MEDCOM USA INC
Form 10KSB
September 29, 2006

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, 2006

OR

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

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

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

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

7975 NORTH HAYDEN ROAD, SUITE 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 $ 6,000,257

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on August 23, 2006, was approximately $20,878,208

1

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 diversified its operations and moved into the area of medical information processing.

The Company changed its name to MedCom USA, Inc. in October 1999. During the fiscal years of 1999 and continuing through present, the Company directed its efforts in medical information processing. As of March 31, 2006, the Company currently operates 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. 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 is 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

2

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.

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 patients the added benefit and convenience of a one-time payment option or recurring installment payments that will be processed on a specified date determined by the provider and patient. These options insure providers that payments are timely processed with the features of electronic accounts receivable management. These services are all deployed 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. The average time it takes the healthcare providers to collect payments from insurance carriers and plans decreases from an average of 89 days to 7-21 days. Health care providers will benefit from a 100% paperless claim processing system.

As of June 30, 2006 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

3

WebMD (HLTH), NDCHealth (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 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. In addition to regional ISOs which represent approximately 100+ sales people, the Company has signed an agreement with Abanoc International and is in the midst of training 200+ sales people in 15 cities around the country. Initial sales have already begun to result from this relationship. Financial service companies comprise an important sales channel that views the healthcare industry as an important growth opportunity. Only 6% of all healthcare payments are made with a credit card today, although according to a recent survey 55% of all consumers would prefer to pay doctor and hospital visits by credit/debit card.

MedCom has been expanding its position with hospitals, working closely with Hospital consultants and targeted seminars. The Company, with its new 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 December 1998, the Company entered into a service agreement with WebMD Envoy. This agreement encompasses the process of Electronic Data Interchange (EDI) and related services. The services provided are complimentary to the Company's core business, and

4

accomplishes transaction processing services that allows healthcare providers and payers to process medical transactions quickly and accurately, and results in reduced administrative costs and an increase in healthcare reimbursements to healthcare providers.

During January 2002, the Company entered into a service agreement with MedUnite. This alliance will encompass the utilization of proprietary technologies and

will enhance the existing network of healthcare constituents. Strategically both companies share the same vision of transforming the healthcare transactions systems affecting how healthcare providers, health plans, and other groups transacting business with one another by significantly reducing claim and payment processing time, and reducing healthcare administrative costs.

During February 2005, the Company entered into a service agreement with CDS Capital. This agreement will enable eligible healthcare providers utilizing the MedCom terminals to finance their accounts receivables. Health care providers using the MedCom terminal to secure patient eligibility and process claims will now be able to receive regular payments for a large percentage of claims processed from the previous week. This financial management service will decrease the time and costs associated with accounts receivable collections.

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

PROCESSING TERMINAL LEASING AGREEMENTS

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

In Fiscal year 2005 the Company arranged its terms with this credit facility as an equipment lessor whereby the Company sold terminals to the lessor when it has obtained a service contract with a provider. Under these agreements, the Company leased back the processing terminals from the lessor and in turn leased them to the purchaser for a period of 48 to 60 months; however; the customer could terminate the agreement after 12 months. The Company accounted for the transactions as sale-leasebacks. The leases with the customers are inclusive with the monthly service contracts and are effectively accounted for as operating leases. Gains on terminal sales under sale-leaseback transactions are deferred and are being amortized to income in proportion to amortization of the assets, generally over the term of the lease with the credit facility generally for a period of 48 to 60 months. During the prior periods very few customers terminated there agreements prior to the expiration of the underlying lease.

Additionally, effective July 1, 2005, the Company modified the licensing agreement to make them noncancellable for the term of the underlying licensing agreement. Accordingly, management believes that application of a new method of accounting and revenue recognition more appropriately accomplishes the matching of revenues and cost of licenses entered into after July 1, 2005.

5

REVENUES

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.

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

PATENT

The Company has the ability to market and sell licensing opportunities for the MedCom proprietary patented technology for Activating Phone cards and Gift Cards at retail. The patent covers the technology and process for taking a card with magnetic strip or other data capture mechanism and activating the card by downloading a determined monetary value onto the card for use at a later date for different types of transactions. This process can be utilized for prepaid phone cards, gift cards, and affinity cards. New View Technologies, which was acquired by MedCom USA, developed the patent and all patents were assigned.

The Company has formed a new wholly owned subsidiary; Card Activations Technology, Inc. for the purpose of spinning off the Company's holdings in its proprietary patented technology for the gift and phone cards.

ADDITIONAL INFORMATION

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

ITEM 2. DESCRIPTION OF PROPERTY.

As of fiscal year end June 30, 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 lease has been renewed through May 2008. The Company also maintains an office in Irvine, California, for executive office space for approximately $1,300 a month. The Company also

6

leases 5,906 square feet of office space in Islandia, New York, for approximately $104,389 annually; the lease expires March 31, 2008.

As of fiscal year end June 30, 2006, the Company had 38 employees of which approximately 37 are full-time equivalent employees.

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, 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, 2006, there were 70,317,569 shares of common stock of MedCom outstanding and there were approximately 585 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.

FISCAL 2006	HIGH BID	LOW BID
Quarter Ended June 30, 2006	$ .65	$ .25
Quarter Ended March 31, 2006	.55	.25
Quarter Ended December 31, 2005	.78	.65
Quarter Ended September 30, 2005	1.26	.98

FISCAL 2005	HIGH BID	LOW BID
Quarter Ended June 30, 2005	$ .77	$ .75
Quarter Ended March 31, 2005	1.12	.99
Quarter Ended December 31, 2004	1.78	1.72
Quarter Ended September 30, 2004	2.43	2.38

7

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 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	
Total Issued	6,552,648	2,395,291	6,087,492	12,997

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 incurred expense related to the raising of capital of $147,455.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were into for the services. During the year ended June 30, 2006, the Company granted to consultants, 6,087,492 shares of common stock valued in the aggregate range of .50 to 1.50 strike price.

