MEDCOM USA INC
Form 10KSB
February 14, 2003

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

OR

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

For the transition period from N/A to N/A
Commission File Number: 0-25474

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

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

7975 NORTH HAYDEN ROAD, SUITE C-260, SCOTTSDALE, AZ 85258
(Address of principal executive offices)

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

COMMON STOCK, $.0001 PAR VALUE

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES ___ NO X

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

Registrant's revenues for the most recent fiscal year were $647,514.

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on June 28, 2002, was approximately $4,692,739.

1

PART I

ITEM 1. Description of Business

ITEM 2. Description of Property

ITEM 3. Legal Proceedings

ITEM 4. Submission of Matters to a Vote of Security Holders

PART II

ITEM 5. Market for Common Equity and Related Stockholder Matters

ITEM 6. Management's Discussion and Analysis or Plan of Operation

ITEM 7. Financial Statements

ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

PART III

ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

ITEM 10. Executive Compensation

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

ITEM 12. Certain Relationships and Related Transactions

ITEM 13. Exhibits and Reports

ITEM 14. Controls and Procedures

ITEM 15. Signatures

2

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Except for historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding future events and the Company's plans and expectations. Actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-KSB or incorporated herein by reference, including those set forth in Management's Discussion and Analysis or Plan of Operation.

OVERVIEW

MedCom USA, Inc.(the "Company") a Delaware corporation was formed in August 1991 under the name Sims Communications, Inc. The Company's primary business was providing telecommunications services. In 1996 the Company introduced four initiatives to broaden the Company's product and service mix: (a) cellular telephone activation, (b) sale of prepaid calling cards, (c) sale of long distance telephone service and (d) rental of cellular telephones using an overnight courier service. With the exception of the sale of prepaid calling cards, these four programs were discontinued in December 1997. During the fiscal year of 1998, the Company diversified its operations and moved into the area of medical information processing.

The Company changed its name to MedCom USA, Inc. in October 1999. During the fiscal years of 1999 and continuing through 2000, the Company directed its efforts in medical information processing. As of fiscal year-end June 30, 2002, the Company currently operates the MedCard System (MedCard) that is deployed through a point-of-sale terminal or personal computer offering electronic transaction processing, as well as insurance eligibility verification. The Company has aggressively focused on its primary operations in Electronic Data Interchange (EDI) and core business in electronic Medical Transaction Processing.

The Company's primary operations and its core business is as follows:

MEDICAL TRANSACTION PROCESSING

MEDCARD SYSTEM

The Company provides innovative technology-based solutions for the healthcare industry that enable users to efficiently collect, utilize, analyze and disseminate data from payers, health care providers and patients. The MedCard System currently operates through a point-of-sale terminal, and an on-line enabled personal computer. The point-of-sale terminals are purchased from Hypercom Corporation (Hypercom). The MedCard System also operates a PC software version and an on-line solution to accommodate large volume processing. The Company is in the process of assessing the feasibility of offering a service bundled package that would include the capability of processing unlimited claims and eligibility verification for a monthly base rate.

As of June 30, 2002 the MedCard system was able to retrieve on-line eligibility and authorization information from approximately 125 medical insurance companies and electronically process and submit billings for its healthcare providers to over 1,650 companies. These insurance providers include CIGNA, Prudential, Oxford Health Plan, United Health Plans, Blue Cross, Medicaid, Aetna, Blue Cross/Blue Shield, and Prudential.

3

COMPETITION

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

REGULATORY COMPLIANCE

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

SERVICE AND PRODUCTS

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

The Company's credit card center and check services, provides the healthcare industry an unprecedented combination of services designed to improve collection and approvals of credit/debit card payments along with the added benefit and convenience of personal check guarantee from financial institutions.

Flex-pay is an accounts receivable management program that allows a provider to swipe a patient's credit card and store the patient's signature in the terminals, and bill the patient's card at a later date when it is determined what services rendered were not covered by the patient's insurance. Also, an easy-pay option is offered which allows patient's the added benefit and convenience of a one-time payment option or a recurring installment payments that will be processed on a specified date determined by the provider and patient. These options insure providers that payments are timely processed with the features of electronic accounts receivable management. These services are all deployed thorough point-of-sale terminals or a personal computer. Using the MedCard system, medical providers are relieved of the problems associated with billings and account management, and results in lower administrative documentation and costs.

4

The MedCard System is also an electronic processing system that consolidates insurance eligibility verification, processes medical claims, and monitors referrals. The MedCard System allows a patient's primary care physician to request approval from the patient's insurance carrier or managed care plan for a referral to a secondary physician or specialist. The secondary physician or specialist can use the MedCard system to verify referrals are approved by the patient's insurance carrier. The MedCard system's referral capabilities reduce documentation and administrative costs which results in increased productivity and greater patient information for the specialist, as well as a written record of the referral authorization.

The MedCard System can record and track encounters between patients and health care providers for performance evaluation and maintenance of records. After examining a patient the physician enters a patient's name, procedure code and diagnostic code at a nearby terminal. This information is then uploaded to

MedCom's computer network, processed and transmitted back to the provider formatted in both summary and/or detailed reports, and as a result healthcare providers' reimbursements are accelerated and account receivables are reduced. The average time it takes the healthcare providers to collect payments from insurance carriers and plans decreases from an average of 89 days to 7 to 21 days. Health care providers will benefit from a 100% paperless claim processing system.

LICENSING AGREEMENTS

In May 2000 the license agreement with Dream Technologies, LLC, was amended whereby the Company acquired direct ownership of the MedCard System including all software programs, intellectual property, trade names and existing contracts. The amendment effectively terminated the original license agreement, except for the royalty provisions of the original license agreement.

Subsequently, on January 14, 2002, the Company changed the terms of the royalties included in the original agreement with Dream Technologies, and as a result past royalties were waived in good faith, for the exception of $30,000, which was agreed and payable in equal monthly installments. In connection with the past royalties, Dream Technologies, LLC was issued a certificate representing one million unregistered shares of common stock with a par value of $.001.

The Company is required to pay royalties to Dream equal to twenty percent of the first $1,000,000 of net monthly revenue and ten percent of net monthly revenue in excess of $1,000,000. The term net revenues is defined as gross revenues received from the use of the MedCard software less (a) terminal lease costs (b) commissions payable to agents that place terminals with end users (c) network costs that include: i) claim fees payable to data vendors, ii) charges for verification of insurance coverage iii) similar telecommunications charges related to obtaining claims processing and/or benefits verification information; and (d) cost of the terminal and shipping/handling.

5

SERVICE AGREEMENTS

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

During January 2002, the Company has entered into a service agreement with MedUnite. This strategic alliance will encompass the utilization of proprietary technologies and will enhance the existing network of healthcare constituents. Strategically both companies share the same vision of transforming the healthcare transactions systems affecting how healthcare providers, health plans, and other groups transacting business with one another by significantly reducing claim and payment processing time, and reducing healthcare administrative costs.

PROCESSING TERMINAL LEASING AGREEMENTS

The Company has entered into leasing agreements with LADCO Financial Group for the purpose of leasing processing terminals. The Company has pledged in collateral in connection with the lease agreements one million restricted common shares of stock. These common stock shares would be surrendered upon the

default of such leasing agreements. This pledge and granting of security interest was executed on January 3, 2002.

The Company has arranged its terms with this credit facility as an equipment lessor whereby the Company sells terminals to the lessor when it has obtained a service contract with a provider. Under these agreements, the Company is leasing back the processing terminals from the lessor and in turn leases them to the purchaser for a period of 48 months however; the customer may terminate the agreement after 12 months. The Company is accounting for the transactions as sale-leasebacks. The leases with the customers are inclusive with the monthly service contracts and are effectively accounted for as operating leases. Gains on terminal sales under sale-leaseback transactions are deferred and are being amortized to income in proportion to amortization of the assets, generally over the term of the lease with the credit facility generally for a period of 48 months. At June 30, 2002, the remaining deferred equipment gain of $733,892 is shown as "Deferred Gain on sale-leaseback" in the Company's Balance Sheet. For the year ended June 30, 2002, the total interest expense incurred by the Company under these leases was $22,208.

GROWTH STRATEGY

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

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

6

ADDITIONAL INFORMATION

The Company has been delinquent in its filings to the Securities and Exchange Commission attributed to changes in management and discontinued operations trading is now performed on the over-the-counter bulletin board and quoted in the Electronic Quotation Service from Pink Sheets.

