MEDCOM USA INC
Form 10QSB
May 15, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT

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

Commission File No. 0-25474

MEDCOM USA, INCORPORATED
(Name of small business issuer as specified in its charter)

DELAWARE	65-0287558
State of Incorporation	IRS Employer Identification No.

7975 NORTH HAYDEN ROAD, SUITE D-333
SCOTTSDALE, AZ 85258
(Address of principal executive offices)
(480) 675-8865
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The number of shares of the issuer's common equity outstanding as of March 15, 2007 was 90,371,004 shares of common stock.

Transitional Small Business Disclosure Format (check one):

Yes No X

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FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

MEDCOM USA, INCORPORATED

CONDENSED BALANCE SHEET
AS OF MARCH 31, 2007

	March 31, 2007 (Unaudited)
ASSETS:	
CURRENT ASSETS	
Cash	$ 55,035
Licensing Contracts - ST	991,192
Prepaid expenses and other current assets	162,824
Total current assets	1,209,051
PROPERTY AND EQUIPMENT, net	528,909
Licensing Contracts - LT	727,142
Deposits	17,657
TOTAL ASSETS	$ 2,482,758
LIABILITIES AND STOCKHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Accounts payable	$ 142,409
Accrued expenses and other liabilities	59,714
Notes Affiliates	60,000
Dividend payable	23,750
Deferred revenue - current portion	500,235
Licensing obligations - current portion	1,981,132
Total current liabilities	2,767,240
Notes from Affiliates	-
LICENSING OBLIGATIONS - long-term portion	2,047,785
DEFERRED REVENUE	1,432,310
Total liabilities	6,247,335
STOCKHOLDERS' EQUITY:	
Convertible preferred stock, Series A $.001par value, 52,900 shares designated, 4,250 issued and outstanding	4
Convertible preferred stock, Series D $.01par value, 50,000 shares designated, 2,850 issued and outstanding	29
Common stock, $.0001 par value, 175,000,000 shares authorized, 90,371,004 issued and 70,317,569 outstanding	9,038
Treasury stock	(37,397)
Paid in capital	84,689,076
Accumulated deficit	(88,425,327)
Total stockholders' equity	(3,764,577)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,482,758

See the accompanying notes to these unaudited condensed financial statements.

MEDCOM USA, INCORPORATED
CONDENSED STATEMENT OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006

	Three Months Ended 2007	Three Months Ended 2006	Nine Months Ended 2007	Nine Months Ended 2006
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
REVENUES:				
Terminal sales	$ 11,200	$ 22,778	$ 41,681	$ 156,216
Service	518,016	890,076	2,338,259	2,642,249
Licensing Fees	175,329	399,052	1,393,102	2,640,509
	704,546	1,311,906	3,773,042	5,438,974
COST OF DELIVERABLES:	266,323	370,809	1,198,330	2,676,198
GROSS PROFIT	438,222	941,097	2,574,712	2,762,776
OPERATING EXPENSES:				
General and administrative	806,947	1,118,451	2,748,760	4,094,904
Sales and marketing	97,129	341,165	179,878	627,357
Depreciation and amortization	7,055	658,824	770,505	2,000,924
Total operating expenses	911,130	2,118,440	3,699,142	6,723,185
OPERATING LOSS	(472,907)	(1,177,343)	(1,124,430)	(3,960,409
OTHER (INCOME) AND EXPENSES				
Interest expense	270,957	111,651	600,546	377,042
Interest Income	(98,189)	(175,339)	(304,116)	(449,689
Early Extinguishment of Debt	-	(76,208)	-	(76,208
Legal Settlement			48,600	
Impairment of Assets			27,040	
Other Income	-		(42,585)	-
Total other expense	302,768	(139,896)	519,484	(148,855
NET LOSS	(645,675)	(1,037,447)	(1,513,915)	(3,811,554
NET LOSS PER SHARE:				
Basic:	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.06
Diluted:	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.06

Weighted Average Common Shares Outstanding				
Basic	89,224,348	64,150,290	82,347,773	60,743,480
Diluted	89,224,348	64,150,290	82,347,773	60,743,480

See the accompanying notes to these unaudited condensed financial statements.

