US MEDICAL GROUP INC
Form 10QSB/A
August 09, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10QSB
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the period ended June 30, 2001

Commission file number 000-29579

U.S. Medical Group, Inc.
(Name of Small Business Issuer in its charter)

Nevada	88-0320389
(State of jurisdiction of incorporation)	(IRS Employer I.D. Number)

1405 South Orange Avenue Suite 600, Orlando, FL 32806
(Address of principal executive offices)

Registrant's telephone number (407) 849-2288

Check whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period as 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 [ ]

Indicate the number of shares outstanding of each of the issuer's class of common stock. The Registrant had 13,575,380 shares of common stock outstanding as of June 30, 2001.

U.S. Medical Group, Inc

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending June 30, 2001

Table of Contents

U.S. MEDICAL GROUP, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

	Unaudited June 30, 2001	December
Current assets:		
Cash and equivalents	$ 258,167	$ 337
Accounts receivable	443,468	361
Prepaid expenses	67,594	44
Prepaid Taxes, net	-	
Total current assets	769,228	743
Property and equipment - at cost:		
Mobile unit and medical equipment	3,842,426	3,827
Furniture and fixtures	90,106	77
	3,932,532	3,904
Less accumulated depreciation	893,915	728
	3,038,617	3,176
Other assets:		
Patents & Trademarks, net of amortization	31,667	39
Financing fees, less amortization of $13,135 and $10,597 on June 30, 2001 and December 31, 2000, respectively	4,622	7
	$ 3,844,135	$ 3,965

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable and accrued expenses	$ 124,944	$ 87
Current maturities of long-term debt	736,618	641
Income tax payable	-	156
Deferred tax liability	199,002	106
	1,060,564	991
Long-term debt less current maturities	832,348	1,196
Deferred tax liability	330,096	330
Stockholders' equity:		
Preferred stock, par value, $.001 per share, 20,000,000 authorized at June 30, 2001 and December 31, 2000; none issued	-	
Common stock, par value, $.001 per share; 100,000,000 authorized, 13,575,380 issued at June 30, 2001 and December 31, 2000	13,575	13
Additional paid-in-capital	80,925	80
Retained earnings	1,587,608	1,371
Treasury Stock	(60,981)	(18
	1,621,127	1,447
	$ 3,844,135	$ 3,965

See accompanying footnotes to the unaudited financial statements

U.S. MEDICAL GROUP, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
UNAUDITED

	Six months ended June 30,		Three Months ended June 30	
	2001	2000	2001	2000
Revenues:				
Patient fees	$ 1,743,703	$ 1,712,377	$ 889,863	$ 863,373
Operating expenses:				
Selling, general and administrative	1,108,356	791,469	535,436	435,515
Interest expense	72,391	87,439	34,841	47,183
Depreciation expense	172,913	156,453	85,290	79,437
Operating expense	1,353,660	1,035,361	655,567	562,135
Net income before taxes	390,043	677,016	234,296	301,238
Provision for income taxes	173,849	280,900	72,658	138,000

Net income	$ 216,194	$ 396,116	$ 161,638	$ 163,238
Earnings per common share (basic and assuming dilution)	$ 0.02	$ 0.03	$ 0.01	$ 0.01
Weighted average shares outstanding				
Basic	13,575,000	13,575,000	13,575,000	13,575,000
Diluted	13,655,000	13,575,000	13,655,000	13,575,000

See accompanying footnotes to the unaudited financial statements

U.S. MEDICAL GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
UNAUDITED

	For the six months ended June 30, 2001	2000
Cash flows from operating activities:		
Net income from operating activities	$ 216,194	$ 396,116
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	172,913	158,990
Change in: Receivables	(81,635)	234,578
Prepaid expenses and other assets	(20,647)	(63,732)
Deferred income taxes and other	92,658	44,100
Income tax payable	(156,036)	158,800
Accounts payable and accrued expenses	37,801	(24,411)
Stock issued for merger consulting fees	-	-
Net cash from operating activities	261,248	904,441
Cash flows used in investing activities:		
Capital expenditures	(27,953)	(132,380)
Deposit on equipment	-	-
Net cash used in investing activities	(27,953)	(132,380)
Cash flows (used in)/provided by financing activities:		
Proceeds from bank loans	-	250,000
Proceeds from loans from stockholders	-	441,739
Repayments of bank loans	(269,767)	(627,751)
Repayment of loans from stockholders	-	(204,131)
Purchase of Treasury Stock	(42,411)	-
Dividend Payments	-	(441,739)
Net cash used in financing activities	(312,178)	(581,882)
Net increase in cash and cash equivalents	(78,883)	190,179

Cash and cash equivalents at January 1	337,050	22,763
Cash and cash equivalents at June 30	$ 258,167	$ 212,942
Supplemental Information:		
Interest Paid	55,949	78,140
Income Tax Paid	25,217	78,000

See accompanying footnotes to the unaudited financial statements

U.S. MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2000 financial statements and footnotes thereto included in the Company's SEC Form 10KSB, as amended.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary, U.S. Medical Group (Florida), Inc., formerly American Mobile Surgical Services, Inc. Significant intercompany transactions have been eliminated in consolidation.

