

MEDCOM USA INC  
Form 10-Q  
February 20, 2009

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

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FORM 10-Q

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(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2008.

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

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

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Commission File No. 0-25474

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MedCom USA, Incorporated

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

Delaware  
State of Incorporation

65-0287558  
IRS Employer Identification No.

PO Box 90358, Henderson, NV 89009  
(Address of principal executive offices)

Former address

7975 North Hayden Road, Suite D-333  
Scottsdale, AZ 85258

(877) 763-3729

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.001 par value per share

(Title of Class)

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Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes  No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-Accelerated filer  Small Business Issuer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Transitional Small Business Disclosure Format (check one): Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                            | Outstanding at February 17, 2009 |
|----------------------------------|----------------------------------|
| Common stock, \$0.0001 par value | 102,753,193                      |

MEDCOM USA INCORPORATED  
INDEX TO FORM 10-Q FILING  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2008

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## PART I – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

MEDCOM USA, INC.  
CONSOLIDATED BALANCES SHEETS

|  | December 31,<br>2008<br>(unaudited) | June 30, 2008<br>(audited) |
|--|-------------------------------------|----------------------------|
| <b>ASSETS:</b>   |                                     |                            |
| <b>CURRENT ASSETS</b>  |                                     |                            |
| Cash   | \$ 39,310                           | \$ 61,857                  |
| Licensing contracts - current portion, net   | 346,909                             | 511,863                    |
| Prepaid expenses and other current assets  | 55,161                              | 77,249                     |
| Total current assets   | 441,380                             | 650,968                    |
| <b>PROPERTY AND EQUIPMENT, net</b>   |                                     |                            |
| Licensing contracts - long-term portion, net   | 149,492                             | 42,120                     |
| Other assets   | -                                   | 21,507                     |
| <b>TOTAL ASSETS</b>  | <b>\$ 941,398</b>                   | <b>\$ 1,177,025</b>        |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY:</b>   |                                     |                            |
| <b>CURRENT LIABILITIES:</b>  |                                     |                            |
| Accounts payable   | \$ 1,002,322                        | \$ 131,523                 |
| Accrued expenses and other liabilities   | 276,597                             | 285,343                    |
| Dividend payable   | 23,750                              | 23,750                     |
| Advances from related party  | 695,587                             | 1,118,957                  |
| Deferred revenue - current portion   | 193,809                             | 193,809                    |
| Licensing obligations - current portion  | 1,702,784                           | 1,812,004                  |
| Total current liabilities  | 3,894,849                           | 3,565,386                  |
| Licensing obligations - long-term portion  | 2,845,965                           | 3,006,173                  |
| Deferred revenue   | 257,490                             | 382,490                    |
| <b>TOTAL LIABILITIES</b>   | <b>6,998,304</b>                    | <b>6,954,049</b>           |
| <b>STOCKHOLDERS' DEFICIENCY:</b>   |                                     |                            |
| Convertible preferred stock, series A \$.001 par value, 52,900 shares designated, 4,250 issued and outstanding   | 4                                   | 4                          |
| Convertible preferred stock, series D \$.01 par value, 50,000 shares designated, 2,850 issued and outstanding  | 29                                  | 29                         |
| Common stock, \$.0001 par value, 175,000,000 shares authorized 102,753,193 and 95,608,789 issued and outstanding as of December 31, 2008 and June 30, 2008, respectively | 10,275                              | 9,562                      |
| Paid-in capital  | 85,352,459                          | 85,484,831                 |

|   |                   |                     |
|---|-------------------|---------------------|
| Accumulated deficit                                   | (91,419,674)      | (91,271,451)        |
| Total stockholders' deficiency                        | (6,056,907)       | (5,777,025)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b> | <b>\$ 941,398</b> | <b>\$ 1,177,025</b> |

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

MEDCOM USA, INC.  
CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007

|  | Three Months Ended |             | Six Months Ended |              |
|--|--------------------|-------------|------------------|--------------|
|  | 2008               | 2007        | 2008             | 2007         |
|  | (unaudited)        |             | (unaudited)      |              |
| <b>REVENUES</b>                                    |                    |             |                  |              |
| Service  | \$ 172,107         | \$ 508,044  | \$ 641,227       | \$ 1,171,615 |
| Licensing fees                                     | 247,561            | 203,174     | 467,656          | 476,659      |
|  | 419,668            | 711,218     | 1,108,883        | 1,648,274    |
| <b>COST OF DELIVERABLES</b>                        | 248,349            | 260,080     | 420,729          | 591,685      |
| <b>GROSS PROFIT</b>                                | 171,320            | 451,138     | 688,155          | 1,056,589    |
| <b>OPERATING EXPENSES</b>                          |                    |             |                  |              |
| General and administrative expenses                | 277,646            | 517,576     | 684,735          | 1,138,507    |
| Sales and marketing expenses                       | 21,682             | 16,667      | 82,122           | 33,467       |
| Depreciation and amortization                      | 657                | -           | 1,313            | -            |
| Total operating expenses                           | 299,984            | 534,243     | 768,170          | 1,171,974    |
| <b>OPERATING LOSS</b>                              | (128,664)          | (83,105)    | (80,014)         | (115,385)    |
| <b>OTHER (INCOME) AND EXPENSES</b>                 |                    |             |                  |              |
| Interest expense                                   | 27,813             | 36,631      | 49,005           | 236,050      |
| Interest income                                    | (18,858)           | (50,341)    | (40,798)         | (119,188)    |
| Legal settlement                                   | 45,000             | -           | 60,000           | -            |
| Total other (income) expense                       | 53,955             | (13,710)    | 68,208           | 116,862      |
| <b>NET LOSS</b>                                    | (182,620)          | \$ (69,395) | \$ (148,223)     | \$ (232,247) |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b> |                    |             |                  |              |
| Basic and diluted:                                 | 102,356,063        | 94,847,174  | 99,648,192       | 94,359,266   |
| <b>NET LOSS PER SHARE:</b>                         |                    |             |                  |              |
| Basic and diluted:                                 | (0)                | \$ (0.00)   | \$ (0.00)        | \$ (0.00)    |