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

ITEM 2. DESCRIPTION OF PROPERTY.

As of fiscal year end June 30, 2002, the Company maintains its executive offices in Scottsdale, Arizona. The Company leases 1,317 square feet of office space for approximately $28,000 annually. The Company entered into a three-year lease in May 2002 for the Scottsdale facility. The Company also maintains a

monthly lease in Irvine, California, for executive office space for approximately $550 monthly. The Company also leases 5,906 square feet of office space in Islandia, New York, for approximately $104,389 annually; the lease expires March 31, 2008. In conjunction with the New York lease the Company maintains a sub-lease with Commercial Capital, Inc., which was executed on December 1, 2001, for approximately $24,000 annually.

As of fiscal year end June 30, 2002, the Company had 41 employees of which approximately 19 are full-time equivalent employees as of June 30, 2002.

ITEM 3. LEGAL PROCEEDINGS

Subsequent to June 30, 2001, several former employees have filed complaints against the Company alleging breach of employment agreements. The total known claims being sought by the former employees at June 30, 2001 was approximately $175,000. The Company accrued $104,000 associated with these claims as of June 30, 2001. The Company believes that it has settled all former employee claims in amounts aggregating to an amount approximating the accrued amount of $104,000. A former officer has a claim remaining with the Company, and the Company is optimistic it can settle this claim. As of June 30, 2002, there was $164,000 accrued relating to this matter.

Several landlords are seeking damages from the Company arising from the Company defaulting on lease agreements. Certain landlords have obtained legal judgments against the Company. The total amount of such claims is $634,000 at June 30, 2001. The Company and its legal counsel believe that ultimate settlement will result in a much lower payout. The Company has accrued $208,000 associated with these claims at June 30, 2002. This amount was estimated on the basis of advice from legal counsel whom has settled several similar suits. However, the ultimate result of any settlement could vary significantly from this estimate.

7

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

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

At June 30, 2002, there was approximately $700,000 estimated and accrued for claims related to the litigation matters described above.

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

The Company submitted no matters to a vote of its security holders during the fiscal year ended June 30, 2002.

PART II

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

MedCom common stock is traded in the over-the-counter market, and quoted in the Electronic Quotation Service from Pink Sheets and can be accessed on the Internet at www.Pinksheets.com under the symbol "EMED."

At June 30, 2002, there were 24,974,070 shares of common stock of MedCom outstanding and there were approximately 452 shareholders of record of the Company's common stock.

The following table sets forth for the periods indicated the high and low bid quotations for MedCom's common stock. These quotations represent inter-dealer quotations, without adjustment for retail markup, markdown or commission and may not represent actual transactions.

8

FISCAL 2002	HIGH BID	LOW BID
Quarter Ended June 28, 2002	$ 0.25	$ 0.25
Quarter Ended March 28, 2002	0.18	0.14
Quarter Ended December 31, 2001	0.05	0.02
Quarter Ended September 28, 2001	0.11	0.10

FISCAL 2001	HIGH BID	LOW BID
Quarter Ended June 29, 2001	$ 0.85	$ 0.72
Quarter Ended March 30, 2001	0.31	0.18
Quarter Ended December 29, 2000	0.65	0.50
Quarter Ended September 29, 2000	2.15	1.68

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

SALES OF UNREGISTERED SECURITIES

During the fiscal year ended June 30, 2001, the Company granted 1,804,650 options to key employees. These options vest at 30% immediately and the remaining 70% over one year. These options were granted at an exercise price of $0.47 to $3.00, the fair market value of the underlying shares on the date of grant. The options expire five years from date of grant. During the fiscal year ended June 30, 2002 the Company has not granted options.

Common stock shares of approximately 1,442,182 were issued or sold during year ended June 30, 2001 and were issued or sold in reliance upon the exemption provided by Section 4(2) of the Act. The persons who acquired these shares gave consideration of undetermined amounts for various services performed and were either accredited or sophisticated investors. The shares of common stock were acquired for investment purposes only and without a view to distribution. The

persons who acquired these shares were fully informed and advised about matters concerning the Company, including the Company's business, financial affairs and other matters. The persons acquired these shares for their own accounts. The certificates representing the shares of common stock bear legends stating that the shares may not be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act of 1933, or pursuant to an applicable exemption from registration. The shares are "restricted" securities as defined in Rule 144 of the Securities and Exchange Commission.

9

STOCK SPLITS

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

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

Management's discussion and analysis contains statements that are forward-looking and involve risks and uncertainties. Several factors could cause actual results to differ materially from those described in such forward-looking statements. This includes the Company's ability to manage growth, involvement in litigation, competition in the health electronic transaction processing, ongoing contractual relationships, dependence upon key personnel, changes in customer demand for product and services, and the adoption of new, or changes in, accounting policies, practices and estimates and the application of such policies, practices, and estimates, and federal and state governmental regulation, specifically in the areas of electronic transaction processing in the health care industries.

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

Statement of Operations Data:

	Years Ended June 30,	
	2002	2001
Revenues	$ 647,514	$ 547,597
Cost of Sales and Services	(193,767)	(572,296)
Operating and other Expenses	(3,350,466)	(15,145,131)
Loss from Discontinued Operations	(244,561)	(10,396,049)
Net Loss	$(3,141,280)	$(25,565,879)

Balance Sheet Data:

	June 30,	
	2002	2001

Current Assets	$ 219,431	$ 316,407
Total Assets	$ 2,131,806	$ 3,007,552
Current Liabilities	$ 3,247,094	$ 3,716,164
Non-Current Liabilities	$ 898,685	$ 42,514
Total Liabilities	$ 4,145,779	$ 3,758,678
Working Capital (Deficit)	$(3,027,663)	$ (3,399,757)
Shareholders' Equity (Deficit)	$(2,013,973)	$ (751,126)

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

10

FISCAL 2002 OPERATIONS

General. As of June 30, 2002, the Company currently utilizes the MedCard System that is deployed through a processing terminal, PC software, or online processing, and offers electronic transaction processing to the health care industries. MedCom USA continues to focus on its primary operations and core business in medical transaction processing. The Company's erratic operations during fiscal year 2001 are attributed directly to the Company's changes in management and the discontinuing of unprofitable business sectors.

Management Changes. In July 2001, Mark Bennett resigned as the President and member of the Board of Directors. In July 2001, Michael Malet resigned as Executive Vice President and member of the Board of Directors. In May 2001, Alan Ruben resigned as Chief Accounting and Financial Officer. In June 2001, David Robinson resigned as Vice President of Healthcare Information Gateway and member of the Board of Directors. In June 2001, Vladimir Havlena resigned as Managing Director - DCB Actuaries and Consultants, s.r.o. In June 2001, David Breslow resigned as a member of the Board of Directors. In June 2001, Julio Curra resigned as a member of the Board of Directors. In June 2001, Robert Stevens resigned as Director of Development and Information Technology. In May 2001, Julie Signorille resigned as Director of Operations for the Company's MedCard sector. In July 2001, William P. Williams became the sole Director and sole Executive Officer of the Company.

Discontinued Operations. For fiscal year ended 2001 the Company ceased operations in the following areas:

ONE MEDICAL SERVICES

In May 1998 the Company acquired One Medical Services, LLC in consideration for 142,350 shares of common stock and 187,500 warrants exercisable at $2.00 per share at any time prior to May 30, 2003. The warrants had an imputed value of $213,870 using the Black Scholes option-pricing model. The One Medical Service network provides a financial processing and communications network for the Home Medical Equipment (HME) industry. In addition to processing information and verifying insurance medical cards, this network connects HME buyers with a network of HME vendors. This proprietary network had been designated for the medical and managed healthcare market.

In July 1999 the Company licensed its rights to the One Medical Service Network to an unrelated third party (Licensee) for $1,377,000 management decided this business sector was not profitable. The Licensee agreed to purchase approximately $200,000 of certain inventory as needed, and paid the related accounts payable. The Licensee purchased approximately $186,000 of inventory. The Licensee hired employees involved with this operation. The Company retained as employees those persons who devoted less than full-time to the One Medical

Services Network. Those people primarily provided technical support, installations, repairs, and maintenance of the underlying software and billing support. The Company charges the Licensee for these services on a time and materials basis. As a result of the license agreement, income related to the One Medical Network was in the form of license fee, sale of inventory and providing the various support services. Subsequently, the Licensee has ceased operations, and the Company has expensed any outstanding unpaid principal and interest for fiscal year ended June 30, 2001.

