

MICROPAC INDUSTRIES INC
Form 10-Q
April 11, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 25, 2017

OR

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

Commission File Number 0-5109

MICROPAC INDUSTRIES, INC.

Delaware
(State of Incorporation)

75-1225149
(IRS Employer Identification No.)

905 E. Walnut, Garland, Texas
(Address of Principal Executive Office)

75040
(Zip Code)

Registrant's Telephone Number, including Area Code (972) 272-3571

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10-Q

Indicate by check mark 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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

On April 10, 2017 there were 2,578,315 shares of Common Stock, \$0.10 par value outstanding.

MICROPAC INDUSTRIES, INC.

FORM 10-Q

February 25, 2017

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Condensed Balance Sheets as of February 25, 2017 (unaudited) and November 30, 2016
Condensed Statements of Operations for the three months ended February 25, 2017 and February 27, 2016 (unaudited)
Condensed Statements of Cash Flows for the three months ended February 25, 2017 and February 27, 2016 (unaudited)
Notes to Condensed Financial Statements (unaudited)

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4 - CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

ITEM 1A - RISK FACTORS

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

ITEM 4 - MINE SAFETY DISCLOSURE

ITEM 5 - OTHER INFORMATION

ITEM 6 - EXHIBITS

SIGNATURES

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MICROPAC INDUSTRIES, INC.****CONDENSED BALANCE SHEETS**

(Dollars in thousands)

ASSETS

CURRENT ASSETS	<u>2/25/17</u>	<u>11/30/16</u>
	(Unaudited)	
Cash and cash equivalents	\$9,160	\$10,012
Short-term investments	2,017	2,014
Receivables, net of allowance for doubtful accounts of \$0 at February 25, 2017 and November 30, 2016	2,523	2,177
Inventories:		
Raw materials and supplies	3,978	4,179
Work-in process	3,547	3,438
Total inventories	7,525	7,617
Prepaid income tax	527	521
Prepaid expenses and other assets	135	152
Total current assets	21,887	22,493
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	1,109	1,109
Furniture and fixtures	669	669
Construction in process equipment	418	401
Machinery and equipment	8,565	8,565
Total property, plant, and equipment	11,339	11,322
Less accumulated depreciation	(9,207)	(9,136)
Net property, plant, and equipment	2,132	2,186
Deferred income taxes	273	273
	\$24,292	\$24,952
Total assets		

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$429	\$612
Accrued compensation	420	454
Deferred revenue	1,179	1,282
Property Taxes	15	94
Other accrued liabilities	108	98
Total current liabilities	2,151	2,540

SHAREHOLDERS' EQUITY

Common stock, \$.10 par value, authorized 10,000,000 shares, 3,078,315 issued and 2,578,315 outstanding at February 25, 2017 and November 30, 2016	308	308
Additional paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	22,198	22,469
Total shareholders' equity	22,141	22,412
Total liabilities and shareholders' equity	\$24,292	\$24,952

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.**CONDENSED STATEMENTS OF OPERATIONS**

(Dollars in thousands except share data)

(Unaudited)

	<u>Three months ended</u>	
	<u>02/25/17</u>	<u>02/27/16</u>
NET SALES	\$3,908	\$4,205
COST AND EXPENSES:		
Cost of goods sold	(2,502)	(2,894)
Research and development	(440)	(307)
Selling, general & administrative expenses	(989)	(1,003)
Total cost and expenses	(3,931)	(4,204)
OPERATING (LOSS) INCOME	(23)	1
Other income	4	7
Expense, net	(1)	—
(LOSS) INCOME BEFORE TAXES	(20)	8
Provision for taxes	7	(3)
NET (LOSS) INCOME	\$(13)	\$5
NET (LOSS) INCOME PER SHARE, BASIC AND DILUTED	\$(0.01)	\$0.00
DIVIDENDS PER SHARE	\$0.10	\$0.10
WEIGHTED AVERAGE OF SHARES, basic and diluted	2,578,315	2,578,315

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.**CONDENSED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