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

MEDCOM USA, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007

|   | 2008         | 2007         |
|---|--------------|--------------|
|   | (unaudited)  |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |              |              |
| Net loss  | \$ (148,223) | \$ (232,247) |
| Adjustments to reconcile net loss to net cash used in operating activities: |              |              |
| Depreciation and amortization   | 1,306        | 110,592      |
| Issuance of stock as consideration for services                             | 185,791      | -            |
| Issuance of stock in lieu of rent expense                                   | -            | 8,500        |
| Allowance for doubtful accounts   | 25,623       |              |
| Changes in operating assets and liabilities:                                |              | -            |
| Prepaid and other current assets  | 22,088       | 88,294       |
| Accounts payable  | 870,799      | 59,744       |
| Accrued expenses and other liabilities                                      | (8,746)      | (10,779)     |
| Deposits  | 21,507       | (3,850)      |
| Deferred revenue  | (125,000)    | (1,093,050)  |
| Net cash used in operating activities                                       | 845,145      | (1,072,796)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |              |              |
| Purchase of equipment   | -            | (28,123)     |
| Licensing contracts - current portion                                       | 139,331      | 187,799      |
| Licensing contracts - long-term portion                                     | (107,372)    | 336,020      |
| Notes from affiliates   | -            | (195,115)    |
| Net cash provided by (used in) investing activities                         | 31,959       | 300,581      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |              |              |
| Bank overdraft  | -            | 14,911       |
| Advances from related party   | (717,370)    | 486,000      |
| Licensing obligation - current portion                                      | (109,219)    | (446,545)    |
| Licensing obligation - long-term portion                                    | (160,212)    | (200,387)    |
| Cost of raising capital   | (29,850)     | (65,975)     |
| Sale of common stock in related party                                       | (26,500)     | -            |
| Proceeds from sale of common stock  | 143,500      | 958,001      |
| Net cash provided by financing activities                                   | (899,651)    | 746,005      |
| (DECREASE) INCREASE IN CASH   | (22,547)     | (26,210)     |
| CASH, BEGINNING OF YEAR   | 61,857       | 26,210       |
| CASH, END OF YEAR   | \$ 39,310    | \$ -         |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                                  |              |              |
| Interest paid   | \$ 36,631    | \$ 236,000   |
| Issuance of stock for acquisition of assets                                 | \$ 275,600   | \$ 61,000    |

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



MEDCOM USA INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2008 and 2007

NOTE 1. BASIS OF PRESENTATION

MedCom USA, Inc. (the "Company or MedCom") 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. The Company changed its name to MedCom USA, Inc. in October 1999. During the fiscal years of 1999 and continuing through present, we have directed our efforts in medical information processing.

NOTE 2. GOING CONCERN

The accompanying 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 during the three months ended December 31, 2008. During the three months ended December 31, 2008 the Company incurred a net income of \$182,620 and has an accumulated deficit of \$91,419,674. 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 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.

NOTE 3. INTERIM FINANCIAL STATEMENTS

The accompanying interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months period ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ending June 30, 2009. For further information, refer to the financial statements and footnotes thereto included in our Form 10-K Report for the fiscal year ended June 30, 2008.

#### NOTE 4. 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.

##### Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company’s consolidated financial statements.

##### Reclassifications

Certain prior year amounts have been reclassified to conform to the current period presentation for comparative purposes.

##### 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. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions. 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.

##### Revenues

A sales staff meets with a dental or medical professional. During that initial meeting a demo is displayed so the professional has first hand knowledge of the software and its use. At the time of the meeting a noncancellable licensing agreement is executed along with a service agreement. The license agreement indicates the life of the agreement if the customer wants check readers, pin pads, portal wedge, etc. with the software. These units allow the professional swipe a credit card and medical card for the software to read.

The professional executes the licensing agreement which states the terms for a period of 24 – 60 month agreements, number of portal/units needed, at which location the portals will be used, the monthly licensing amount, (which varies per contract) type of contract whether dental or medical, the amount of the gateway access fee usually \$24.95 per month which includes provider enrollment, EDI connectivity, and the monthly maintenance charges that are billed when used as commercial benefit verification, Referral transactions, claims status, service authorizations, maintenance, training, support, programs upgrades, carrier additions, and customized reports. The professional then provides MedCom a voided check or credit card number to automatically withdraw or charge the licensing fee and gateway access fees on a monthly basis. Also those automatic withdrawals include the maintenance charges based upon usage. The professional also agrees to allow MedCom to provide merchant services for Visa/MasterCard. MedCom further agrees that the monthly fees charged for gateway access and licensing fees will commence within 10 day of the execution of the noncancellable agreements.

We recognize revenue in accordance with the American Institute of Certified Public Accountants Statement of Position (“SOP”) 97-2, “Software Revenue Recognition,” as modified by SOP 98-9 “Modifications of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions,” and interpreted by the Securities and Exchange Commission Staff Accounting Bulletin (“SAB”) No. 104 - Revenue Recognition. The Company has also adopted Emerging Issues Task Force (“EITF”) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables.

We recognize revenue on software related transactions on single element arrangements and on each element of a multiple element arrangement, when all of the following criteria are met:

1. Persuasive evidence of an arrangement exists, which consists of a written, non-cancelable contract signed by both parties;
2. The fee is fixed or determinable when we have a signed contract that states the agreed upon fee for our products and/or services, which specifies the related payment terms and conditions of the arrangement and it is not subject to refund or adjustment;
3. Delivery occurs:
  - a. For licenses - due to the Web nature of our software, when the software is shipped to our customer. Our arrangements are typically not contingent upon the customer providing the hardware; staff for training or scheduling conflicts in general nor do our arrangements contain acceptance clauses;
  - b. Non Software deliverables- when shipped to our customers;
  - c. For access, authorization, verification and other services – ratably over the annual service period.
  - d. For post-contract customer support - ratably over the annual service period.
  - e. For professional services - as the services are performed for time and materials contracts or upon achievement of milestones on fixed price contracts.
4. Collection upfront cash received from contracts is probable as determined by a credit evaluation, the customer’s payment history (either with other vendors or with us in the case of follow-on sales and renewals) and financial position.

Our arrangements typically represent large value “multiple element” arrangements where a multi-year term license is delivered in the first year with post contract support (PCS) and certain professional services. PCS some through the life of the contract includes technical support, maintenance, enhancements and upgrades. In the first year, PCS is packaged with the license and accordingly the Company allocates the arrangement fees to the elements using the residual method which generally results in 63% of the first year’ arrangement fee being allocated to license revenue. The Company recognizes revenue from license fees when the software is shipped to the customer. PCS subsequent to year one is optional and renewable at a customer’s discretion on an annual basis. The PCS revenue subsequent to year 1 is realized annually, upon customer acceptance, as deferred revenue and recognized as revenue over the service period of one year. Professional services include training and installation services and are accounted

for separately as they are not considered essential to the functionality of the software.

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We charge various fees for other services as utilized by the customer. These services include, but are not limited to, access fee, provider enrollment fees, EDI connectivity fees, Payer/Provider fees, benefit verification fees, referral transfer fees and service authorization fees.

#### Deferred Revenue

Deferred revenue result from fees billed to customers for which revenue has not yet been recognized or for which the conditions of the arrangement have been modified. Current deferred revenue generally represents PCS and training services not yet rendered and deferred until all requirements under SOP 97-2 are satisfied. Non-current deferred revenue represents license fees which will be deferred until such time as all SOP 97-2 requirements have been satisfied.

We have adopted the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2008, cash and cash equivalents include cash on hand and cash in the bank.

#### Property and Equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the assets using principally the straight-line method. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds realized thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized.

The range of estimated useful lives used to calculated depreciation for principal items of property and equipment are as follow:

| Asset Category         | Depreciation/<br>Amortization Period |
|------------------------|--------------------------------------|
| Furniture and Fixture  | 3 Years                              |
| Office equipment       | 3 Years                              |
| Leasehold improvements | 5 Years                              |

#### Intangible Assets

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. As a result, the Company discontinued amortization of goodwill, and instead annually evaluates the carrying value of goodwill for impairment, in accordance with the provisions of SFAS No. 142. The Company holds one asset the cost basis of the development of the patent infringement litigation.