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.

8

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

Statement of Operations Data

	Years Ended June 30,	Years Ended June 30,

	2006	2005
Revenues	$ 6,000,257	$ 2,747,270
Cost of Deliverables	(3,578,345)	(440,155)
Operating and Other Expenses	(8,760,468)	(9,440,937)
Net Loss	$ (6,338,555)	$ (7,133,821)

Balance Sheet Data:

	Years Ended June 30, 2006	Years Ended June 30, 2005
Current Assets	$ 1,238,144	$ 366,442
Total Assets	2,763,168	4,244,744
Current Liabilities	3,688,558	4,540,974
Non Current Liabilities	5,910,008	4,930,942
Total Liabilities	9,598,565	9,471,917
Working Capital (Deficit)	(2,450,414)	(4,174,532)
Shareholders' Equity (Deficit)	$ (6,835,398)	$ (5,227,173)

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

General. As of June 30, 2006, the Company currently 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. MedCom USA continues to focus on its primary operations and core business in medical transaction processing.

YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS

FISCAL YEAR END JUNE 30, 2006, COMPARED TO FISCAL YEAR END JUNE 30, 2005

Revenues for Fiscal 2006 increased to $6,000,257 from $2,747,271 during Fiscal 2005. This increase in revenue is directly the result of changes in the Company's strategic direction in core operations. This included discontinuing declining or unprofitable business sectors and officer and management changes. The Company continues to aggressively pursue and devote its resources and focus its direction in electronic transaction processing. The Company's agreement with its credit facility in connection with the sale of terminals and portal transactions therewith, the Company must defer revenue gains on the sale of the terminals and portal software. Further the increase is related to a change in accounting method that will be implemented in Fiscal 2006 and this change will address these issues. Fiscal 2005 we continued with the old accounting method of recogonizing revenue and will be changing those methods in the upcoming fiscal year.

Selling expenses for Fiscal 2006 decreased to $602,269 from $733,160 during Fiscal 2005. This

9

decrease is primarily the result of marketing efforts and includes commissions paid to internal sales personnel to market the Company's products and services.

The Company is currently assessing if it will continue with its outside independent sales organizations. Presently the company is increasing is sales team and will increase sales in various target states. The company is seeking to introduce the telesales marketing strategy for less expensive sales force.

General and administrative expenses for Fiscal 2006 increased to $4,565,800 from $4,517,022 during Fiscal 2005. This increase is attributed to the Company's hiring of additional employees as growth has occurred in the area of providing technical support for our products and services in relation to the increases in sales. The increase is related to settleing outstanding litigation which resulted increase in legal fees. The company does not expect additional expense related to these expense in the future.

Professional and consulting expenses for Fiscal 2006 decreased to $0 from $708,662 during Fiscal 2005. These expenses are now being reported in the general and administrative category.

Interest expense for Fiscal 2006 increased to $1,405,015 from $850,004 for Fiscal 2005. This increase is a result of increased sales volume and terminal and software portal sales transactions with the Company's credit facility. Also, expenses were incurred and paid on notes the Company has outstanding. Interest income for Fiscal 2006 increase to $485,559 from $0 from Fiscal 2005 and increase was due to the change in accounting method that complies with SOP 97-2 and ETIF 00-21.

The company incurred $32,200 in the settlement of a litigation from Fiscal 2005. The company had gain on extinguishment of debt for liabilities that were satisfied through settlement. The company impaired its assets in the amount of $53,202.

The loss for Fiscal 2006 was ($6,338,555) from ($7,133,884) for Fiscal 2005. Sales and marketing expenses along with interest expenses have increased for Fiscal 2005. The Company has incurred these marketing and sales expenses in relation to increased demand for the Company's products and services.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating requirements have been funded primarily on its capital sale of terminals and web portal transactions, and sales of the Company's common stock. During the year ended June 30, 2006, the Company's net proceeds from the sale of the terminals and software portals were $1,571,068. The company received $2,395,291in 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 in operating activities for Fiscal 2006 was ($2,719,049) compared ($4,700,884) for Fiscal 2005. The Company's focus on core operations results in a higher accounts receivable. The Company receives payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days. The company has grown its operations to reduce the deficit cash flow positions.

Cash provided in investing activities was $1,854,257 for Fiscal 2006, compared to cash provided in investing activities of $1,307,044 for Fiscal 2005. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for the Company.

10

Cash provided by financing activities was $855,734 in Fiscal 2006, compared to

$3,317,426 for Fiscal 2005. Financing activities primarily consisted of proceeds from the sale of the terminal and software portal transactions during the fiscal period. The company does not have adequate cash flows to satisfy its obligations although have improved cash flow and anticipates have adequate cash flows in the upcoming fiscal period.

The Company has used funds advanced from an affiliated entity that is controlled by the Company's chairman and chief executive officer. As of June 30, 2006 the Company maintains an account payable from this entity for the amount of $794,626 including accrued interest.

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

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

The company is looking at expanding its market and look for acquisition that complement the existing revenue model.

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.

11

ITEM 7. FINANCIAL STATEMENTS

MEDCOM USA, INC.

TABLE OF CONTENTS

	PAGE
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:	F-2

SE Clark & Company, P.C.

CONSOLIDATED FINANCIAL STATEMENTS:

Consolidated Balance Sheet at June 30, 2006 F-3

Consolidated Statements of Operations for the years ended June 30, 2006 and 2005 F-4

Consolidated Statements of Stockholders' Equity for the years ended June 30, 2006 and 2005 F-5

Consolidated Statements of Cash Flows for the years ended June 30, 2006 and 2005 F-6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

S.E.CLARK & COMPANY, P.C.