	605,450	
OPERATING EXPENSES		
General and administrative expenses	462,115	620,931
Sales and marketing expenses	-	16,800
Total operating expenses	462,115	637,731
OPERATING INCOME (LOSS)	54,720	(32,281)
OTHER (INCOME) AND EXPENSES		
Interest expense	21,193	199,419
Interest Income	(21,940)	(68,847)
Legal settlement	15,000	-
Total other expense	14,253	130,572
INCOME (LOSS) BEFORE INCOME TAXES	40,466	(162,853)
INCOME TAX PROVISION	6,070	-
NET INCOME (LOSS)	\$ 34,397	\$ (162,853)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted:	96,940,322	93,871,358
NET INCOME (LOSS) PER SHARE:		
Basic and diluted:	\$ 0.00	\$ (0.00)

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

Table of Contents

MEDCOM USA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 34,397	\$ (162,853)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Issuance of common stock for interest	2,880	-
Issuance of common stock for legal settlement	60,000	-
Issuance of common stock in conjunction with related party issuance	24,500	-
Deprecation and amortization	55,953	55,296
Allowance for doubtful accounts	60,213	-
Changes in operating assets and liabilities:		
Prepaid and other current assets	(35,090)	(43,251)
Accounts payable	11,537	74,676
Accrued expenses and other liabilities	2,798	(1,822)
Deferred revenue	(125,000)	(461,444)
Net cash provided by (used in) operating activities	92,188	(539,398)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchasing of equipment	-	(28,123)
Licensing contracts - current portion	30,671	(118,900)
Licensing contracts - long-term portion	(106,334)	155,937
Note receivable affiliates	-	145,000
Notes from affiliates	(19,750)	-
Net cash (used in) provided by investing activities	(95,413)	153,914
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	56,015	-
Licensing obligation - current portion	(71,675)	(3,057)
Licensing obligation - long-term portion	(137,972)	(301,002)
Cost of raising capital	-	(48,350)
Proceeds from sale of common stock	95,000	803,001
Net cash (used in) provided by financing activities	(58,632)	450,592
(DECREASE) INCREASE IN CASH	(61,857)	65,108
CASH, BEGINNING OF YEAR	61,857	26,210
CASH, END OF YEAR	\$ -	\$ 91,318
SUPPLEMENTAL CASH FLOW INFORMATION:		
Taxes paid	\$ -	\$ -
Interest paid	\$ 21,193	\$ 199,419

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

Table of Contents

MEDCOM USA INCORPORATED
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 and 2007

NOTE 1. BASIS OF PRESENTATION

MedCom USA, Inc. (the "Company or MedCom") a Delaware corporation was formed in August 1991 under the name Sims Communications, Inc. The Company's primary business was providing telecommunications services. In 1996 the Company introduced four programs to broaden the Company's product and service mix: (a) cellular telephone activation, (b) sale of prepaid calling cards, (c) sale of long distance telephone service and (d) rental of cellular telephones using an overnight courier service. With the exception of the sale of prepaid calling cards and cellular telephone activation, the other programs were discontinued in December 1997. The Company changed its name to MedCom USA, Inc. in October 1999. During the fiscal years of 1999 and continuing through present, we have directed our efforts in medical information processing.

NOTE 2. GOING CONCERN

The accompanying condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year end losses from operations and had minimal revenues from operations during the three months ended September 30, 2008. During the three months ended September 30, 2008 the Company incurred a net income of \$34,396 and has an accumulated deficit of \$91,237,055. Further, the Company has inadequate working capital to maintain or develop its operations, and is dependent upon funds from private investors and the support of certain stockholders.

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

NOTE 3. INTERIM FINANCIAL STATEMENTS

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

Table of Contents

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summarized below are the significant accounting policies of MedCom USA, Inc. (“we,” “MedCom,” or the “Company”). Unless otherwise indicated, amounts provided in these notes to the financial statements pertain to continuing operations.

Critical Accounting Policies and Estimates

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

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

Reclassifications

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

Accounting Policies and Estimates

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

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

Revenues

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

Table of Contents

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

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

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

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

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

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

8

Table of Contents

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

Deferred Revenue

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

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

RECENT PRONOUNCEMENTS

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

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

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

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

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

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") Opinion No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." The FSP clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the

terms of instruments as they existed for all periods presented. The FSP is effective as of January 1, 2009 and early adoption is not permitted. The Company is currently evaluating the potential impact of FSP APB 14-1 upon its consolidated financial statements.

