MEDCOM USA INC
Form 10KSB
September 28, 2007

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, 2007

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.

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7975 NORTH HAYDEN ROAD, SUITE D-333, 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 X NO

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 $ 6,000,258

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on September 19, 2007, was approximately $23,040,000.

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 programs to broaden the Company's product and service mix: (a) cellular telephone activation, (b) sale of prepaid calling cards, (c) sale of long distance telephone service and (d) rental of cellular telephones using an overnight courier service. With the exception of the sale of prepaid calling cards and cellular telephone activation the other programs were discontinued in December 1997. During the fiscal year of 1998, the Company redirected 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. From March 31, 2001 through 2005, the Company operated the Medcom System (""Medcom"") that is deployed through a point-of-sale terminal or web portal offering electronic transaction processing, as well as insurance eligibility verification. Since 2005, the Company has aggressively focused on its primary operations in Electronic Data Interchange (EDI) and core business in Electronic Medical Transaction Processing.

MEDICAL TRANSACTION PROCESSING

MEDCOM SYSTEM

The Company provides innovative technology-based solutions for the healthcare industries that enable users to efficiently collect, use, analyze and disseminate data from payers, health care providers and patients. The MedCom System currently operates through a point-of-sale terminal or web portal. The point-of-sale terminals are purchased from Hypercom Corporation (Hypercom). The Company business plan consists of offering a service bundled package that would have the capability of processing unlimited claims and eligibility verification for monthly service fees.

The Company''s a ""web portal"" encourages customers to process their medical claims through an online portal. Many customers purchase the terminal for the front office and the portal system for the back office to take advantage of the ease of both products.

FINANCIAL SERVICES

The Company''s credit card center and check services, provides the healthcare industry a 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.

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Easy-Pay is an accounts receivable management program that allows a provider to swipe a patient''s credit card and store the patient''s signature in the terminals, and bill the patient''s card at a later date when it is determined what services rendered were not covered by the patient''s insurance. Also, Easy- Pay allows patient''s the added benefit and convenience of a one-time payment option or 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 web portal. Using the MedCom system, medical providers are relieved of many of the problems associated with billings and account management, and results in lower administrative documentation and costs.

PATIENT ELIGIBILITY

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

The MedCom System can record and track 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. In managements'' opinion, the average time it takes the healthcare providers to collect payments from insurance carriers and plans decreases from an average of 89 days to 7-21 days. Health care providers will benefit from a 100% paperless claim processing system.

Presently, the MedCom system was able to retrieve on-line eligibility and authorization information from approximately 450 medical insurance companies and plans. Included in this group is the newly activated Medicare Part A & B eligibility for all 50 states. This gives us access to over 42 million lives. The system also electronically processes and submits claims for its healthcare providers to over 1,700 companies. These insurance providers include CIGNA, Prudential, Oxford Health Plan, United Health Plans, Blue Cross, Medicaid, Aetna, Blue Cross/Blue Shield, and Prudential.

COMPETITION

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

TECHNICAL SUPPORT ASSISTANCE

The Company offers multiple training options for its products and services and is easily accessed at

www.MedComUSA.com. Onsite training and teleconferencing, and technical support
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assistance are also features offered to health care providers. Also, a 24-hour terminal replacement program and system upgrades are offered.

MARKETING STRATEGY

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

In the past the Company built its marketing around a strategy of expanding its sales capacity by using experienced external Independent Sales Organizations (ISO) and putting less reliance on an internal sales force. MedCom has set-up these Independent Sales Organizations (ISOs) to market and distribute the MedCom System throughout the U.S. Financial service companies comprise an important sales channel that views the healthcare industry as an important growth opportunity.Also6% of all healthcare payments are made with a credit card today, although according to a recent survey 55% of all consumers would prefer to pay doctor and hospital visits by credit/debit card.

MedCom has been expanding its position with Hospitals and working closely with Hospital consultants and targeted seminars. The Company, with its new Onlinewebportal product and Medicare access, is becoming an increasingly valuable tool for the outpatient and faculty practice areas of hospitals. While the ISO groups focus on individual doctors, dentists and clinics, our hospital team is focusing on multiple unit sales opportunities with hospitals around the country.

SERVICE AGREEMENTS

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

PATENT

Card Activation Technologies Inc. (""Card"") is a Delaware corporation headquartered in Chicago, Illinois that owns proprietary patented payment transaction technology used for electronic activation of phone, gift and affinity cards. Medcom owns 60,000,000 shares of common stock of Card which represents 41% of the issued and outstanding shares of Card.

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

Card is a development stage company that was incorporated in August 2006 in order to own and license, the assigned patent which covers payment transaction technology and the process for taking a card with a magnetic strip or other data capture mechanism and processing transactions or activating the card. This process is utilized for prepaid phone cards, gift cards, and debit-styled cards. As of the date of this report, Card has entered into a license agreement with McDonald''s Corporation. Card has one principal asset, the patented payment transaction technology assigned from MedCom, and one full time and one part-time employee. Card does not expect to commence full scale operations or generate additional revenues until late 2007. Since incorporation, Card has not made any significant purchases or sale of assets, nor has Card been involved in any mergers, acquisitions or consolidations. Card has filed four lawsuits to enforce its patented technology and has sent license agreement requests to a number of companies in order to obtain license agreements with entities that Card believes are infringing its patent.

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

ADDITIONAL INFORMATION

MedCom files reports and other materials with the Securities and Exchange Commission. These documents may be inspected and copied at the Commission''s Public Reference Room at 100 F Street, N.E., 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.

EMPLOYEES

As of fiscal year end June 30, 2007, the Company had 23 employees of which approximately 23 are full-time equivalent employees.

ITEM 2. DESCRIPTION OF PROPERTY.

As of fiscal year end June 30, 2007 and 2006, the Company maintains its corporate executive offices in Scottsdale, Arizona. The Company leases 1,317 square feet of office space for approximately $32,000 annually. The Company entered into a three-year lease in May 2002 for the Scottsdale facility. The Company also maintains an office in Irvine, California, for executive office space for approximately $1,300 a month to month basis. 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.
Rental Leases on a Monthly Basis:

	Scottsdale	Irvine	Islandia	Total
2007	$ 2,666	$ 1,300	8,699	12,665
2008	$ 2,666	$ 1,300	8,699. Expires March 31, 2008	12,665
2007	$ 2,666	$ 1,300		

ITEM 3. LEGAL PROCEEDINGS

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.

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, 2007 and 2006.

PART II

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

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

At June 30, 2007, there were 92,772,860 shares of common stock of MedCom outstanding and there were approximately 681 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.

