MEDCOM USA INC
Form 10QSB
November 14, 2006

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 September 30, 2006.

[ ] 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 November 12, 2006 was 79,539,273 shares of common stock.

Transitional Small Business Disclosure Format (check one):

Yes No X

MEDCOM USA, INC.
INDEX TO FORM 10-QSB FILING
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

MEDCOM USA, INC.
BALANCE SHEET (UNAUDITED)
AS OF SEPTEMBER 30, 2006

September 30, 2006

ASSETS:	
CURRENT ASSETS	
Cash	$ 62,865
Licensing Contracts - ST	992,397
Prepaid expenses and other current assets	188,500
Total current assets	1,243,762
PROCESSING TERMINALS, net	315,410
PROPERTY AND EQUIPMENT, net	627,994
Licensing Contracts - LT	1,021,418
Other Assets	81,031
TOTAL ASSETS	$ 3,289,613
LIABILITIES AND STOCKHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Accounts payable	$ 169,114
Accrued expenses and other liabilities	226,774
Dividend payable	23,750
Deferred revenue - current portion	856,296
Licensing obligations - current portion	1,977,999
Total current liabilities	3,253,932
Notes from Affiliates	-
LICENSING OBLIGATIONS - long-term portion	2,918,864
DEFERRED REVENUE	2,086,524
Total liabilities	8,259,320
STOCKHOLDERS' EQUITY:	
Convertible preferred stock, Series A $.001par value, 52,900 shares designated, 4,250 issued and outstanding	4
Convertible preferred stock, Series D $.01par value, 50,000 shares designated, 2,850 issued and outstanding	29
Common stock, $.0001 par value, 80,000,000 shares authorized, 65,557,072 issued and 60,743,480 outstanding	7,954
Treasury stock	(37,397)
Paid in capital	82,431,026
Accumulated deficit	(87,371,323)
Total stockholders' equity	(4,969,707)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,289,613

See the accompanying notes to these unaudited financial statements.

MEDCOM USA, INC.

STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE THREE AND THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	Three Months Ended 2006	2005
REVENUES:		
Terminal sales	$ 26,423	$ 96,604
Service	921,344	721,510
Licensing Fees	653,424	1,290,216
	1,601,191	2,108,330
COST OF DELIVERABLES:	554,571	1,368,583
GROSS PROFIT	1,046,620	739,747
OPERATING EXPENSES:		
General and administrative	973,082	1,834,977
Sales and marketing	30,153	141,332
Depreciation and amortization	442,158	583,275
Total operating expenses	1,445,393	2,559,585
OPERATING LOSS	(398,772)	(1,819,838)
OTHER (INCOME) AND EXPENSES		
Interest expense	98,101	77,906
Interest Income	(103,603)	(49,139)
Legal Settlement	39,600	
Impairment of Assets	27,040	
Total other expense	61,138	28,767
NET LOSS	(459,910)	(1,848,605)
NET LOSS PER SHARE:		
Basic:	$ (0.01)	$ (0.03)
Diluted:	$ (0.01)	$ (0.03)
Weighted Average Common Shares Outstanding		
Basic	75,151,497	58,090,470
Diluted	75,151,497	58,090,470

See the accompanying notes to these unaudited financial statements.

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MEDCOM USA, INC.
STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$ (459,910)	$(1,848,605)
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	442,158	583,275
Issuance of common stock as compensation for services	151,632	698,505
Impairment of assets	13,100	-
Changes in assets and liabilities:		
Licensing and Leasing Contracts	120,552	(23,327)
Prepaid and other current assets	19,091	(27,641)
Other assets	50,274	-
Accounts payable and accrued liabilities	(238,961)	(404,096)
Deferred revenue	(893,441)	(332,392)
Net cash (used) in operating activities:	(795,505)	(1,354,280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property & equipment	(133,580)	-
Net repayments of advances to affiliate	-	-
Net cash (used) and provided by investing activities:	(133,580)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on capital leases	(683,909)	(365,700)
Net repayments of (advances) to Affiliate	(858,000)	(411,634)
Proceeds from sale of common stock	2,178,991	879,749
Proceeds from licensing and leasing transaction	353,721	1,355,215
Net cash provided by financing activities	990,802	1,457,630
INCREASE (DECREASE) IN CASH	61,717	103,350
CASH, BEGINNING OF PERIOD	1,148	10,207
CASH, END OF PERIOD	$ 62,865	$ 113,556
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 98,000	$ 77,000
Income taxes paid	-	-