Table of Contents

The Hierarchy of Generally Accepted Accounting Principles

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

Determination of the Useful Life of Intangible Assets

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

Disclosure about Derivative Instruments and Hedging Activities

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

Delay in Effective Date

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

Business Combinations

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

Table of Contents

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

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

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

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

Fair Value Option for Financial Assets and Financial Liabilities

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

NOTE 5. EQUITY

During Three months ended September 30, 2008 and 2007:

Quarter Ended	Stock issued for cash	Cash received	Stock issued for services
September 30, 2007	1,847,357	\$ 803,000	-
Total Issued	1,847,357	\$ 803,000	-
September 30, 2008	1,225,000	\$ 95,000	1,048,000
Total Issued	1,225,000	\$ 95,000	1,048,000

Table of Contents

During the three months ended September 30, 2008 the Company has issued shares of its common stock as consideration to settlement of litigation of 1,000,000 and consultants of 48,000 for the fair value of the services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were entered into for the services and the value of services rendered. The values of these common shares issued were expensed during the year.

During the three months ended September 30, 2008 the Company issued 1,225,000 shares of its common stock for \$95,000. The shares were issued to third parties in a private placement of the Company's common stock. The shares were sold throughout the quarter ended September 30, 2008, ranging from \$.08 per share.

During the three months ended September 30, 2007, the Company issued 1,847,357 shares of its common stock for \$803,000. The shares were issued to third parties in a private placement of the Company's common stock. The shares were sold throughout the three months ended September 30, 2007, ranging from \$.44 per share.

NOTE 6. RELATED PARTY TRANSACTIONS

The Company's president and chairman is an 8% shareholder and its sole officer and director of the Company. The chairman controls American Nortel Communications, Inc. which is a 22% shareholder in the Company. The chairman also controls Card Activation Technologies, Inc. ("Card") in which MedCom owns 37% of Card. During the year ended June 30, 2002, the Company moved its administrative offices into space occupied by this related entity. The Company shares office space and management and administrative personnel with this related entity. Our personnel performs functions for the related entity but there was no allocation of personnel related expenses to the related entity in the three months ended September 30, 2008 and 2007.

The Company frequently receives advances from an entity controlled by the Company's president and which is a significant shareholder of the Company to cover short-term cash flow deficiencies. In the three months ended September 30, 2008 the chairman advanced \$809,207. The balance due to this affiliate for the three months ended September 30, 2008 and 2007 was \$809,207 and \$903,887, respectively. The advances are generally short term in nature with an interest rate of 9%. The advances of \$809,207 still remain outstanding as of September 30, 2008.

Card's operating requirements have been and will be funded primarily from its related party entity MedCom USA, Inc. and the sale of Card common stock. Card will use funds advanced by MedCom and MedCom will also use funds advanced by Card. Currently, the Card's costs are limited to professional fees and subject to a contingency fee from patent litigation attorneys. MedCom will continue to provide funds through a revolving line of credit of \$250,000 which funds will be drawn down on an as needed basis until Card begins to realize sufficient revenues from royalty payments. Once Card begins receiving royalties, we expect the revenues of such royalties shall permit Card to be self-funding.

Card has advanced funds to MedCom to finance operations which have a balance due as of September 30, 2008 of \$290,500.

NOTE 7. SUBSEQUENT EVENTS

On October 1, 2008 MedCom completed the asset purchase of PayMed USA, LLC and Absolute Medical Software Systems, LLC. PayMed USA and Absolute Medical are leading providers of Practice Management, Electronic Medical Records, and Revenue Cycle Management software to Hospitals, Surgery Centers and Physician Practices. The acquisition will be treated as a purchase of assets in exchange for 5,000,000 common shares of MedCom and 5,000,000 common shares of Card Activation Technologies, Inc.