#### Impairment of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill and other intangible assets are tested for impairment annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to

estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long lived assets.

## Income Taxes

Deferred income taxes are provided based on the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

## Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock that could share in the earnings of the Company. As of December 31, 2008, there were no potential dilutive instruments that could result in share dilution.

## Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash, accounts payable and accrued liabilities, income tax payable and related party payable approximate fair value due to their most maturities.

## Stock-Based Compensation

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

The Company accounts for stock awards issued to nonemployees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18 Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services. Under SFAS No. 123 and EITF 96-18, stock awards to nonemployees are accounted for at their fair value as determined under Black-Scholes option pricing model.

In December 2004, the FASB issued a revision of SFAS No. 123 ("SFAS No. 123(R)") that requires compensation costs related to share-based payment transactions to be recognized in the statement of operations. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be re-measured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) replaces SFAS No. 123 and is effective as of the beginning of January 1, 2006. Based on the number of shares and awards outstanding as of December 31, 2005 (and without giving effect to any awards which may be granted in 2006), we do not expect our adoption of SFAS No. 123(R) in January 2006 to have a material impact on the financial statements.





In October 10, 2006 FASB Staff Position issued Financial Statement Position (“FSP”) FAS No. 123(R)-5 “Amended of FASB Staff Position FAS 123(R)-1 “Classification and Measurement of Freestanding Financial Instruments Originally issued in Exchange of Employee Services under FASB Statement No. 123(R)”. The FAS provides that instruments that were originally issued as employee compensation and then modified, and that modifications made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, then no change in the recognition or the measurement (due to a change in classification) of those instruments will result if both of the following conditions are met: (a). There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (b). All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. The provisions in this FSP shall be applied in the first reporting period beginning after the date the FSP is posted to the FASB website. The Company does not expect the adoption of FSP FAS No. 123(R)-5 to have a material impact on its results of operations and financial condition.

#### Concentration of Credit Risk

The Company maintains its operating cash balances in banks in Scottsdale, Arizona. The Federal Depository Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000.

#### RECENT PRONOUNCEMENTS

##### Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) Issue No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The FSP affects entities that accrue dividends on share-based payment awards during the awards’ service period when the dividends do not need to be returned if the employees forfeit the award. This FSP is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP EITF 03-6-1 on its consolidated financial position and results of operations.

##### Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an entity's Own Stock

In June 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 07-5 on its consolidated financial position and results of operations.

##### Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued FSP Accounting Principles Board (“APB”) Opinion No. 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).” The FSP clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective as of January 1, 2009 and early adoption is not permitted. The Company is currently evaluating the potential impact of FSP APB 14-1 upon its consolidated financial statements.

#### The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (FAS No.162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

#### Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP FAS No. 142-3, “Determination of the Useful Life of Intangible Assets”, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142 “Goodwill and Other Intangible Assets”. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of the expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007) “Business Combinations” and other U.S. generally accepted accounting principles. The Company is currently evaluating the potential impact of FSP FAS No. 142-3 on its consolidated financial statements.

#### Disclosure about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, “Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133”, (SFAS No.161). This statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The Company is required to adopt SFAS No. 161 on January 1, 2009. The Company is currently evaluating the potential impact of SFAS No. 161 on the Company’s consolidated financial statements.

#### Delay in Effective Date

In February 2008, the FASB issued FSP FAS No. 157-2, “Effective Date of FASB Statement No. 157”. This FSP delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material to the Company’s consolidated financial condition or results of operations.



## Business Combinations

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations" (SFAS 141(R)). This Statement replaces the original SFAS No. 141. This Statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. The objective of SFAS No. 141(R) is to improve the relevance, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, SFAS No. 141(R) establishes principles and requirements for how the acquirer:

- a. Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree.
- b. Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase.
- c. Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date. The Company does not expect the effect that its adoption of SFAS No. 141(R) will have on its consolidated results of operations and financial condition.

## Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51

In December 2007, the FASB issued SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS No. 160). This Statement amends the original Accounting Review Board (ARB) No. 51 "Consolidated Financial Statements" to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and may not be applied before that date. The does not expect the effect that its adoption of SFAS No. 160 will have on its consolidated results of operations and financial condition.

## Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115" (SFAS No. 159), which becomes effective for the Company on February 1, 2008, permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The Company does not anticipate that the election, of this fair-value option will have a material effect on its consolidated financial condition, results of operations, cash flows or disclosures.

## NOTE 5. SHARE CAPITAL

MedCom has authorized 175,000 shares of common stock, at \$.0001 par value. As of December 31, 2008 there were 102,753,193 common shares issued and outstanding.

## Preferred Stock

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

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

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

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

The Company has not declared dividends on the preferred stock for the years ended June 30, 2008 and 2007. At June 30, 2008, there was an accumulated undeclared and unpaid dividend on the Series D preferred stock of \$342,000. Total accrued, but unpaid dividends related to the Series D preferred stock was \$23,750 at June 30, 2008.

During six months ended December 31, 2008 and 2007:

| Quarter Ended       | Stock issued<br>for cash | Cash received     | Stock issued<br>services/acquisition |
|---------------------|--------------------------|-------------------|--------------------------------------|
| September 30, 2007  | 1,847,357                | \$ 803,000        | -                                    |
| December 31, 2007   | 310,000                  | \$ 155,000        | -                                    |
| <b>Total Issued</b> | <b>2,157,357</b>         | <b>\$ 958,000</b> | <b>-</b>                             |
| September 30, 2008  | 1,225,000                | \$ 95,000         | 1,048,000                            |
| December 31, 2008   | 655,404                  | \$ 48,500         | 4,216,000                            |
| <b>Total Issued</b> | <b>1,880,404</b>         | <b>\$ 143,500</b> | <b>5,264,000</b>                     |

During the six months ended December 31, 2008 the Company has issued shares of its common stock as consideration to settlement of litigation of 1,000,000 and consultants to other 48,000 for the fair value of the services rendered. The value of those shares is determined based on the closing price of the stock at the dates on which the agreements were entered into for the services and the value of services rendered. The values of these common shares issued were expensed during the year.



During the six months ended December 31, 2008, the Company has issued 4,000,000 common stock as consideration for the purchase of assets of PayMed USA, LLC which has proprietary technology of medical billing software. The value of those shares is determined based on the fair value of the assets acquired.

During the six months ended December 31, 2008, the Company has issued shares of its common stock as consideration for services rendered of 196,000 common shares to Wilcom, Inc. and for the fair value of the services rendered. The value of those shares is determined based on the closing price of the stock at the dates on which the agreements were entered into for the services and the value of services rendered. The values of these common shares issued were expensed during the year.

During the three months ended December 31, 2008 the Company issued 1,880,404 shares of its common stock for \$143,500. 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, 2008, ranging from \$.08 and \$.10 per share.

During the three months ended September 30, 2007, the Company issued 2,157,357 shares of its common stock for \$958,000. The shares were issued to third parties in a private placement of the Company's common stock. The shares were sold throughout the three months ended September 30, 2007, ranging from \$.44 and \$.35 per share.