See the accompanying notes to these unaudited financial statements

MEDCOM USA, INC.
NOTES TO FINANCIAL STATEMENTS THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements represent the financial position of MedCom USA, Inc. ("Company") as of September 30, 2006 and includes results of operations of the Company for the three months ended September 30, 2006 and 2005 and cash flows for the three months ended September 30, 2006 and 2005. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions for Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments to these unaudited financial statements necessary for a fair presentation of the results for the interim period presented have been made. The results for the three months ended September 30, 2006 and 2005 may not necessarily be indicative of the results for the entire fiscal year. These financial statements should be read in conjunction with the Company's Form 10-KSB for the fiscal year ended June 30, 2006, including specifically the financial statements and notes to such financial statements contained therein.

Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain 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. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of significant accounting policies are detailed in notes to the financial statements which are an integral component of this filing.

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

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 small business customers in numerous geographical locations throughout the United States.

The Company estimates and provides an allowance for uncollectible accounts receivable.

For the years ended June 30, 2006, the company executed a contract with a major vendor TESIA-PCI, whereby the Company would deliver 1500 units over the period presented. The agreement allowed the minimum billing of $28.50 per month per unit in a pool based on a 15 cent transaction fee. The

Company has experienced that the average billing per unit is greater than the minimum with an average billing per unit of approximately $35 per unit. During the year ended June 30, 2006 only a portion of the units were installed and the remaining units will be installed over the subsequent periods.

The Company has entered into agreements with Tesia-PCI. The agreements entered into by and between the Company and Tesia-PCI represents of a major customer of the Company. The Company realized $1,156,000 from Tesia-PCI during the period ended June 30, 2006.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years. The Company's leaseback transactions of processing terminals to healthcare providers are generally for a period of 48 to 60 months. Depreciation expense for the leased terminal assets are on the straight-line method over the term of the lease in amounts necessary to reduce the carrying amount of the terminal asset. Estimated and actual residual values are reviewed on a regular basis to determine that depreciation amounts are appropriate.

Property & Equipment	949,500
Accumulated Depreciation	(321,506)
Net Property & Equipment	627,994

Assets Held under Capital Leases

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. Effective July 1, 2005, the Company adopted a new method of accounting anddiscontinued the capitalization of terminal Assets. (See "Revenue Recognition")

Amortization of Leasehold Improvements

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. All leasehold improvements have been fully amortized as of September 30, 2006.

Revenue Recognition

The Company recognized income on monthly service and transaction fees it charges to customers in the month in which the service is provided. Income on sale-leaseback transactions, prior to July 1, 2005, was deferred and recognized over the term of the leaseback. Management determined that the sale-leaseback transactions were capital leases.

The terminals were 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 are as follows.

Terminal Assets	6,197,320
Accumulated Amortization	(5,881,910)
Net Terminal Assets	315,410

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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, which they believe better matches revenue and expenses. 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.

Income Taxes

Management evaluates the probability of the utilization of the deferred income tax assets. The Company has estimated a $23,652,000 deferred income tax asset at September 30, 2006. Of that amount, $22,244,282 related to net operating loss carry-forwards at September 30, 2006. Management determined that because the Company has not yet generated taxable income it was not appropriate to recognize a deferred income tax asset

related to the net operating loss carry-forward. Therefore, a fully deferred income tax asset is offset by an equal valuation allowance.

If the Company begins to generate taxable income, management may determine that all of the deferred income tax asset may be recognized. Recognition of the asset could increase after tax income in the future. Federal Net operating loss carryforwards of $52,226,446 expire from 2011 to 2023. State net operating loss carryforwards of $29,603,000 expire from 2005 to 2008. During the year ended June 30, 2005, the Company reduced the state portion of the deferred income tax asset related to net operating loss carryforwards by $3,484,000 resulting from the expiration of such carryforwards. The future utilization of the net operating losses is uncertain. The valuation allowance on the deferred income tax asset was decreased by $1,648,702 in the year ended June 30, 2005, resulting primarily to the expiration of state net operating loss carryforwards.

Fair Value of Financial Instruments

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

Net Loss Per Share

Net loss per share is calculated using the weighted average number of shares of

common stock outstanding during the year. The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, Earnings Per Share.

Use of Estimates

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

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.