PERIODS	HIGH	LOW
FISCAL YEAR 2007		
First Quarter (July - September 2006)	$ .43	$.37
Second Quarter (October - December 2006)	$ .46	$.45
Third Quarter (January - March 2007)	$ .46	$.45
Fourth Quarter (April - June 2007)	$ .43	$.37
FISCAL YEAR 2006		
First Quarter (July - September 2005)	$ 1.26	$.98
Second Quarter (October - December 2005)	$ .78	$.65
Third Quarter (January - March 2006)	$ .55	$.25
Fourth Quarter (April - June 2006)	$ .65	$.25

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

SALE OF UNREGISTERED SECURITIES

QUARTER ENDED	STOCK ISSUED		STOCK ISSUED	STOCK ISSUED FOR
	FOR CASH	CASH RECEIVED	FOR SERVICES	WARRENTS EXERCISED
September 30, 2005	1,156,999	$ 591,750	685,508	12,997
December 31, 2005	950,000	$ 380,000	811,500	-
March 31, 2006	1,584,788	$ 590,949	2,665,848	-
June 30, 2006	2,860,861	$ 832,592	1,924,636	
Year Ended June 30, 2006	6,552,648	$ 2,395,291	6,087,492	12,997
September 30, 2006	7,384,373	$ 2,178,991	1,837,331	-
December 31, 2006	2,579,331	$ 1,273,333	4,726,870	-
March 31, 2007	2,659,000	$ 1,302,000	866,530	-
June 30, 2007	2,201,856	$ 768,651	200,000	
Year Ended June 30, 2007	14,824,560	$ 5,522,975	7,630,731	-

During the year ended June 30, 2006, the Company issued 6,552,648 shares of its common stock for $2,395,291. The shares were issued to third parties in a private placement of the Company''s common stock. The shares were sold throughout the year ended June 30, 2006, ranging from $1.00 per share at the beginning of the year to $.25 per share at the end of the year. Commissions of approximately $147,455 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act, based on the following: (a) the investors confirmed to us that they were ""accredited investors,"" as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were ""restricted securities"" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

The Company has issued shares of its common stock as consideration to consultants for the fair value of the services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were into for the services and the value of services rendered. During the year ended June 30, 2006, the Company granted to consultants, 6,087,492 shares of common stock valued in the aggregate at $2,395,370 with a strike price range of $.50 to $1.50 strike price. The stock issued for services includes $247,167 of the royalty buyout provision. The value of these shares was expensed during the year. The Company exercised the royalty buyout provision to reduce the royalty payments to 20% of all sales in June 30, 2006. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act. A legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

The Company issued 12,997 shares of its common stock under a notice of conversion of common stock warrants as they were cash less warrants. There was not paymen for the exercise of the warrants.

During the year ended June 30, 2007, the Company issued 14,824,560 shares of its common stock for $5,522,975. The shares were issued to third parties in a private placement of the Company''s common stock. The shares were sold throughout the year ended June 30, 2007, ranging from $.75 per share at the beginning of the year to $.25 per share at the end of the year. Commissions of approximately $1,350,078 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act, based on the following: (a) the investors confirmed to us that they were ""accredited investors,"" as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were ""restricted securities"" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if

subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

The Company has issued shares of its common stock as consideration to consultants for the fair value of the 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 entered into for the services. During the year ended June 30, 2007, the Company granted to consultants and paid out obligations of 7,630,731 shares of common stock valued in the aggregate at $3,900,137 with a strike price range of $.35 to $.75. The Company recorded as a charge in additional paid in capital an obligation buyout for the Royalty arrangement with Dream Technology in the amount of $4,050,480. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act. A legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

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.

CRITICAL ACCOUNTING POLICIES

Stock Based Compensation

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

FSP FAS 123(R)-5 was issued on October 10, 2006. The FSP provides that instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, then no change in the recognition or the measurement (due to a change in classification) of those instruments will result if both of the following conditions are met: (a). There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (b). All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. The provisions in this FSP shall be applied in the first reporting period beginning after the date the FSP is posted to the FASB website. The Company has adopted SP FAS 123(R)-5 but it did not have a material impact on its consolidated results of operations and financial condition.

Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management''s initial estimates as reported. A summary of significant accounting policies are detailed in notes to the financial statements which are an integral component of this filing.

Vendor-Specific Objective Evidence:

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

Provider enrollment, EDI Connectivity, Payer/Provider, Benefit Verification - Govt Billings, Referral Transfers - Govt billing, Benefit Verification - Commercial, Referral Transfer - Commercial, Claim Status, Service Authorization, Maintenance, Training, Support, Program Upgrades, Carrier Editions, and Customized Reports. These deliverables are delivered electronically therefore the average cost is $1.02 per delivery. The company assessed its prior electronic costs these costs average between 80 cents to $1.25 per customers. Management decided to use the average cost of $1.02 to value these deliverables.

The company provides non-software deliverables and has valued these costs based on the average of purchasing the hardware for outside third parties. The non-software deliverables are the terminal which cost $394 per terminal, pin pads which cost $100, check reader which cost $100, Reader Printers which cost $100, and Portal Wedge costs $100. The Company has further cost per terminal to upgrade and update the software to be in compliance with the health care industry which the per terminal and portal costs are $250.

Revenues

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

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

Medcom has substantial upfront expenses such as commission, royalties, software portal, and the software deliverables and pays those costs at the execution of the contract. The company accumulates the entire contract of licensing and gateway access fees and record as the licenses and gateway access fees receivables. The company recognizes revenue in accordance with SOP 97-2 when the software is delivered to the professional and recognizes the remaining portion of the contract over the life of the contract. The company recognizes the revenue of the contract at the time of the deliverables and execution of the contract since the company has substantial costs upfront at the time of delivery. The remaining portion is recognized monthly in accordance the agreement. The company further accrues the prepaid licensing expense, accrued deliverables

The company continues to recognized transaction fees as they receive them. The company collects other fees base upon usage of the software and are not fixed fees such as gateway access and licensing fees and are part of the deliverables such as Provider enrollment, EDI Connectivity, Payer/Provider, Benefit Verification - Govt Billings, Referral Transfers - Govt billing, Benefit Verification - Commercial, Referral Transfer - Commercial, Claim Status, Service Authorization, Maintenance, Training, Support, Program Upgrades, Carrier Editions, and Customized Reports. The company calls these fees transaction fees and are not fixed a determinable and therefore are not accrued but are recognized when used by the customer.

The company enters into a long term debt and long term receivable for the life of the license agreement which is non cancelable agreement. The company collects the monthly licensing and gateway access fees every 30 days over the life of the contract. The company does not collect the entire contract within 30 days but over the terms of the agreement therefore records deferred revenue for the portion of the contract that is recognized over the contract.