#### NOTE 6. RELATED PARTY TRANSACTIONS

The Company's president and chief executive officer is a 5% shareholder and is a member of the Board of Directors for the Company. MedCom USA Inc. and Card Activation Technologies, Inc, have the same officers and directors.

MedCom is managed by its key officers and directors Michael De La Garza and Robert Kite, as of December 31, 2008. The officers of the Company Michael De La Garza and Robert Kite also serve as officers of Card Activation Technologies, Inc. a related party. Additionally the officers of the Company are shareholders of both MedCom USA Inc. and Card Activation Technologies, Inc. Further MedCom USA, Inc. is a significant shareholder of Card Activation Technologies, Inc.

On December 2, 2008, the Company issued 192,000 shares of common stock to a related party, Wilcom, Inc. The issuances were valued at \$.088 per share which was the closing price of the day of issue and the Company recognized compensation expenses to William P. Williams of \$10,944.

On December 1, 2008 the Company issued 24,000 shares of common stock to a related party American Nortel Communications Inc. The issuances were valued at \$.089 per share which was the closing price of the day of issue and the Company recognized compensation expenses to William P. Williams of \$1,368.

On October 21, 2008, the Company issued 4,000,000 shares of common stock the assets purchase of PayMed LLC which we entered into in October 2008. The value of the shares was \$.088 per share which was the closing price of the day of issue. The Company recorded as an adjustment of \$294,000 to additional paid in capital since the acquisition was a related party.



On July 1, 2008, the Company entered into a revolving line of credit with MedCom USA, Inc. whereby the company could borrow up to \$750,000 from MedCom USA, Inc. The terms of the agreement provide a 7% interest per annum. As of December 31, 2008 no amounts were due under the revolving line of credit.

The Company has received advances from Card Activation Technologies, Inc., a related party. During the year ended December 31, 2008, the Company entered into subscription agreements whereby it sold its shares of common stock to third parties. The shares were valued at their closing pricing on the date of the agreements. The funds from the sale of some of shares of common stock sold by Card Activations Technologies, Inc., a related party during the year ended December 31, 2008 were deposited into MedCom USA, Inc. The Company has accounted and recorded an affiliate payable due to Card Activation Technologies, Inc. as a result of the deposit of the funds related to the issuances of the Card's shares of common stock to third parties. As of December 31, 2008, the Company had a payable to affiliate in the amount of \$695,587 in which the company pays a 7% interest rate on that advance.

#### NOTE 7. SUBSEQUENT EVENTS

Prior Management Williams P. Williams, and Eva Williams were removed from the Company in January, 2009 and Michael Malet resigned from the Company. The Company has closed the Scottsdale Arizona office, Orange County, California office, and their New York office and is moving their corporate offices to Henderson, Nevada. The Company is a Plaintiff in a pending law suit against prior management William P. Williams, Eva S. Williams; Wilcom, Inc., a Texas Corporation; WPW Aircraft LLC an Arizona Limited Liability Corporation; and American Nortel Communications, Inc., a Nevada Corporation in Case No. 2:09-cv-00298 filed in the United States District Court in the District of Arizona. The Company has alleged causes of action and we are uncertain the legal costs associated with this suit or its outcome.

William P. Williams and Eva Williams have been removed from the Company for cause and Michael Malet resigned. William and Eva Williams controls American Nortel Communications, Inc. which is a 22% shareholder in the Company. MedCom owns 32% of Card Activation Technologies, Inc. Our personnel perform functions for related entities but we are allocating personnel related expenses and recording this through our advances from related party account..

#### 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 our future events or our future financial performance that involve risks and uncertainties. Certain statements included in this quarterly report on Form 10-Q, 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 our 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 our control. We adopted at management's discretion, the most conservative recognition of revenue based on the most stringent 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). Our 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-K for the year ended June 30, 2008, 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, we, our"), a Delaware corporation, was formed in August 1991 under the name Sims Communications, Inc. Our prior primary business was providing telecommunications services. In 1996 our management 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. In October, 1999 we changed our name to MedCom USA, Inc. During the fiscal years of 1999 and continuing through present, we have directed our management's efforts in medical information processing.

#### MedCom System

We provide innovative web-based technology solutions for the healthcare industries that enable medical providers to check patient eligibility and a variety of financial services to efficiently collect patient co-pays and deductibles, The MedCom System currently operates through a web-portal. We still continue to support point-of-sale terminals which we have previously sold. All new business is sold through its web-portal.

Management contends that our "web portal" encourages customers to process their medical claims through an online 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.

#### Financial Services

Our credit card center and check services, provides the healthcare industry a combination of services designed in management's opinion to improve collection and approvals of credit/debit card payments along with the added benefit and convenience of personal check guarantee from financial institutions.

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 in the terminals, and bill the patient's card at a later date when it is determined what services rendered were not covered by the patient's insurance. Also, Easy-Pay allows patient's the added benefit and convenience of a one-time payment option or recurring installment payments that will be processed on a specified date determined by the provider and patient. These options insure providers that payments are timely processed with the features of electronic accounts receivable management. These services are all deployed through point-of-sale terminals or web portal. Using the MedCom system, medical 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 consolidates insurance eligibility verification, and payment services. Presently, the MedCom System is able to retrieve on-line eligibility information from over 450 medical insurance companies and plans in seconds. Included in this group is the newly activated Medicare Part A & B eligibility for all 50 states. Management believes that this gives us access to over 42 million lives. These insurance providers include CIGNA, Prudential, Oxford Health Plan, United Health Plans, Blue Cross, Medicaid, Aetna, Blue Cross/Blue Shield, and Prudential.

### Competition

Competing health insurance claims processing and/or benefit verification systems include Emdeon and McKesson. There are similar companies that compete with our company with respect to its financial transaction processing services performed by the MedCom system. These companies compete with us directly or to some degree. Many of these competitors are better capitalized than we are and maintain a significant market share in their respective industries.

### Technical Support Assistance

We offer multiple training options for our products and services and are easily accessed at [www.medcomusa.com](http://www.medcomusa.com). Training and teleconferencing, and technical support assistance are also features offered to health care providers.

### Marketing Strategy

Our management has broadened the marketing strategy to reduce cost and increase efficiency. We recently completed our final phase of its portal software development which has broadened the sales model to its Web Portal. Our management believes that the completion of the portal will increase sales to hospitals which results in multiple sales. In addition, management contends that the portal has become popular for individual doctors, dentist, and other healthcare professionals which often results in a single or possibly multiple sales. Management has focused our sales to hospitals as a growing revenue source.

In the past we have built our marketing around a strategy of expanding our sales capacity by using experienced external Independent Sales Organizations (ISO) and putting less reliance on an internal sales force. We have set-up these Independent Sales Organizations (ISOs) to market and distribute the MedCom System throughout the U.S. Financial service companies comprise, in managements' opinion, an important sales channel that views the healthcare industry as an important growth opportunity. Also, management believes that 6% of all healthcare payments are made with a credit card today. However, management has ascertained, but not verified, that according to a recent survey 55% of all consumers would prefer to pay doctor and hospital visits by credit/debit card.