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MEDCOM USA INCORPORATED.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2007 AND 2006

	2007	2006
	(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$(1,513,915)	$(3,811,552)
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	825,801	2,034,971
Issuance of common stock as compensation for services - net	1,153,985	2,011,552
Impairment of assets	27,040	-
Changes in assets and liabilities:		
Licensing and Leasing Contracts	(198,453)	(922,306)
Prepaid and other current assets	44,767	(133,435)
Other assets	-	(271,167)
Accounts payable and accrued liabilities	(584,400)	(829,171)
Deferred revenue	(1,687,382)	(1,529,514)
Net cash (used) in operating activities:	(1,932,558)	(3,450,622)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property & equipment	(158,025)	(88,334)
Payments for Capital Raised	(54,160)	
Net advances to affiliate	(182,157)	-
Net cash (used) and provided by investing activities:	(394,342)	(88,334)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on capital leases	(1,544,997)	(769,072)
Net repayments of to Affiliate	(1,312,913)	(42,308)
Proceeds from sale of common stock	4,754,324	1,830,698
Proceeds from licensing and leasing transaction	484,373	2,531,054
Net cash provided by financing activities	2,380,786	3,550,372
INCREASE IN CASH	53,887	11,416
CASH, BEGINNING OF PERIOD	1,148	10,207
CASH, END OF PERIOD	$ 55,035	$ 21,623

SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 189,589	$ 217,207
Income taxes paid	-	-

See the accompanying notes to these unaudited condensed financial statements

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MEDCOM USA INCORPORATED
NOTES TO CONDENSED FINANCIAL STATEMENTS THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006

1. BASIS OF PRESENTATION

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

2. GOING CONCERN

The accompanying condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year end losses from operations and had minimal revenues from operations the nine months ended March 31, 2007. During nine months ended March 31, 2007 the Company incurred net loss of $1,600,000 and has cumulative losses of $88,500,000. Further, the Company has inadequate working capital to maintain or develop its operations, and is dependent upon funds from private investors and the support of certain stockholders.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The condensed financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, Management is proposing to raise any necessary additional funds through loans and additional sales of its common stock. There is no assurance that the Company will be successful in raising additional capital.

3. INTERIM FINANCIAL STATEMENTS

The accompanying interim unaudited condensed financial information has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of March 31, 2007 and the related operating results and cash flows for the interim period presented have been made. The results of operations of such interim period are not necessarily indicative of the results of the full fiscal year. For further information, refer to the financial statements and footnotes thereto included in the Company's 10-KSB and Annual Report for the fiscal year ended June 30, 2006.

Summary of significant accounting policies

Summarized below are the significant accounting policies of MedCom USA, Inc. ("we," "MedCom," or the "Company"). Unless otherwise indicated, amounts provided in these notes to the financial statements pertain to continuing operations

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Revenue Recognition

The Company has since upgraded its technology to address its core revenue model that is the sale of medical software. In recognition of the changes in technology and certain modifications to its licensing agreements the Company has adopted a new accounting method effective July 1, 2005, in accordance with SOP 97-2 and EITF 00-21. SOP 97-2 applies to all entities that license, sell, lease, or market computer software. It also applies to "hosting" arrangements in which the customer has the option to take possession of the software. Hosting arrangements occur when end users do not take possession of the software but rather the software resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis over the Internet or some other connection. It does not, however, apply to revenue earned on products containing software incidental to the product as a whole or to hosting arrangements that do not give the customer the option of taking possession of the software.

SOP 97-2 provides that revenue should be recognized in accordance with contract accounting when the arrangement requires significant production, modification, or customization of the software. When the arrangement does not entail such requirements, revenue should be recognized when persuasive evidence of an agreement exists, delivery has occurred, the vendor's price is fixed or determinable, and collectibility is probable.