The company finances the licensing fees agreement while the gateway access fees are received over the life of the contract. The license fees are finance through Ladco in prior periods and in fiscal 2006 and 2007 through LeeCo. The company as a standard finances the agreements through LeeCo through the term of the contract.

Revenues from the MedCom system are generated through the sale of the portal software, software terminals,

and processing insurance benefit eligibility/verification, insurance claims, and financial transaction processing. The Company receives a fixed amount per software portal and software terminal, and also receives fees for each transaction processed through the MedCom System. Revenue sources include fees for financial transactions processed through the software portal and software terminal, fees for collection of receivables if the Company provides billing services, fees associated with reimbursements made by insurance carriers for submitting claims that are processed electronically, fees for using the system''s referral program and, fees for processing uploaded data. The Company also markets a complete billing service using the MedCom System for hospitals and large practice groups. The Company receives a percentage of the billing amount collected under these arrangements.

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

Statement of Operations Data

	Years Ended June 30,	Years Ended June 30,
	2007	2006
Revenues	$ 4,004,899	$ 6,000,258
Cost of Deliverables	(1,461,228)	(3,578,345)
Operating and Other Expenses	(5,097,282)	(9,519,611)
Net Loss	$ (2,553,611)	$ (7,097,698)

Balance Sheet Data:

	Years Ended June 30,	Years Ended June 30,
	2007	2006
Current Assets	$ 1,013,600	$ 896,479
Total Assets	2,125,107	3,576,140
Current Liabilities	3,341,144	4,248,854
Non Current Liabilities	4,909,562	6,921,107
Total Liabilities	8,250,706	11,170,681
Working Capital (Deficit)	(2,327,544)	(3,352,375)
Shareholders'Equity (Deficit)	$ (6,125,599)	$ (7,594,541)

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

FISCAL 2006 OPERATIONS

General. The Company utilizes the MedCom System that is deployed through a processing terminal, PC software, or online processing, and offers electronic transaction processing to the health care industries. During fiscal 2006 and 2007, MedCom USA continues to focus on its primary operations and core business in medical transaction processing.

RESULTS OF OPERATIONS

FISCAL YEAR END JUNE 30, 2007, COMPARED TO FISCAL YEAR END JUNE 30, 2006

Revenues for Fiscal 2007 decreased to $4,004,899 from $6,000,257 during Fiscal 2006 as 67% reduction. This decrease in revenue is directly the result of changes in the Company's strategic direction in core operations. This included discontinuing declining or unprofitable and business sectors. The Company continues to aggressively pursue and devote its resources and focus its direction in electronic medical transaction processing. The Company''s agreement with its credit facility in connection with the licensing of terminals and portal transactions therewith, the Company must defer revenue on licensing agreement of the terminals and portal software. The decline in revenues is directly related in 2006 the Company executed large licensing agreements with large hospital groups such as Mount Sinai, St. Vincent, Beth Israel, and Continuum Partners. The large hospital groups that licensed our portals licensed at a minimum of 35 portal systems per group. In the case of St. Vincent our portal system is used exclusively by all of their hospital facilities. However, in 2007 the Company was licensing more individual doctor and dental groups that were directly related to our decrease in revenues.

The Company further refocused is sales to large practice management groups to sell multiple web portals and further have expanded its exposure and future sales with a large dental group. In year ended 2007 the negotiations and relationship with the practice management and dental groups were being fostered and the company will not realize those efforts until fiscal year 2008.

Cost of deliverables for the quarter ended fiscal 2007 decreased to $1,461,229 as compared to fiscal 2006 of $3,578,345 a 41% reduction. The company has developed the MedComConnect portal package that will decrease the cost of deliverables as the company focuses on the sale of the portal software which rendered the medical terminals sales no longer the core revenue model for the Company. The decrease in cost of deliverables is directly related to the decrease in revenues from the two fiscal years. Also the decrease is related to the decrease then elimination of 25% royalty payments to third parities. This accomplished by the company''s election to buy out the option of paying royalties to Dream Technologies by issuance of common stock to the parties to eliminate all future royalty payments. Further the company no longer pays commission on future revenues from its noncancellable licensing agreements. Commissions are paid at inception of the licensing agreement at a 10% rate and there are no future payments on residuals revenues from gateway access fees and licensing fees. The company paid the future royalty obligation and commitment and is no longer obligated to pay royalties now and in the future. In the prior period comparative there was a spike in costs with TESIA a larger vendor contract.

Selling expenses for the fiscal 2007 decreased to $209,998 as compared to fiscal 2006 of $602,269 a 34% reduction. This decrease is primarily the result of marketing efforts and includes commissions paid to internal sales personnel to market the Company''s products and services. The company has introduced the telesales marketing strategy for less expensive sales force and more effective in the future. The company has been focused on the practice management and large dental groups and should see the results of their efforts in fourth quarter.

General and administrative expenses for the fiscal 2007 decreased to $3,578,039 as compared to fiscal 2006 of $5,357,144 a 67% reduction. This decrease is attributed to the Company's reduction of workforce in their New York operations as the company has streamlined overall employee use. That is the company has implemented and advanced its in-house software to perform many of the services the prior employees were performing manually. The decrease is related to settling outstanding litigation which resulted decrease in legal fees. The company does not expect additional expense related to this expense in the future.

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Interest expense for fiscal 2007 decreased to $885,189 as compared to fiscal 2006 of $1,405,015 a 63% reduction. This decrease is a result of renegotiation of the Company''s credit facility with Ladco who was charge a higher interest rate. Also, expenses were incurred and paid on notes the Company has outstanding with LeeCo. Further the Company''s renegotiation has reduced the accrual of interest below 3% until paid in full in 2009. We have also have been paying down the LeeCo obligation which has grown from the increase in financing through LeeCo Financial Inc. The payments to Ladco represented a high interest rate and it has been a Company initiative to reduce the Ladco debt to zero. Interest income for fiscal 2007 decreased to $395,050 as compared to fiscal 2006 of $485,559. The decrease is due to the reduction in current sales of the portal software from our license agreements. The licensing agreements are noncancellable licensing of our portal software in which we capitalize the receivable and liability related to the life of the licensing agreement. The accrual of these licensing agreements results in interest income.

The loss for fiscal 2007 decreased to ($2,553,611) as compared to fiscal 2006 of ($7,097,698). The decrease is due to the reduction in revenue, sales force, royalty expense, commissions, and reduction in operations in our New York facility.