Table of Contents

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

Management's Discussion and Analysis contains various "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding our future events or our future financial performance that involve risks and uncertainties. Certain statements included in this quarterly report on Form 10-Q, including, without limitation, statements related to anticipated cash flow sources and uses, and words including but not limited to "anticipates", "believes", "plans", "expects", "future" and similar statements or expressions, identify forward looking statements. Any forward-looking statements herein are subject to certain risks and uncertainties in our business, including but not limited to, reliance on key customers and competition in its markets, market demand, product performance, technological developments, maintenance of relationships with key suppliers, difficulties of hiring or retaining key personnel and any changes in current accounting rules, all of which may be beyond our control. We adopted at management's discretion, the most conservative recognition of revenue based on the most stringent guidelines of the SEC in terms of recognition of software licenses and recurring revenue. Management will elect additional changes to revenue recognition to comply with the most conservative SEC recognition on a forward going accrual basis as the model is replicated with other similar markets (i.e. SBDC). Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth therein.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in the section titled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended June 30, 2008, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations, and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

Overview

MedCom USA, Inc. (the "Company, we, our"), a Delaware corporation, was formed in August 1991 under the name Sims Communications, Inc. Our prior primary business was providing telecommunications services. In 1996 our management introduced four programs to broaden the Company's product and service mix: (a) cellular telephone activation, (b) sale of prepaid calling cards, (c) sale of long distance telephone service and (d) rental of cellular telephones using an overnight courier service. With the exception of the sale of prepaid calling cards and cellular telephone activation, the other programs were discontinued in December 1997. In October, 1999 we changed our name to MedCom USA, Inc. During the fiscal years of 1999 and continuing through present, we have directed our management's efforts in medical information processing.

MedCom System

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

Table of Contents

Management contends that our “web portal” encourages customers to process their medical claims through an online portal. Many customers purchase the terminal for the front office and the portal system for the back office to take advantage of the ease of both products.

Financial Services

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

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

Patient Eligibility

The MedCom System is also an electronic processing system that consolidates insurance eligibility verification, and payment services. Presently, the MedCom System is able to retrieve on-line eligibility information from over 450 medical insurance companies and plans in seconds. Included in this group is the newly activated Medicare Part A & B eligibility for all 50 states. Management believes that this gives us access to over 42 million lives. These insurance providers include CIGNA, Prudential, Oxford Health Plan, United Health Plans, Blue Cross, Medicaid, Aetna, Blue Cross/Blue Shield, and Prudential.

Competition

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

Technical Support Assistance

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

Marketing Strategy

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

to hospitals as a growing revenue source.

Table of Contents

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

We have been expanding its position with hospitals and working closely with hospital consultants and targeted seminars. With our new Online web portal product and Medicare access, management contends that we are becoming an increasingly valuable tool for the outpatient and faculty practice areas of hospitals. While the ISO groups focus on individual doctors, dentists and clinics, our hospital team is focusing on multiple unit sales opportunities with hospitals around the country. We are working on acquiring strategic companies with additional services and client bases to increase its market share and revenue.

Patent

Card Activation Technologies Inc. ("Card") is a Delaware corporation headquartered in Chicago, Illinois that owns proprietary patented payment transaction technology used for electronic activation of phone, gift and affinity cards. MedCom owns approximately 58,000,000 shares of common stock of Card which represents 37% of the issued and outstanding shares of Card.

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

Card was incorporated in August 2006 in order to own and license, the assigned patent which covers payment transaction technology and the process for taking a card with a magnetic strip or other data capture mechanism and processing transactions or activating the card. This process is utilized for prepaid phone cards, gift cards, and debit-styled cards. As of the date of this report, Card has entered into a license agreement with McDonald's Corporation. Card has one principal asset, the patented payment transaction technology assigned from MedCom, and one full time and one part-time employee. Card does not expect to commence full scale operations or generate additional revenues until late 2008. Since incorporation, Card has not made any significant purchases or sale of assets, nor has Card been involved in any mergers, acquisitions or consolidations. Card has filed six lawsuits to enforce its patented technology and has sent license agreement requests to a number of companies in order to obtain license agreements with entities that Card believes are infringing its patent.

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

Table of Contents

Service Agreements

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

Revenues

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

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

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

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

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

4. Collection upfront cash received from contracts is probable as determined by a credit evaluation, the customer's payment history (either with other vendors or with us in the case of follow-on sales and renewals) and financial position.

Table of Contents

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

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

Deferred Revenue

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

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

Additional Information

We file reports and other materials with the Securities and Exchange Commission. These documents may be inspected and copied at the Commission’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also get copies of documents that the Company files with the Commission through the Commission’s Internet site at www.sec.gov.