The largest part of revenues stems from vendors' license fees associated with software. The Company has recognized revenue from license fees when the software was shipped to the customer. The amount and timing of revenue recognition is complicated, however, by multiple-element arrangements that provide for multiple software deliverables [e.g., software products, upgrades or enhancements, postcontract customer support (PCS), or other services]. In hosting arrangements that are within the scope of SOP 97-2, multiple elements might include specified or unspecified upgrade rights, in addition to the software product and the hosting service. The software provider often charges a single fee that must be allocated to the products delivered in the present and in the future.

In an arrangement with multiple deliverables, EITF 00-21 requires that the delivered items be considered a separate unit of accounting if the delivered items have value to the customer on a stand-alone basis, if there is objective and reliable evidence of the fair value of the undelivered items, and if the arrangement includes a general right of return for the delivered item, or if delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor. EITF 00-21 requires allocation of the vendor's fee to the various elements based on each element's stand-alone value.

In general, both SOP 97-2 and EITF 00-21 require allocating revenue to all of the elements of a multiple-deliverable arrangement using the relative fair value method, where objective and reliable evidence of fair value is present for all the products contained in the group. Management has established Vendor-Specific Objective Evidence ("VSOE") for access fee, equipment, provider enrollment fee, EDI connectivity fee, Payer/Provider fee, benefit verification fee, referral transfer fee, service authorization fee, claim status, training, support, program upgrades, carrier editions, and customized reports. Revenue is accordingly allocated and recognized based on the value of deliverables. VSOE relates the method of accounting under SOP 97-2 and EITF 00-21.

Vendor-Specific Objective Evidence:

The Company has nonsoftware and software deliverables which have a specific cost per customer. The costs of the deliverables are valued at on historical cost and usage. The company delivers the following VSOE:

Recurring charges - Provider enrollment, EDI Connectivity, Payer/Provider, Benefit Verification - Govt Billings, Referral Transfers - Govt billing, Benefit Verification - Commercial, Referral Transfer - Commercial, Claim Status, Service Authorization, Maintenance, Training, Support, Program Upgrades, Carrier Editions, and Customized Reports. Many of these deliverables are delivered electronically. The company assessed its prior electronic costs and estimated that these costs average between 80 cents to $1.25 per terminal per month. Management decided to use the average cost of $1.00 to value these deliverables.

One time charges - The Company provides non-software deliverables and has valued these costs based on the average of purchasing the hardware for outside third parties. The non-software deliverables are the Billing terminal which cost $400

per terminal, pin pads which cost $100, check reader which cost $100, Reader Printers which cost $100, and Portal Wedge costs $100. The Company has further estimated the cost per terminal to upgrade and update the software to be in compliance with the health care industry estimates the per terminal and portal cost at $250.

4. Equity

During nine months ended March 31, 2007 and 2006:

QUARTER ENDED	STOCK ISSUED FOR CASH	CASH RECEIVED	STOCK ISSUED FOR SERVICES	STOCK ISSUED FOR WARRENTS EXERCISED
September 30, 2005	1,156,999	$ 591,750	685,508	12,997
Decemeber 31, 2005	950,000	$ 380,000	811,500	
March 31, 2006	1,584,788	$ 590,949	2,665,848	
Total Issued	3,691,787	$ 1,562,699	4,162,856	12,997
September 30, 2006	7,384,373	$ 2,178,991	1,837,331	-
Decemeber 31, 2006	2,579,331	$ 1,273,333	4,726,870	192,067
March 31, 2007	2,659,000	$ 1,302,000	866,530	

Total Issued	12,622,704	$ 4,754,324	7,430,731	192,067

During the period ended September 30, 2006, the Company issued 7,384,373 shares of its common stock for $2,178,991. The shares were issued to third parties in a private placement of the Company's common stock. The shares were sold throughout the quarter ended September 30, 2006, ranging from $.75 per share at the beginning of the period to $.25 per share at the end of the period. Commissions of approximately $350,000 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were into for the services. During the period ended September 30, 2006, the Company granted to consultants, 1,837,331 shares of common stock valued between $.75 - $.25. The value of these shares were expensed and or capitalized during the year. The Company issues common stock for services to vendors and consultants in lieu of cash. The Company values those issuances at fair value in accordance SFAS 143 and SAB 107.