11

JUSTMED.COM

The JustMed.com website became fully operating on July 1, 1999. The website advertised healthcare products and services that were available to the general public and provided medical information. Persons in need of healthcare products and services were able to access the website and order products (see "MedStore" below) or transfer to the more detailed websites maintained by the companies that provide the products and services. The Company anticipated generating revenues from this website by charging providers of healthcare products and services fees for advertising on the website. The Company also anticipated receiving fees when a user transfers from the Company's website to the websites maintained by a provider of healthcare products or services. For fiscal year ended June 30, 2001, the Company is not currently marketing the web site, and has not generated any revenue from the website. The Company has made this site inactive. Management has determined the www.JustMed.com website, and the MedStore is not complimentary to the Company's present primary core operations and does not anticipate pursuing future operations.

MEDSTORE

The MedStore was a feature of the website that allowed consumers and physicians to purchase, from their own computers, a variety of healthcare products and services supplied by unrelated manufacturers and healthcare service providers. Items available for purchase included canes, crutches, walkers, bath chairs, blood pressure units, cold therapies, exercise equipment and hot and cold packs. The MedStore became operational on July 1, 1999. The Company is not currently marketing the MedStore, and has not generated any significant revenue from the MedStore.

Accredited Homecare Pharmacy and Accredited Medical Services were responsible for filling orders for products or services purchased from the MedStore. The services can be terminated at the discretion of either party As of June 2001; the Company has ceased operations of this service so that it can focus fully on its MedCard sector.

HEALTHCARE MANAGEMENT SOFTWARE DEVELOPMENT

DCB ACTUARIES & CONSULTANTS

In April 2000, the Company acquired 100% of the stock of DCB Actuaries & Consultants, s.r.o. (DCB), a Czech Republic based company. DCB developed and currently operates a health insurance decision support system with advanced data structures known as the Health Information Gateway. DCB developed and operated a Health Information Gateway, which is a web-based infrastructure; featuring advanced data retrieval capabilities designed to meet the information needs of the worldwide health care industry on a real-time basis.

The Company also acquired certain intellectual property from DSM, LLC

(DSM), a Florida limited liability company. The intellectual property acquired was used by DCB in its Health Information Gateway and other products. The intellectual property enables the software to operate and communicate with other programs and hardware. It provided the backbone to the Health Information Gateway. It was originally licensed from DSM, LLC to DCB.

12

In August 2001, the Company ceased operations of DCB Actuaries & Consultants Health Information Gateway. Management has determined slow economic growth, and long sales cycles in this area are not in the Company's primary business operations. However, the Company has signed a licensing agreement, which will permit the Company to get a royalty fee for the use of the Health Information Gateway software system. The Company is not anticipating significant or material revenues from this licensing agreement in the near future.

INTELLIGENT VENDING MACHINES

The Company operated three types of intelligent vending machines; video vending machines, ATM script machines, and phone card dispensing machines. The Company previously operated Automated Communication Distribution Centers, but the Company decided to discontinue this aspect of the business in May 2000. The three intelligent vending machines are described below:

MOVIE VISION

In January 1998 the Company issued 550,000 shares of its common stock to the shareholders of Moviebar Company USA and Vectorvision, Incorporated in consideration for the acquisition of businesses known collectively as "Movie Vision." Movie Vision rents videocassettes, primarily containing motion pictures, through automated dispensing units in hotels. Movie Vision had videocassette dispensing machines in approximately 110 hotels and time-share facilities in the United States. The machines were located in approximately twenty states with the largest concentration in Florida and California. The Company has sold this sector to a former employee for consideration of cash and cash equivalents in the amount of $50,000, and $50,000 in payables, in August 2001.

The Movie Division segment was disposed in the year ended June 30, 2002. Due to changes in value of certain assets and liabilities, an additional loss was recognized in the year ended June 30, 2002. The loss on the ultimate disposition was greater than originally estimated and recognized in the year ended June 30, 2001.

SCRIPT TERMINALS

In December 1996 the Company acquired all the issued and outstanding shares of Link International, Inc. ("Link"). Link had a proprietary script terminal that dispensed a receipt to the customer so that it may be used to pay for merchandise and/or services.

In June 1999 the Company sold 520 of Link's script terminals to a former employee. The Company did not receive any cash payment in connection with this sale, however the purchaser of the assets agreed to assume $70,000 in accounts payable and approximately $600,000 in capitalized lease obligations associated with the acquisition of the script terminals. The purchaser also agreed to assume the lease obligation for the related office space. The script terminals were sold because this line of business was not profitable, and management has determined there was a remote possibility of becoming profitable.

During the fiscal period ended June 30, 2001, the Company has not received revenues in this venture. The Company is not actively pursuing any opportunities with respect to the script terminals and does not expect to generate future revenue and has ceased operations.

13

PHONE CARD DISPENSING

The Company operated phone card dispensing machines that were manufactured by Link. The machines were full sized stand-alone vending machines, and sold prepaid phone cards, usually in $10 and $20 denominations. Phone card time for the prepaid calling cards can be purchased from various vendors. The Company in the past received all of the phone card time from the Licensee of the One Medical Service Network.

The units were typically placed at colleges and universities, car washes, and other retail establishments that have a high level of customer traffic. There were currently six dispensing machines in operation, all in southern California. The Company had another 65 machines in storage. The Company is not pursuing any opportunities with respect to Phone Card Dispensing and has ceased operations in this sector.

YEAR ENDED JUNE 30, 2002

RESULTS OF OPERATIONS

FISCAL YEAR END JUNE 30, 2002, COMPARED TO FISCAL YEAR END JUNE 30, 2001.

Revenues for Fiscal 2002 increased to $647,514 from $547,597 during Fiscal 2001. This increase in revenue is directly the result of changes in the Company's strategic direction in core operations. This included discontinuing declining or unprofitable business sectors and officer and management changes. The Company continues to aggressively pursue and devote its resources and focus its direction in electronic transaction processing. The Company's agreement with its credit facility in connection with the sale-leaseback transactions therewith, the Company must defer gains on the sale of the terminals. Those gains are generally recognized over a period of 48 months.

Selling expenses for Fiscal 2002 decreased to $141,162 from $571,460 during Fiscal 2001. The decrease was primarily the result of decreased marketing efforts. Selling expenses includes primarily commissions to sales personnel and outside Independent Sales Organizations ("ISO's") Research and development costs also declined, and is attributed to decreases in expenditures to support or promote unprofitable or declining business.

General and administrative expenses for Fiscal 2002 decreased to $2,325,184 from $4,726,570 during Fiscal 2001. The decrease was largely due to the Company's streamlining efforts and a reduction in management salaries and directors fees. Management expects these expenditures to be in conformance with budgeted amounts along with applying effective cost curtailment practices.

Professional and consulting expenses for Fiscal 2002 were $108,364 these expenses primarily are the result of the recognition of stock granted for various services to the Company. The expense recognized is determined from the bid and ask price of the common stock at the date of the transaction.

14

Interest expense for Fiscal 2002 decreased to $30,654 from $111,430 for Fiscal 2001. The decrease in interest expense was the direct result of a settlement of debt and discontinued business sectors.

The loss for Fiscal 2002 was ($244,561) from discontinued operations reflects the abandonment of business sectors during the year ended June 30, 2002. The Movie Division segment was disposed in the year ended June 30, 2002. Due to changes in value of certain assets and liabilities, an additional loss was recognized in the year ended June 30, 2002. The loss on the ultimate disposition was greater than originally estimated and recognized in the year ended June 30, 2001. The Company in Fiscal 2001 incurred losses of approximately ($5,084,883) relative to net assets associated with the discontinued business segments abandoned or sold.

As of June 30, 2002, MedCom had a federal net operating loss carry forward of $51,996,000 expiring 2011 to 2020. MedCom had a state net operating loss carry forward of $46,996,083 expiring from 2003 to 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its working capital requirements from the sale-leaseback transactions and selling shares of its common stock in private placements. Cash used by operating activities for Fiscal 2002 was ($1,818,182) compared to ($5,582,734) for Fiscal 2001. The Company experienced losses from discontinued operations and abandonment of assets attributable to discontinued business segments. The Company's pared down operations will result in lower accounts receivable and inventory levels. The Company receives payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days.

