	1,135,364	141,160
Royalties	282,056	229,820
Professional and consulting fees	253,155	108,360
Depreciation and amortization	969,463	454,470
	-----	-----
Total operating expenses	5,263,680	3,259,010
	-----	-----
OPERATING LOSS	(3,286,038)	(2,805,260)
	-----	-----
OTHER (INCOME) AND EXPENSES		
Legal settlement and contingency expenses		60,800
Interest expense	438,099	30,650
	-----	-----
Total other expense	438,099	91,450
	-----	-----
LOSS BEFORE DISCONTINUED OPERATIONS AND INCOME TAXES	(3,724,137)	(2,896,710)

Edgar Filing: MEDCOM USA INC - Form 10KSB

INCOME TAX (BENEFIT) PROVISION		-	
LOSS FROM CONTINUING OPERATIONS		(3,724,137)	(2,896,711)
LOSS FROM DISCONTINUED OPERATIONS			
Loss from abandonment of discontinued segments, no income tax effect		-	(244,561)
Total		-	(244,561)
NET LOSS		\$ (3,724,137)	\$ (3,141,281)
NET LOSS PER SHARE:			
Basic:			
Continuing operations		\$ (0.10)	\$ (0.10)
Discontinued operations		-	(0.00)
Total Basic		\$ (0.10)	\$ (0.10)
Diluted:			
Continuing operations		\$ (0.10)	\$ (0.10)
Discontinued operations		-	(0.00)
Total Diluted		\$ (0.10)	\$ (0.10)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic		36,954,659	27,439,131
Diluted		36,954,659	27,439,131

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

F-4

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	COMMON STOCK		PREFERRED STOCK			
	SHARES	AMOUNT	PREFERRED A & B SHARES	AMOUNT	PREFERRED C SHARES	AMOUNT
BALANCE JULY 1, 2001	13,858,773	\$ 1,386	4,250	\$ 4	-	-
Common stock issued to consultants for services rendered	1,050,000	105				
Common stock issued for cash	9,638,462	964				
Stock issued to employees and officers for compensation	5,786,500	579				

Edgar Filing: MEDCOM USA INC - Form 10KSB

Common stock issued for penalties and dilution protection	6,546,130	655					
Net loss							
BALANCE							
JUNE 30, 2002	36,879,865	\$ 3,688	4,250	\$ 4	-	\$ -	2,850
	=====	=====	=====	=====	=====	=====	=====
	ACCUMULATED DEFICIT	TRANSLATION ADJUSTMENT		TOTAL			
	-----	-----		-----			
BALANCE JULY 1, 2001	\$ (61,980,011)	\$ -		\$ (751,126)			
Common stock issued to consultants for services rendered				116,605			
Common stock issued for cash				1,242,600			
Stock issued to employees and officers for compensation				519,229			
Common stock issued for penalties and dilution protection				(0)			
Net loss	(3,141,280)			(3,141,280)			
	-----	-----		-----			
BALANCE							
JUNE 30, 2002	\$ (65,121,291)	\$ -		\$ (2,013,973)			
	=====	=====		=====			

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

F-5

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002 (CONTINUED)

	COMMON STOCK SHARES	STOCK AMOUNT	PREFERRED A & B SHARES	AMOUNT	PREFERRED C SHARES	STOCK AMOUNT
	-----	-----	-----	-----	-----	-----
BALANCE JULY 1, 2002	36,879,865	\$ 3,688	4,250	\$ 4	-	\$ -
Common stock issued to settle claims	100,000	10				
Imputed value of warrants issued to consultant for services to be rendered						
Net loss						
	-----	-----	-----	-----	-----	-----
BALANCE						

Edgar Filing: MEDCOM USA INC - Form 10KSB

JUNE 30, 2003	36,979,865	\$ 3,698	4,250	\$ 4	-	\$ -
	=====	=====	=====	=====	=====	=====
	ACCUMULATED	TRANSLATION				
	DEFICIT	ADJUSTMENT		TOTAL		
	-----	-----		-----		
BALANCE JULY 1, 2002	\$ (65,121,291)	\$ -		\$ (2,013,973)		
Common stock issued to settle claims				24,000		
Imputed value of warrants issued to consultant for services to be rendered				150,600		
Net loss	(3,724,137)			(3,724,137)		
	-----	-----		-----		
BALANCE						
JUNE 30, 2003	\$ (68,845,428)	\$ -		\$ (5,563,510)		
	=====	=====		=====		

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

F-5 (Continued)

MEDCOM USA, INC.
STATEMENT OF CASH FLOWS FOR THE
YEARS ENDED JUNE 30, 2003 AND 2002

		2003	

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)		\$ (3,724,137)	\$ (3,724,137)
Adjustments to reconcile net income to net cash (used in) operating activities:			
Loss on abandonment of net assets of discontinued operations		-	
Depreciation and amortization		969,463	
Issuance of warrants as consideration for services		150,600	
Issuance of common stock as compensation for services		-	
Issuance of common stock for settlement of claims		24,000	
Changes in assets and liabilities (net of discontinued business segments):			
Trade accounts receivable		(148,309)	
Inventories		(687,275)	
Prepaid and other current assets		825	
Other assets		-	
Accounts payable		240,470	
Accrued liabilities		396,081	
Deferred revenue		(524,798)	
		-----	-----
Cash used in continuing operations		(3,303,080)	(2,982,080)
Cash provided by discontinued operations		-	-
		-----	-----
Net cash (used in) operating activities		(3,303,080)	(2,982,080)