Registered Firm: Public Company Accounting Oversight Board

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
MedCom USA, Inc.
Scottsdale, Arizona

We have audited the accompanying balance sheet of MedCom USA, Inc. (the "Company"), as of June 30, 2006 and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for the year ended June 30, 2005, which are presented for comparative purposes. Those statements were audited by other auditors whose report contained an unqualified opinion with added comment pertaining to the Company's ability to continue as a going concern.

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

As described in Note 9, management has made adjustments in the fourth quarter ended June 30, 2006. The adjustments are precipitated by a recently detected material control weakness between operations and funding. Certain material financial transactions were consistently recorded during the year based on funding documentation that varied with the agreement terms as understood and documented by operations. The financial statements do not include provision for

any costs that may be incurred resulting from restatements, if any, pertaining to the adjustments referred to above.

In our opinion, except for the effects if any, resulting from resolution of the above matter, the financial statements referred to above present fairly, in all material respects, the financial position of MedCom USA, Inc. (the "Company"), as of June 30, 2006 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the accumulation of losses and shortage of capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note1. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/S/ S.E.CLARK & COMPANY, P.C.

Tucson, Arizona
September 22, 2006

---

744 N. Country Club Road, Tucson, AZ 85716 (520) 323-7774, Fax (520) 323-8174,
seclarkcpa@aol.com

13

MEDCOM USA, INC.
CONSOLIDATED BALANCE SHEET
JUNE 30, 2006

ASSETS:	
CURRENT ASSETS	
Cash	$ 1,148
Licensing Contracts - ST	792,739
Prepaid expenses and other current assets	207,591
Total current assets	1,001,478
PROCESSING TERMINALS, net	776,942
PROPERTY AND EQUIPMENT, net	530,335
Licensing Contracts - LT	1,341,627
Other Assets	30,757
TOTAL ASSETS	$ 3,681,139

LIABILITIES AND STOCKHOLDERS' DEFICIT:

CURRENT LIABILITIES:

Accounts payable	$ 252,214
Accrued expenses and other liabilities	638,094
Dividend payable	23,750
Deferred revenue - current portion	758,629
Licensing obligations - current portion	1,722,541
Total current liabilities	3,395,227
LICENSING OBLIGATIONS - long-term portion	3,602,773
Deferred Revenue	2,723,911
Notes from Affiliates	794,626
Total liabilities	10,516,537
STOCKHOLDERS' DEFICIT:	
Convertible preferred stock, Series A $.001par value, 52,900 shares designated, 4,250 issued and outstanding	4
Convertible preferred stock, Series D $.01par value, 50,000 shares designated, 2,850 issued and outstanding	29
Common stock, $.0001 par value, 80,000,000 shares authorized, 70,317,569 issued and outstanding	7,032
Treasury stock	(37,397)
Paid in capital	80,108,536
Accumulated deficit	(86,913,601)
Total stockholders' equity	(6,835,398)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 3,681,139

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDEDJUNE 30, 2006 AND JUNE 30,2005

	2006	2005
REVENUES:		
Terminal sales	$ 275,350	$ 301,764
Service	4,153,839	1,152,559
Licensing Fees	1,571,068	1,292,947
	6,000,257	2,747,271
COST OF DELIVERABLES	3,578,345	440,155
GROSS PROFIT	2,421,913	2,307,116
OPERATING EXPENSES:		

General and administrative expenses	4,565,800	4,517,022
Sales and marketing expenses	602,269	733,160
Royalties	-	119,741
Professional and consulting fees	-	708,662
Depreciation and amortization	2,663,747	1,960,440
Total operating expenses	7,831,816	8,039,025
OPERATING LOSS	(5,409,903)	(5,731,909)
OTHER (INCOME) AND EXPENSES		
Interest expense	1,405,015	850,004
Interest Income	(485,559)	
Legal Settlement	32,200	233,982
Loss on Disposal of Assets and Inventory	-	223,820
Gain on Extinguishment of Debt	(76,208)	
Impairment of Assets	53,202	94,106
Total other expense	928,651	1,401,912
LOSS BEFORE INCOME TAXES	(6,338,554)	(7,133,820)
INCOME TAX (BENEFIT) PROVISION	-	-
NET LOSS	$(6,338,554)	$(7,133,820)
NET LOSS PER SHARE:		
Basic:	$ (0.10)	$ (0.17)
Diluted:	$ (0.10)	$ (0.17)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	62,821,854	41,167,477
Diluted	62,821,854	41,167,477

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

F-4

15

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT FOR THE
FOR THE YEARS ENDEDJUNE 30, 2006 AND2005

			\ ----------- PREFERED STOCK ---				
	COMMON STOCK		PREFERRED A & B		PREFERRED C		
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	S
BALANCE JULY 1, 2004	50,029,144	$ 5,003	4,250	$ 4	-	$ -	

Common stock issued for cash	5,925,093	593				
Common stock issued to settle claims	276,000	28				
Common stock for payable conversions	85,000	9				
Exercise of cashless options	289,195	29				
Common stock issued for cash received subsequent to June 30 2005	770,000	77				
Payment on 2004 subscription receivable						
Common stock granted as consideration for services	290,000	29				
Net loss						
BALANCE JUNE 30, 2005	57,664,432	$ 5,767	4,250	$ 4	-	$ -

	TREASURY STOCK	SUBSCRIPTION RECEIVABLE	ACCUMULATED DEFICIT	TOTAL
BALANCE JULY 1, 2004	$(37,397)	$ (500,000)	$(73,454,519)	$(1,496,214)
Common stock issued for cash				2,419,289
Common stock issued to settle claims				276,000
Common stock for payable conversions				136,001
Exercise of cashless options				29
Common stock issued for cash received subsequent to June 30 2005				308,000
Payment on 2004 subscription receivable				
Common stock granted as consideration for services				608,942
Net loss			(7,133,820)	(7,133,820)
BALANCE JUNE 30, 2005	$(37,397)	$ -	$(80,588,339)	$(4,881,775)