Cash used for investing activities was ($303,362) for Fiscal 2002, compared to ($938,029) for Fiscal 2001. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for the Company.

Cash provided from financing activities was $2,148,972 in Fiscal 2002, compared to cash flows provided for financing activities of $4,477,160 for Fiscal 2001. Financing activities primarily consisted of proceeds from the sale of the Company's common stock, and proceeds from the sale-leaseback transactions during the fiscal period.

The Company has relied upon a significant shareholder to fund its operating cash flow deficiencies since June 30, 2001. An entity that is controlled by the Company's new chairman and chief executive officer has funded $1,022,600 as of June 30, 2002, to the Company in the form of common stock purchased at the closing price as of the date the funds are transferred to the Company. This may substantially increase the Company's outstanding shares of common stock. Management believes that current trends in its electronic transaction processing to the health care industries business will provide cash flow to be self-sustaining from operations sometime in the near fiscal periods. The Company may require capital to finance the purchases of the electronic terminals. The amount of such requirement will be dependent upon the rate of growth experienced. The Company has been successful in obtaining lease financing for most of this equipment. The nature of the business is such that large accounts receivable balances will not be carried.

15

The Company anticipates using the sale-leaseback transactions to continue funding its equipment terminals. However, management believes that the Company

may require additional equity capital to settle older obligations and to fully implement its business plan and achieve sustained growth.

The Company is delinquent on capital and operating lease obligations as well as obligations to employees, officers, vendors and other creditors as of June 30, 2002. The Company is attempting to negotiate settlements or make counter claims against most of these creditors. There can be no assurances that the Company will be successful in negotiating settlements and preventing creditors from filing claims and litigating for claims.

OTHER CONSIDERATIONS

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

ITEM 7. FINANCIAL STATEMENTS

16

MEDCOM USA, INC.

TABLE OF CONTENTS

TABLE OF CONTENTS	PAGE
INDEPENDENT AUDITORS' REPORT: Epstein, Weber & Conover, PLC	F-2
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Balance Sheet at June 30, 2002	F-3
Consolidated Statements of Operations for the years ended June 30, 2002 and 2001	F-4
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2002 and 2001	F-5
Consolidated Statements of Cash Flows for the years ended June 30, 2002 and 2001	F-6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-7

F-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of MedCom USA, Inc. as of June 30, 2002 and the related statements of operations, stockholders' equity and cash flows for the each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MedCom USA, Inc. as of June 30, 2002, and the results of its operations and cash flows for each of the two years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred material operating losses, has experienced severe cash flow deficiencies and has limited working capital reserves. The Company has divested of several business segments and expects to face many operating challenges in the near future. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are discussed in Note 1. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ Epstein, Weber & Conover, PLC
Scottsdale, Arizona
February 3, 2003

MEDCOM USA, INC.
CONSOLIDATED BALANCE SHEET
JUNE 30, 2002

ASSETS	
CURRENT ASSETS	
Cash	$ 27,428
Accounts receivable, net of allowance of $19,912	41,303
Due from affiliate	82,000
Inventories	64,748
Prepaid expenses and other current assets	3,952

Total current assets	219,431
PROPERTY AND EQUIPMENT, net	1,458,295
GOODWILL, net of accumulated amortization of $322,575	436,423
OTHER ASSETS	17,657
TOTAL ASSETS	$ 2,131,806
LIABILITIES AND STOCKHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Accounts payable	$ 1,118,579
Accrued expenses and other liabilities	949,243
Deferred revenue	733,892
Dividend payable	23,750
Notes payable - current portion	109,437
Capital lease obligations - current portion	312,193
Total current liabilities	3,247,094
CAPITAL LEASE OBLIGATIONS - long-term portion	898,685
Total liabilities	4,145,779
STOCKHOLDERS' EQUITY:	
Convertible preferred stock, Series A $.001par value, 52,900 shares designated, 4,250 issued and outstanding	4
Convertible preferred stock, Series D $.01par value, 50,000 shares designated, 2,850 issued and outstanding	29
Common stock, $.0001 par value, 80,000,000 shares authorized, 36,879,866 issued and outstanding	3,688
Paid in capital	63,103,597
Accumulated deficit	(65,121,291)
Total stockholders' equity	(2,013,973)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,131,806

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

F-3

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2002 AND JUNE 30, 2001

	2001	2000

REVENUES:		
Terminal sales	$ 164,807	$ 259,3
Service	443,762	288,2
Equipment lease	38,945	
	647,514	547,5
COST OF SALES AND SERVICE	193,767	572,2
GROSS PROFIT	453,747	(24,6
OPERATING EXPENSES:		
General and administrative expenses	2,325,184	4,726,5
Sales and marketing expenses	141,162	571,4
Royalties	229,826	139,7
Professional and consulting fees	108,364	8,004,1
Depreciation and amortization	454,476	721,8
Total operating expenses	3,259,012	14,163,6
OPERATING LOSS	(2,805,265)	(14,188,3
OTHER (INCOME) AND EXPENSES		
Legal settlement and contingency expenses	60,800	854,6
Foreign currency translation	-	33,7
Interest expense	30,654	111,4
Interest income	-	(18,3
Total other expense	91,454	981,4
LOSS BEFORE DISCONTINUED OPERATIONS AND INCOME TAXES	(2,896,719)	(15,169,8
INCOME TAX (BENEFIT) PROVISION	-	
LOSS FROM CONTINUING OPERATIONS	(2,896,719)	(15,169,8
LOSS FROM DISCONTINUED OPERATIONS		
Loss from operations of discontinued segments, no income tax effect	-	(5,311,1
Loss from abandonment of discontinued segments, no income tax effect	(244,561)	(5,084,8
Total	(244,561)	(10,396,0
NET LOSS	$(3,141,280)	$(25,565,8
NET LOSS PER SHARE:		
Basic:		
Continuing operations	$ (0.11)	$ (1.
Discontinued operations	(0.01)	(1.
Total Basic	$ (0.12)	$ (3.
Diluted:		
Continuing operations	$ (0.11)	$ (1.
Discontinued operations	(0.01)	(1.
Total Diluted	$ (0.12)	$ (3.

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	27,439,138	7,692,7
Diluted	27,439,138	7,692,7

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	COMMON STOCK		PREFERED STOCK: PREFERRED A & B		PREFERRED C		PR
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHA
BALANCE JULY 1, 2000	6,364,193	$ 637	4,250	$ 4	-	$ -	2,
Common stock issued to settle claims	8,460	1					
Common stock issued to consultants for services rendered	2,662,268	266					
Common stock issued for cash	3,737,235	374					
Exercise of warrants for cash	1,009,985	101					
Exercise of employee options for cash	14,667	1					
Fair value of stock warrants granted for services rendered							
Preferred stock dividends	61,965	6					
Translation adjustment							
Net loss							
BALANCE JUNE 30, 2001	13,858,773	$ 1,386	4,250	$ 4	-	$ -	2,

	ACCUMULATED DEFICIT	TRANSLATION ADJUSTMENT	TOTAL
BALANCE JULY 1, 2000	$(36,300,132)	$ (1,863)	$ 11,150,196
Common stock issued to settle claims			38,750
Common stock issued to consultants for services rendered			7,924,714

	ACCUMULATED DEFICIT	TRANSLATION ADJUSTMENT	TOTAL
Common stock issued for cash			3,036,052
Exercise of warrants for cash			1,690,952
Exercise of employee options for cash			51,233
Fair value of stock warrants granted for services rendered			920,993
Preferred stock dividends	(114,000)		0
Translation adjustment		1,863	1,863
Net loss	(25,565,879)		(25,565,879)
BALANCE JUNE 30, 2001	$(61,980,011)	$ -	$ (751,126)

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000 (CONTINUED)

	COMMON STOCK		PREFERED STOCK				
			PREFERRED A & B		PREFERRED C		PREFE
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES
BALANCE JULY 1, 2001	13,858,773	$ 1,386	4,250	$ 4	-	$ -	2,850
Common stock issued to consultants for services rendered	1,050,000	105					
Common stock issued for cash	9,638,462	964					
Stock issued to employees and officers for compensation	5,786,500	579					
Common stock issued for penalties and dilution protection	6,546,130	655					
Net loss							
BALANCE JUNE 30, 2002	36,879,865	$ 3,688	4,250	$ 4	-	$ -	2,850