No tax benefit was recorded on the expected operating loss for fiscal 2007 and 2006 as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. For the quarter ended we do not expect to realize a deferred tax asset and it is uncertain, therefore we have provided a 100% valuation of the tax benefit and assets until we are certain to experience net profits in the future to fully realize the tax benefit and tax assets.

LIQUIDITY AND CAPITAL RESOURCES

The Company''s operating requirements have been funded primarily on its sale of licensing agreements with hospitals, medical, and dental professionals and sales of the Company''s common stock. During the fiscal 2007, the Company''s net proceeds from the licensing of the Company''s software portals were $1,505,166 as compared to fiscal 2006 of $1,571,068. The company received $5,522,975 as compared to fiscal 2006 of $2,395,291 in proceeds from the sale of common stock. The Company believes that the cash flows from its monthly service and transaction fees are inadequate to repay the capital obligations and has relied upon the sale of common stock through a private place to sustain its operations.

Cash (used) operating activities for the fiscal year 2007 was ($3,846,787) compared to ($2,763,523) for fiscal year 2006. The Company''s focus on core operations results in an increase in licenses receivable. The Company receives payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days. The company has grown its operations to begin to reduce the deficit cash flow positions. However the company is still operating in a deficit. The company reduced its expenses by exercising a put option to buyout the royalty payments to third parties in the amount of $4,050,480 which was paid in common stock of the company. The company issued common stock valued at for fiscal 2007 of $3,900,137 as compared to $2,395,291 in fiscal 2006. The increase in stock issued for services related to stock issued for the royalty buyout option. The company had depreciation expenses for fiscal 2007 of $2,663,748 as compared to fiscal 2006 of $991,690. The reduction in deprecation is directly related to the write off of the terminal asset capitalized in prior fiscal periods.

Cash used in investing activities was ($134,810) for fiscal 2007, compared to $1,296,695 for fiscal 2006. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for the Company. However, the company continues to employ software development teams that are upgrading

the existing proprietary software in our terminal and portal licensing agreement sold. The company developed its portal software during fiscal 2006. Fiscal

2007 the chairman advanced funds of $489,626 as compared to $487,730 for fiscal 2006. The company advanced funds for fiscal 2007 of $49,541 as compared to $13,100 in fiscal 2006 to Card Activation Technologies, Inc.

Cash provided by financing activities was $3,945,439 for fiscal 2007 as compared to $1,518,959 for fiscal 2006. Financing activities primarily consisted of proceeds from the licensing of our software portal transactions through our licensing agreements with hospitals and medical and dental professionals. The company does not have adequate cash flows to satisfy its obligations although have improved cash flow and anticipates have adequate cash flows in the upcoming fiscal period. The company received proceeds from the sale of common stock for fiscal 2007 of $5,474,375 as compared to fiscal 2006 of $2,395,291. The company decreased its licensing debt for fiscal 2007 of $840,742 as compared to $946,613. The Company increase the cost of raising capital was $1,350,078 for fiscal 2007 as compared to $2,395,291 for fiscal 2006 was due to the increase in the amount of capital raised for fiscal 2007.

The Company has used funds advanced from an affiliated entity that is controlled by the Company's chairman and chief executive officer. As of fiscal 2007 the Company maintained a note payable from this entity for the amount of $305,000 as compared to fiscal 2006 of $794,626 including accrued interest. However in the quarter ended December 31, 2006 the company was able to repay the remaining obligation in the amount of $826,197 and received advances again as of the end of fiscal 2007. The Company owes the chairman $305,000.

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

The company expects increased cash flow from its existing services fees which include transaction processing, benefit claims processing, direct terminal sales, and credit card processing. The decrease in cost of deliverables is directly related to the sales through our telesales. Further we anticipate increase income from our TESIA-PC contracts that have a higher volume of credit card processing in which we receive a fee per month on all transactions with a 15 cent per transaction fee in fiscal 2008.

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

On September 14, 2006 the company renegotiated the Ladco debt. The company agreed to pay penalties and late fees of $268,585.73 in exchange the renegotiated balance would only carry an interest rate of 3% reduced from 26% in the original note. The Company originally owed $3,015,063 and renegotiated the balance to $3,880,500 which included the accrued penalties and late fees. Further the company would be able to pay the remaining balance of the note for 39 months at $99,500 payments per month until paid in full. Under the renegotiated note the note matures on October 2009. The Company has paid $895,500,000 toward the unpaid for fiscal 2007 and there is an outstanding balance of $2,985,000 of the Ladco obligation.

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

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

In accordance with AICPA TPA 5100.58 - 5100.64

The company has a fixed and determinable licensing fee and gateway access fees. The company has all customer agreements over a period of 24 -60 months. This period the company updates software, and provides various transaction fees outlined as deliverables. The company receives payments through out the term of the agreement. The company incurs upfront expenses in the initial software installation that is outlined in the deliverables and continues to service the customer with the remaining deliverables through out the terms of the contract. Revenue is recognized when the customer pays the ongoing payment through out the term of the contract. Revenue is recognized at the initial installation based upon the cost of deliverables at the time of installation.

The customer does not arrange any financing of the software. The company has recourse in the financing arrangement. The company recognizes revenue upon delivery of the software and over the term of the agreement based up on the deliverables delivered under the terms of the agreement.

The company participates in the financing of the customers'' term contract. The company recognizes revenues to the extent of the expenses paid upfront for the deliverables and then recognizes revenue over the term of the contract. The company defers any revenue of the contract and recognizes that deferred revenue over the remaining term of the contract.

The company has a fixed and determinable licensing arrangement as the company enforces all licensing agreements as they are noncancellable, the company has never altered the terms of the agreement with the original licensing agreement, the company has incremental risk in this arrangement. The company recognizes revenue over the terms of the agreement and further recognizes revenue based upon the costs of deliverable that is required in the initial installation of the software and continues to provide deliverables in accordance with the terms of the agreement.

The company has a standard practice to enter into a financing arrangement with LeeCo and does not provide a concession which makes it fixed and determinable licensing arrangement. Medcom has incremental risk in the financing arrangement with LeeCo and thus has fixed and determinable licensing arrangement.

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

MEDCOM USA, INC.
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JEWETT, SCHARTZ, WOLFE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
MEDCOM USA INCORPORATED

We have audited the accompanying consolidated balance sheet of Medcom USA Incorporated and Subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MedCom USA Incorporated, Inc and Subsidiaries, as of June 30, 2007 and 2006, and the results of their operations and their cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has operating and liquidity concerns, has incurred an accumulated deficit of approximately $90,226,356 through the period ended June 30, 2007, and current liabilities exceeded current assets by approximately $2,327,543 at June 30, 2007. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

As further discussed in Note 14 to the financial statements, the Company had error corrections that resulted in a retroactive restatement impacting this previously issued financial statements for fiscal 2006. The result of the retroactive restatement had no effect on the previously issued independent registered public accountants'' report on these financial statements.