The company values the issuance at the same value that common stock is sold for cash in a private placement that the company is completing

During the period ended December 31, 2006, the Company issued 2,579,331 shares of its common stock for $1,273,333. The shares were issued to third parties in a private placement of the Company's common stock. The shares were sold throughout the quarter ended December 31, 2006, ranging from $.75 per share at the beginning of the period to $.25 per share at the end of the period. Commissions of approximately $151,028 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The Company also issued common stock for the buy out the royalty arrangement in which there is not further obligation to the holder. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were into for the services. During the quarter ended December 31, 2006, the Company granted to consultants, 1,486,870 shares of common stock valued between $.75 - $.25. The Company granted to the royalty holders 3,240,000 shares of common stock valued between $.75 - $.25. The issue of this common stock paid all future royalty obligations in full and there is no outstanding contingency or payment required. The value of these shares were expensed and or capitalized during the year.

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In March 31, 2007 the Company has issued shares of 225,730 common stock as consideration to consultants for services rendered. The Company also issued an additional 640,800common stock for the buy out of the royalty arrangement in which there is no further obligation to the holder. The value of those shares is determined based on the trading value of the of the stock on the dates on which the agreements were into for the services. During the quarter ended March 31, 2007, the Company granted to consultants of 866,530 common shares valued between .35 - .40 cent per share. The Company issued 2,660,000 common shares for $1,302,000.

The Company issues common stock for services to vendors and consultants in lieu of cash. The Company values those issuances at fair value in accordance SFAS 143 and SAB 107. The company values the issuance at the same value that common stock is sold for cash in a private placement that the company is completing

5. 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 of American Nortel Communications, Inc. The Company shares office space and management and administrative personnel with this related entity. 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 period ended March 31, 2007 and 2006.

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. The balance due to this affiliate at June 30, 2006 was $794,625 and in the period ended December 31, 2006 the Company repaid the president $858,000 to pay off the balance due. The Company advanced $168,374 to the president and the balance remains unpaid. The advances are generally short term. The Company owes the president $60,000 in unpaid balances for the nine months ended March 31, 2007.

The Company granted 1,000,000 options to Mr. William Bednarski, Chief Operating Officer, and 150,000 options were granted to Mr. Paul Snyder. All options are vested evenly for the next three years. The options are anti-dilutive therefore there is no proforma effect.

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

Management's Discussion and Analysis contains various "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events or the future financial performance of the Company that involve risks and uncertainties. Certain statements included in this Form 10-QSB, including, without limitation, statements related to anticipated cash flow sources and uses, and words including but not limited to "anticipates", "believes", "plans", "expects", "future" and similar statements or expressions, identify forward looking statements. Any forward-looking statements herein are subject to certain risks and uncertainties in the Company's business, including but not limited to, reliance on key customers and competition in its markets, market demand, product performance, technological developments, maintenance of relationships with key suppliers, difficulties of hiring or retaining key personnel and any changes in current accounting rules, all of which may be beyond the control of the Company. The Company adopted at management's discretion, the most conservative recognition of revenue based on the most astringent guidelines of the SEC in terms of recognition of software licenses and recurring revenue. Management will elect additional changes to revenue recognition to comply with the most conservative SEC recognition on a forward going accrual basis as the model is replicated with other similar markets (i.e. SBDC). The Company's actual results

could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth therein.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in the section titled "Risk Factors" in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2006, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

OVERVIEW

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

HEALTHCARE TRANSACTION PROCESSING

MEDCOM SYSTEM

The Company provides innovative technology-based solutions for the healthcare industries that enable users to efficiently collect, use, analyze and disseminate data from payers, health care providers and patients. The MedCom System currently operates through a point-of-service terminal or web based portal application. The point-of- service terminals are purchased from Hypercom Corporation (Hypercom). The MedCom System also operates a web based IP version known as the medcomconnect.com web portal. . The Company offers a service bundled package that has the capability of processing unlimited claims and eligibility verification for a fixed monthly service fee.