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

F-5(Continued)

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT FOR THE
FOR THE YEARS ENDEDJUNE 30, 2006 AND2005 (CONTINUED)

	COMMON STOCK		PREFERED STOCK					
			PREFERRED A & B		PREFERRED C		PREFERRED	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMO
BALANCE JULY 1, 2005	57,664,432	$ 5,766	4,250	$ 4	-	$ -	2,850	$
Common stock issued for cash	6,552,648	655						
Common stock for compensation	6,087,492	609						
Exercise of cashless warrents	12,997	1						
Cost of Raising Capital	-	-						
Net loss								
BALANCE JUNE 30, 2006	70,317,569	$ 7,032	4,250	$ 4	-	$ -	2,850	$

	SUBSCRIPTION RECEIVABLE	ACCUMULATED DEFICIT	TOTAL
BALANCE JULY 1, 2005	$ -	$(80,612,444)	$(4,905,880)
Common stock issued for cash			2,395,291
Common stock for compensation			2,395,370
Exercise of cashless warrents			12,997
Cost of Raising Capital			(394,622)
Net loss		(6,338,555)	(6,338,555)
BALANCE JUNE 30, 2006	$ -	$(86,950,999)	$(6,835,398)

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

F-5(Continued)

17

MEDCOM USA, INC.
STATEMENT OF CASH FLOWS FOR THE

YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$(6,338,555)	$(7,115,069)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	2,663,747	1,960,440
Issuance of stock as consideration for services	2,395,291	608,942
Issuance of stock for settlement of claims	-	233,982
Issuance of stock for conversion of payables		136,000
Gain on write-off of obligations	-	-
Treasury stock taken in settlement of claims	-	-
Allowance for sales returns	(82,424)	-
Loss on inventory/assets abandoned		223,820
Impairment of goodwill	-	436,423
Changes in assets and liabilities:		
Trade accounts receivable	(782,649)	11,118
Inventories	-	113,848
Prepaid and other current assets	(58,503)	41,887
Accounts payable	(244,528)	234,049
Accrued liabilities	1,218,088	14,235
Deferred revenue	(1,489,516)	(1,600,559)
Net cash (used in) operating activities	(2,719,049)	(4,700,884)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	1,604,714	(33,453)
Purchases of software upgrades	-	(448,929)
Licensing fees	(176,886)	
Advances from/(to) affiliates	426,429	1,789,426
Net cash provided by investing activities	1,854,257	1,307,044
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on Licensing	(1,539,557)	(1,547,302)
Proceeds from sale of common stock	2,395,291	2,919,289
Bank overdraft usage	-	252,535
Proceeds from capital sale-leaseback transactions	-	1,692,904
Net cash provided by financing activities	855,734	3,317,426
(DECREASE) INCREASE IN CASH	(9,059)	(76,414)
CASH, BEGINNING OF YEAR	10,207	86,621
CASH, END OF YEAR	$ 1,148	$ 10,207

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

MEDCOM USA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS, (CONTINUED)
FOR THE YEAR ENDEDJUNE 30, 2006 AND2005

SUPPLEMENTAL CASH FLOW INFORMATION:	2006	2005
Interest paid	$889,790	$ 850,004
Income taxes paid	$ -0-	$ -0-
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Terminals capitalized under sales/leaseback transactions	-0-	$2,086,489

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

F-6 (Continued)

19

MEDCOM USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDEDJUNE 30, 2006 AND 2005

1. ORGANIZATION

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, these four programs were discontinued in December 1997. During the fiscal year of 1998, the Company diversified its operations and moved into the area of medical information processing.

The Company changed its name to MedCom USA, Inc. in October 1999. During the fiscal years of 1999 and continuing through present, the Company directed its efforts in medical information processing. As of March 31, 2006, the Company currently operates the MedCom System (MedCom) that is deployed through a point-of-sale terminal or personal computer offering electronic transaction processing, as well as insurance eligibility verification. The Company has aggressively focused on its primary operations in Electronic Data Interchange (EDI) and core business in electronic Medical Transaction Processing.

2. BASIS OF PRESENTATION

The accompanying financial statements represent the consolidated financial position and results of operations of the Company and includes the accounts and

results of operations of the Company and its wholly owned subsidiaries. The accompanying financial statements include only the active entity of MedCom USA, Inc.,

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company continues to incur material operating losses and has failed to generate positive cash flow from operations. The Company has a cash flow deficit of $2,719,049 at June 30, 2006. The Company has generated cash flow through the sale of its software and hardware transactions to fund its operations. Management believes that the Company has begun to generate a level of volume in the sales and service contracts of its processing software that will allow the Company to meet operating cash flow requirements.

The Company has begun to experience increased sales of its MedCom System and has generated cash through the sale of software through the MedCom System. Management is attempting to attain a sustaining level of operating cash flow from the Company's MedCom operations. The Company has raised additional equity capital in the year ended June 30, 2006 and may attempt to raise additional capital to grow the MedCom.

Cash reserves and working capital at June 30, 2006 were insufficient to fund currently due obligations. As discussed above, the Company is generating cash flow from sales activities of its software. Such cash flow has only recently provided some evidence that it is sufficient to cover current operating expenses. However, this level of cash flow does not permit the Company to retire many older debts or expand its operations. The Company believes that it needs additional cash, either from outside financing or expanded sales activities, in order to retire past due debts and significantly expand the Company's operations. If the Company is unable to produce sales as planned and/or raise additional investment capital to fully implement its business plan, it

may jeopardize the ability of the Company to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported.