Edgar Filing: MEDCOM USA INC - Form 10KSB

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment		-	
Purchases of software upgrades		(105,819)	
Advances from/(to) affiliates		860,308	
Proceeds from sale of assets in discontinued segments			
		-----	-----
Net cash provided by/(used in) investing activities		754,489	
		-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Bank overdraft		-	
Principal repayments on capital leases		(607,988)	
Proceeds from sale of common stock		-	1,
Proceeds from capital sale-leaseback transactions		3,183,611	
		-----	-----
Net cash provided by financing activities		2,575,623	2,
		-----	-----
INCREASE IN CASH		27,032	
CASH, BEGINNING OF YEAR		27,428	
		-----	-----
CASH, END OF YEAR		\$ 54,460	\$
		=====	=====

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

F-6

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS, (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003 AND 2002

SUPPLEMENTAL CASH FLOW INFORMATION:	2003	2002
	-----	-----
Interest paid	\$411,984	\$25,615
	=====	=====
Income taxes paid	\$ -0-	\$ -0-
	=====	=====

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Terminals capitalized under sales/leaseback transactions	\$3,612,057	\$1,108,378
	=====	=====
Extinguishment of capital lease obligations by foreclosure on related equipment	\$ -0-	\$1,092,174
	=====	=====

Edgar Filing: MEDCOM USA INC - Form 10KSB

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

F-6 (Continued)

MEDCOM USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND BASIS OF PRESENTATION

MedCom USA, Inc. (the "Company"), formally Sims Communications, Inc., provides point-of-sale transaction terminals and personal computer based software to perform medical insurance eligibility verification, claims processing, and credit card/ATM charges and payments. The Company's customers are health care providers, primarily physicians' offices throughout the United States.

The accompanying financial statements represent the consolidated financial position and results of operations of the Company and includes the accounts and results of operations of the Company and its wholly owned subsidiaries. The results of operations for the year ended June 30, 2003 included only the active entity of MedCom USA, Inc., whereas the results of operations for the year ended June 30, 2002 included Medcom USA, Inc. and the discontinued entity of New View Technologies, Inc. New View Technologies, Inc. was discontinued in the year ended June 30, 2002.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company continues to incur operating losses, has failed to generate positive cash flow from operations and has limited working capital reserves. The Company has a working capital deficit of \$4,263,522 at June 30, 2003. The Company has generated cash flow through sale-leaseback transactions to fund its operations. Management believes that the Company has begun to generate a level of volume in the sales and service contracts of its processing terminals that will allow the Company to meet operating cash flow requirements. The Company has recently changed some of its operations that may allow the Company to better manage cash flows.

The Company has begun to experience increased sales of its MedCard System and has generated cash through the use of sale-leaseback transactions connected to the sales of the terminals for the MedCard System. Management is attempting to attain a sustaining level of operating cash flow from the Company's MedCard operations. The Company will then attempt to raise additional capital to grow the MedCard operations.

Cash reserves and working capital at June 30, 2003 were insufficient to fund currently due obligations. As discussed above, the Company is generating cash flow from sales activities and sale-leaseback transactions. Such cash flow is only recently provided some evidence that it is sufficient to cover current operating expenses. However, this level of cash flow does not permit the Company to retire many older debts or expand its operations. The Company believes that it needs additional cash, either from outside financing or expanded sales activities, in order to retire past due debts and significantly expand the Company's operations. If the Company is unable to produce sales as planned and/or raise additional investment capital to fully implement its business plan, it may jeopardize the ability

Edgar Filing: MEDCOM USA INC - Form 10KSB

of the Company to continue as a going concern.

F-7

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash includes all short-term highly liquid investments that are readily

convertible to known amounts of cash and have original maturities of three months or less. Net bank overdrafts are recorded as current liabilities.

Principles of Consolidation: The consolidated financial statements include

the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated.

Inventories consist primarily POS terminals and spare parts that are held

for sale. Inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Property and Equipment and Terminals 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. Depreciation expense for the years ended June 30, 2003 and 2002 was \$969,463 and \$302,676, respectively.

Revenue Recognition - The Company's revenue is generated by the sale of POS

terminals and transaction fees generated through those terminals. Revenue from the sale of POS terminals is recognized when delivered to the customer and installed. Transactions fees are recognized upon completion of the transaction processing. Sales commissions are determined on the basis of the total contract value and are payable and expensed when the terminal is installed.

Gains are deferred on sale-leaseback transactions of terminals and are amortized in proportion to the amortization of the leased terminals, generally over the term of the related capital leases.

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 in effect at the date of financial statements.

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 retail 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.

Edgar Filing: MEDCOM USA INC - Form 10KSB

F-8

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 SFAS 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 that 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." The proforma effect of the fair value method is discussed in
Note 15.