The Company's "portal" system encourages customers to process their medical claims through a web-based internet portal. Many customers purchase the terminal for the front office and the portal system for the back office to take advantage of the ease of both products. The data processed through the portal is secured through a third party ASP (Application Service Provider)

FINANCIAL TRANSACTION SERVICES

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The Company's revenue cycle management services, provides the healthcare industry a combination of solutions designed to improve collection at the point of service. The system also affords healthcare providers the added benefit of accepting payment through credit, debit, healthcare savings accounts (HSA) and check services. These financial processes are all processed through third party financial institutions.

Patient Easy-Pay is an accounts receivable management program that allows a provider to swipe a patient's credit card and store the patient's signature on file. When the patient portion of the bill is determined, at a later date, Patient Easy-Pay allows the healthcare provider to bill the patient's credit card with a pre-determined amount not to exceed the amount which is not covered by the patient's insurance. Another Patient Easy Pay option is a recurring installment payment program 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-service terminals or the MedComConnect web portal. Using the MedCom system, healthcare providers are relieved of many of the problems associated with billings and account management, and results in lower administrative documentation and costs.

PATIENT ELIGIBILITY

The MedCom System is also an electronic processing system that simplifies the process of insurance eligibility verification, processes medical claims, and monitors referrals. The MedCom 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 MedCom system to verify that referrals are approved by the patient's insurance carrier. The MedCom 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 MedCom System can record and track claims 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 or web portal. This information is then transmitted to MedCom's secure network, through IP or dial-up, then, processed and transmitted to the appropriate insurance payer for payment directly to the healthcare provider. These results in healthcare providers' reimbursements being accelerated and outstanding 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, 2005 the MedCom system expanded on-line eligibility and benefit information from approximately 450 medical insurance companies and plans. Included in this group is the newly activated Medicare Part A & B eligibility for all 50 states. This gives us access to over 42 million lives. The system also electronically processes and submits claims for its healthcare providers to over 1,700 companies. These insurance payers include but are not limited to: CIGNA, Oxford Health Plan, United Healthcare, Blue Cross plans throughout the U.S., Medicaid, Aetna, Humana, to name a few.

PATENT

The Company has the ability to market and sell licensing opportunities for the MedCom proprietary patented technology for Activating Phone card and Gift Card at retail. The patent covers the technology and process for taking a card with magnetic strip or other data capture mechanism and activating the card by downloading a determined monetary value onto the card for use at a later date for different types of transactions. This process

can be utilized for prepaid phone cards, gift cards, and affinity cards. New View Technologies, which was acquired by MedCom USA, developed the patent and all patents were assigned.

The Company has formed a new wholly owned subsidiary; Card Activations Technology, Inc. and has spun off the Company's holdings in its proprietary patented technology for the gift and phone cards. Card Activation Technology, Inc. is not effective with the Securities and Exchange Commission requirements and awaits finalization.

COMPETITION

Competing health insurance claims processing and/or benefit verification systems include Emdeon Business Services (HLTH), Medical Manager, Spot Check and Per-se Technologies (PSTI). There are similar companies that compete with the Company with respect to its financial transaction processing services performed by the MedCom 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.

TECHNICAL SUPPORT ASSISTANCE

The Company offers multiple training options for its products and services and is easily accessed at www.MedComUSA.com. Onsite training and teleconferencing, and technical support assistance are also features offered to health care providers. Also, a 24-hour terminal replacement program and system upgrades are offered.

MARKETING STRATEGY

MedCom has broadened marketing strategy to reduce cost and increase efficiency. The Company has employed a telesales strategy, where as there is less dependence on individual sales personnel. The Company just completed its final phase of its portal software development which has broadened the sales model to both a terminal and portal sale. The company has entered into telesales agreements which have implemented the new marketing strategy. The completion of the portal will increase sales to hospitals which results in multiple sales. In addition, the portal has become popular for individual doctors, dentist, and other healthcare professionals which often results in a single or possibly multiple sales. The Company has focused its sales to hospitals as a growing revenue source.