Results of Operations

Revenues for the three months ended September 30, 2008 decreased to \$689,215 from \$937,056 for the three months ended September 30, 2007 respectively. The Company continues to aggressively pursue and devote its resources and focus its direction in electronic medical transaction processing. This decrease in revenue is directly the result of changes in the Company's strategic direction in core operations. We continue to aggressively pursue and devote its resources and focus its direction in electronic medical transaction processing. Our agreements with our credit facilities in connection with the licensing of terminals and portal transactions therewith, we must defer revenue on licensing agreement of the terminals and portal software. However, with our new acquisition of asset we anticipate an increase by the next quarter.

Table of Contents

Cost of deliverables for three months ended September 30, 2008 decreased to \$172,380 from \$331,606 for three months ended September 30, 2007, respectively. We have developed the MedComConnect portal package that will decrease the cost of deliverables as the company focuses on the sale of the portal software which rendered the medical terminals sales no longer the core revenue model for us. The decrease in cost of deliverables is directly related to the decrease in revenues from the two fiscal years. Further we no longer pay commission on future revenues from its noncancellable licensing agreements. Commissions are paid at inception of the licensing agreement at a 10% rate and there are no future payments on residuals revenues from gateway access fees and licensing fees.

General and administrative expenses for the three months ended September 30, 2008 decreased to \$462,115 from \$620,931 for three months ended September 30, 2007, respectively. This decrease is attributed to our reduction of workforce in their New York operations as we have streamlined overall employee use. We have implemented and advanced its in-house software to perform many of the services the prior employees were performing manually. The decrease is related to settling outstanding litigation which resulted decrease in legal fees. We do not expect additional expense related to this expense in the future.

Selling expenses for three months ended September 30, 2008 decrease to \$0.00 from \$16,800 for three months ended September 30, 2007, respectively. This decrease is primarily the result of marketing efforts and includes commissions paid to internal sales personnel to market the Company's products and services. We have been focused on the practice management and large dental groups and should see the results of their efforts in fourth quarter.

Interest expense for three months ended September 30, 2008 decrease to \$21,193 from \$199,419 for the three months ended September 30, 2007, respectively. This decrease is a result of renegotiation of our credit facility with Ladco who was charging a higher interest rate. Also, expenses were incurred and paid on notes we have outstanding with LeeCo. Further our renegotiation has reduced the accrual of interest below 3% until paid in full in 2009. We also have been paying down the LeeCo obligation which has grown from the increase in financing through LeeCo Financial Inc. The payments to Ladco represented a high interest rate and the Company has systematically reduced the Ladco debt. Interest income for the three months ended September 30, 2008 decreased to \$21,940 from \$68,847 for the three months ended September 30, 2007, respectively. The decrease is due to the reduction in current sales of the portal software from our license agreements. The licensing agreements are noncancellable licensing of our portal software in which we charge interest expense and interest income related to the life of the licensing agreement.

The net income (loss) for three months ended September 30, 2008 was \$34,397 from (\$162,853) for the three months ended September 30, 2007, respectively. The increase is due to the reduction in sales force, royalty expense, commissions, and reduction in operations in our New York facility.

No tax benefit was recorded on the expected operating loss for September 30, 2008 and 2007 as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. For the quarter ended we do not expect to realize a deferred tax asset and it is uncertain, therefore we have provided a 100% valuation of the tax benefit and assets until we are certain to experience net profits in the future to fully realize the tax benefit and tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Our operating requirements have been funded primarily on its sale of licensing agreements with hospitals, medical and dental professionals and sales of our common stock. During the three months ended September 30, 2008, our net proceeds from the licensing of our software portals were \$689,215 as compared to 2007 of \$937,056. We received \$95,000 as compared to 2007 of \$803,001 in proceeds from the sale of common stock. Management believes that the cash flows from its monthly service and transaction fees are inadequate to repay the capital obligations and has relied upon the sale of common stock through a private place to sustain its operations.