We have been expanding its position with hospitals and working closely with hospital consultants and targeted seminars. With our new Online web portal product and Medicare access, management contends that we are becoming an increasingly valuable tool for the outpatient and faculty practice areas of hospitals. 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. We are working on acquiring strategic companies with additional services and client bases to increase its market share and revenue.

### Patent

Card Activation Technologies Inc. (“Card”) is a Delaware corporation headquartered in Chicago, Illinois that owns proprietary patented payment transaction technology used for electronic activation of phone, gift and affinity cards. MedCom owns approximately 53,000,000 shares of common stock of Card which represents 32% of the issued and outstanding shares of Card.

The patent was transferred to Card by MedCom on the formation of Card and in exchange for 146,770,504 shares of our Common Stock.

Card was incorporated in August 2006 in order to own and license, the assigned patent which covers payment transaction technology and the process for taking a card with a magnetic strip or other data capture mechanism and processing transactions or activating the card. This process is utilized for prepaid phone cards, gift cards, and debit-styled cards. Card has one principal asset, the patented payment transaction technology assigned from MedCom, and two full-time employees. Card has begun to commence full scale operations or generate additional revenues. Since incorporation, Card has not made any significant purchases or sale of assets, nor has Card been involved in any mergers, acquisitions or consolidations. Card has filed thirteen lawsuits to enforce its patented technology and has sent license agreement requests to a number of companies in order to obtain license agreements with entities that Card believes are infringing its patent.

Card has the ability to market and sell licensing opportunities for the patented technology of processing debit-styled transactions, including processing transactions with debit, phone and gift cards and also activating and adding value to those debit-styled cards. New View Technologies, which was acquired by MedCom USA, developed the patent and all patents were ultimately assigned to Card.

#### Service Agreements

During June 2005, we entered into a service agreement with TESIA-PCI, Inc. This agreement to replace and service and support POS terminals inclusive of eligibly, claims processing, credit card processing for TESIA's dental providers.

#### Revenues

A sales staff meets with a dental or medical professional. During that initial meeting a demo is displayed so the professional has first hand knowledge of the software and its use. At the time of the meeting a noncancellable licensing agreement is executed along with a service agreement. The license agreement indicates the life of the agreement if the customer wants check readers, pin pads, portal wedge, etc. with the software. These units allow the professional to swipe a credit card and medical card for the software to read.

The professional executes the licensing agreement which states the terms for a period of 24 – 60 month agreements, number of portal/units needed, at which location the portals will be used, the monthly licensing amount, (which varies per contract) type of contract whether dental or medical, the amount of the gateway access fee usually \$24.95 per month which includes provider enrollment, EDI connectivity, the monthly maintenance charges that are billed when used as commercial benefit verification, Referral transactions, claims status, service authorizations, maintenance, training, support, programs upgrades, carrier additions, and customized reports. The professional then provides us with a voided check or credit card number to automatically withdraw or charge the licensing fee and gateway access fees on a monthly basis. Also those automatic withdrawals include the maintenance charges based upon usage. The professional also agrees to allow us to provide merchant services for Visa/MasterCard. We further agree that the monthly fees charged for gateway access and licensing fees will commence with in 10 day so of the execution of the noncancellable agreements.

We recognize revenue in accordance with the American Institute of Certified Public Accountants Statement of Position (“SOP”) 97-2, “Software Revenue Recognition,” as modified by SOP 98-9 “Modifications of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions,” and interpreted by the Securities and Exchange Commission Staff Accounting Bulletin (“SAB”) No. 104 - Revenue Recognition. We have also adopted Emerging Issues Task Force (“EITF”) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables.

We recognize revenue on software related transactions on single element arrangements and on each element of a multiple element arrangement, when all of the following criteria are met:

1. Persuasive evidence of an arrangement exists, which consists of a written, non-cancelable contract signed by both parties;
2. The fee is fixed or determinable when we have a signed contract that states the agreed upon fee for our products and/or services, which specifies the related payment terms and conditions of the arrangement and it is not subject to refund or adjustment;
3. Delivery occurs:
  - a. For licenses - due to the Web nature of our software, when the software is shipped to our customer. Our arrangements are typically not contingent upon the customer providing the staff for training or scheduling and or conflicts in general, or do our arrangements contain acceptance clauses;
  - b. Non Software deliverables- when shipped to our customers;
  - c. For access, authorization, verification and other services – ratably over the annual service period.
  - d. For post-contract customer support - ratably over the annual service period.
  - e. For professional services - as the services are performed for time and materials contracts or upon achievement of milestones on fixed price contracts.
4. Collection upfront cash received from contracts is probable as determined by a credit evaluation, the customer’s payment history (either with other vendors or with us in the case of follow-on sales and renewals) and financial position.

Our arrangements typically represent large value “multiple element” arrangements where a multi-year term license is delivered in the first year with post contract support (PCS) and certain professional services. PCS some through the life of the contract includes technical support, maintenance, enhancements and upgrades. In the first year, PCS is packaged with the license and accordingly we allocate the arrangement fees to the elements using the residual method which generally results in 63% of the first year’ arrangement fee being allocated to license revenue. We recognize revenue from license fees when the software is shipped to the customer. PCS subsequent to year one is optional and renewable at a customer’s discretion on an annual basis. The PCS revenue subsequent to year 1 is realized annually, upon customer acceptance, as deferred revenue and recognized as revenue over the service period of one year. Professional services include training and installation services and are accounted for separately as they are not considered essential to the functionality of the software.

We charge various fees for other services as utilized by the customer. These services include, but are not limited to, access fee, provider enrollment fees, EDI connectivity fees, Payer/Provider fees, benefit verification fees, referral transfer fees and service authorization fees.

#### Deferred Revenue

Deferred revenue result from fees billed to customers for which revenue has not yet been recognized or for which the conditions of the arrangement have been modified. Current deferred revenue generally represents PCS and training services not yet rendered and deferred until all requirements under SOP 97-2 are satisfied. Non-current deferred revenue represents license fees which will be deferred until such time as all SOP 97-2 requirements have been satisfied.





We have adopted the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements.

#### Additional Information

We file 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 100 F Street, NE, Washington, DC 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](http://www.sec.gov).

#### Results of Operations

Revenues for the three months ended December 31, 2008 decreased to \$419,668 from \$711,218 for the three months ended December 31, 2007 respectively. Revenues for the six months ended December 31, 2008 decreased to 1,108,883 from \$1,648,274 for the six months ended December 31, 2007. This decrease in revenue is directly the result of changes in our strategic direction in core operations. Our management continues to aggressively pursue and devote its resources and focus its direction in electronic medical transaction processing. Our agreements with our credit facilities in connection with the licensing of terminals and portal transactions therewith, we must defer revenue on licensing agreement of the terminals and portal software. However, with our new acquisition of asset we anticipate an increase by the next quarter.