In the past the Company built its marketing around a strategy of expanding its sales capacity by using experienced external Independent Sales Organizations (ISO's) and putting less reliance on an internal sales force.

MedCom has been expanding its position with Hospitals. Working closely with Hospital consultants and targeted seminars. The Company, with its new web based portal product and Medicare access, is becoming an increasingly valuable tool for the outpatient and faculty practice areas of hospitals. By expanding the solutions for Patient Access in the hospitals, MedCom has the opportunity of selling multiple systems through a single

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source. While the ISO groups focus on individual doctors, dentists and clinics, our hospital team is focusing on multiple unit sales opportunities with hospitals around the country. Medcom has focused is efforts on practice management groups and larger hospitals and has not focused on the telesales efforts and traditional sales methods.

SERVICE AGREEMENTS

During June 2005 and 2006, the Company entered into a service agreement with Tesia-PCI. This agreement to replace and service and support at a minimum of 1,500 POS terminals inclusive of eligibly, claims processing, credit card processing for Tesia's dental providers.

REVENUES

Revenues from the MedCom system are generated through the sale of the web based portal software, POS terminals, and processing insurance benefit eligibility/verification, insurance claims, and financial transaction processing. The Company receives a fixed amount per web portal and POS terminal, and also receives fees for each transaction processed through the MedCom System. Revenue sources include fees for financial transactions processed through the software portal and software terminal, fees for collection of receivables if the Company provides billing services, fees associated with reimbursements made by insurance carriers for submitting claims that are processed electronically, fees for using the system's referral program and, fees for processing uploaded data.

Due to changes in technology and certain modification to the licenses agreements, the Company has adopted a new method of accounting and revenue recognition in accordance with SOP 97-2 and EITF 00-21 (See "Revenue Recognition")

CARD ACTIVATION TECHNOLOGIES, INC.

The Company has formed a new wholly owned subsidiary, Card Activation Technologies, Inc. for the purpose of spinning off the Company's holdings in its proprietary patented technology for the gift and phone cards. The company has a revolving line of credit extended to Card Activation Technologies to provide for accounting and legal services need to maintain compliance with the Securities and Exchange Commission.

ADDITIONAL INFORMATION

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

RESULTS OF OPERATIONS

Revenues for the quarter ended March 31, 2007 decreased to $704,546 as compared to quarter ended March 31, 2006 of $1,311,906. This decrease in revenue is directly the result of decrease sales of the Company. The three

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months ended comparisons reports a spike in revenues from the larger vendor contracts with Tesia that continued through out the first and second quarter 2005. The company has changes in the Company's strategic direction in core operations. This included discontinuing declining or unprofitable business sectors. 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 of terminals and portal transactions therewith, the Company must defer revenue gains on the sale of the terminals, portal software and various deliverables.

The Company further refocused is sales to large practice management groups to sell multiple web portals and further have expanded its exposure and future sales with a large dental group. In third quarter the negotiations and relationship with the practice management and dental groups were being fostered and the company will not realize those efforts until fourth quarter of this fiscal year 2007.

Cost of deliverables for the quarter ended March 31, 2007 decreased to $266,323 as compared to quarter ended March 31, 2006 of $370,809. The decrease in cost of deliverables is directly related to the decrease in royalty payments to third parities. The company paid the future royalty obligation and commitment and is no longer obligated to pay royalties now and in the future. In the prior period comparative there was a spike in costs with Tesia a larger vendor contract. The company has developed the MedComConnect portal package that will decrease the cost of deliverables as the company focuses on the sale of the portal software which rendered the medical terminals sales no longer the core revenue model for the Company.