JEWETT, SCHWARTZ, WOLFE & ASSOCIATES
Hollywood, Florida
September 14, 2007 and September 14, 2007 with respect to note 14

MEDCOM USA, INC.
CONSOLIDATED BALANCES SHEETS
FOR YEARS ENDED JUNE 30, 2007 AND 2006

ASSETS:

	2007
CURRENT ASSETS	
Cash	$ 26
Licensing contracts - current portion, net	790
Prepaid expenses and other current assets	197
Total current assets	1,013
PROCESSING TERMINALS, net	
PROPERTY AND EQUIPMENT, net	483
Licensing contracts - long-term portion. net	547
Note receivable affiliates	62
Other assets	17
TOTAL ASSETS	$ 2,125
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:	
CURRENT LIABILITIES:	
Accounts payable	$ 123
Accrued expenses and other liabilities	54
Dividend payable	23
Notes from afiliates	305
Deferred revenue - current portion	498
Licensing obligations - current portion	2,335
Total current liabilities	3,341
Licensing obligations - long-term portion	3,357
Deferred Revenue	1,552
Total liabilities	8,250
STOCKHOLDERS' DEFICIENCY:	
Convertible preferred stock, series A $.001par value, 52,900 shares designated, 4,250 issued and outstanding	
Convertible preferred stock, series D $.01par value, 50,000 shares designated, 2,850 issued and outstanding	
Common stock, $.0001 par value, 175,000,000 shares authorized, 92,772,860 and 70,317,569 issued and outstanding as of June 30, 2007 and 2006, respectively	9
Treasury stock	(37
Paid-in capital	84,128
Accumulated deficit	(90,226
Total stockholders' deficiency	(6,125
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 2,125

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

	2007
REVENUES:	
Terminal sales	$ 41,
Service	2,458,
Licensing fees	1,505,
	4,004,
COST OF DELIVERABLES:	1,461,
GROSS PROFIT	2,543,
OPERATING EXPENSES:	
General and administrative expenses	3,578,
Sales and marketing expenses	209,
Depreciation and amortization	770,
Total operating expenses	4,558,
OPERATING LOSS	(2,014,
OTHER (INCOME) AND EXPENSES	
Interest expense	885,
Interest Income	(395,
Legal settlement	48,
Gain on extinguishment of debt	
Impairment of assets	
Total other expense	538,
LOSS BEFORE INCOME TAXES	(2,553,
INCOME TAX BENEFIT	
NET LOSS	$(2,553,
NET LOSS PER SHARE:	
Basic and diluted:	$ (0
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:	
Basic and diluted:	84,729,

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

			\----------- PREFERED STOCK -----------\					
	COMMON	STOCK	PREFERRED A & B		PREFERRED D		PAID-IN	TREASU
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	STOCK
JUNE 30, 2005	57,664,432	$ 5,767	4,250	$ 4	2,850	$ 29	$75,700,765	$ (37,3
Common stock issued for cash	6,552,648	655	-	-	-	-	2,394,636	
Common stock for compensation	6,087,492	609	-	-	-	-	2,394,761	
Exercise of cashless warrents	12,997	1	-	-	-	-	12,996	
Cost of royalty obligation buy out	-	-	-	-	-	-	(247,167)	
Cost of raising capital	-	-	-	-	-	-	(147,455)	
Net loss	-	-	-	-	-	-	-	
JUNE 30, 2006	70,317,569	$ 7,032	4,250	$ 4	2,850	$ 29	$80,108,536	$ (37,3

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006 - CONTINUED

			\ ----------- PREFERED STOCK -----------\					
	COMMON	STOCK	PREFERRED A & B		PREFERRED D		PAID-IN	TREASUR
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	STOCK

JUNE 30, 2006	70,317,569	$7,032	4,250	$4	2,850	$29	$80,108,536	$(37,397
Common stock issued for cash	14,824,560	1,483	-	-	-	-	5,521,491	-
Common stock issued for services	7,630,731	763	-	-	-	-	3,899,374	-
Cost of raising capital	-	-	-	-	-	-	(1,350,078)	-
Cost of royalty obligation buyout	-	-	-	-	-	-	(2,723,546)	-
Cost of put royalty obligation buyout	-	-	-	-	-	-	(1,326,934)	-
Net loss	-	-	-	-	-	-	-	-
JUNE 30, 2007	92,772,860	$ 9,278	4,250	$ 4	2,850	$ 29	$84,128,843	$(37,397

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(2,553,
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	991,
Issuance of stock as consideration for services	3,900,
Costs of royalty options obligation buyout	(2,723,
Cost of put royalty option obligation buyout	(1,326,
Allowance for doubtful accounts	57,
Exercise of warrants	
Gain on extinguishment of debt	
Impariment of assets	
Allowance for sales returns	
Changes in operating assets and liablities:	
Prepaid and other current assets	10,
Accounts payable	(129,
Accrued expenses and other liabilities	(642,
Deferred revenue	(1,431,

Net cash used in operating activities	(3,846,
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchasing of equipment	(168,
Licensing contracts - current portion	(221,
Licensing contracts - long-term portion	794,
Note receivable affiliates	(49,
Notes from affiliates	(489,
Nett cash (used in) provided by investing activities	(134,
CASH FLOWS FROM FINANCING ACTIVITIES:	
Licensing obligation - current portion	613,
Licensing obligation - long-term portion	(840,
Cost of raising capital	(1,350,
Proceeds from sale of common stock	5,522,
Net cash provided by financing activities	3,945,
(DECREASE) INCREASE IN CASH	(36,
CASH, BEGINNING OF YEAR	62,
CASH, END OF YEAR	$ 26,

SUPPLEMENTAL CASH FLOW INFORMATION:

	2007
Interest paid	$ 533,

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

MEDCOM USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007AND 2006

NOTE 1 - BACKGROUND

MedCom USA, Inc. (the "Company") a Delaware corporation was formed in August 1991 under the name Sims Communications, Inc. The Company''s primary business was providing telecommunications services. In 1996 the Company introduced four programs to broaden the Company's product and service mix: (a) cellular telephone activation, (b) sales of prepaid calling cards, (c) sales 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 redirected its operations and moved into the area of medical information processing.