Stock-Based Compensation

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

Intangible Assets

During the period of year ended June 30, 2005, goodwill was recognized in the Company's acquisition of MedCom. Since that time, the Company has divested of all other business segments. Management had impaired the assets in total since there was not sufficient evidence that the Company will generate operating income and operating cash flows. The technology of the company has changed that the asset no longer has value.

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. Due to material continued operating losses, the Company determined that its carrying value of goodwill was impaired at June 30, 2005. On the basis of that determination in the year ended June 30, 2005 to write off the full remaining carrying value at June 30, 2005.

Impairment of Assets

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

2. COMMON STOCK TRANSACTIONS

DURING SEPTEMBER 30, 2006 AND 2005:

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
Total Issued	1,156,999	591,750	685,508	12,997
September 30, 2006	7,384,373	2,178,990.50	1,837,331	-
Total Issued	7,384,373	2,178,990.50	1,837,331	-

During the year ended September 30, 2006, the Company issued 7,384,373 shares of its common stock for $2,178,990.50. 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 $858,000 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 year 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

There were no options granted in the end of the period of September 30, 2006 and all options previously granted have been fully vested and therefore there is no pro forma effects for the year ended Common stock warrants issued in the quarter ended September 30, 2006 consist of the following:

Number of Warrants	Exercise Price	Expiration of Warrants
678,400	$ 1.00	6/30/2007
390,400	$ 2.75	6/30/2007
94,400	$ 3.00	6/30/2008
148,999	$ 4.00	7/30/2008
20,000	$ 4.50	9/30/2008
1,332,199		

3. 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 years ended September 30, 2006 and 2005.

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 three months ended September 30, 2006 the Company repaid the president $858,000 to pay off the balance due. The advances are generally short term.

4. COMMITMENTS AND CONTINGENCIES

Interim Financial Statements

Management has made adjustments in the fourth quarter ended June 30, 2006. The adjustments are precipitated by a recently detected control weakness between operations and funding. Certain material financial transactions were consistently recorded during the year based on documentation submitted to a lender to obtain funding. The documentation varied with the agreement terms as understood and documented by operations. The adjustments resulted in reducing year to date revenues by $954,000. They also resulted in the reduction of

receivables for approximately $1,300,000. Management is taking a proactive action in address these issues. Management has taken proactive action to improve document control by commencing a program to centralize and coordinate critical documentation. The financial statements do not include provision for any costs that may be incurred resulting from these adjustments.

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

This portion of this Quarterly Report on Form 10-QSB, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," or "anticipates," and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Quarterly Report include, but are not limited to our ability to manage 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.

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, 2005, 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. As of this time frame, the Company operates the MedCom System (MedCom) that is deployed through a point-of-service terminal or internet based web portal. The system offers electronic transaction processing for healthcare and financial services, including but not limited to: insurance eligibility verification, electronic referrals, credit, debit and claims processing.

HEALTHCARE TRANSACTION PROCESSING

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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

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. for the purpose of spinning off the Company's holdings in its proprietary patented technology for the gift and phone cards.

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 set-up these Independent Sales Organizations (ISO's) to market and distribute the MedCom System throughout the U.S. In addition to regional ISO's which represent approximately 100+ sales people, the Company has signed an agreement with Abanco International and Business Payment Systems' (BPS) Innerview division and is in the midst of training 200+ sales people in 15 cities around the country. Initial sales have already begun to result from these relationships. Financial service companies comprise an important sales channel that views the healthcare industry as an important growth opportunity. Only 18% of all healthcare payments are made with a credit card today, although according to a recent survey 55% of all consumers would prefer to pay doctor and hospital visits by credit/debit card.

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 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.

SERVICE AGREEMENTS

During December 1998, the Company entered into a service agreement with Emdeon Business Services (formally WebMD Envoy). This agreement encompasses the process of Electronic Data Interchange (EDI) transactions and related services. The services provided are complimentary to the Company's core business, and accomplishes transaction processing services that allows healthcare providers and payers to process medical transactions quickly and accurately, and results in reduced administrative costs and an increase in healthcare reimbursements to healthcare providers.

During June 2005, 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.

PROCESSING TERMINAL LEASING AGREEMENTS

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

The Company arranged its terms with this credit facility as an equipment lessor whereby the Company sold terminals to the lessor when it has obtained a service contract with a provider. Under these agreements, the Company leased back the processing terminals from the lessor and in turn leased them to the purchaser for a period of 48 months however; the customer could terminate the agreement after 12 months. The Company accounted for the transactions as sale-leasebacks.