Selling expenses for the quarter ended March 31, 2007 decreased to $97,129 as compared to quarter ended March 31, 2006 of $341,165. This decrease is primarily the result of marketing efforts and includes commissions paid to internal sales personnel to market the Company's products and services. The Company has discontinued with its use of outside independent sales organizations to generate sales of its product. The company has introduced the telesales marketing strategy for less expensive sales force and more effective in the future. The company has been focused on the practice management and large dental groups and should see the results of their efforts in fourth quarter.

General and administrative expenses for the quarter ended March 31, 2007 decreased to $806,947 as compared to quarter ended March 31, 2006 of $1,118,451. This decrease is attributed to the Company's reduction of workforce in their New York operations as the company has streamlined overall employee use. That is the company has implemented and advanced its in-house software to perform many of the services the prior employees were performing. The decrease is related to settling outstanding litigation which resulted decrease in legal fees. The company does not expect additional expense related to this expense in the future. This decrease is attributed to the Company's change in marketing strategy to telesales rather than individual sales personal. The telesales personal still will require technical support for our products and services in relation to increases in sales. The company has issued stock for services for its royalty expenses buy down. The company will no longer have any further royalty payments as the liability has been paid in full. Vendors have accepted stock for services reduces the burden of cash flow maintained.

Interest expense for the quarter ended March 31, 2007 increased to $270,957 as compared to quarter ended March 31, 2006 of $111,651. This increase is a result of renegotiation of the Company's credit facility. Also, expenses were incurred and paid on notes the Company has outstanding. Further the Company has been accelerating payments to Ladco and renegotiated the remaining balance of its financing arrangements. We have also have been paying down the LeeCo obligation which has grown from the increase in financing through LeeCo Financial Inc. The payments to Ladco represent a high interest rate and it has been a Company initiative to reduce the Ladco debt. Interest income for the quarter ended March 31, 2007 decreased to $98,189 as compared to quarter ended March 31, 2006 of $175,339. The decrease is due to the reduction in current sales of the portal software from our license agreements.

The loss for the quarter ended March 31, 2007 decreased to ($645,675) as compared to quarter ended March 31, 2006 of ($1,037,447). The decrease is due to the reduction in sales force and reduction in operations in our New York facility. Further the payment of our royalty obligation in full to streamline our costs.

No tax benefit was recorded on the expected operating loss for the quarter ended March 31, 2007 as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. For the quarter ended we do not expect to realize a deferred tax asset and it is uncertain, therefore we have provided a 100% valuation of the tax benefit and assets until we are certain to experience net profits in the future to fully realize the tax benefit and tax assets.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating requirements have been funded primarily on its sale of licensing agreements with hospitals and medical professional and sales of the Company's common stock. During the quarter ended March 31, 2007, the Company's net proceeds from the sale of the terminals and software portals were $704,546. The company received $1,302,000in proceeds from the sale of common stock. The Company believes that the cash flows from its monthly service and transaction fees are inadequate to repay the capital obligations and has relied upon the sale of common stock through a private place to sustain its operations.

Cash provided (used) in operating activities for the quarter ended March 31, 2007 was ($1,932,558) compared to ($3,450,622) for quarter ended March 31, 2006. The Company's focus on core operations results in a higher accounts receivable. The Company receives payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days. The company has grown its operations to reduce the deficit cash flow positions.

Cash used in investing activities was ($394,342) for the quarter ended March 31, 2007, compared to $(88,334) for quarter ended March 31, 2006. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for the Company. However, the company continues to employ software development teams that are upgrading the existing proprietary software in our terminal and portal licensing agreement sold. The company purchased equipment and developed its portal software of $158,025, advanced funds to the chairman and chief executive officer of $182,157 and payments for capital raising efforts of $54,160.

Cash provided by financing activities was $2,380,786 the quarter ended March 31, 2007, as compared to $3,550,372 for quarter ended March 31, 2006. Financing activities primarily consisted of proceeds from the sale of the terminal and software portal transactions through our licensing agreements with hospitals and medical and dental professionals. The company does not have adequate cash flows to satisfy its obligations although have improved cash flow and anticipates have adequate cash flows in the upcoming fiscal period.