Intangible Assets at June 30, 2003 consist of goodwill associated with the

Company's acquisition of MedCard for the difference between the purchase
price of the acquired business and the fair value of the identifiable net
assets. The Company adopted Statement of Financial Accounting Standard
("SFAS") No. 142, Goodwill and Other Intangible Assets, effective July 1,
2002. As a result, the Company discontinued amortization of goodwill, and
instead annually evaluates the carrying value of goodwill for impairment,
in accordance with the provisions of SFAS No. 142. The Company believes
that there has been no impairment of the carrying value of goodwill of
\$436,423 as of June 30, 2003.

Goodwill had been amortized over 5 years. Had the Company amortized
goodwill in the year ended June 30, 2003, the related amortization expense
would have been \$151,800.

Research and Development costs are expensed as incurred.

Impairment of Long-Lived Assets is assessed by the Company for impairment

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.

Recently Issued Accounting Pronouncements: In June 2001, the FASB issued

SFAS No. 141, "Business Combinations." SFAS No. 141 requires that the
purchase method of accounting be used for all business combinations
initiated after June 30, 2001. Goodwill and certain intangible assets will

Edgar Filing: MEDCOM USA INC - Form 10KSB

remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write downs may be necessary. The Company has adopted SFAS No. 141, without material effect on financial condition or results of operations.

F-9

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on July 1, 2002 and as a result would not amortize goodwill. The Company adopted SFAS No. 141, see discussion on intangible assets.

In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 did not have a material impact to the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities". This Standard requires costs associated with exit or disposal activities to be recognized when they are incurred. The requirements of SFAS No. 146 apply prospectively after June 30, 2003, and as such, the Company cannot reasonably estimate the impact of adopting these new rules.

3. ACCOUNTS RECEIVABLE

The Company's accounts receivable at June 30, 2003 consisted of:

Medcard trade accounts receivable	\$ 181,017
Other	46,125
Total	227,142

Edgar Filing: MEDCOM USA INC - Form 10KSB

Less: Allowance for doubtful accounts	(37,530)
	\$ 189,612

F-10

The Company estimates uncollectible account balances and provides an allowance for such estimates. The allowance for doubtful accounts at June 30, 2003, consists of an estimate for potentially uncollectible accounts in the MedCard division.

4. IMPAIRMENT OF LONG-LIVED ASSETS

In connection with the Company's determination that it divest of or abandon numerous business segments, the Company analyzed the carrying cost of its long-lived assets in those segments. The Company analyzed any write-down considering factors such as the potential sale of such business segments, collateral value for obligations and out right abandonment. During the year ended June 30, 2001, the Company recognized impairment write-downs or write-offs of approximately \$4,700,000. There were no additional impairment losses recorded in the year ended June 30, 2002, nor were there long-lived assets for sale remaining at June 30, 2002.

The impairment losses above have been included in discontinued operations for the year ended June 30, 2001. The \$16,847 in vending equipment was disposed of in the year ended June 30, 2002.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2003:

Software	\$	924,058
Software upgrades		111,819
Office and computer equipment		201,262
Furnishings and fixtures		128,933
Leasehold improvements		4,439

Total		1,370,511
Less accumulated depreciation		(1,101,855)

Property and equipment, net	\$	268,656
		=====

Software represents the cost of software acquired for the operation of the Company's MedCard System. The capitalized cost of the software is amortized on a straight-line basis over five years. Additional costs capitalized as software development during the years ended June 30, 2003 and 2002 were \$105,819 and \$6,058, respectively. These upgrades are amortized on a straight-line basis over three years.

6. TERMINALS

Edgar Filing: MEDCOM USA INC - Form 10KSB

The Company capitalizes the value of the point of sale terminals that are sold under capital sale-leaseback transactions (Note 8). The terminals are purchased from third party vendors

F-11

and are recorded as inventory at that time. The Company enters into sale and service agreements with its customers at which time the terminal is programmed with the Company's proprietary software and installed with the customer. Many of those terminals are the basis for the sale-leaseback transactions discussed in Note 8. The terminals are capitalized at the value determined by the lessor on the basis of the cash flow under the terms of the sale and service agreements with the customers.

Terminals	\$4,720,435
Less accumulated amortization	(782,383)

Terminals, net	\$3,938,052
	=====

7. NOTES PAYABLE

Notes payable at June 30, 2003 comprise the following:

Convertible note payable to individual. The note bears interest at 8% per annum and is payable quarterly. The note is convertible to common stock at \$6.25 per share. The note had an original maturity date of February 1998 and is currently in default. \$ 25,000

Note payable to landlord. Collateralized by leasehold improvements. Original principal balance of \$95,000. The note bears interest at 9% per annum and requires monthly principal and interest payments of \$1,999. The Company has defaulted on the note, and the landlord has obtained a judgment which is being appealed. 84,437

Totals	-----
	\$109,437
	=====

Both of the notes payable are in default as of June 30, 2003. A former landlord has obtained a court ordered judgment against the Company for the past due note, unpaid rent and legal fees. The Company is attempting to renegotiate and settle this obligation.

8. CAPITAL LEASE OBLIGATIONS AND SALE-LEASEBACK TRANSACTIONS

The Company leases many of its MedCard terminals under capital lease

Edgar Filing: MEDCOM USA INC - Form 10KSB

agreements. The Company also leases certain office and computer equipment under capital leases.