Cost of deliverables for three months ended December 31, 2008 decreased to \$248,349 from \$260,080 for three months ended December 31, 2007, respectively. Cost of deliverables for the six months ended December 31, 2008 decreased to \$420,729 from \$591,685 for the six months ended December 31, 2007. We have 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 us. The decrease in cost of deliverables is directly related to the decrease in revenues from the two fiscal years. Further we no longer pay commission or royalties on current and future revenues from its noncancellable licensing agreements. Commissions are paid at inception of the licensing agreement at a 10% rate and there are no future payments on residuals revenues from gateway access fees and licensing fees.

General and administrative expenses for the three months ended December 31, 2008 decreased to \$277,646 from \$517,576 for three months ended December 31, 2007, respectively. General and administrative for the six months ended December 31, 2008 decreased to \$684,735 from \$1,138,507 for the six months ended December 31, 2007. This decrease is attributed to our reduction of workforce in their New York operations as we have streamlined overall employee use. We have implemented and advanced its in-house software to perform many of the services the prior employees were performing manually. The decrease is related to settling outstanding litigation which resulted decrease in legal fees. We do expect additional legal expenses related to our pursuit of (9) causes of action against prior management.

Selling and marketing expenses for three months ended December 31, 2008 decrease to \$21,682 from \$16,667 for three months ended December 31, 2007, respectively. Selling and marketing for the six months ended December 31, 2008 decreased to \$82,122 from \$33,467 for the six months ended December 31, 2007. This increase is primarily the result of additional expenses related to prior managements expensing pilot fees and fuel costs of his jet. We have been focused on the practice management and large dental groups and should see the results of their efforts in the next quarter.



Interest expense for three months ended December 31, 2008 decrease to \$27,813 from \$36,631 for the three months ended December 31, 2007, respectively. Interest expenses for the six months ended December 31, 2008 decreased to \$49,005 from \$236,050 for the six months ended December 31, 2007. LadCo Financing, Inc. and LeeCo Financial, Inc. are financing companies that factor our receivable. LadCo factored our receivables from the period of 2002 through 2005 and LeeCo factored our receivables from the period of 2005 through 2007. The Company presently has their receivables factored through North Shore Financial, Inc. This decrease is a result of renegotiation of our credit facility with LeeCo and Ladco who was charging a higher interest rate. Also, expenses were incurred and paid on notes we have outstanding with LeeCo. Further our renegotiation has reduced the accrual of interest below 3% until paid in full in 2009. We also have been paying down the LeeCo obligation which has grown from the increase in financing through LeeCo Financial Inc. The payments to Ladco represented a high interest rate and the Company has systematically reduced the Ladco debt. We are presently investigating the origin of these obligations to LeeCo and LadCo and believe that they are invalid obligations dating back to 2002 through 2005 and later in 2006. Interest income for the three months ended December 31, 2008 decreased to \$18,858 from \$50,341 for the three months ended December 31, 2007, respectively. Interest income for the six months ended December 31, 2008 decreased to \$40,798 from \$119,188 for the six months ended December 31, 2007. The decrease is due to the reduction in current sales of the portal software from our license agreements. The licensing agreements are noncancellable licensing of our portal software in which we charge interest expense and interest income related to the life of the licensing agreement.

The net loss for three months ended December 31, 2008 was \$182,620 from \$69,395 for the three months ended December 31, 2007, respectively. The net loss for the six months ended December 31, 2008 decreased to \$148,223 from \$232,247 for the six months ended December 31, 2007. The decrease is directly due to the decrease in the sale of our core product and lack of funding our sales and marketing team to increase the companies over all value. We have further reduced royalty expense, commissions, and our operations in our New York facility.

No tax benefit was recorded on the expected operating loss for December 31, 2008 and 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

Our operating requirements have been funded primarily on its sale of licensing agreements with hospitals, medical and dental professionals and sales of our common stock. During the six months ended December 31, 2008, our net proceeds from the licensing of our software portals were \$1,108,883 as compared to 2007 of \$1,648,274 respectively. We received \$143,500 as compared to 2007 of \$958,001 in proceeds from the sale of common stock. Management 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 by (used in) from operating activities for the six months ended December 31, 2008 was \$845,145 compared to (\$1,072,796) for 2007. Management's focus on core operations results in a decrease in licenses receivable. We are focusing on core operations results in an increase in licenses receivable. We receive payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days. We have grown its operations to begin to reduce the deficit cash flow positions. However we are still operating in a deficit.

Cash provided by investing activities was \$31,959 for six months ended December 31, 2008, compared to \$300,851 for 2007. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for our company. However, we continue to employ software development teams that are upgrading the existing proprietary software in our terminal and portal licensing agreements sold. We purchased equipment for six

months ended December 31, 2008 of \$0.00 as compared to (\$28,123) for December 31, 2007.

Cash (used in) provided by financing activities was (\$899,651) for the six months ended December 31, 2008 as compared to \$746,005 for 2007. Financing activities primarily consisted of proceeds from the licensing of our software portal transactions through our licensing agreements with hospitals and medical and dental professionals. We do not have adequate cash flows to satisfy its obligations although we have improved cash flow and anticipate we will have adequate cash flows in the upcoming fiscal period. We received proceeds from the sale of our common stock for six months ended December 31, 2008 of \$143,500 as compared to \$958,001 for 2007. We are decreasing our licensing debt for the six months ended December 31, 2008 of \$269,431 as compared to \$646,932 for 2007. We are decreasing the cost of raising capital which was \$29,850 for the six months ended December 31, 2008 as compared to \$65,975 for 2007.

We had funding agreements with LeeCo Financial Service Inc. and Ladco Financial Group whom provide exclusive funding for the License agreement between the Licensing and us. The funding groups accept contracts and adopt the same terms and conditions that Licensing and we have agreed. In prior years Ladco required to personally guarantee the licensing agreements which were a financial burden to us. In Fiscal 2005, we no longer sought funding through Ladco and have consistently sought the funding of LeeCo. LeeCo does not require personal guarantees of licensing agreements other than hospital agreements. LeeCo requires us to personally guarantee the hospital agreements due to the size and volume of transaction with the terminal and web portals. We believe that we have no affiliation with our funding providers.

We expect increased cash flow from its existing services fees which include transaction processing, benefit claims processing, direct terminal sales, and credit card processing. The decrease in cost of deliverables is directly related to the sales through our telesales.

We are looking at expanding the market for its services and considering prospective acquisitions that would complement the existing revenue model. We have investigated two possible acquisitions but until due diligence is completed and negotiations have been completed we will continue to look for possible new horizontal business mergers.

On September 14, 2006 we have renegotiated the Ladco debt. We have 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 26% in the original note. We originally owed \$3,015,063 and renegotiated the balance to \$3,880,500 which included the accrued penalties and late fees. Further we 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.

LeeCo agreement adopts the agreement that we execute with the customer. LeeCo collects all funds through ACH and is paid from those proceeds. The excess of those proceeds are collected by us. LeeCo holds as collateral all the proceeds from the customer leases, access fees and all cash collections and is secured from all assets of ours.