Certain prior period amounts have been reclassified for comparative purposes

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS of FINANCIAL CONDITION AND RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2001 AND 2000

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, included elsewhere within this Report.

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

REVENUE

The Company's total revenues were $889,863 for the three month period ended June 30, 2001 compared to $863,373 for the same period ended June 30, 2000, an increase of $26,490, or 3%. The increase in revenue is primarily attributed as a result of an increased caseload in Florida. The Company reported net income from continuing operations for the three month period ended June 30, 2001 of $161,638 compared to $163,238 for the three month period ended June 30, 2000, a decrease in earnings of $1,600, or 1%. Revenue and net income for the three-month period ended June 30, 2001 is primarily attributed to the Florida and North Carolina State Department of Corrections contracts.

The Company has contracts with the Florida and North Carolina State Department of Corrections. Florida has awarded the Company with a three year contract with two additional one year options effective August 1, 2001. The North Carolina State Department of Corrections has exercised the third year option in the series of four one-year options. The North Carolina one-year option contract renewal expires June 30, 2002.

COSTS AND EXPENSES

The Company's 16.6% increase in operating expenses from $562,135 for the period ended June 30, 2000 to $655,567 for the three month period ended June 30, 2001 is due primarily to the addition of certain Company officer salaries, increases in wages and increased depreciation expense. Having foregone compensation since the Company's inception in April of 1997 through the period ended December 31, 2000, Chairman and Chief Executive Officer Tom Winters and President and Director Richard Langley now receive salaried compensation. Selling, general and administrative expenses increased 23% from $435,515 for the three month period ended June 30, 2000 to $535,436 for the same period ended June 30, 2001. Costs directly associated with day-to-day operations such as medical equipment, supplies, and staff wages for the North Carolina and Florida mobile surgery units remained constant during the three month period ended June 30, 2001 when compared to the three months period ended June 30, 2000.

As the Company continues to expand, the Company will incur additional costs for personnel. In order for the Company to attract and retain quality personnel, the Company anticipates it will continue to offer competitive salaries and grant Company stock options to current and future employees.

Depreciation and amortization expense for the three month period ended June 30, 2001 was $85,290, an increase of $5,853, or 7.4%, from the same period in 2000. The increase is attributable to the addition of new equipment in Florida and North Carolina. Both of the Company's mobile surgical units were depreciated over the entire period of three months ended June 30, 2001.

Interest expense for the three-month period ended June 30, 2001 was $34,841, a decrease of $12,342, or 26.2%, from $47,183 for the same period ended June 30, 2000. The decrease in interest expense is due to the maturation of bank loans that were needed to finance the construction and purchase of the Florida mobile surgical unit.

For the three-month period ended June 30, 2001, an income tax provision of $72,658 was charged to recognize federal, Florida state and North Carolina state income tax liabilities. For the three-month period ended June 30, 2000, an income tax provision of $138,000 was charged. The decrease in income tax provision is attributed to an income tax overpayment of $102,100 for the twelve month period ended December 31, 2000.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

REVENUE

The Company's total revenues were $1,743,703 for the six month period ended June 30, 2001 compared to $1,712,377 for the same period ended June 30, 2000, an increase of $31,326, or 1.8%. Revenue for the six-month period ended June 30, 2001 is attributed to the Florida and North Carolina State Department of Corrections contracts.

The Company reported net income from continuing operations for the six month period ended June 30, 2001 of $216,194 compared to $396,116 for the six month period ended June 30, 2000, a decrease in earnings of $179,922. Net income for the six-month period ended June 30, 2001 was affected by the addition of certain Company officer salaries, increases in wages, promotional expenses, insurance and increased depreciation expense.

COSTS AND EXPENSES

The Company's 31% increase in operating expenses from $1,035,631 for the period ended June 30, 2000 to $1,353,660 for the six month period ended June 30, 2001 is due primarily to the addition of certain Company officer salaries, increases in wages, insurance, promotional expenditures and depreciation expense. Having foregone compensation since inception through the period ended December 31, 2000, Chairman and Chief Executive Officer Tom Winters and President and Director Richard Langley now receive salaried compensation. The increase in promotional expenses is directly attributed to a promotional campaign, which included nationwide television airtime. Selling, general and administrative expenses increased 40% from $791,469 for the six month period ended June 30, 2000 to $1,108,356 for the same period ended June 30, 2001. Costs directly associated with day-to-day operations such as medical equipment, supplies, and staff wages for the North Carolina and Florida mobile surgery units remained constant during the six months period ended June 30, 2001 when compared to the six months period ended June 30, 2000.

As the Company continues to expand, the Company will incur additional costs for personnel. In order for the Company to attract and retain quality personnel, the Company anticipates it will continue to offer competitive salaries and grant Company stock options to current and future employees.