The Company has entered into an arrangement with a third party lessor whereby the Company sells its terminals that are placed with customers to the lessor. The lessor in turn

F-12

leases back the terminals. These transactions are recorded as sale-leaseback transactions. The leases between the Company and the lessor are accounted for as capital leases. The Company generates revenue from the terminals through monthly service fees and transaction fees. The value of the sale transaction between the Company and lessor is determined by Company's agreement with the customer relative to the number of terminals, length of the customer contract and monthly service fee due from the customer. The Company acquires terminals from its suppliers, programs the terminals with its software and sells the terminals to the lessor when it enters into an agreement with a customer for those specific terminals. Any gain on the sale transaction with the lessor is deferred and amortized proportionately with the capitalized asset. That period is generally four or five years, the typical length of the lease agreement. At June 30, 2003, the amount of deferred gain on sale-leaseback transactions was \$2,904,848.

Generally, the terms of repayment for the capital lease obligations approximates the monthly rental charged the customer by the Company. These leases are collateralized by the underlying equipment and, in addition, 1,000,000 shares of the Company's common stock.

The following presents future minimum lease payments under the capital leases by year and the present value of minimum lease payments as of June 30, 2003:

Years ended June 30:

	Terminals	Other Equipment	Total
2004	\$ 1,523,868	\$ 31,418	\$ 1,555,286
2005	1,523,868		1,523,868
2006	1,468,921		1,468,921
2007	567,578		567,578
2008	138,472		138,472
Total minimum lease payments	5,222,707	31,418	5,254,125
Lees: amount representing interest	(1,105,530)	(1,270)	(1,106,800)
Present value of minimum lease payments	\$ 4,117,177	\$ 30,148	\$ 4,147,325

The Company defaulted on two capital lease agreements with an originally determined present value of minimum lease payments of \$1,156,794 at June 30, 2001. The lessors foreclosed on this equipment in the year ended June 30, 2002. The Company estimated that the fair value of the equipment

Edgar Filing: MEDCOM USA INC - Form 10KSB

approximated the carrying value of obligations. However, the carrying value of the assets was greater than the fair value at the time of the foreclosure. The Company recognized a loss of \$206,790 on the foreclosure of these assets and the related extinguishment of the obligations in the year ended June 30, 2002.

The capitalized cost of terminals under capital leases for the year ended June 30, 2003 and 2002 was \$4,720,435 and \$1,108,378 respectively. The related accumulated amortization on these assets was \$782,383 and \$63,261 as of June 30, 2003 and 2002, respectively.

F-13

9. DISCONTINUED OPERATIONS

In the year ended June 30, 2001, the Company determined that it would divest of or abandon the following operations and business segments:

Segment Identification	Method of Disposal	Remaining Assets at June 30, 2001		Remaining Liabilities at June 30, 2001		Rev th
DCB	Abandonment	NONE		NONE		\$
Healthcare Information Software	Capital lease Abandon/Sale	Equipment	\$1,651,863	Obligations	\$995,175	\$
Vending	Sale	Accounts Receivable	\$91,000	Accounts Payable	\$ 53,000	\$
		Inventory	17,000			
		Equipment	17,000			

In August 2001, the Company sold the Vending segment to a former employee for \$50,000 cash and the assumption of certain trade accounts payable. The Company maintained title to certain accounts receivable. The Company recognized an additional loss on this disposal of \$31,715 in the year ended June 30, 2002. The Company has completed its disposal of this business segment as of June 30, 2002.

Any other net assets of the above named segments were written -off because there was no expected realization from the carrying value of those net assets. The loss from these write-offs is included in the loss from abandonment of discontinued segments in the accompanying statement of operations for the year ended June 30, 2001. The Company is attempting to negotiate the capital lease obligations of the Healthcare Information Software segment by returning the equipment to the lessors. The Company is also attempting to sell the remaining equipment. In the year ended June 30, 2002, the Company recognized an additional loss on this disposal of \$212,846. The Company has completed its disposal of this business segment as of June 30, 2002.

The Company determined it would discontinue these operations in June 2001.

Edgar Filing: MEDCOM USA INC - Form 10KSB

Therefore, the operating losses determined from the date the determination was made to discontinue these operations through June 30, 2001, is not significant.

10. INCOME TAXES

The Company recognizes deferred income taxes for the differences between financial accounting and tax bases of assets and liabilities. Income taxes for the years ended June 30, consisted of the following:

F-14

	2003	2002
	-----	-----
Current tax (benefit) provision	\$(1,590,930)	\$(1,584,102)
Deferred tax (benefit) provision	1,590,930	1,584,102
	-----	-----
Total income tax provision	\$ - 0 -	\$ - 0 -
	=====	=====

Net deferred tax assets of \$24,201,137 less a valuation allowance of \$24,201,137, relate primarily to net operating loss carryforwards and differences in book and tax bases of property and equipment, intangible assets and certain accruals. The net deferred income tax asset at June 30, 2003 is comprised of:

Allowance for losses on accounts receivable	\$	15,012
Warrants		60,240
Contingency		250,238
Impairment of intangible assets		1,780,460
Net operating loss carryforwards		22,185,821

Deferred income tax asset	\$	24,297,711
Less: valuation allowance		(24,201,137)

Total deferred income tax asset		96,574
Deferred income tax liability related to book/tax differences in bases of property and equipment		(96,574)

Net deferred income tax asset	\$	- 0 -
		=====

Federal net operating loss carryforwards of \$56,215,000 expire from 2011 to 2022. State net operating loss carryforwards of \$51,214,000 expire from 2004 to 2007. Due to the conditions discussed in Note 1, future utilization of the net operating losses is uncertain. The valuation allowance on the deferred income tax asset was increased by \$1,471,014 in the year ended June 30, 2003.