	ACCUMULATED DEFICIT	TRANSLATION ADJUSTMENT	TOTAL
BALANCE JULY 1, 2001	$(61,980,011)	$ -	$ (751,126)

Common stock issued to consultants for services rendered			116,605
Common stock issued for cash			1,242,600
Stock issued to employees and officers for compensation			519,229
Common stock issued for penalties and dilution protection			(0)
Net loss	(3,141,280)		(3,141,280)
BALANCE JUNE 30, 2002	$(65,121,291)	$ -	$(2,013,973)

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

F-5 (Continued)

MEDCOM USA, INC.
STATEMENT OF CASH FLOWS FOR THE
YEARS ENDED JUNE 30, 2002 AND 2001

	2002	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$(3,141,281)	$(25
Adjustments to reconcile net income to net cash (used in) operating activities:		
Loss from discontinued operations		5
Loss on abandonment of net assets of discontinued operations	244,561	5
Depreciation and amortization	454,476	
Issuance of common stock as compensation for services	635,834	7
Value of common stock warrants granted as compensation for services	-	
Write-off of notes receivable	-	
Changes in assets and liabilities (net of discontinued business segments):		
Trade accounts receivable	(17,067)	
Inventories	125,347	
Royalty advances	-	
Prepaid and other current assets	77,601	
Other assets	47,142	
Accounts payable	(114,423)	
Accrued liabilities	(235,121)	
Cash used by continuing operations	(1,922,931)	(2
Cash provided (used) by discontinued operations	104,749	(3
Net cash (used in) operating activities	(1,818,182)	(5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(8,058)	

Purchases of terminals under capital leases	(253,304)	
Advances to affiliates	(82,000)	
Proceeds from sale of assets in discontinued segments	40,000	
Repayments under notes receivable		
Net cash (used in) investing activities	(303,362)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	(60,574)	
Principal repayments on notes payable	-	
Principal repayments on capital leases	(29,330)	
Proceeds from the exercise of options and warrants	-	1
Proceeds from sale of common stock	1,242,813	3
Proceeds from capital sale-leaseback transactions	996,063	
Net cash provided by financing activities	2,148,972	4
INCREASE (DECREASE) IN CASH	27,428	(2
CASH, BEGINNING OF YEAR	-	2
CASH, END OF YEAR	$ 27,428	$

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS, (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000

SUPPLEMENTAL CASH FLOW INFORMATION:	2002	2001
Interest paid	$ 25,615	$ 111,430
Income taxes paid	$ -0-	$ 14,586

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Leaseholds acquired under a note payable	$ -0-	$ 95,000
Equipment acquired under capital leases	$1,108,378	$1,229,205
Purchase of equipment with warrants	$ -0-	$ 64,277
Extinguishment of capital lease obligations by foreclosure on related equipment	$1,121,399	$ -0-

The accompanying notes are an integral part of these consolidated financial

statements.

F-6 (Continued)

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

1. ORGANIZATION AND BASIS OF PRESENTATION

MedCom USA, Inc. (the "Company"), formally Sims Communications, Inc., provides point-of-sale transaction terminals and personal computer based software to provide medical insurance eligibility verification, claims processing, and credit card/ATM charges and payments. The Company's customers are health care providers, primarily medical doctors' offices throughout the United States. During the year ended June 30, 2001, the company divested or abandoned all other business segments. The Company had also provided software based applications for health care billing management and "intelligent" vending services, primarily video rentals in hotels and motels. Those operations have been discontinued as of June 31, 2001.

The accompanying financial statements represent the consolidated financial position and results of operations of the Company and includes the accounts and results of operations of the Company and its wholly owned subsidiaries; Sims Franchise Group Inc., Sims Communications International, Inc., JustMed.com, Inc., One Medical Service, Inc., and Link International Technologies, Inc., New View Technologies, Inc. and accounts of DCB Actuaries and Consultants, s.r.o. ("DCB") for the year ended June 30, 2001. The results of operations for the year ended June 30, 2002 include only the remaining active entities of MedCom USA, Inc., and New View Technologies, Inc., which was discontinued in the year ended June 30, 2002.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred material operating losses, has experienced severe cash flow deficiencies and has limited working capital reserves. The Company has a working capital deficit of $3,027,663 at June 30, 2002 and has defaulted on numerous operating and capital lease agreements and has material past due obligations. The Company is attempting to negotiate settlements and payment plans with creditors on much of the older past due obligations.

The Company has divested of several business segments and expects to face many operating challenges in the near future. A new management team has instituted cost cutting measures. A major shareholder of the Company has provided capital to assist in meeting day-to-day operating expenses. The Company has begun to experience increased sales of its MedCard System and has generated cash through the use of sale-leaseback transactions connected to the sales of the terminals for the MedCard System. Management is attempting to attain a sustaining level of operating cash flow from the Company's MedCard operations while negotiating with creditors. The Company will then attempt to raise additional capital to grow the MedCard operations and settle with remaining creditors.

Cash reserves and working capital at June 30, 2002 were essentially depleted. As discussed above, the Company is generating cash flow from sales activities and sale-leaseback transactions. Such cash flow is only recently provided some evidence that it is sufficient to cover current operating expenses. However, this level of cash flow does not permit the

Company to retire prior debts or expand its operations. The Company believes that it needs additional cash, either from outside financing or expanded sales activities, in order to retire past due debts and significantly expand the Company's operations. If the Company is unable to produce sales as planned and/or raise additional investment capital to fully implement its business plan, it may jeopardize the ability of the Company to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash includes all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. Net bank overdrafts are recorded as current liabilities.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated.

Inventories consist primarily POS terminals and spare parts that are held for sale. Inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Property and Equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years. Depreciation expense for the years ended June 30, 2001 and 2000 was $705,965 and $723,564, respectively.

Revenue Recognition - The Company's revenue is generated by the sale of POS terminals and transaction fees generated through those terminals. Revenue from the sale of POS terminals is recognized when delivered to the customer. Transactions fees are recognized upon completion of the transaction processing.

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

Income Taxes - The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Financial Instruments - Financial instruments consist primarily of accounts receivable, and obligations under accounts payable, accrued expenses, capital lease obligations and notes payable. The carrying amounts of accounts receivable, accounts payable, accrued expenses and notes payable approximate fair value because of the short maturity of those instruments. The carrying value of the Company's capital lease arrangements approximates fair value because the instruments were valued at the retail cost of the equipment at the time the Company entered into the arrangements.

The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

Net Loss Per Share is calculated using the weighted average number of shares of common stock outstanding during the year. The Company has adopted the provisions of SFAS No. 128 Earnings Per Share.

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

Stock-Based Compensation - Statements of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, ("SFAS 123") established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation. In accordance with SFAS 123, the Company has elected to continue accounting for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The proforma effect of the fair value method is discussed in Note 15.

Intangible Assets at June 30, 2002 consist of goodwill associated with the Company's acquisition of MedCard for the difference between the purchase price of the acquired business and the fair value of the identifiable net assets. Goodwill is amortized on a straight-line basis over 5 years. Beginning in the fiscal year ended June 30, 2003, the Company will cease amortization of the goodwill.

Research and Development costs are expensed as incurred.

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

Recently Issued Accounting Pronouncements: In June 2001, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. The Company will be required to adopt SFAS No. 142 at the beginning of its 2003 fiscal year. The Company is currently reviewing the impact of adoption of SFAS 142, but, other than the ceasing of goodwill amortization, does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations. The Company is currently reviewing the impact of adoption of SFAS 143, but does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company will be required to adopt SFAS No. 144 at the beginning of its 2003 fiscal year. SFAS No. 144 supersedes SFAS 121, but carries over most of its general guidance. The Company is currently reviewing the impact of adoption of SFAS 144, but does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company. However, the provisions of SFAS will be applied to long-lived assets such as the URL.

3. ACCOUNTS RECEIVABLE

The Company's accounts receivable at June 30, 2002 consisted of:

Medcard trade accounts receivable	$ 57,465
Other	3,750
Total	61,215
Less: Allowance for doubtful accounts	(19,912)
	$ 41,303

The Company estimates uncollectible account balances and provides an allowance for such estimates. The allowance for doubtful accounts at June 30, 2002, consists of an estimate for potentially uncollectible accounts in the MedCard division.