The leases with the customers are inclusive with the monthly service contracts and are effectively accounted for as operating leases. Gains on terminal sales under sale-leaseback transactions are deferred and are being amortized to income in proportion to amortization of the assets, generally over the term of the lease with the credit facility generally for a period of 48 months.

REVENUES

During the prior periods very few customers terminated there agreements prior to the expiration of the underlying lease. Additionally, Effective July 1, 2005 the Company modified the licensing agreement to make them noncancellable for the term of the underlying licensing agreement. Accordingly, management believes that application of a new method of accounting and revenue recognition more appropriately accomplishes the matching of revenues and cost of licenses entered into after July 1, 2005.

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.

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 September 30, 2006 decreased to $1,601,191 as compared to quarter ended September 30, 2005 of $2,108,330. This decrease in revenue is directly the result of the spike in revenues from the larger vendor contracts with Tesia that continued through out the first and second quarter. 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 and portal software.

Cost of deliverables for the quarter ended September 30, 2006 decreased to $554,571 as compared to quarter ended September 30, 2005 of $1,368,583. The decrease in cost of deliverables is directly related to the spike in revenue from the sale of large volume and our major vendor Tesia during the first and second quarter of our prior fiscal year end. 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.

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Selling expenses for the quarter ended September 30, 2006 decreased to $30,153 as compared to quarter ended September 30, 2005 of $141,332. 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 is currently assessing if it will continue with its outside independent sales organizations. Presently the company is increasing is sales team and will increase sales in various target states. The company has introduced the telesales marketing strategy for less expensive sales force and more effective in the future.

General and administrative expenses for the quarter ended September 30, 2006 decreased to $973,082 as compared to quarter ended September 30, 2005 of $1,834,977. 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 issued stock for services in the amount of $151,632 which increased the overall General and Administrative expenses. The services rendered for the stock included software development, royalties expenses, legal and professional, and consulting services by vendors. Vendors that will accept stock for services reduces the burden of cash flow maintained.

Interest expense for the quarter ended September 30, 2006 increased to $98,101 as compared to quarter ended September 30, 2005 of $77,906. This increase is a result of increased sales volume and terminal and software portal sales transactions with 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 one of its financing arrangements. 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 September 30, 2006 increased to $103,603 as compared to quarter ended September 30, 2005 of $49,139. The increase is due to the high rate of return on the income from our license agreements.

The company incurred $39,600 in the settlement of litigation from Fiscal 2005. The company impaired its assets in the amount of $27,040.

The loss for the quarter ended September 30, 2006 decreased to ($459,910) as compared to quarter ended September 30, 2005 of ($1,848,605). The increase is due to the reduction in sales force and reduction in operations in our New York

facility.

No tax benefit was recorded on the expected operating loss for the quarter ended September 30, 2006 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 September 30, 2006, the Company's net proceeds from the sale of the terminals and software portals were $1,601,191. The company received $2,178,991in 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.

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Cash provided (used) in operating activities for the quarter ended September 30, 2006 was ($795,505) compared to ($1,354,280) for quarter ended September 30, 2005. 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 $133,580 for the quarter ended September 30, 2006, compared to $0 for quarter ended September 30, 2005. 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.

Cash provided by financing activities was $990,802 the quarter ended September 30, 2006, as compared to $1,457,630 for quarter ended September 30, 2005. 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 September 30, 2006 the company was able to repay the remaining obligation in the amount of $858,000.

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 its market and look for acquisition that complement the existing revenue model.

On September 14, 2006 the company renegotiated the Ladco debt. 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.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-QSB, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls are also designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our principal executive officer included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Quarterly Report. Our management, including our chief executive officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation as of the end of the period covered by this Form 10-Q, and subject to the inherent limitations all as described above, our principal executive officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. During the period covered by this Form 10-Q, there have not been any changes in our internal control over financial reporting that have materially affected, or that are 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 September 30, 2006. The costs and results associated with these legal proceedings could be significant and could affect the results of future operations.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

REPORTS ON FORM 8-K

None

SIGNATURES

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

Registrant	Medcom USA Incorporated
Date: November 13, 2006	By: /s/ William P. Williams
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	William P. Williams Chairman, President Chief Executive Officer (Principle Executive Officer, Principle Financial Officer)