Depreciation and amortization expense for the six month period ended June 30, 2001 was $172,913, an increase of $16,460, or 10.5%, from the same period in 2000. The increase is attributable to the addition of new equipment in Florida and North Carolina. Both of the Company's mobile surgical units were depreciated over the entire period of six months ended June 30, 2001.

Interest expense for the six-month period ended June 30, 2001 was $72,391, a decrease of $15,048, or 17.2%, from $87,439 for the same period ended June 30, 2000. The decrease in interest expense is due to the maturation of bank loans needed to finance the construction and purchase of the Florida mobile surgical unit.

For the six-month period ended June 30, 2001, an income tax provision of $173,849 was charged to recognize federal, Florida state and North Carolina state income tax liabilities. For the six-month period ended June 30, 2000, an income tax provision of $280,900 was charged. The decrease in income tax provision is attributed to an income tax overpayment of $102,100 for the twelve month period ended December 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2001, the Company had a working capital deficit of $291,335 compared to a deficit of $248,061 at December 31, 2000, a deficit increase of $43,275, or 17.4%. The increase in working capital deficit is attributed to a $25,936 increase in current assets and a current liability increase of $69,211. The increase in current assets is primarily attributable to an $81,635 increase in receivables and a $23,185 increase in prepaid expenses. The increase in current liabilities is primarily attributable to a $94,790 increase in current maturities of long term debt.

The Company's accounts payable balance as of June 30, 2001 was $124,944, a $37,799, or 43% increase from the balance as of December 31, 2000. As of June 30, 2001, current maturities of long-term debt increased 14.8% to $736,618 as of June 30, 2001 from $ 641,828 as of December 31, 2000. The increase in current maturities of long-term debt is primarily attributable to the maturation of a loan from shareholders in the amount of $310,042.

The Company generated cash flows from operations of $261,248 for the six-month period ended June 30, 2001 and $904,441 for the six-month period ended June 30, 2000, a decrease of $643,193, or 71.1%. The $643,193 decrease in cash flow from operating activities for the six-month period ended June 30, 2001 is primarily attributable to the decrease in the Company's net income from operations of $179,922 when compared to the same period ended June 30, 2000, an $81,635 increase in receivables at June 30, 2001, as compared to an $234,578 decrease in the same period ended June 30, 2000, and a $314,836 change in income tax payable when compared to the six month period ended June 30, 2000.

Cash flows used in investing activities for the six-month period ended June 30, 2001 consisted primarily of the acquisition of $ 27,953 of surgical and medical equipment. The equipment was placed in the Company's North Carolina and Florida facilities.

Cash flows used in financing activities were $312,178 during the six-month period ended June 30, 2001. The Company repaid $269,767 in bank loans and used $42,411 for the purchase of Company stock during the six-month period ended June 30, 2001.

While the Company has raised capital though bank loans to meet its current working capital and facility and equipment financing needs, additional financing will be required in order to acquire additional surgical facilities. The Company is seeking debt financing in order to provide for these expansions and for working capital. There are no assurances the Company will be successful in raising the funds required.

The Company has borrowed funds from significant shareholders of the Company in the past to satisfy certain obligations. In addition, Company officers and significant shareholders guarantee all of the Company's bank debt.

The Company plans to develop new sites for its mobile surgical units. The Company plans to obtain financing for these units through bank loans. There can be no assurance that management will be successful in its efforts to obtain the financing necessary to fund the Company's growth or that contracts for future sites will be obtained.

The effect of inflation on the Company's revenue and operating results was not significant. The Company's operations are in the southeastern United States and there are no seasonal aspects that would have a material adverse effect on the Company's financial condition or results of operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2 - Changes in Securities and Use of Proceeds

(a) None

(b) None

(c) None

Item 3. Defaults Upon Senior Securities

None

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

The annual meeting of shareholders of the Company was held on May 14, 2001 for the purpose of (i) electing directors of the Company, (ii) approving the adoption of the Company's 2000 Stock Incentive Plan, and (iii) ratifying the appointment of the Company's independent public accounts for the year ending December 31, 2001. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934 and there was no solicitation in opposition.

(a) The following directors were elected by the following vote:

	FOR	AGAINST	WITHHELD
Thomas F. Winters	10,364,087	-	3,210,913
Richard Langley	10,364,087	-	3,210,913
Sandra Thompson	10,364,087	-	3,210,913

(b) The proposal to approve the adoption of the Company's 2000 Stock Incentive Plan:

FOR	AGAINST	ABSTAIN
10,348,087	18,195	3,208,758

(c) The proposal to ratify the appointment of the independent public accountants for the year ending December 31, 2001 was approved by the following vote:

FOR	AGAINST	ABSTAIN
10,366,242	-	3,208,758

Item 5. Other Information

At the Board of Directors Meeting on April 16, 2001, Mr. Charlie Baumann was elected to serve as the Company's Chief Financial Officer in addition to serving as Director of Business Development.

ITEM 6. Exhibits and reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. MEDICAL GROUP, INC.
Registrant

August 8, 2001 By: /s/ Thomas Winters

Date

Thomas Winters
Chairman of the Board and
Chief Executive Officer