4. IMPAIRMENT OF LONG-LIVED ASSETS

In connection with the Company's determination that it divest of or abandon numerous business segments, the Company analyzed the carrying cost of its long-lived assets in those segments. The Company analyzed any write-down considering factors such as the potential sale of such business segments, collateral value for obligations and out right abandonment. During the year ended June 30, 2001, the Company recognized impairment write-downs or write-offs as follows:

Description	Segment	Impairment Loss	Carrying Value at June 30, 2001
Goodwill	Medical	$ 443,829	$ - 0 -
Contracts	Medical	8,334	- 0 -
Technology	Healthcare Software	2,493,346	- 0 -
Equipment	Healthcare Software	287,123	- 0 -
Equipment	Vending	77,773	16,847
Leaseholds	Healthcare Software	192,748	- 0 -

DCB equipment and goodwill	Healthcare Software	1,189,387	- 0 -
Total		$ 4,692,540	$ 16,847

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

There were no additional impairment losses recorded in the year ended June 30, 2002, nor were there long-lived assets for sale remaining at June 30, 2002.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2002:

MedCard terminals	$1,114,378
Software	924,058
Office and computer equipment	201,262
Furnishings and fixtures	128,933
Leasehold improvements	4,439
Total	2,373,070
Less accumulated depreciation	(914,775)
Property and equipment, net	$1,458,295

The MedCard terminals are capitalized under sale leaseback transactions (NOTE 7). The terminals are amortized on a straight line basis over four years. Software represents the cost of software acquired that operates the Company's MedCard System. The capitalized cost of the software is amortized on a straight line basis over five years. There were no additional costs capitalized as software development during the years ended June 30, 2002 and 2001.

6. NOTES PAYABLE

Notes payable at June 30, 2002 comprise the following:

Convertible note payable to individual. The note bears interest at 8% per annum and is payable quarterly. The note is convertible to common stock at $6.25 per share. The note had an original maturity date of February 1998 and is currently in default.	$ 25,000
Note payable to landlord. Collateralized by leasehold improvements. Original principal balance of $95,000. The note bears interest at 9% per annum and requires monthly principal and interest payments of $1,999. The Company has defaulted on the note, and the landlord has obtained a judgment which is being appealed.	84,437

Totals	$109,437

Both of the notes payable are in default as of June 30, 2002. A former landlord has obtained a court ordered judgment against the Company for the past due note, unpaid rent and legal fees. The Company is attempting to renegotiate and settle this obligation .

7. CAPITAL LEASE OBLIGATIONS AND SALE-LEASEBACK TRANSACTIONS

The Company leases many of its MedCard terminals under capital lease agreements. The Company also leases certain office and computer equipment under capital leases.

The Company has entered into an arrangement with a third party lessor whereby the Company sells its terminals that are placed with customers to the lessor. The lessor in turn leases back the terminals. These transactions are recorded as sale-leaseback transactions. The leases between the Company and the lessor are accounted for as capital leases. The Company generates revenue from the terminals through monthly service fees and transaction fees. The value of the sale transaction between the Company and lessor is determined by Company's agreement with the customer relative to the number of terminals, length of the customer contract and monthly service fee due from the customer. The Company acquires terminals from its suppliers, programs the terminals with its software and sells the terminals to the lessor when it enters into an agreement with a

customer for those specific terminals. Any gain on the sale transaction with the lessor is deferred and amortized proportionately with the capitalized asset. That period is generally four years, the typical length of the customer contract and the lease agreement. These leases are collateralized by the underlying equipment and, in addition, 1,000,000 shares of the Company's common stock.

The following presents future minimum lease payments under the capital leases by year and the present value of minimum lease payments as of June 30, 2002:

Years ended June 30:

	Terminals	Other Equipment	Total
2003	$ 375,324	$ 137,977	$ 513,301
2004	375,324	53,892	429,216
2005	375,324		375,324
2006	218,939		218,939
2007			-
Total minimum lease payments	1,344,911	191,869	1,536,780
Lees: amount representing interest	(306,918)	(18,984)	(325,902)

Present value of minimum lease payments	$1,037,993	$ 172,885	$1,210,878
	===========	===========	===========

The Company defaulted on two capital lease agreements with an originally determined present value of minimum lease payments of $1,156,794 at June 30, 2001. The lessors foreclosed on this equipment in the year ended June 30, 2002. The Company estimated that the fair value of the equipment approximated the carrying value of obligations. However, the carrying value of the assets was greater than the fair value at the time of the foreclosure. The Company recognized a loss of $206,790 on the foreclosure of these assets and the related extinguishment of the obligations.

Total cost of equipment under capital lease and related accumulated depreciation was $1,108,378 and $63,261 respectively at June 30, 2002.

8. DISCONTINUED OPERATIONS

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

Segment Identification	Method of Disposal	Remaining Assets at June 30,2001	Remaining Liabilities at June 30,2001	Revenues for the year ended June 30, 2001
DCB	Abandonment	NONE	NONE	$ 157,955
Healthcare Information Software	Abandon/Sale	Equipment $1,651,863	Capital lease Obligations $ 995,175	$ 685,991
Vending	Sale	Accounts Receivable $ 91,000 Inventory 17,000 Equipment 17,000	Accounts Payable $ 53,000	$ 731,831

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

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

$212,846. The Company has completed is disposal of this business segment as of June 30, 2002.

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

9. INCOME TAXES

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

	2002	2001
Current tax (benefit) provision	$(1,584,102)	$(7,998,908)
Deferred tax (benefit) provision	1,584,102	7,998,908
Total income tax provision	$ - 0 -	$ - 0 -

Net deferred tax assets of $22,758,997 less a valuation allowance of $22,714,638, relate primarily to net operating loss carryforwards and differences in book and tax bases of property and equipment, intangible assets and certain accruals. The net deferred income tax asset at June 30, 2002 is comprised of:

Allowance for losses on accounts receivable	$ 8,005
Differences in liabilities	293,652
Impairment of intangible assets	1,958,860
Net operating loss carryforwards	20,498,480
Deferred income tax asset	$ 20,758,997
Less: valuation allowance	(22,714,638)
Total deferred income tax asset	44,359
Deferred income tax liability related to book/tax differences in bases of property and equipment	(44,359)
Net deferred income tax asset	$ - 0 -

Federal net operating loss carryforwards of $51, 996,000 expire from 2011 to 2021. State net operating loss carryforwards of $46,996,083 expire from 2003 to 2005. Due to the conditions discussed in Note 1, future utilization of the net operating losses is uncertain. The valuation allowance on the deferred income tax asset was increased by $1,231,242 in the year ended June 30, 2002.

The differences between the statutory and effective tax rates is as follows for the years ended June 30,:

	2002		2001	
Federal statutory rates	$(1,068,035)	(34)%	$(8,692,399)	(34)%

State income taxes	(188,477)	(6)%	(1,661,782)	(6)%
Valuation allowance for operating loss carryforwards	1,231,242	39%	10,364,396	40%
Other	25,270	1%	(10,215)	-%
Effective rate	$ (- 0 -)	-0-%	$ (- 0 -)	0%

10. OPERATING LEASES

The Company a leases its office space under long-term operating leases expiring through 2008. Rent expense under these leases was $185,323 and $334,913 for the years ended June

30, 2002 and 2001, respectively. Subsequent to June 30, 2001, the Company defaulted on several of these operating leases and is attempting to negotiate settlements with landlords.

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

2003	221,932
2004	160,781
2005	152,834
2006	126,150
2007	130,566
Thereafter	100,773
	$893,036

11. STOCKHOLDERS' EQUITY

During the year ended June 30, 2002, the Company issued 9,638,462 shares of shares of its commons stock for $1,242,600. Of that amount, 9,192,462 shares of the Company's common stock were sold to an entity controlled by the Company's president and chairman for $1,022,600.

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

During the year ended June 30, 2001, the Company declared a one-for-five reverse stock split. All shareholders of record as of May 9, 2001 returned five shares of the Company's common in exchange for one share. All per share amounts and number of shares for the two years ended June 30, 2001, have been restated to reflect the stock spilt retroactively to July 1, 1999.