The differences between the statutory and effective tax rates is as follows

Edgar Filing: MEDCOM USA INC - Form 10KSB

for the years ended June 30:

	2003		2002	
	----		----	
Federal statutory rates	\$(1,266,207)	(34)%	\$(1,068,035)	(34)%
State income taxes	(223,448)	(6)%	(188,477)	(6)%
Valuation allowance for operating loss carryforwards	1,471,014	39%	1,231,242	39%
Other	18,641	1%	25,270	1%

Effective rate	\$ (- 0 -)	0%	\$ (- 0 -)	0%
	=====			

11. OPERATING LEASES

The Company leases its office space under long-term operating leases expiring through 2008. Rent expense under these leases was \$140,481 and \$189,323 for the years ended June 30, 2003 and 2002, respectively.

F-15

Future minimum annual lease payments and sublease rentals under operating lease agreements for years ended June 30:

2004	160,094
2005	158,750
2006	132,914
2007	130,566
2008	100,773

	683,097
	=====

12. STOCKHOLDERS' EQUITY

During the year ended June 30, 2002, the Company issued 9,638,462 shares of shares of its commons stock for \$1,242,600. Of that amount, 9,192,462 shares of the Company's common stock were sold to an entity controlled by the Company's president and chairman for \$1,022,600. No shares were issued for cash in the year ended June 30, 2003.

The Company had anti-dilution agreements with certain investors. These agreements required that the Company issue additional shares to theses investors should the stock price decline below specified levels or if the Company issued common stock in excess of specified amounts within a specified time frame. During the year ended June 30, 2002, the Company issued an additional 6,546,130 shares of its common stock to fulfill obligations under these agreements. Because these shares were contingently issuable at the time when the original shares were sold, no value has been ascribed to these shares in recording their issuance.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The value of those shares was determined based on the trading value of the stock at the dates on which the agreements were made for the services. During the year ended June 30, 2002, the Company granted 1,050,000 shares of common stock to consultants valued

Edgar Filing: MEDCOM USA INC - Form 10KSB

at \$116,605. Additionally during the year ended June 30, 2002, the Company granted 5,786,500 shares of its common stock to officers and employees valued at \$519,229. The value of these shares was expensed during that year. During the year ended June 30, 2003, the Company issued 400,000 warrants at a strike price of \$0.50 as consideration to consultants for services to be rendered. The value of these warrants was determined using the Black-Scholes option pricing model and expensed when the warrants were granted.

During the year ended June 30, 2003, the Company issued 100,000 shares of its common stock as conversion of a settlement balance of \$24,000.

Preferred Stock

The Company is authorized to issue up to 300,000 shares of \$.001 par value Preferred Stock. The Board of Directors has the authority to divide the Preferred Stock into series and, within the certain limitations, to set the relevant terms of such series created.

F-16

In April 1995, the Company established the Series A Preferred Stock and authorized the issuance of up to 50,000 shares. Each share of series A Preferred Stock is entitled to a dividend at the rate of \$1.60 per share when, as and if declared by the Board of Directors. Dividends not declared are not cumulative. Additionally, each share of Series A Preferred Stock is convertible into .20 shares of the Company's Common Stock at any time after July 1, 1999. A total of 850 shares of common stock may be issued upon the conversion of the shares of Series A preferred stock outstanding as of June 30, 2000. Upon any liquidation or dissolution of the Company, each outstanding share of Series A Preferred Stock is entitled to distribution of \$20 per share prior to any distribution to the holders of the Company's common stock. As of June 30, 2000, the Company has 4,250 shares of Series A Preferred Stock issued and outstanding.

In April 2000, the Company established the Series D Preferred stock and authorized the issuance of up to 2,900 shares. The Company issued 494 shares related to a business acquisition of and 2,356 shares for the acquisition of related intellectual property.

Each share of Series D preferred stock is entitled to a dividend at the rate of \$0.04 per share and has a stated value of \$1,000 per share. Dividends on all Series D preferred stock begin to accrue and accumulate from the date of issuance. Additionally, each share of Series D preferred stock is convertible into 40.49 shares of common stock for a total of 576,923 shares at the option of the stockholders. Upon liquidation or dissolution of the Company, each outstanding share of Series D preferred stock is entitled to a distribution of the stated amount per share prior to any distribution to the shareholders of the Company's common stock. The Company can convert the Series D preferred stock into shares of common stock using the same conversion ratio at any time after April 15, 2001 so long as the bid price of the Company's common stock exceeds \$4.94 per share and the shares of common stock issuable upon the conversion of the Series D preferred stock are either covered by an effective registration statement or are eligible for sale pursuant to rule 144 of the Securities and Exchange Commission. Each share of Series D preferred stock is entitled to vote in all matters submitted to the Company's shareholders on an "as converted" basis.