The Company changed its name to MedCom USA, Inc. in October 1999. During fiscal year 1999 and continuing through 2000, the Company directed its efforts in medical information processing. From March 31, 2001 through 2005, the Company operated the MedCom System (MedCom) that deploys through a point-of-sale terminal or personal computer offering electronic transaction processing, as well as insurance eligibility verification. At the end of fiscal 2005 the Company deployed web portal software that functioned in a similar capacity of the terminal point-of-sale system. Since 2005 the Company has continued to focus on the continual maintenance and upgrade of the web portal software. The Company has aggressively focused on its primary operations in Electronic Data Interchange (EDI) and core business in Electronic Medical Transaction Processing.

NOTE 2 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year end losses from operations and had minimal revenues from operations in 2007 and 2006. During the year ended June 30, 2007 and 2006 the Company incurred net loss of $2,553,611 and $7,097,698, respectively. Further, the Company has inadequate working capital to maintain or develop its operations, and is dependent upon funds from private investors and the support of certain stockholders.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are as follows:

Principles of Consolidation

The accompanying financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company and its wholly owned subsidiaries. The accompanying financial statements include only the active entity of MedCom USA, Inc. The Company has several inactive subsidiaries.

Use of Estimates

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

The primary management estimates included in these financial statements are the impairment reserves applied to various long-lived assets, allowance for doubtful accounts for gateway access fees and licensing fees, and the fair value of its stock tendered in various non-monetary transactions.

Reclassification

Certain prior period amounts have been reclassified to conform to current year presentations.

Advertising Cost

All advertising costs are to expensed as incurred. Advertising expense for the year ended June 30, 2007 and 2006 were approximately $7,400 and $15,000, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash and cash equivalents include cash on hand and cash in the bank.

Property and Equipment

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

Asset Category	Depreciation/ Amortization Period
Computer Equipment	3 Years
Terminal Software	3 Years
Network Platform	3 Years
Office equipment	5 Years

Income Taxes

Deferred income taxes are provided based on the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), to reflect the tax effect of differences in the recognition of revenues and expenses between financial reporting and income tax purposes based on the enacted tax laws in effect at June 30, 2007 and 2006, respectively.

Net Loss Per Share

Basic earnings per share is computed in accordance with FASB No. 128 Earnings

Per Share, by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the

reporting period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock that could share in the earnings of the Company. As of June 30, 2007 and 2006, there were no potential dilutive instruments that could result in share dilution.

Fair Value of Financial Instruments

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

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, licensing receivable, prepaid expenses, other assets, and accounts payable, income tax payable, and other current liabilities carrying amounts approximate fair value due to their most maturities.

Stock-Based Compensation

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

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

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

Financial Statement Position ("FSP") FAS No. 123(R)-5 was issued on October 10, 2006. The FSP provides that instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, then no change in the recognition or the measurement (due to a change in classification) of those instruments will result if both of the following conditions are met: (a). There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (b). All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. The provisions in this FSP shall be applied in the first reporting period beginning after the date the FSP is posted to the FASB website. The Company has adopted SP FAS No. 123(R)-5 but it did not have a material impact on its consolidated results of operations and financial

condition.

Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standard (""SFAS No."") No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. As a result, the Company discontinued amortization of goodwill, and instead annually evaluates the carrying value of goodwill and other intangible assets for impairment, in accordance with the provisions of SFAS No. 142. There was no impairment of goodwill or other intangible assets in fiscal 2006 and 2007.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill and other intangible assets are tested for impairment annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long lived assets.

Concentration of Credit Risk

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

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

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

For the years ended June 30, 2007 and 2006, the Company had a major vendor TESIA-PCI for which a contract was executed specifying that the Company would deliver 1500 unit over the period of 2007 and 2006. The agreement allowed the minimum billing of $28.50 per month per unit in a pool based on a 15 cent transaction fee. The average billing per unit experienced was greater than the minimum during fiscal 2007 and 2006.

The Company has entered into agreements with TESIA-PCI. The agreements entered into by and between the Company and TESIA-PCI represents a major licensor of the Company. The Company realized $614,794 in year ended June 30, 2007 as compared to $1,156,000 from TESIA-PCI during the year ended June 30, 2006 in deferred revenue.

Revenue Recognition

Statement of Position ("SOP") 97-2 applies to all entities that license, sell, lease, or market computer software. It also applies to ""hosting"" arrangements in which the customer has the option to take possession of the software. Hosting arrangements occur when end users do not take possession of the software but rather the

software resides on the vendor''s or a third party''s hardware, and the customer accesses and uses the software on an as-needed basis over the Internet or some other connection. It does not, however, apply to revenue earned on products containing software incidental to the product as a whole or to hosting arrangements that do not give the customer the option of taking possession of the software.

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

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

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

In general, both SOP 97-2 and EITF 00-21 require allocating revenue to all of the elements of a multiple-deliverable arrangement using the relative fair value method, where objective and reliable evidence of fair value is present for all the products contained in the group.

Management has established Vendor-Specific Objective Evidence ("VSOE") for access fee, equipment, provider enrollment fees, EDI connectivity fees, Payer/Provider fees, benefit verification fees, referral transfer fees, service authorization fees, claim status, training, support, program upgrades, carrier editions, and customized reports. Revenue is accordingly allocated and recognized based on the value of deliverables.

The Company has substantial upfront expenses such as commission, royalties, software portal, and the software deliverables and pays those costs at the execution of the contract. The company accumulates the entire contract of licensing and gateway access fees and record as the licenses and gateway access fees receivables. The company recognizes revenue in accordance with SOP 97-2 when the software is delivered to the professional and recognizes the remaining portion of the contract over the life of the contract. The company recognizes the revenue of the contract at the time of the deliverables and execution of the contract since the company has substantial costs upfront at the time of delivery. The remaining portion is recognized monthly in accordance the agreement. The company further accrues the prepaid licensing expense, accrued deliverables

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

Recent Accounting Pronouncements

Recent accounting pronouncements that the Company has adopted or will be required to adopt in the future are summarized below.