During the year ended June 30, 2001, the Company issued 2,767,235 shares of its common stock for cash in several private transactions. The aggregate

cash proceeds received by the Company was $3,036,052 net of cash fund raising fees of $152,453. The transactions were priced from $0.01 to $2.00 per share.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The value of those shares was determined based on the trading value of the stock at the dates on which the agreements were made for the services. During the year ended June 30, 2002, the Company granted 1,050,000 shares of common stock to consultants valued at $116,605. Additionally during the year ended June 30, 2002, the Company granted 5,786,500 shares of its common stock to officers and employees valued at $519,229. During

F-16

the year ended June 30, 2001, the Company issued 2,662,268 shares to consultants valued at $7,924,448. The value of these shares was expensed during each respective year.

During the year ended June 30, 2001, the Company issued 1,024,652 shares of its common stock in connection with the exercise of stock options and warrants. The Company received cash of $1,742,083 in connection with these transactions.

During the year ended June 30, 2001, the Company issued 8,460 shares of its common stock as conversion of a settlement balance of $38,750.

During the year ended June 30, 2001, the Company granted options to consultants as consideration for services rendered. The Company also granted warrants to settle past due lease payments. During the year ended June 30, 2001, the Company granted warrants and options exercisable into 2,172,996 shares of common stock. The fair value of these options and warrants was determined to be $920,983. That amount is expensed in the accompanying statement of operations for the year ended June 30, 2001. The fair value of each option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model using the assumptions outlined in Note 15.

During the year ended June 30, 2001, the Company paid accrued dividends of $114,000 on the Series D preferred stock by the issuance of 61,965 shares of he Company's common stock. The Company did not declare its dividend on the preferred stock during the year ended June 30, 2002. At June 30, 2002, there was an undeclared and unpaid dividend on the Series D preferred stock of $114,000. Total accrued, but unpaid dividends related to the Series D preferred stock was $23,750 at June 30, 2002.

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, as and if declared by the Board of Directors. Dividends not declared are not cumulative. Additionally, each share of Series A Preferred Stock is convertible into .20 shares of the Company's Common Stock at any time after July 1, 1999. A total of 850 shares of common stock may be issued upon the conversion of the shares of Series A preferred stock outstanding as of June

30, 2000. Upon any liquidation or dissolution of the Company, each outstanding share of Series A Preferred Stock is entitled to distribution of $20 per share prior to any distribution to the holders of the Company's common stock. As of June 30, 2000, the Company has 4,250 shares of Series A Preferred Stock issued and outstanding.

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

F-17

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.

12. COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has entered into numerous employment agreements with officers and key employees. Generally, the employment agreements are for three-year periods and include, as potential additional compensation, incentive bonuses computed based upon Company's operations and other benefits, including such items as an automobile allowance, health and life insurance, vacation and sick pay benefits. In June 2000, the Company entered into employment agreements with several officers. These agreements were renegotiated in the year ended June 30, 2002. Total aggregate annual compensation under these agreements is $208,000. These individuals may be entitled to receive incentive bonuses and other benefits including health insurance, disability coverage, vacation and sick pay. These individuals received options to purchase a total of 25,000 shares of the Company's common stock at $3.00 per share with vesting on an annual basis over two years. The agreements terminate on June 19, 2003.

Royalty Agreement

In connection with the original licensing and subsequent acquisition of MedCard, the Company entered into a royalty agreement with the original Licensor. The royalty provisions of the license agreement remained in effect after the purchase. This agreement was amended in the year ended June 30, 2002. The Company will pay the Licensor 20% of qualified monthly revenues, less direct costs, generated by the licensed software. The original agreement required the Company to advance $550,000 of royalty fees payable to the Licensor and then retain as a credit 40% of the future

monthly royalty payments until the advance is offset in full. During the year ended June 30, 2001, in anticipation of the new agreement, the Company wrote-off the remaining prepaid royalty and prepaid expense balance of $643,659.

Consulting Agreements

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

Litigation

Subsequent to June 30, 2001, several former employees filed complaints against the Company alleging unpaid payroll and breach of employment agreements. The total known claims being sought by the former employees at June 30, 2001 was approximately $175,000. The Company has accrued $104,000 associated with these claims at June 30, 2001. The Company believes that it has settled all former employee claims in amounts aggregating to an amount approximating the accrued amount of $104,000. A former officer has a claim remaining with the Company. The Company is attempting to settle this claim. At June 30, 2002, there was $164,000 accrued relating to this matter.

Several landlords are seeking damages from the Company due to the Company due to the Company defaulting on several lease agreements. Certain landlords have obtained legal judgments against the Company. The total amount of such claims is $634,000 at June 30, 2001. The Company and its legal counsel believe that ultimate settlement will result in a much lower payout. The Company has accrued $208,000 associated with these claims at June 30, 2002. This amount was estimated on the basis of advice from legal counsel whom has settled several similar suits. However, the ultimate result of any settlement could vary significantly from this estimate.

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

The Company may be subject other unasserted claims associated with the abandonment of its operations. The Company is also involved in various claims and legal actions arising in the ordinary course of business. In the

opinion of management, except as discussed above, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

At June 30, 2002, there was approximately $700,000 estimated and accrued for claims related to the litigation matters described above.

13. NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. Preferred stock convertible to 115,396 common shares and options and warrants exercisable into 3,863,975 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended June 30, 2002 because the effect of their inclusion would be anti-dilutive. Preferred stock convertible to 115,396 common shares and options and warrants exercisable into 7,835,766 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended June 30, 2001 because the effect of their inclusion would be anti-dilutive. The following presents the computation of basic and diluted loss per share from continuing operations:

		2002			2001
	(Loss)	Shares	Per share	(Loss)	Share
Net (Loss)	$ (3,141,280)			$(25,565,880)	
Preferred stock dividends	(114,000)			(114,000)	
Discontinued operations	244,561			11,884,346	
Loss from continuing operations	(3,010,719)			(13,795,534)	
BASIC EARNINGS PER SHARE					
Loss available to common stockholders	$ (3,010,719)	27,439,138	$ (0.11)	$ (7,274,239)	7,692,
Effect of dilutive securities	N/A			N/A	
DILUTED EARNINGS PER SHARE	$(13,795,534)	27,439,138	$ (0.11)	$ (7,274,239)	7,692,

14. RELATED PARTY TRANSACTIONS

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

During the year ended June 30, 2002, the entity controlled by the Company's president and chairman acquired 9,192,462 shares of the Company's common stock for $1,022,600. During the year ended June 30, 2002, the Company advanced funds of $82,000 to this entity. This

balance remains due and is reflected as a receivable at June 30, 2002 in the accompanying balance sheet.

During the year ended June 30, 2001, the Company purchased $429,008 of computer equipment and implementation services from DSM.net, a company owned by an individual whom at the time was an officer of the Company.

15. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from small business customers in numerous geographical locations throughout the United States. The Company estimates and provides an allowance for uncollectible accounts receivable.

The Company has raised cash through sale-leaseback transactions. All of these transactions have been conducted through a single lessor.

16. STOCK BASED COMPENSATION

The Company issues stock options from time to time to executives, key employees and members of the Board of Directors. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and continues to account for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation cost has been recognized for the stock options granted to employees. Had compensation cost for the Company's stock options been determined based on the fair value at the grant date for awards in 2002 and 2001, consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	2002	2001
Net Loss - continuing operations	$(2,896,719)	$(15,169,830)
Net Loss - discontinued operations	$ (244,561)	$(10,396,049)
Total net loss - as reported	$(3,141,280)	$(25,565,879)
Pro-forma effect of stock based compensation	$ (44,657)	$ (81,685)
Net Loss - pro forma	$(3,185,937)	$(25,647,564)
Loss per share - continuing operations	$ (0.11)	$ (1.97)
Loss per share - discontinued operations	$ (0.01)	$ (1.35)
Total loss per share - as reported	$ (0.12)	$ (3.32)
Pro-forma effect of stock based compensation	$ - 0 -	$ - 0 -

Loss per share - pro forma	$ (0.12)	$ (3.32)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for years ended June 30,:

	2001
Dividend yield	None
Volatility	147.88%
Risk free interest rate	4.99%
Expected asset life	3 years

There were no options or warrants granted in the year ended December 31, 2002.