During the year ended June 30, 2001, the Company paid accrued dividends of \$114,000 on the Series D preferred stock by the issuance of 61,965 shares

Edgar Filing: MEDCOM USA INC - Form 10KSB

of the Company's common stock. The Company did not declare its dividend on the preferred stock during the year ended June 30, 2003 and 2002. At June 30, 2003, there was an accumulated undeclared and unpaid dividend on the Series D preferred stock of \$228,000. Total accrued, but unpaid dividends related to the Series D preferred stock was \$23,750 at June 30, 2003.

13. COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has entered into numerous employment agreements with officers and key employees. Generally, the employment agreements are for three-year periods and include, as potential additional compensation, incentive bonuses computed based upon Company's operations and other benefits, including such items as an automobile allowance, health and life

F-17

insurance, vacation and sick pay benefits. In June 2000, the Company entered into employment agreements with several officers. These agreements were renegotiated in the year ended June 30, 2002. Total aggregate annual compensation under these agreements is \$208,000. These individuals may be entitled to receive incentive bonuses and other benefits including health insurance, disability coverage, vacation and sick pay. These individuals received options to purchase a total of 25,000 shares of the Company's common stock at \$3.00 per share with vesting on an annual basis over two years. The agreements terminated on June 19, 2003.

Royalty Agreement

In connection with the original licensing and subsequent acquisition of MedCard, the Company entered into a royalty agreement with the original Licensor. The royalty provisions of the license agreement remained in effect after the purchase. This agreement was amended in the year ended June 30, 2002. The Company will pay the Licensor 20% of the first \$1,000,000 of qualified monthly revenues, less direct costs, generated by the licensed software and 10% of net monthly revenue in excess of \$1,000,000.

Consulting Agreements

The Company has entered into various consulting agreements with outside consultants. These agreements entitle the consultant to issuances of common stock and options as well as cash compensation in exchange for consulting services relating to such things as raising additional debt and equity capital, software development, sales development, investor and public relations and general strategic business consulting. Most of these agreements were prepaid through the issuance of common stock or warrants. However, certain of these agreements included additional compensation on the basis of performance. The Company has cancelled all of these agreements and wrote-off all of the associated prepaid expense balances at June 30, 2001. The Company does not believe that it has any further obligation under these agreements. However, there have been certain claims made. During the year ended June 30, 2003, the Company settled such claim resulting in the utilization of a \$98,000 accrual made as of June 30, 2002. This agreement included the return of 186,000 shares of the Company's common stock held by the consultant. These shares were returned but have not been retired as of June 30, 2003. Therefore, the shares are issued but not outstanding at that date.

Edgar Filing: MEDCOM USA INC - Form 10KSB

During February 2003, the Company has entered into a service agreement with a consultant . whereby the consultant will act as financial advisor and investment banking representative on the Company's behalf. Upon the execution of the contract the Company granted the consultant warrants to purchase up to four hundred thousand shares of the Company's common stock at an exercise price of \$.50 per common share . The warrants expire five years from date of issuance

Litigation

Subsequent to June 30, 2001, several former employees filed complaints against the Company alleging unpaid payroll and breach of employment agreements. The total known claims being sought by the former employees at June 30, 2001 was approximately \$175,000. The

F-18

Company believes that it has settled all former employee claims in amounts aggregating to an amount approximating the accrued amount of \$104,000. A former officer has a claim remaining with the Company. The Company is attempting to settle this claim. At June 30, 2003, there was \$164,000 accrued relating to this matter.

Several landlords are seeking damages from the Company due to the Company defaulting on several lease agreements. Certain landlords have obtained legal judgments against the Company. The total amount of such claims was \$634,000. The Company and its legal counsel believe that ultimate settlement will result in a much lower payout. The Company has accrued \$208,000 associated with these claims at June 30, 2003. This amount was estimated on the basis of advice from legal counsel whom has settled several similar suits. However, the ultimate result of any settlement could vary significantly from this estimate.

The Company had obligated shares of the Company's common stock and warrants exercisable into common stock under numerous consulting and fund raising agreements. Some such agreements obligated shares in cases of the occurrence of substantial dilution or price drop in the trading value of the Company's common stock. Management believes that it has fulfilled all such obligations. However, the Company has received claims related to these matters. One such claim alleges 1,066,666 shares of the Company's common stock is owed. Management believes that this claim has no merit. Management believes that there is a possibility that additional claims may arise.

The Company may be subject other unasserted claims associated with the abandonment of its operations. The Company is also involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, except as discussed above, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

At June 30, 2003, there was approximately \$553,000 estimated and accrued for claims related to the litigation matters described above.

14. NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. Preferred stock convertible to 115,396 common shares and options and warrants exercisable into 3,877,281 shares of

Edgar Filing: MEDCOM USA INC - Form 10KSB

common stock were not considered in the calculation for diluted earnings per share for the year ended June 30, 2003 because the effect of their inclusion would be anti-dilutive. Preferred stock convertible to 115,396 common shares and options and warrants exercisable into 3,863,975 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended June 30, 2002 because the effect of their inclusion would be anti-dilutive. The following presents the computation of basic and diluted loss per share from continuing operations:

F-19

		2003 ----		2002 ----	
	(Loss)	Shares	Per share	(Loss)	Shares
Net (Loss)	\$(3,724,137)			\$(3,141,280)	
Preferred stock dividends	(114,000)			(114,000)	
Discontinued operations	-			244,561	
Loss from continuing operations	(3,838,137)			(3,010,719)	
BASIC EARNINGS PER SHARE					
Loss available to common stockholders	\$(3,838,137)	36,954,659	\$ (0.10)	\$(3,010,719)	27,439,1
Effect of dilutive securities	N/A			N/A	
DILUTED EARNINGS PER SHARE	\$(3,838,137)	36,954,659	\$ (0.10)	\$(3,010,719)	27,439,1

15. RELATED PARTY TRANSACTIONS

The Company's president and chairman is a significant shareholder of the Company. This individual controls another entity that is also a significant shareholder of the Company. During the year ended June 30, 2002, the Company moved its administrative offices into space occupied by this related entity that is a significant shareholder of the Company. The Company shares office space and management and administrative personnel with this related entity. The Company paid rent to the related entity of approximately \$14,158 for the year ended June 30, 2002. Certain of the Company's personnel perform functions for the related entity but there was no allocation of personnel related expenses to the related entity in the years ended June 30, 2003 and 2002.

The Company frequently receives advances and advances funds to an entity controlled by the Company's president and which is a significant shareholder of the Company. During the year ended June 30, 2003, the Company received advances from this entity of \$860,308. During the year ended June 30, 2002, the Company advanced funds of \$82,000 to this entity. This balance due to this affiliate at June 30, 2003 was \$778,308. The advances are generally short term in nature and there is no specified repayment terms or interest rate.

The Company paid management fees of \$255,000 to an entity owned by the

Edgar Filing: MEDCOM USA INC - Form 10KSB

Company's president during the year ended June 30, 2003. Additionally, there is another \$195,000 accrued as management fees due to this entity at June 30, 2003.

During the year ended June 30, 2002, the entity controlled by the Company's president and chairman acquired 9,192,462 shares of the Company's common stock for \$1,022,600.

16. CONCENTRATIONS

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from

F-20

small business customers in numerous geographical locations throughout the United States. The Company estimates and provides an allowance for uncollectible accounts receivable.

The Company has raised cash through sale-leaseback transactions. All of these transactions have been conducted through a single lessor. During the year ended June 30, 2003, the Company received \$3,183,611 under sale-leaseback transactions from this entity.

17. STOCK BASED COMPENSATION

The Company issues stock options from time to time to executives, key employees and members of the Board of Directors. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and continues to account for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation cost has been recognized for the stock options granted to employees. Had compensation cost for the Company's stock options been determined based on the fair value at the grant date for awards in 2003 and 2002, consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	2003	2002
	-----	-----
Net Loss - continuing operations	\$(3,724,137)	\$(2,896,719)
Net Loss - discontinued operations	\$ -	\$ (244,561)
	-----	-----
Total net loss - as reported	\$(3,724,137)	\$(3,141,280)
Pro-forma effect of stock based compensation	\$ -	\$ (44,657)
	-----	-----
Net Loss - pro forma	\$(3,724,137)	\$(3,185,937)
	=====	=====
Loss per share - continuing operations	\$ (0.10)	\$ (0.11)
Loss per share - discontinued operations	\$ -	\$ (0.01)
	-----	-----
Total loss per share - as reported	\$ (0.10)	\$ (0.12)

Edgar Filing: MEDCOM USA INC - Form 10KSB

Pro-forma effect of stock based compensation	\$	-	\$	-
	-----		-----	
Loss per share - pro forma	\$	(0.10)	\$	(0.12)
	=====		=====	

All options granted have been fully vested and therefore there is no pro forma effect for the year ended June 30, 2003. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing-model.

In February 2003, 400,000 warrants were issued as consideration for consulting services to be rendered. The fair value of these warrants (\$150,600) was expensed in that year. There were no options or warrants granted in the year ended June 30, 2002.

F-21

The Company grants options under several stock option plans. The Company's Incentive Stock Option Plans, Non-Qualified Stock Option Plans and Stock Bonus Plans are collectively referred to as the "Plans". The following sets forth certain information as of June 30, 2002 concerning the stock options and stock bonuses granted by the Company pursuant to the Plans. Each option represents the right to purchase one share of the Company's Common Stock.