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

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

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

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

For the year ended June 30, 2006, the company had a major vendor TESIA-PCI that a contract was executed that the Company would deliver 1500 units over the period presented. The agreement allowed the minimum billing of $28.50 per month per unit in a pool based on a 15 cent transaction fee. The Company has experienced that the average billing per unit is greater than the minimum with an average billing per unit of approximately $35 per unit. During the year ended June 30, 2006 only a portion were installed and the remaining units will be installed over the subsequent periods.

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

INVENTORIES

For the period ending June 30, 2005, inventories were carried at the lower of cost or market on a first-in first-out basis. The Company purchases hardware from its supplier and records inventory at its original cost. Inventory terminals are at times returned by customers, and if these units have been sold and repurchased, the Company recorded the returned inventory units at the amortized capitalized cost under the sale-leaseback arrangements. The capitalized costs under the sale-leaseback transactions are substantially greater than the

21

original purchase price from the supplier. Due to technological changes terminals are no longer considered an integral component in the generation of revenue. Accordingly effective July 1, 2005 terminals are expensed rather than capitalized as inventory terminals that have a nominal individual value. For the period beginning July 1, 2005 the Company adopted a new method of accounting and no longer carries inventory as its method of accounting. "See Revenue Recognition"

PROPERTY AND EQUIPMENT

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

Property & Equipment	$1,218,292
Accumulated Depreciation	(687,956)
Net Property & Equipment	$ 530,335

ASSETS HELD UNDER CAPITAL LEASES

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

AMORTIZATION OF LEASEHOLD IMPROVEMENTS

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

REVENUE RECOGNITION

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

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.

The terminals were capitalized at the value determined by the lessor on the basis of the cash flow under the terms of the sale and service agreements with the customers are as follows.

Terminal Assets	$ 6,197,320
Accumulated Amortization	(5,420,378)

Net Terminal Assets	$ 776,942

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

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

The largest part of revenues stems from vendors' license fees associated with software. The Company has recognized revenue from license fees when the software was shipped to the customer. The amount and timing of revenue recognition is complicated, however, by multiple-element arrangements that provide for multiple software deliverables [e.g., software products, upgrades or enhancements, 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 the present and in the future.

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

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

Management has established Vendor-Specific Objective Evidence ("VSOE") for access fee, equipment, provider enrollment fee, EDI connectivity fee, Payer/Provider fee, benefit verification fee, referral transfer fee, service authorization fee, claim status, training, support, program upgrades, carrier editions, and customized reports. Revenue is accordingly allocated and recognized based on the value of deliverables. VSOE relates the method of accounting under SOP 97-2 and EITF 00-21.

INCOME TAXES

23

Management evaluates the probability of the utilization of the deferred income tax assets. The Company has estimated a $23,387,245 deferred income tax asset at June 30, 2006. Of that amount, $23,387,245 related to net operating loss carry-forwards at June 30, 2006. Management determined that because the Company has not yet generated taxable income it was not appropriate to recognize a deferred income tax asset related to the net operating loss carry-forward. Therefore, a fully deferred income tax asset is offset by an equal valuation allowance.

If the Company begins to generate taxable income, management may determine that all of the deferred income tax asset may be recognized. Recognition of the asset could increase after tax income in the future. Federal Net operating loss carryforwards of $58,468,213 expire from 2011 to 2026. State net operating loss carryforwards of $35,844,767 expire from 2006 to 2009. During the year ended June 30, 2006, the Company reduced the state portion of the deferred income tax asset related to net operating loss carryforwards by $3,884,000 resulting from the expiration of such carryforwards. The future utilization of the net operating losses is uncertain. The valuation allowance on the deferred income tax asset was decreased by $1,553,600 in the year ended June 30, 2005, resulting primarily to the expiration of state net operating loss carryforwards.

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

	2006	2005
Current tax (benefit) provision	$(2,458,234)	$(2,853,528)
Deferred tax (benefit) provision	2,458,234	2,853,528
Total income tax provision	$ - 0 -	$ - 0 -

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, Earnings Per Share.

USE OF ESTIMATES

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

VENDOR-SPECIFIC OBJECTIVE EVIDENCE:

The Company has nonsoftware and software deliverables which have a specific cost per customer. The costs of the deliverables are valued at an estimated based on historical cost and usage. 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 estimated average cost is $1.00. The company assessed its prior electronic costs and estimated that these costs average between 80 cents to $1.25 per customers. Management decided to use the average cost of $1.00 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 Billing terminal which cost $400 per terminal, pin pads which cost $100, check reader which cost $100, Reader Printers which cost $100, and Portal Wedge costs $100. The Company has further estimated the cost per terminal to upgrade and update the software to be in compliance with the health care industry estimates the per terminal and portal cost at $250.

STOCK-BASED COMPENSATION

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

INTANGIBLE ASSETS

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

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. As a result, the

Company discontinued amortization of goodwill, and instead annually evaluates the carrying value of goodwill for impairment, in accordance with the provisions of SFAS No. 142. Due to material continued operating losses, the Company determined that its carrying value of goodwill was impaired at June 30, 2005. On the basis of that determination in the year ended June 30, 2005 to write off the full remaining carrying value at June 30, 2005.

IMPAIRMENT OF ASSETS

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

25

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS: In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transaction and Disclosure, which provides alternative methods of transition for a voluntary change to fair value, based method of accounting for stock-based employee compensation as prescribed in SFAS 123, Accounting for Stock-Based Compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The Company presently does not intend to adopt the fair value based method of accounting for its stock based compensation.

In June 2003 the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" SFAS No. 150 requires certain instruments, including mandatorily redeemable shares, to be classified as liabilities, not as part of shareholders' equity or redeemable equity. For instruments that are entered into or modified after May 31, 2003, SFAS No. 150 is effective immediately upon entering the transaction or modifying the terms. For other instruments covered by Statement 150 that were entered into before June 1, 2003, Statement 150 is effective for the first interim period beginning after June 15, 2003. The Company has evaluated the provisions of SFAS No. 150 and implementation of such was not material.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantees and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements are effective for the Company during the third quarter ending March 31, 2003. The adoption of FIN 45 did not have an impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is

effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have an impact on the Company's financial position or results of operations.