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

	TOTAL SHARES RESERVED UNDER THE PLAN	REMAINING OPTIONS UNDER THE PLAN
1998 Incentive Stock Option Plan	1,500,000	400,167
2000 Incentive Stock Option Plan	1,000,000	905,150
2000 Non-Qualified Stock Option Plan	2,000,000	1,820,575
1999 Stock Bonus Plan	900,000	833,250
2000 Stock Bonus Plan	500,000	500,000

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

	Weighted Average	Weighted Average

	2002	Exercise Price	2001	Exercise Price
Options/warrants outstanding at Beginning of year	7,835,766	$ 6.99	3,000,981	$ 2.08
Granted	- 0 -	$ 5.32	5,995,905	$ 5.32
Exercised	- 0 -		(924,651)	
Terminated/Expired	(3,971,791)		(236,469)	
Options outstanding at end of year	3,863,975	$ 6.99	7,835,766	$ 6.99
Options exercisable at end of year	3,863,975	$ 9.66	6,512,639	$ 9.66
Options available for grant at end of year	4,787,142		3,392,542	
Price per share of options outstanding	$ 0.47 to $ 40.00		$ 0.01 to $ 42.80	
Weighted average remaining contractual lives	2.94 years		3.86	
Weighted Average fair value of options granted during the year	N/A		$ 0.33	

Range of exercise prices of options outstanding at June 30, 2002:

Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
0.47-$1.50	1,012,940	$ 0.86	1,012,940	$ 0.86
1.51-$3.00	505,282	$ 2.41	505,282	$ 2.41
3.01-$4.50	271,666	$ 3.95	271,666	$ 3.95
4.51-$6.00	408,913	$ 4.58	408,913	$ 4.58
6.01-$10.00	289,294	$ 8.14	289,294	$ 8.14
10.01-15.00	451,750	$ 2.98	451,750	$ 2.98
15.01 and greater	924,130	$ 25.59	924,130	$ 25.59

17. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees. Each United States based full-time employee is eligible to participate in that plan on the first day of the calendar quarter after completing ninety days of employment with the Company. A participating employee can contribute up to fifteen percent (15%) of their annual compensation, up to a maximum of the federally mandated limit. The Company matches 50% of the contributions on the first six percent (6%) of the employee's contribution up to a maximum of three percent (3%). Employees are fully vested on their own contributions and vest in the Company's contributions twenty percent (20%) per year over five years. The Company made expensed

contributions to the plan $38,199 for the year ended June 30, 2001. The Plan was frozen subsequent to June 30, 2001.

18. BUSINESS SEGMENTS

The Company previously had three reportable segments: intelligent vending machines, healthcare management software development and medical transaction processing. During the year ended June 30, 2001, the Company

determined it would divest or abandon all business segments other than the medical transaction processing segment. Therefore, going forward, the Company will have only one reportable segment. At June 30, 2002, the Company operates only in the medical transaction processing segment with substantially all revenue generated in the United States.

The intelligent vending machine segment is comprised of the sales of prepaid phone cards, the processing of monetary transactions utilizing a script machine that are used primarily in major fast food chains and the rental of videocassettes through automated dispensing units in hotels and time share facilities, primarily located in the states of Florida and California.

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

The healthcare management software development segment includes the licensing of the Health Information Gateway and related developmental services, as well as the licensing of other software and hardware products and services. It operates under the name of the DCB division in the United States and DCB Actuaries and Consultants, s.r.o., in Europe.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company's reportable segments are strategic business units that offer different products and services.

Net revenue includes sales and services to external customers within that segment and related licensing revenue. There are no significant transfers between segments. Cost of sales and services includes costs associated with net revenue within the segments. Depreciation and amortization includes expenses related to depreciation and amortization directly allocated to the segment. Segment income (loss) does not include general and administrative expenses, selling and marketing, other operating expenses, other income (expense) items or income taxes. Identifiable assets are those assets used in segment operations, which consist primarily of receivables, inventory, prepaid expenses, machinery, equipment and goodwill. DCB's operations are based in the Czech Republic. Substantially all assets at June 30, 2001, are maintained in the United States.

	Intelligent Vending Machines	Medical Transaction Processing	Healthcare Management Software Development	Corporate and Other	Consolidated
JUNE 30, 2001:					
Net Revenues	$ 713,264	$ 547,597	$ 843,881	$ (1,557,145)	$ 547,597
Cost of Sales and services	$ 404,842	$ 479,962	$ 474,873	$ (1,246,278)	$ 113,399
Depreciation and					

amortization	$ 285,749	$ 327,190	$ 1,650,743	$ (1,865,258)	$ 398,424
Selling, General and Administrative	--	--	--	$ 13,717,308	$ 13,717,308
Income (loss) from Operations Before Income Taxes	$ 22,673	$ (259,555)	$ (1,281,735)	$(12,162,917)	$ (13,681,534)
Identifiable Assets	$ 125,000	$ 1,028,876	$ 1,651,863	$ 218,660	$ 3,024,399
Expenditures for Long-Lived Assets	$ 1,781	$ 226,426	$ 2,097,708	$ --	$ 2,325,915

The discontinued operations are presented above in the applicable business segments. The operating results of the discontinued business segments are aggregated in the Loss from Operations of Discontinued Segments in the accompanying statement of operations. Amounts in the table above included in Corporate and Other include reclassifications for discontinued operations.

The Company's healthcare management software development segment operates in both Europe and the United States. Of the revenue earned during the year ended June 30, 2001, $685,991 was generated in Europe. All of the revenues from the Company's other segments were generated in the United States.

For the years ended June 30, 2002 and 2001, there were no material concentrations of revenue to specific customers. One customer in the medical transaction processing segment, accounted for $886,756 of revenue in that segment for the year ended June 30, 2001, all of which was related to the licensing of the One Medical Services system and corresponding

sales and services. One customer accounted for $249,739 of revenue in the healthcare management software development segment for the year ended June 30, 2001. This licensing arrangement was voided at June 30, 2001.

Expenditures for long-lived assets include equipment acquired under capital leases.

19. SUBSEQUENT EVENTS

In addition to matters discussed in other footnotes, the following events occurred subsequent to June 30, 2002:

An entity that is controlled by the Company's chairman and chief executive officer has funded $144,000 to the Company in the form of loans. This balance is net of the $82,000 receivable from this entity reflected in the accompanying balance sheet as of June 30, 2002.

* * * * * *

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

The Company reports that on September 17, 2001, it dismissed its principal certified public accountants for the past 7 years, Ehrhardt Keefe Steiner & Hottman, P.C.

The accountant's report on the Company's financial statements for fiscal year 2000 reports did not contain an adverse opinion or disclaimer of opinion. Nor was the fiscal year ending 2000 report on the Company's financial statements qualified or modified as to uncertainty, audit scope, or accounting principles.

The Company reports that, over the two past fiscal years and the subsequent interim period, it had no disagreements with its former accountant on any matter of accounting principles or practices financial statement disclosure; or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreements in connection with its report. No such scenario existed with the Registrant and its former accountant.

The Company has retained as its certifying public accountants the firm of Epstein, Weber & Conover, P.L.C. The engagement was effectively dated September 17, 2001.

All decisions to engage and/or terminate the relationships between Medcom USA and its certifying public accountants are made by the Chief Executive Officer and President who constitutes the sole member of the Board of Directors. Medcom USA has no audit committee.

PART III

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

DIRECTOR AND EXECUTIVE OFFICER

Mr. William P. Williams as of August 9, 2001 accepted the position of Chief Executive Officer and sole Director of the Company. Information representing Mr. Williams, is set forth below:

William P. Williams	49	Chairman, President, Chief Executive Officer

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

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

45

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT 9.A. DIRECTORS AND EXECUTIVE

OFFICERS, PROMOTERS, AND CONTROL PERSONS:

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

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth in summary form the compensation received by (i) the Chief Executive Officer of the Company and (ii) by each other executive officers of the Company who received in excess of $100,000 during the fiscal years ended June 30, 2002 and 2001.

Name and Principal Position	(1) Fiscal Year	Salary (2)	Bonus (3)	Other Annual Compensation (4)	Compensation Stock Awards (5)	Options Granted
Mark Bennett, President and Chief Executive Officer	2001	$208,765	$25,000	--	--	310,000
Michael Malet, Vice President and Chief Operating Officer	2001	$167,552	--	--	--	310,000
Alan Ruben Chief Accounting and Financial Officer	2001	$177,351	$25,000	--	--	125,000
Robert Stevens Director of Development and Information Technology	2001	$115,004	--	--	--	32,000