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. No. 154, "Accounting Changes and Error Corrections" (SFAS No. 154), which replaces Accounting Principles Board (APB) Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections, and it establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption was permissible for fiscal year beginning after June 30, 2005. The Company has elected to early adopt SFAS No. 154. The implementation of SFAS No. 154 resulted in a retroactive restatement impacting the financial statements for fiscal 2005 as noted in Note 14.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 addresses the requests from investors for expanded disclosure about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and will be adopted by the Company in the first quarter of fiscal year 2009. The Company is unable at this time to determine the effect that its adoption of SFAS No. 157 will have on its consolidated results of operations and financial condition.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006, and the Company is required to adopt it in the first quarter of fiscal year 2008. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition and is not currently in a position to determine such effects, if any.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 063 (EITF 06-3), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 063 applies to any tax assessed by a governmental authority that is directly imposed on a revenue producing transaction between a seller and a customer. EITF 063 allows companies to present taxes either gross within revenue and expense or net. If taxes subject to this issue are significant, a company is required to disclose its accounting policy for presenting taxes and the amount of such taxes that are recognized on a gross basis. The Company currently presents such taxes net. EITF 063 is required to be adopted during the first quarter of fiscal year 2008. These taxes are currently not material to the Company''s consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of each on a company's balance sheet and statement of operations and the related financial statement disclosures. Early application of the guidance in SAB 108 is encouraged in any report for an interim period of the first fiscal year ending after November 15, 2006, and will be adopted by the Company in the first quarter of fiscal year 2007. The Company does not expect the adoption of SAB

108 to have a material impact on its consolidated results of operations and financial condition.

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

NOTE 4 - LICENSING RECEIVABLE

The Company''s license receivable current portion, net at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Licensing Contracts	$ 929,406	$ 792,739
Less: Allowance for Doubtful Accounts	(139,156)	(166,189)
Licensing Contracts - Net	$ 790,250	$ 626,550

The Company estimated uncollectible accounts balances and provides an allowance for such estimates. The allowance for doubtful accounts at June 30, 2007 and 2006 consist of an estimate for potentially uncollectible accounts in the MedCom division.

Monthly the Company ACH''s these payments directly from the customers'' account to ensure timely payment. The current customer agreement requires customer sign up of ACH authorization of these fees and other deliverables. All licensing agreements are noncancellable and range from a 24 - 60 month licensing arrangement.

NOTE 5 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for possible licensing receivables losses as of June 30:

	2007	2006
Balance at beginning of year	$166,189	$113,093
Additions	57,948	109,642
Write-off	84,981	56,546
Balance at end of year	$139,156	$166,189

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment, net at June 30, consist of the following:

	Years	2007	2006
Computer Equipment	3	$ -	$ 176,484

Terminal Software	3	-	402,371
Network Platform	3	807,833	639,437
Total property and equipment		807,833	1,218,292
Less: accumulated depreciation		(323,847)	(687,957)
		$ 483,986	$ 530,335

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The depreciation expense for the years ended June 30, 2007 and 2006 was $770,505 and $2,663,748, respectively.

In June 30, 2005 the Company capitalizes the value of the point of sale terminals that are sold under capital sale-leaseback transactions. The terminals are purchased from third party vendors and are recorded as inventory at that time. The Company enters into sale and service agreements with its customers at which time the terminal is programmed with the Company''s proprietary software and installed with the customer. Many of those terminals were the basis for the sale-leaseback transactions. The terminals are capitalized at the value determined by the lessor on the basis of the cash flow under the terms of the sale and service agreements with the customers. As of June 30, 2006 there were remaining terminal assets as follows:

	2007	2006
Terminal Assets	$ -	$ 6,197,320
Accumulated Depreciation	-	(5,420,378)
Net Terminal Assets	$ -	$ 776,942

The Company occupies premises under a non-cancelable operating lease expiring on 2008. At June 30, 2007, the approximate future minimum rental commitments under this lease are as follows:

2008:	$ 170,000
2009:	63,192
2010:	7,148
Total	$ 240,340

Total rental payments under the lease agreement totaled $200,881 and $227,160 for the years ended in June 30, 2007 and 2006, respectively.

NOTE 7 - NOTE PAYABLE

Notes payable comprise the following:

	2007	2006
LeeCo agreement adopts the agreement that the Company executes with the customer. LeeCo collects all funds through ACH and is paid from those proceeds. The excess of those proceeds are collected by the company. LeeCo holds as collateral all the proceeds from the customer leases, access fees and all cash collections and is secured from all assets of the company.	$2,419,784	$2,606,558
Ladco agreement adopts the agreement that the Company executes with the customer. Ladco collects all funds through ACH and is paid from those proceeds. The excess of those proceeds are collected by the company. Ladco holds as collateral all the proceeds from the customer leases, access fees and all cash collections and is secured from all assets of the company.	2,985,000	3,305,935
Total LeeCo and Ladco debt	5,404,784	5,912,493
Plus long-term portion of accrued deliverable	847,052	1,148,614
Less interest	558,837	1,140,649
Total long-term note payable	5,692,999	5,920,458
Less current portion	2,335,824	1,722,541
Long-term portion of note payable	$3,357,175	$4,197,917

On September 14, 2006 the Company renegotiates the Ladco debt in order to be able to pay the remaining balance of the note for 39 months at $99,500 payments per month until paid in full. Under the renegotiated note now matures on October 2009.

NOTE 8 - STOCKHOLDER''S DEFICIT

DURING THE YEAR ENDED JUNE 30, 2007 AND 2006:

During the year ended June 30, 2006, the Company issued 6,552,648 shares of its common stock for $2,395,291. The shares were issued to third parties in a private placement of the Company''s common stock. The shares were sold throughout the year ended June 30, 2006, ranging from $1.00 per share at the beginning of the year to $.25 per share at the end of the year. Commissions of approximately $147,455 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital.

The Company has issued shares of its common stock as consideration to consultants for the fair value of the services rendered. The value of the shares was determined based on the trading value of the stock at the dates on which the agreements were entered into for the services and value of the services rendered. During the year ended June 30, 2006, the Company granted to consultants, 6,087,492 shares of common stock valued in the aggregate at

$2,395,370 with a strike price range of $.50 to $1.50. The value of these shares was expensed during the year. The stock issued for services includes $247,167 of the royalty buyout provision. The Company exercised the royalty buyout provision to reduce the royalty payments to 20% of all sales in June 30, 2006.

During the year ended June 30, 2006, the Company issued 12,997 shares of its common stock under a notice of conversion of common stock warrants. There was no payment for the exercise of the warrants as they were cashless warrants and the net amount issued was 12,997.

During the year ended June 30, 2007, the Company issued 14,824,560 shares of its common stock for $5,522,975. The shares were issued to third parties in a private placement of the Company''s common stock. The shares were sold throughout the year ended June 30, 2007, ranging from $.75 per share at the beginning of the year to $.25 per share at the end of the year. Commissions of approximately $1,350,078 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital.