In December 2004 the FASB issued a revised Statement 123 (SFAS 123R), "Accounting for Stock-Based Compensation" requiring public entities to measure the cost of employee services received in exchange for an award of equity instruments based on grant date fair value. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award - usually the vesting period. The Company is evaluating the impact of this new pronouncement and does not expect the effect of implementation will have a significant impact on the Company's financial statements.

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable at June 30, 2005 consisted of:

MedCom trade accounts receivable	$ 349,609
Other	5,000
Total	354,609
Less: Allowance for doubtful accounts	(82,424)
	$ 272,185

26

The Company estimates uncollectible account balances and provides an allowance for such estimates. The allowance for doubtful accounts at June 30, 2005, consists of an estimate for potentially uncollectible accounts in the MedCom division.

In June 30, 2006 the company adopted a new accounting method to record the VSOE deliverables under SOP 97-2 and ETIF 00-21. The Company had lease receivables of $2,120,975 and Gateway access fees receivables of $541,214. On a monthly basis the company ACH's these payments directly from the customers' account to ensure timely payment. The current customer agreement requires that the customers sign up for ACH authorization of these fees and other deliverables that the customer agrees.

5. NOTES PAYABLE

Notes payable at June 30, 2006 comprise the following:

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	$3,395,001

company.

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.	$3,574,828
	6,969829
Less current portion	1,858,447
	$5,339,215

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

Notes payable at June 30, 2005 comprise the following:

Convertible note payable to individual. The note bears interest at 8% per annum and is payable quarterly. The note is convertible to common stock at $6.25 per share. The note had an original maturity date of February 1998 and is currently in default.	$ 25,000

27

Note payable to landlord. Collateralized by leasehold improvements. Original principal balance of $95,000. Legal settlement negotiated July 2005 requires quarterly payments beginning August 2005 through November 2007 (imputed interest at 8% per annum) plus the issuance of 150,000 shares of the Company's common stock.	341,178
	366,178
Less current portion	201,313
	$164,865

The convertible note payable was in default as of June 30, 2005. The note payable to a former landlord relates to a court ordered judgment against the Company for the past due note, unpaid rent and legal fees. The Company settled the terms of this obligation in the year ended June 30, 2005 by issuance of this note payable. The company has paid the renegotiated balances as of June 30, 2006. For the year ended June 30, 2006 the company paid all of the outstanding notes as of June 30, 2005 based on the renegotiated rate and all liabilities related to the above been satisfied as of the year ended June 30, 2006.

6. CAPITAL LEASE OBLIGATIONS AND SALE-LEASEBACK TRANSACTIONS

June 30, 2005, the Company leases many of its MedCom terminals under capital lease agreements.

The Company has entered into an arrangement with a third party lessor whereby the Company sells its terminals that are placed with customers to the lessor. The lessor in turn leases back the terminals. These transactions are recorded as sale-leaseback transactions. The leases between the Company and the lessor are accounted for as capital leases. The Company generates revenue from the terminals through monthly service and rental fees and transaction fees. The value of the sale transaction between the Company and lessor is determined by Company's agreement with the customer relative to the number of terminals, length of the customer contract and monthly service fee due from the customer. The Company acquires terminals from its suppliers, programs the terminals with its software and sells the terminals to the lessor when it enters into an agreement with a customer for those specific terminals. Any gain on the sale transaction with the lessor is deferred and amortized proportionately with the capitalized asset. That period is generally four or five years, the typical length of the lease agreement. At June 30, 2005, the amount of deferred gain on sale-leaseback transactions was $2,717,526.

Generally, the terms of repayment for the capital lease obligations approximates the monthly rental charged the customer by the Company. These leases are collateralized by the underlying equipment, contract with the customer and, in addition, 1,000,000 shares of the Company's common stock. The projected cash flow from the customer contract is generally greater than the payments required under the capital lease arrangement with the customer. There have been occurrences when customers terminate a contract and the terminals are returned to the Company. The Company will have the opportunity to resell that unit under a new contract. The Company may also obtain a new capital lease through a sale leaseback transaction with the lessor. Therefore, there may be more than a single capital lease obligation to repay although there is only a single customer contract. The Company believes that it generates sufficient cash flows from direct sales and service revenue to cover such variances in capital lease obligations to customer contracts.

The following presents future minimum lease payments under the capital leases by year and the present value of minimum lease payments as of June 30, 2006:

Years ended June 30:	Terminals
2007	1,395,614
2008	892,629
2009	196,657
Total minimum lease payments	2,484,900
Lees: amount representing interest	(1,624,236)
Present value of minimum lease payments	$ 860,664

7. OPERATING LEASES

The Company leases its office space under long-term operating leases expiring

through 2008. Rent expense under these leases was $234,720 and $154,238 for the years ended June 30, 2006 and 2005, respectively.

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

2007	158,860
2008	170,980
2009	142,404
2010	148,652
2011	159,785
2012	162,795
	$943,476

8. STOCKHOLDERS' EQUITY

DURING THE YEAR ENDED JUNE 30, 2005:

The Company issued 7,635,288 shares of its common stock. Of that amount, 42,184shares of the Company's common stock were sold to an entity controlled by the Company's president and chairman. The balances of the shares were issued to third parties in a private placement of the Company's common stock, issued to settle obligations and as consideration for services. The shares were sold throughout the year ended June 30, 2005, ranging from $0.50 per share at the beginning of the year to $1.50 per share at the end of the year. Commissions of approximately $426,000 are recorded as a charge in additional paid in capital as direct costs associated with the raising of equity capital. In conjunction with the offering of the common stock the Company issued and the investors received 1,332,199 warrants to purchase the Company's common stock. The warrants have exercise prices ranging from $1.00 to $4.50 per share and expire three years from date of issue.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the

28

agreements were entered into for the services. During the year ended June 30, 2005, the Company granted to consultants, 290,000 shares of common stock valued in the aggregate at $608,942. The value of these shares was expensed during the year.