Table of Contents

Cash provided by (used in) from operating activities for the three months ended September 30, 2008 was \$92,188 compared to (\$539,398) for 2007. Management's focus on core operations results in an increase in licenses receivable. We are focusing on core operations results in an increase in licenses receivable. We receive payments from customers automatically through electronic fund transfers. Collection cycles are generally less than thirty days. We have grown its operations to begin to reduce the deficit cash flow positions. However we are still operating in a deficit.

Cash (used in) provided by investing activities was (\$95,413) for three months ended September 30, 2008, compared to \$153,914 for 2007. Streamlining operations and capital budget curtailment practices promoted a reduction in equipment purchases for our company. However, we continue to employ software development teams that are upgrading the existing proprietary software in our terminal and portal licensing agreements sold. We purchased equipment for three months ended September 30, 2008 of \$0.00 as compared to (\$28,123) for September 30, 2007.

Cash (used in) provided by financing activities was (\$58,632) for the Three months ended September 30, 2008 as compared to \$450,592 for 2007. Financing activities primarily consisted of proceeds from the licensing of our software portal transactions through our licensing agreements with hospitals and medical and dental professionals. We do not have adequate cash flows to satisfy its obligations although have improved cash flow and anticipates have adequate cash flows in the upcoming fiscal period. We received proceeds from the sale of our common stock for three months ended September 30, 2008 of \$95,000 as compared to \$803,001 for 2007. We are decreasing our licensing debt for the three months ended September 30, 2008 of \$209,647 as compared to \$304,059 for 2007. We are decreasing the cost of raising capital which was \$0.00 for the three months ended September 30, 2008 as compared to \$48,350 for 2007.

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

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

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

On September 14, 2006 we have renegotiated the Ladco debt. We have agreed to pay penalties and late fees of \$268,585.73 in exchange the renegotiated balance would only carry an interest rate of 3% reduced from 26% in the original note. We originally owed \$3,015,063 and renegotiated the balance to \$3,880,500 which included the accrued penalties and late fees. Further we would be able to pay the remaining balance of the note for 39 months at \$99,500 payments per month until paid in full. Under the renegotiated note the note matures on October 2009.

Table of Contents

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

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

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

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

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

Other Considerations

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

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Our Chief Executive Officer and Chief Financial Officer is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, smaller reporting companies face additional limitations. Smaller reporting companies employ fewer individuals and find it difficult to properly segregate duties. Often, one or two individuals control every aspect of the Company's operation and are in a position to override any system of internal control. Additionally, smaller reporting companies tend to utilize general accounting software packages that lack a rigorous set of software controls.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's internal control over financial reporting as of September 30, 2008. In making this assessment, our Chief Executive Officer and Chief Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control -- Integrated Framework. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that, as of September 30, 2008, our internal control over financial reporting was effective.

Table of Contents

b) Changes in Internal Control over Financial Reporting.

During the Quarter ended September 30, 2008, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

LACK OF AUDIT COMMITTEE

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

LACK OF SEGREGATION OF DUTIES

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A - Risk Factors

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

OUR COMMON STOCK IS SUBJECT TO PENNY STOCK REGULATION

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

penny stock to persons other than established customers and accredited investors.

Table of Contents

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

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

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

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

WE DO NOT INTEND TO PAY DIVIDENDS

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

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

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

Table of Contents

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

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

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

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

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

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

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we may identify or to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the

periodic management evaluations of our internal controls and, in the case of a failure to remediate any material weaknesses that we may identify, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

Table of Contents

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

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

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

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

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

the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Table of Contents

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

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

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

There were no changes in securities and small business issuer purchase of equity securities during the period ended September 30, 2008, except during the three months ended September 30, 2008 the Company has issued shares of its common stock as consideration to settlement of litigation of 1,000,000 and consultants of 48,000 for the fair value of the services rendered. We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

During the three months ended September 30, 2008 the Company issued 1,225,000 shares of its common stock for \$95,000 in a private placement. We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the period ended September 30, 2008.

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

There were no matters submitted to the vote of securities holders during the period ended September 30, 2008.

ITEM 5. OTHER INFORMATION

None

Exhibits

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant
Date: November 14, 2008

MedCom USA Incorporated
By: /s/ William P. Williams

William P. Williams
Chairman, President Chief Executive Officer (Principle
Executive Officer, Principle Financial Officer)