The licensing agreement is executed between the professional and the MedCom. During the course of the agreement we ACH the accounts of the professionals and LeeCo collects the fees and reduces the liability for the licensing fees collected and returns any excess transaction fees to us. The professional does not finance their agreement with LeeCo, we finance the agreement. LeeCo is not a related party of ours. The financing of the licensing agreement is calculated as part of our revenue recognition process as the monthly collection of the licensing fee is recorded against the outstanding balance. Revenue is not recognized in excess of the cash received from our financing of the licensing agreement in accordance with SAB 101. The guarantees that are provided in connection with the hospital agreements have not changed our revenue recognition process except the accrual of the interest expense related to the unpaid balances.



We have renegotiated the credit facility with LEECO Financial Services in July, 2008. We have agreed to transfer 2,000,000 common shares of its holdings in Card Activation Technologies, Inc. a Delaware Corporation (“CDVT”). Commencing January 1, 2009, LEECO shall be permitted to sell the CDVT stock in increments and shall promptly apply the proceeds from such sales to discharge the LEECO Indebtedness, provided that LEECO shall not sell in any given 30 day period more than a number of shares of CDVT stock that is equal to the greater of 200,000 shares or 150% of the average daily trading volume for such shares in the previous 30 day period provided the stock price is over \$2.00. These common stock sales will be offset against the outstanding balance with LEECO Financial Services, Inc. We have been in agreement to allocate the interest of \$500,000 and payments over a period of 18 months effective September 1, 2008.

We are further renegotiating our agreement with LADCO Financial Services, Inc. Presently we have been making minimum payments to reduce our structured debt agreement. LadCo and LeeCo believe that we have no affiliation with the Company.

We are uncertain the validity of licensing agreements entered into in prior years and are investigating the validity of the obligations.

We now have funding agreement with North Shore Financial Services that is not affiliated with MedCom. North Shore does not require any personal guarantee and collects all licensing fees directly through the process of ACH of the individual doctor accounts. We finance our receivables with them however; we continue to collect our servicing fees over the life of the agreement. These agreements are also noncancellable agreements with our medical and dental professionals.

#### 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, in our 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any derivative instruments or other market risk sensitive instruments and do not engage in any hedging activities. As a result, we have no exposure to potential loss in future earnings, fair values or cash flows as a result of holding any market risk sensitive instruments.



#### ITEM 4. CONTROLS AND PROCEDURES

Our management team, under the supervision and with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of the last day of the fiscal period covered by this report, December 31, 2008. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company and its independent registered public accounting firm identified certain significant internal control deficiencies during their audit for the year ended June 30, 2008. We considered this weakness, in the aggregate, to be a material weakness. The primary concern was the preparation and allocation of securities underlying certain stock subscriptions, severance agreements, and asset purchase agreements. The other area of concern was the proper allocation of the securities underlying the agreements with the appropriate entity. These same issues have continued through the quarter ended December 31, 2008. New management intends to rectify these deficiencies. Management, at this time, believe these concerns will not have a material impact on the financials presented herein and do not require any restatement of past financials. If such restatement is required, the Company will publish a Form 8-K regarding any restatement and file amended financial statements. These same issues have continued through the quarter ended December 31, 2008. Due to the size of our Company and the costs associated to remediate these issues, we still consider these concerns to be relevant. Based on that evaluation, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures as of December 31, 2008 may not be effective due to possible material weakness in our internal controls over financial reporting described below, and other factors related to the Company's financial reporting processes. The Company is in the process of evaluating the internal controls and procedures to ensure that the internal controls and procedures satisfy the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework.

.Our principal executive officer and our principal financial officer, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Management is required to base its assessment of the effectiveness of our internal control over financial reporting on a suitable, recognized control framework, such as the framework developed by the Committee of Sponsoring Organizations (COSO). The COSO framework, published in Internal Control-Integrated Framework, is known as the COSO Report. Our principal executive officer and our principal financial officer, have has chosen the COSO framework on which to base its assessment.

Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in our annual reports on Form 10-K for the annual reporting periods through June 30, 2009.

There were no changes in our internal control over financial reporting that occurred during the last quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Our principal executive officer and our principal financial officer's, report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual

report.

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It should be noted that any system of controls, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter December 31, 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### LACK OF AUDIT COMMITTEE

Management is aware that an audit committee composed of the requisite number of independent members along with a qualified financial expert has not yet been established. Considering the costs associated with procuring and providing the infrastructure to support an independent audit committee and the limited number of transactions, Management has concluded that the risks associated with the lack of an independent audit committee are not justified. Management will periodically reevaluate this situation.

#### LACK OF SEGREGATION OF DUTIES

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. However, at this time management has decided that considering the abilities of the employees now involved and the control procedures in place, the risks associated with such lack of segregation are low and the potential benefits of adding employees to clearly segregate duties do not justify the substantial expenses associated with such increases. Management will periodically reevaluate this situation.

New management is actively investigating and correcting these internal control deficiencies since their appointment as officers and/or directors as of January 23, 2009.

#### PART II – OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

The Company and its related party Card Activation Technologies, Inc. are Plaintiffs in a law suit filed against prior management William P. Williams, Eva S. Williams; Wilcom, Inc., a Texas Corporation; WPW Aircraft LLC an Arizona Limited Liability Corporation; and American Nortel Communications, Inc., a Nevada Corporation in Case No. 2:09-cv-00298 filed in the United States District Court in the District of Arizona. The Company has alleged (9) nine causes of action including but not limited to securities violation of Section 10 of the Securities Exchange Act of 1934, thereunder Rule 10b-5 and we are uncertain the legal costs associated with this suit or its outcome.

Also MedCom is involved in various other legal proceedings and claims as described in our Form 10-K for the year ended June 30, 2008. No material developments occurred in any of these proceedings during the quarter ended December 31, 2008. The costs and results associated with these legal proceedings could be significant and could affect the results of future operations.

## ITEM 1A - Risk Factors

You should carefully consider the following risk factors before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In such cases, the trading price of our common stock could decline and you may lose all or a part of your investment.

### OUR COMMON STOCK IS SUBJECT TO PENNY STOCK REGULATION

Our shares are subject to the provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock" rule. Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act. The Commission generally defines penny stock to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the Commission; authorized for quotation on the NASDAQ Stock Market; issued by a registered investment company; excluded from the definition on the basis of price (at least \$5.00 per share) or the registrant's net tangible assets; or exempted from the definition by the Commission. Since our shares are deemed to be "penny stock", trading in the shares will be subject to additional sales practice requirements on broker/dealers who sell penny stock to persons other than established customers and accredited investors.

### WE MAY NOT HAVE ACCESS TO SUFFICIENT CAPITAL TO PURSUE OUR LITIGATION AND THEREFORE WOULD BE UNABLE TO ACHIEVE OUR PLANNED FUTURE GROWTH:

We intend to pursue a growth strategy that includes development of the Company business and technology. Currently we have limited capital which is insufficient to pursue our plans for development and growth. Our ability to implement our growth plans will depend primarily on our ability to obtain additional private or public equity or debt financing. We are currently seeking additional capital. Such financing may not be available at all, or we may be unable to locate and secure additional capital on terms and conditions that are acceptable to us. Our failure to obtain additional capital will have a material adverse effect on our business.