The Company issued 276,000 shares of its common stock in the year ended June 30, 2005 to settle a legal dispute relating from operations that were discontinued in the 2001. The shares were at $1.00 per share based on the trading price of the stock at the time of the settlement.

During the year ended June 30, 2005, the Company issued 770,000 shares of its common stock under a notice of conversion of common stock warrants. Payment for the exercise of $308,000 was not received until July 2005 and the amount has been recorded as a subscription receivable asset at June 30, 2005.

An entity controlled by the Company's president and chairman regularly advances funds to the Company to cover short-term cash flow deficiencies. During the

year ended June 30, 2005, this affiliate converted advances of $776,992 into 3,186,499 shares of the Company's common stock.

Common stock options for 508,941 shares were exercised during the year ended June 30, 2005. A total of 607,800 options were exercised. Of that amount, holders of 257,800 options performed a cashless exercise netting only 158,941 shares being issued in those exercises. The balances of 350,000 options were exercised for cash of $296,984.

DURING JUNE 30, 2006:

QUARTER ENDED	STOCK ISSUED FOR CASH	CASH RECEIVED	STOCK ISSUED FOR SERVICES	STOCK ISSUED FOR Warrents Exercised
September 30, 2005	1,156,999	591,750	685,508	12,997
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	
Total Issued	6,552,648	2,395,291	6,087,492	12,997

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.

The Company has issued shares of its common stock as consideration to consultants for services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were into for the services. During the year ended June 30, 2006, the Company granted to consultants, 6,087,492 shares of common stock. The value of these shares was expensed during the year. The Company issues common stock for services to vendors and consultants in lieu of cash. The Company values those issuances at fair value in accordance SFAS 143 and SAB 107. The company values the issuance at the same value that common stock is sold for cash in a private placement that the company is completing.

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

29

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 its dividend on the preferred stock for the years ended June 30, 2006 and 2005. At June 30, 2006, 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, 2006.

9. COMMITMENTS AND CONTINGENCIES

Royalty Agreement

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.

Customer Contracts

Customers may arrange to have the purchase of the Company's point-of-sale terminals financed through the financial institution that provides the sale-leaseback financing to the Company. The Company has agreements with this financial institution to guarantee varying amounts associated with the financial institution's arrangements with the customers. Generally, the Company may be required to remit to the financial institution, one to six months of scheduled customer payments if the customer defaults on its financing arrangement with the financial institution. 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. The Company has not experienced material obligations to-date under the recourse agreements and believes that the new agreement substantially limits

potential obligations in the future to an immaterial amount. In year ended June 30, 2006 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.

Interim Financial Statements

Management has made adjustments in the fourth quarter ended June 30, 2006. The adjustments are precipitated by a recently detected control weakness between operations and funding. Certain material financial transactions were consistently recorded during the year based on documentation submitted to a lender to obtain funding. The documentation varied with the agreement terms as understood and documented by operations. The adjustments resulted in reducing year to date revenues by $954,000. They also resulted in the reduction of receivables for approximately $1,300,000. Management is taking a proactive action in addressing these issues. Management has taken proactive action to improve document control by commencing a program to centralize and coordinate critical documentation. The financial statements do not include provision for any costs that may be incurred resulting from these adjustments.

Card Activation Technologies, Inc.

The Company has formed a new wholly owned subsidiary, Card Activation Technologies, Inc. for the purpose of spinning off the Company's holdings in its proprietary patented technology for the gift and phone cards.

10. NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. Preferred stock convertible to 115,396 common shares and options and warrants exercisable into 3,207,224 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended June 30, 2006 and 2005 respectively because the effect of their inclusion would be anti-dilutive.

11. RELATED PARTY TRANSACTIONS

The Company's president and chairman is a significant shareholder of the Company. This individual controls another entity that is also a significant shareholder of the Company. During the year ended June 30, 2002, the Company moved its administrative offices into space occupied by this related entity that is a significant shareholder of the Company of American Nortel Communications, Inc. The Company shares office space and management and administrative personnel with this related entity. Certain of the Company's personnel perform functions for the related entity but there was no allocation of personnel related expenses to the related entity in the years ended June 30, 2006 and 2005.

The Company frequently receives advances and advances funds to an entity controlled by the Company's president and which is a significant shareholder of the Company. During the year ended June 30, 2004, the Company converted advances of $776,992 into 3,186,499 shares of the Company's common stock and advanced funds of $1,420,229 to this entity. During the year ended June 30, 2005, repayments were made on these advances and additional funds were contributed. The balance due to this affiliate at June 30, 2006 was $794,625. The advances are generally short term in nature with an interest rate of 9%.

12. 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.

There were no options granted in the year ended June 30, 2005 and all options previously granted have been fully vested and therefore there is no pro forma effect for the year ended June 30, 2005. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

In February 2003, 400,000 warrants to acquire the Company's common stock at $0.50 per share were issued as consideration for consulting services to be rendered. The fair value of these warrants of $150,600 was expensed in June 30, 2005

The Company grants options under several stock option plans. The Company's Incentive Stock Option Plans, Non-Qualified Stock Option Plans and Stock Bonus Plans are collectively referred to as the "Plans". The following sets forth certain information as of June 30, 2006 concerning the stock options and stock bonuses granted by the Company pursuant to the Plans. Each option represents the right to purchase one share of the Company's Common Stock.