The Company has used funds advanced from an affiliated entity that is controlled by the Company's chairman and chief executive officer. As of June 30, 2006 the Company maintained a note payable from this entity for the amount of $794,626 including accrued interest. However in the quarter ended December 31, 2006 the company was able to repay the remaining obligation in the amount of $826,197. The company owes $60,000 to the president as all other obligations have been paid in full.

The company has funding agreements with LeeCo Financial Service Inc. and Ladco Financial Group who provide exclusive funding for the License agreement between the Company and Customer. The funding groups accept contracts and adopt the same terms and conditions that the Company and Customer have agreed. In prior years Ladco required to personally guarantee the customer agreements which were a financial burden to the company. In fiscal 2006, the company no longer sought funding through Ladco and has consistently sought the funding of LeeCo. LeeCo does not require personal guarantees of customer agreements other then hospital agreements. LeeCo requires the company to personally guarantee the hospital agreements due to the size and volume of transaction with the terminal and web portals.

The company expects increased cash flow from its existing accounts receivables, transaction processing, benefit claims processing, direct terminal sales, and credit card processing. The increase in cash flow is directly related to the increase in sales through our telesales. Further we anticipate increase income from our Tesia-PC contracts that have a higher volume of credit card processing in which we receive a minimum of $28.50 per month on all transactions with a 15 cent per transaction fee.

The company is looking at expanding the market for its services and considering prospective acquisitions that would complement the existing revenue model.

On September 14, 2006 the company renegotiated the Ladco debt. The company agreed to pay penalties and late fees of $268,585.73 in exchange the renegotiated balance would only carry an interest rate of 3% reduced from 21% in the original note. The Company originally owed $3,015,063.45 and renegotiated the balance to $3,880,500 which included the accrued penalties and late fees. Further the company would be able to pay the remaining balance of the note for 39 months at $99,500 payments per month until paid in full. Under the renegotiated note the note matures on October 2009. The Company has paid $1,237,812 toward the unpaid balance of $2,671,279 of the Ladco obligation.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission under the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

b) Changes in Internal Control over Financial Reporting

During the Quarter ended March 31, 2007, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

OTHER CONSIDERATIONS

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

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, this Form 10-QSB contains express or implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. The Company may make written or oral forward-looking statements from time to time in filings with the SEC, in press releases, or otherwise. The words "believes," "expects," "anticipates," "intends," "forecasts," "project," "plans," "estimates" and similar expressions identify forward-looking statements. Such statements reflect the current views with respect to future events and financial performance or operations and are only as of the date the statements are made. Forward-looking statements involve risks and uncertainties and readers are cautioned not to place undue reliance on forward-looking statements. The Company's actual results may differ materially from such statements. Factors that cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-QSB, as well as those discussed in Form 10-KSB which is incorporated by reference in this Form 10-QSB.

Management believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking information should not be regarded, as a representation that the future events, plans, or expectations contemplated will be achieved. The Company undertakes no obligation to publicly update, review, or revise any forward-looking statements to reflect any change in expectations or any change in events, conditions, or circumstances on which any such statements are based. Our filings with the Securities Exchange Commission, including the Form 10-KSB, and may be accessed at the SEC's web site, www.sec.gov.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

MedCom is involved in various legal proceedings and claims as described in our Form 10-KSB for the year ended June 30, 2006. No material developments occurred in any of these proceedings during the quarter ended March 31, 2007. The costs and results associated with these legal proceedings could be significant and could affect the results of future operations.

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

There were no changes in securities and small business issuer purchase of equity securities during the period ended March 31, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the period ended March 31, 2007.

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

There were no matters submitted to the vote of securities holders during the period ended March 31, 2007.

ITEM 5. OTHER INFORMATION

None

Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
Registrant

Date: May 15, 2007

Medcom USA Incorporated
By: /s/ William P. Williams

William P. Williams
Chairman, President Chief Executive Officer
(Principle Executive Officer, Principle Financial Officer)