	TOTAL SHARES RESERVED UNDER THE PLAN	REMAINING OPTIONS UNDER THE PLAN
1998 Incentive Stock Option Plan	1,500,000	400,167
2000 Incentive Stock Option Plan	1,000,000	925,150
2000 Non-Qualified Stock Option Plan	2,000,000	1,820,575
1999 Stock Bonus Plan	900,000	833,250
2000 Stock Bonus Plan	500,000	500,000

During the year ended June 30, 2001, the Company granted 1,804,650 options to certain key employees. These options vest at 30% immediately and the remaining 70% over one year. These options were granted at an exercise price of \$0.47 to \$3.00 the fair market value of the underlying shares on the date of grant. The options expire five years from date of grant. The summary of activity for the Company's stock options and warrants is presented below:

Edgar Filing: MEDCOM USA INC - Form 10KSB

	2003	Weighted Average Exercise Price	2002	Weighted Average Exercise Price
	-----	-----	-----	-----
Options/warrants outstanding at				
Beginning of year	3,863,975	\$ 9.49	7,835,766	\$ 6.99
Granted	400,000		- 0 -	
Exercised	- 0 -		- 0 -	
Terminated/Expired	(386,694)		(3,971,791)	
Options outstanding at end of year	3,877,281	\$ 8.41	3,863,975	\$ 9.49
Options exercisable at end of year	3,877,281	\$ 8.41	3,863,975	\$ 9.49
Options available for grant at end of year	4,479,142		3,459,142	

F-22

Price per share of options outstanding	\$ 0.47 to \$ 40.00	\$ 0.47 to \$ 40.00
--	------------------------	------------------------

Weighted average remaining contractual lives	1.84years	2.94 years
---	-----------	------------

Weighted Average fair value of options granted during the year	\$ 150,600	N/A
---	------------	-----

Range of exercise prices of options/warrants outstanding at June 30, 2003:

Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
-----	-----	-----	-----	-----
0.47-\$1.50	1,397,940	\$ 0.76	1,397,940	\$ 0.76
1.51-\$3.00	473,993	\$ 2.38	473,993	\$ 2.38
3.01-\$4.50	261,667	\$ 3.95	261,667	\$ 3.95
4.51-\$6.00	400,913	\$ 5.00	400,913	\$ 5.00
6.01-\$10.00	107,595	\$ 8.24	107,595	\$ 8.24
10.01-15.00	365,000	\$ 13.63	365,000	\$ 13.63
15.01 and greater	870,175	\$ 24.71	870,175	\$ 24.71

18. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees. Each United States based full-time employee is eligible to participate in that plan on the first day of the calendar quarter after completing ninety days of employment with the Company. A participating employee can contribute up to fifteen percent (15%) of their annual compensation, up to a maximum of the federally mandated limit. The Company matches 50% of the contributions on the first six percent (6%) of the employee's contribution up to a

Edgar Filing: MEDCOM USA INC - Form 10KSB

maximum of three percent (3%). Employees are fully vested on their own contributions and vest in the Company's contributions twenty percent (20%) per year over five years. The Plan was frozen subsequent to June 30, 2001 and there were no contributions for the years ended June 30, 2003 and 2002.

19. BUSINESS SEGMENTS

The Company previously had three reportable segments: intelligent vending machines, healthcare management software development and medical transaction processing. During the year ended June 30, 2001, the Company determined it would divest or abandon all business segments other than the medical transaction processing segment. Therefore, going forward, the Company will have only one reportable segment. At June 30, 2003 the Company operates

F-23

only in the medical transaction processing segment with substantially all revenue generated in the United States.

The medical transaction processing segment includes revenue from the MedCard System, including the sale of terminals, processing fees and billing service revenue and the licensing, sales and services related to the Company's One Medical Services Network.

For the years ended June 30, 2003 and 2002, there were no material concentrations of revenue to specific customers. However, all gains related to sale-leaseback transactions are associated with one lessor but relate to numerous customer contracts.

* * * * *

F-24

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

DIRECTOR AND EXECUTIVE OFFICER

Mr. William P. Williams as of August 2001 accepted the position of Chief Executive Officer and sole Director of the Company. Information representing Mr. Williams, is set forth below:

William P. Williams	50	Chairman, President, Chief Executive Officer
---------------------	----	--

The chief executive officer and sole director of the Company will hold office until additional members or officers are duly elected and qualified. The background and principal occupations of the sole officer and director of the Company is as follows:

William P. Williams has been the Chairman, Chief Executive Officer, of

Edgar Filing: MEDCOM USA INC - Form 10KSB

Medcom USA since August 2001. He is also currently Chief Executive Officer and Chairman of the Board for American Nortel Communications, Inc., a publicly traded company located in Scottsdale, Arizona, which is in the business of long-distance telephone service domestically, as well as internationally. From 1983 to 1995, he was President and Chairman of the Board of Shelton Financial, Inc., a financial factoring firm headquartered in San Antonio, Texas. Mr. Williams has a Bachelor of Arts, and a Master of Business Administration in Finance from Baylor University.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT 9.A. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS:

The Company is aware that all filings of Form 4 and 5 required of Section 16(a) of the Exchange Act of Directors, Officers or holders of 10% of the Company's shares have not been timely and the Company has instituted procedures to ensure compliance in the future.

ITEM 10. EXECUTIVE COMPENSATION

General. Mr. William P. Williams serves as the Company's sole-director and chief executive officer. Pursuant to a Management Services Agreement executed and approved by the Company Mr. Williams was compensated approximately \$298,700 for management fees, and other sources or forms of compensation was not paid or collected for Fiscal year ended 2003.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

As of June 30, 2003 information with respect to the only persons owning beneficially 5% or

41

more of the outstanding common stock and the number of and percentage of the outstanding shares owned is represented below:

Name and Address	Shares Owned (1)	Common Stock
----- William P. Williams 7975 North Hayden Road #C-260 Scottsdale, Arizona 85258	4,796,500	13.3 %