The Company has issued shares of its common stock as consideration to consultants for the fair value of the 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 entered into for the services. During the year ended June 30, 2007, the Company granted to consultants and paid out obligations of 7,630,731 shares of common stock valued in the aggregate at $3,900,137 with a strike price range of $.35 to $.75. The Company recorded as a charge in additional paid in capital an obligation buyout for the Royalty arrangement with Dream Technology in the amount of $4,050,480. In connection with the original licensing and subsequent acquisition of MedCom, the Company entered into a royalty agreement with the original Licensor. The royalty provisions of the license agreement remained in effect after the purchase. This agreement was amended in the year ended June 30, 2002. The Company will pay the Licensor 20% of the first $1,000,000 of qualified monthly revenues, less direct costs, generated by the licensed software and 10% of net monthly revenue in excess of $1,000,000. The buyout of this agreement included all past, present, and future royalty arrangements to the original licensor. As of December 31, 2006 no further royalty obligations have been charged to additional paid in capital or charged to expense as the royalty obligation was fully satisfied.

QUARTER ENDED	STOCK ISSUED FOR CASH	CASH RECEIVED	STOCK ISSUED FOR SERVICES	STOCK ISSUED FOR WARRENTS EXERCISED
September 30, 2005	1,156,999	$ 591,750	685,508	12,997
December 31, 2005	950,000	$ 380,000	811,500	-
March 31, 2006	1,584,788	$ 590,949	2,665,848	-
June 30, 2006	2,860,861	$ 832,592	1,924,636	
Year Ended June 30, 2006	6,552,648	$ 2,395,291	6,087,492	12,997
September 30, 2006	7,384,373	$ 2,178,991	1,837,331	-
December 31, 2006	2,579,331	$ 1,273,333	4,726,870	-
March 31, 2007	2,659,000	$ 1,302,000	866,530	-
June 30, 2007	2,201,856	$ 768,651	200,000	
Year Ended June 30, 2007	14,824,560	$ 5,522,975	7,630,731	-

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

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

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

Each share of Series D preferred stock is entitled to a dividend at the rate of $0.04 per share and has a stated value of $1,000 per share. Dividends on all Series D preferred stock begin to accrue and accumulate from the date of issuance. Additionally, each share of Series D preferred stock is convertible into 40.49 shares of common stock for a total of 576,923 shares at the option of the stockholders. Upon liquidation or dissolution of the Company, each outstanding share of Series D preferred stock is entitled to a distribution of the stated amount per share prior to any distribution to the shareholders of the Company's common stock. The Company can convert the Series D preferred

stock into shares of common stock using the same conversion ratio at any time after April 15, 2001 so long as the bid price of the Company's common stock exceeds $4.94 per share and the shares of common stock issuable upon the conversion of the Series D preferred stock are either covered by an effective registration statement or are eligible for sale pursuant to rule 144 of the Securities and Exchange Commission. Each share of Series D preferred stock is entitled to vote in all matters submitted to the Company's shareholders on an "as converted" basis.

The Company has not declared dividends on the preferred stock for the years ended June 30, 2007 and 2006. At June 30, 2007, there was an accumulated undeclared and unpaid dividend on the Series D preferred stock of $342,000. Total accrued, but unpaid dividends related to the Series D preferred stock was $23,750 at June 30, 2007.

NOTE 9 - INCOME TAXES

The provision (benefit) for income taxes from continued operations for the years ended June 30, 2007 and 2006 consist of the following:

	2007	2006

Current:		
Federal	$ (817,100)	$(2,271,200)
State	(204,300)	(567,800)
	(1,021,400)	(2,839,000)
Deferred:		
Federal	817,100	2,271,200
State	204,300	567,800
	1,021,400	2,839,000
Benefit from the operating loss carryforward	-	-
(Benefit) provision for income taxes, net	$ -	$ -

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

	June 30,	
	2007	2006
Statutory federal income tax rate	34.0%	34.0%
State income taxes and other	8.9%	8.9%
Effective tax rate	42.9%	42.9%

Deferred income taxes result from temporary differences in the recognition of income and expenses for the financial reporting purposes and for tax purposes. The tax effect of these temporary differences representing deferred tax asset and liabilities result principally from the following:

	June 30,	
	2007	2006
Allowance for contract losses	$ 139,157	$ 166,188
Net operating loss carryforward	94,300,000	91,800,000
Valuation allowance	(94,439,157)	(91,966,188)
Deferred income tax asset	$ -	$ -

The Company has a net operating loss carryforward of approximately $94,300,000 available to offset future taxable income through 2028.

During the year ended June 30, 2007, the Company reduced the state portion of the deferred income tax asset related to net operating loss carryforward by $3,884,000 resulting from the expiration of the net operating loss carry forward. The valuation allowance on the deferred income tax asset was decreased by $2,853,000 in the year ended June 30, 2006, resulting primarily from the expiration of state net operating loss carryforwards.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Licensing Agreements

In prior periods customers could arrange to have the purchase of the Company''s terminals financed through the financial institution. The Company had an agreement with financial institution Ladco to guarantee varying amounts associated with the financial institution''s arrangements with the customers. Subsequent to June 30, 2005, the Company entered into a new master contract with the financial institution that limits the recourse to the Company to the first payment under the customer''s contract. The amount of such payment would not exceed $100.

In year ended June 30, 2005 the Company renegotiated the customer contracts that included the language that the leases entered into by the customers were non-cancelable under the term of the agreement. The Company further gave incentive to existing customers to enter into the new contract and many customers renewed. The company has refinanced their financing agreement with Ladco to reduce the unpaid balance to zero by October 2009.

NOTE 11 - 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 517,991 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended June 30, 2007 and 2006 respectively because the effect of their inclusion would be anti-dilutive.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Company''s president and chairman is a significant shareholder and is its sole officer and director of the Company. The chairman controls American Nortel Communications, Inc. which 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. The Company shares office space and management and administrative personnel with this related entity. Certain of the Company''s personnel perform functions for the related entity but there was no allocation of personnel related expenses to the related entity in the years ended June 30, 2007 and 2006.

The Company frequently receives advances and advances funds to an entity controlled by the Company''s president and which is a significant shareholder of the Company to cover short-term cash flow deficiencies. During the year ended June 30, 2006, the chairman advanced $758,629 to the Company and received repayments of that advance in December 2006. In June 30, 2007 the chairman advanced $305,000. The balance due to this affiliate at June 30, 2007 was

$305,000 and $758,629 for year ended June 30, 2007 and 2006 respectively. The advances are generally short term in nature with an interest rate of 9%. The advances of $305,000 still remain outstanding as of September

2007.

The Company paid management fees of $450,000 to Wilcom, Inc., an entity owned by the Company''s president.

NOTE 13 - 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.

In December 2004, the FASB issued a revision of SFAS No. 123 ("SFAS No. 123(R)") that requires compensation costs related to share-based payment transactions to be recognized in the statement of operations. With limited exceptions, the amount of co