### OUR LACK OF DIVERSIFICATION IN OUR BUSINESS SUBJECTS INVESTORS TO A GREATER RISK OF LOSSES:

All of our efforts are focused on the development and growth of that business and its technology in an unproven area. Although the medical billing is substantial, we can make no assurances that the marketplace will accept our products.

### WE DO NOT INTEND TO PAY DIVIDENDS

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We may not have sufficient funds to legally pay dividends. Even if funds are legally available to pay dividends, we may nevertheless decide in our sole discretion not to pay dividends. The declaration, payment and amount of any future dividends will be made at the discretion of the board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors our board of directors may consider relevant. There is no assurance that we will pay any dividends in the future, and, if dividends are paid, there is no assurance with respect to the amount of any such dividend.

BECAUSE WE ARE QUOTED ON THE OTCBB INSTEAD OF AN EXCHANGE OR NATIONAL QUOTATION SYSTEM, OUR INVESTORS MAY HAVE A TOUGHER TIME SELLING THEIR STOCK OR EXPERIENCE NEGATIVE VOLATILITY ON THE MARKET PRICE OF OUR STOCK.

Our common stock is traded on the OTCBB. The OTCBB is often highly illiquid, in part because it does not have a national quotation system by which potential investors can follow the market price of shares except through information received and generated by a limited number of broker-dealers that make markets in particular stocks. There is a greater chance of volatility for securities that trade on the OTCBB as compared to a national exchange or quotation system. This volatility may be caused by a variety of factors, including the lack of readily available price quotations, the absence of consistent administrative supervision of bid and ask quotations, lower trading volume, and market conditions. Investors in our common stock may experience high fluctuations in the market price and volume of the trading market for our securities. These fluctuations, when they occur, have a negative effect on the market price for our securities. Accordingly, our stockholders may not be able to realize a fair price from their shares when they determine to sell them or may have to hold them for a substantial period of time until the market for our common stock improves.

FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATING RESULTS.

It may be time consuming, difficult and costly for us to develop and implement the additional internal controls, processes and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal auditing and other finance staff in order to develop and implement appropriate additional internal controls, processes and reporting procedures. If we are unable to comply with these requirements of the Sarbanes-Oxley Act, we may not be able to obtain the independent accountant certifications that the Sarbanes-Oxley Act requires of publicly traded companies.

If we fail to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act and current SEC regulations, beginning with our annual report on Form 10-K for our fiscal period ending December 31, 2007, we will be required to prepare assessments regarding internal controls over financial reporting and beginning with our annual report on Form 10-K for our fiscal period ending December 31, 2008, furnish a report by our management on our internal control over financial reporting. We have begun the process of documenting and testing our internal control procedures in order to satisfy these requirements, which is likely to result in increased general and administrative expenses and may shift management time and attention from revenue-generating activities to compliance activities. While our management is expending significant resources in an effort to complete this important project, there can be no assurance that we will be able to achieve our objective on a timely basis. There also can be no assurance that our auditors will be able to issue an unqualified opinion on management's assessment of the effectiveness of our internal control over financial reporting. Failure to achieve and maintain an effective internal control environment or complete our Section 404 certifications could have a material adverse effect on our stock price.

In addition, in connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover “material weaknesses” in our internal controls as defined in standards established by the Public Company Accounting Oversight Board, or the PCAOB. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The PCAOB defines “significant deficiency” as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected.

In the event that a material weakness is identified, we will employ qualified personnel and adopt and implement policies and procedures to address any material weaknesses that we identify. However, the process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we may identify or to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls and, in the case of a failure to remediate any material weaknesses that we may identify, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

**THE REPORT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM CONTAINS EXPLANATORY LANGUAGE THAT SUBSTANTIAL DOUBT EXISTS ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN**

The independent auditor’s report on our financial statements contains explanatory language that substantial doubt exists about our ability to continue as a going concern. The report states that we depend on the continued contributions of our executive officers to work effectively as a team, to execute our business strategy and to manage our business. The loss of key personnel, or their failure to work effectively, could have a material adverse effect on our business, financial condition, and results of operations. If we are unable to obtain sufficient financing in the near term or achieve profitability, then we would, in all likelihood, experience severe liquidity problems and may have to curtail our operations. If we curtail our operations, we may be placed into bankruptcy or undergo liquidation, the result of which will adversely affect the value of our common shares.

**OPERATING HISTORY AND LACK OF PROFITS WHICH COULD LEAD TO WIDE FLUCTUATIONS IN OUR SHARE PRICE. THE PRICE AT WHICH YOU PURCHASE OUR COMMON SHARES MAY NOT BE INDICATIVE OF THE PRICE THAT WILL PREVAIL IN THE TRADING MARKET. YOU MAY BE UNABLE TO SELL YOUR COMMON SHARES AT OR ABOVE YOUR PURCHASE PRICE, WHICH MAY RESULT IN SUBSTANTIAL LOSSES TO YOU. THE MARKET PRICE FOR OUR COMMON SHARES IS PARTICULARLY VOLATILE GIVEN OUR STATUS AS A RELATIVELY UNKNOWN COMPANY WITH A SMALL AND THINLY TRADED PUBLIC FLOAT, LIMITED**

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are

sporadically and thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or “risky” investment due to our limited operating history and lack of profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

**VOLATILITY IN OUR COMMON SHARE PRICE MAY SUBJECT US TO SECURITIES LITIGATION, THEREBY DIVERTING OUR RESOURCES THAT MAY HAVE A MATERIAL EFFECT ON OUR PROFITABILITY AND RESULTS OF OPERATIONS.**

As discussed in the preceding risk factors, the market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS SECURITIES**

There were no changes in securities and small business issuer purchase of equity securities during the six months ended December 31, 2008, except during the six months ended December 31, 2008 the Company has issued shares of its common stock as consideration to settlement of litigation of 1,000,000 and consultants to other 48,000 for the fair value of the services rendered. The value of those shares is determined based on the closing price of the stock at the dates on which the agreements were entered into for the services and the value of services rendered. The values of these common shares issued were expensed during the year. We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).



During the six months ended December 31, 2008 the Company has issued 4,000,000 common stock as consideration for the purchase of assets of PayMed LLC which has proprietary technology of medical billing software. The value of those shares is determined based on the fair value of the assets acquired. We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

During the six months ended December 31, 2008 the Company has issued shares of its common stock as services rendered of 196,000 common shares to Wilcom, Inc. and for the fair value of the services rendered. The value of those shares is determined based on the closing price of the stock at the dates on which the agreements were entered into for the services and the value of services rendered. The values of these common shares issued were expensed during the year. We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

During the three months ended December 31, 2008 the Company issued 1,880,404 shares of its common stock for \$143,500. 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, 2008, ranging from \$.08 per share. We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the period ended December 31, 2008.

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 December 31, 2008.

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: February 20, 2009

MedCom USA Incorporated  
By: /s/ Michael De La Garza  
Michael De La Garza  
President Chief Executive Officer (Principle Executive Officer)

Registrant  
Date: February 20, 2009

MedCom USA Incorporated  
By: /s/ Pamela Thompson  
Pamela Thompson  
Chief Financial Officer, Secretary, Treasurer (Principle Financial Officer)