	TOTAL SHARES RESERVED UNDER THE PLAN	REMAINING OPTIONS UNDER THE PLAN
1998 Incentive Stock Option Plan	1,500,000	400,167
2000 Incentive Stock Option Plan	1,000,000	925,150
2000 Non-Qualified Stock Option Plan	2,000,000	1,820,575
1999 Stock Bonus Plan	900,000	833,250
2000 Stock Bonus Plan	500,000	500,000

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

Number of Warrants	Exercise Price	Expiration of Warrants
628,991	$ 4.00	6/30/2006
678,400	$ 1.00	6/30/2007

390,400	$	2.75	6/30/2007
94,400	$	3.00	6/30/2008
148,999	$	4.00	7/30/2008
20,000	$	4.50	9/30/2008
1,961,190			

32

The fair values of the options granted in the year end June 30, 2006, were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	None
Volatility	1.56
Risk free interest rate	4.18%
Expected asset life	5 years

The Company accounts for stock awards issued to nonemployees in accordance with the provisions of SFAS 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 123 and EITF 96-18, stock awards to nonemployees are accounted for at their fair value as determined under Black-Scholes option pricing model.

All warrants issued in the year ended June 30, 2005 were issued as part of equity units that included common stock sold in private placement transactions.

13. BUSINESS SEGMENTS

The Company previously had three reportable segments: intelligent vending machines, healthcare management software development and medical transaction processing. During the year ended June 30, 2001, the Company determined it would divest or abandon all business segments other than the medical transaction processing segment. Therefore, going forward, the Company will have only one reportable segment. At June 30, 2005 the Company operates only in the medical transaction-processing segment with substantially all revenue generated in the United States. The medical transaction-processing segment includes revenue from the MedCard System, including the sale of terminals, processing fees and billing service revenue and the licensing, sales and services related to the Company's One Medical Services Network.

* * * * * *

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

In November 2005 our prior auditor resigned and the Company engaged the firm of SE Clark & Company PC.

ITEM 8A: CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

33

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

Based on their review and evaluation as of the end of the period covered by this Form 10KSB, and subject to the inherent limitations all as described above, our principal executive officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report. They are aware of significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. During the period covered by this Form 10KSB we became aware of a significant adjustments in the fourth quarter ended June 30, 2006. The adjustments are precipitated by a recently detected material control weakness between operations and funding. Certain material financial transactions were consistently recorded during the year based on documentation submitted to a lender to obtain funding. The funding documentation varied with the agreement terms as understood and documented by operations. Management is assess whether any action is necessary related to these adjustments. Management is taking a proactive action in address these issues. Management has taken proactive action to improve document control by commencing a program to centralize and coordinate critical documentation. Although the overall companies controls are adequate with exception to the document control matter. There have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART III

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

DIRECTOR AND EXECUTIVE OFFICER

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

William P. Williams	53	Chairman, President, Chief Executive Officer, and Chief Financial Officer

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

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

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

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

ITEM 10. EXECUTIVE COMPENSATION

General. Mr. William P. Williams serves as the Company's sole-director and chief executive officer. Pursuant to a Management Services Agreement executed and approved by the Company Mr. Williams was compensated approximately $450,000 for management fees, and other sources or forms of compensation was not paid or collected for Fiscal year ended June 30, 2006.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

As of June 30, 2006 information with respect to the only persons owning beneficially 5% or more of the outstanding common stock and the number of and percentage of the outstanding shares owned is represented below:

Name and Address	Shares Owned (1)	Common Stock
American Nortel Communications 7975 North Hayden Road #D-333 Scottsdale, Arizona 85258	19,286,016	28%
William P. Williams 7975 North Hayden Road #D-333 Scottsdale, Arizona 85258	6,609,500	10%

(1) Excludes any shares issuable upon the exercise of any warrants or options or upon the conversion of other convertible securities. Wilcom Inc., Williams Family Trust, and Bill Williams have beneficial ownership of the above stock.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Company frequently advances funds to an affiliated entity, which is also a significant shareholder of the Company. During the year ended June 30, 2006, the Company advanced funds of $794,626 to this entity.

ITEM 13. EXHIBITS AND REPORTS.

EXHIBITS

3.1 Articles of Incorporation (2)

3.2 Amendments to Articles of Incorporation - Fourth Article (2)

3.3 Amendment to Articles of Incorporation - Name Change (2)

35

10.18 Amendment to License Agreement - Dream Technologies, LLC (1)

---

(1). Incorporated by reference to the same exhibit filed with Amendment No. 5 to the Company's Registration Statement on Form S-3 (Commission File No. 333-71179)
(2). Incorporated by reference to the same exhibit filed with the Company's Annual Report on Form 10-KSB for the year ending June 30, 2001.

REPORTS ON FORM 8-K

8-K filed for change in principle auditor in November 2005

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES. The aggregate fees billed by Epstein Weber & Conover. for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended June 30, 2005 approximated $41,000. The aggregate fees billed by S.E.Clark & Company, PC for the review of the financial statements included in the Company's Forms 10-Q for fiscal years 2006 approximated $11,000.

AUDIT-RELATED FEES. The aggregate fees billed by S.E. Clark & Company, P.C. for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements for the fiscal year ended June 30, 2006, and that are not disclosed in the paragraph captioned "Audit Fees" above, were $0 and $0, respectively.

TAX FEES. The aggregate fees billed by S.E. Clark & Company, P.C. for professional services rendered for tax compliance, tax advice and tax planning for the fiscal year ended June 30, 2006 were $0.

ALL OTHER FEES. The aggregate fees billed by S.E. Clark & Company, P.C. for products and services, other than the services described in the paragraphs "Audit Fees," "Audit-Related Fees," and "Tax Fees" above for the fiscal years ended June 30, 2006 approximated $6,000.

ITEM 15: SIGNATURES

SIGNATURES

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

Registrant	Medcom USA Incorporated
Date: September 28, 2006	By: /s/ William P. Williams
	--
	William P. Williams Chairman, President Chief Executive Officer (Principle Executive Officer, Principle Financial Officer)