

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. **0000794324-96-000014**

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FILER

MEDMASTER SYSTEMS INC /DE/

CIK: **794324** | IRS No.: **870400472** | State of Incorpor.: **A0** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-14757** | Film No.: **96662937**
SIC: **6153** Short-term business credit institutions

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LOGAN UT 84323-0408

Business Address
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LOGAN UT 84321
8017534101

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q
Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarter ended
September 30, 1996

Commission File Number
0-14757

MEDMASTER SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

No. 87-0400472
(I.R.S. Employer Identification Number)

2072 North Main
Logan Utah
(Address of principal executive offices)

84341
(Zip Code)

801-753-4101
Registrant's telephone number, including area code

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 X No

As of September 30, 1996, outstanding shares of common stock
were 10,844,117.

MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES
INDEX

Part I. Financial Information:

Consolidated Condensed Balance Sheets - September 30,
1996 and March 31, 1996

Consolidated Condensed Statements of Operations - Three
Months and Six Months
Ended September 30, 1996 and 1995

Consolidated Condensed Statements of Cash Flows - Three
Months and Six Months
Ended September 30, 1996 and 1995

Notes to Consolidated Condensed Financial Statements

Management's Discussion and Analysis of Financial
Condition and Results of
Operations

Part II. Other Information

Item 1. Legal Proceedings

Item 2. Changes In Securities

Item 3.	Defaults Upon Senior Securities
Item 4.	Submission Of Matters To A Vote Of Security Holders
Item 5.	Other Information
Item 6.	Exhibits and Reports on Form 8 - K
	Signatures

MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES

<TABLE>

Consolidated Condensed Balance Sheets

(Unaudited)

<CAPTION>

Assets	September 30, 1996	March 31,
1996		
	(Unaudited)	
<S>	<C>	<C>
Current Assets		
Cash	\$210,049	\$216,463
Factor Receivables (net of bad debt allowance of \$45,736 and \$40,000):		
Trade	\$126,403	\$303,121
Other	\$1,902	\$0
Prepaid Expenses	\$22,383	\$20,821
Note Receivable - Related Party	\$40,387	\$46,767
Total Current Assets	\$401,124	\$587,172
Property & Equipment net of accumulated depreciation of \$217,555 and \$207,068	\$27,472	\$19,597
Other Assets	\$71,668	\$63,867
TOTAL ASSETS	\$500,264	\$670,636
Liabilities & Shareholders' Equity		
Current Liabilities		
Current Maturities of Long-Term Debt	\$0	\$0
Accounts Payable	\$84,199	\$54,659
Funds Due To Providers	\$467,588	\$482,761
Accrued Expenses	\$420,928	\$405,010
Total Current Liabilities	\$942,430	\$972,715
Long-Term Debt less current maturities	-	-
Shareholders' Equity		
Common Stock - \$.01 par value; authorized - 30,000,000 shares; issued - 10,844,117 shares.		
Preferred Stock - \$.01 par value; authorized - 500,000 shares; none issued and outstanding.	\$108,441	\$108,441
Additional Paid-in Capital	\$3,140,825	\$3,140,825
Retained (deficit)	(\$3,721,717)	(\$3,521,060)
Sub-Total	(\$472,451)	(\$271,794)
Less: Treasury Stock	-	-
Stockholders' Equity	(\$472,451)	(\$271,794)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$500,264	\$670,636

See accompanying notes to consolidated condensed financial statements.

</TABLE>

MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES

<TABLE>

Consolidated Condensed Statements of Operations

<CAPTION>

(Unaudited)

	Three Months Ended September 30, 1996		Six Months Ended September 30, 1996		1995
<S>	<C>		<C>		<C>
Net Revenues:					
Factoring Commissions and Fees	\$31,643	\$105,085	\$103,634	\$212,161	
Computer Software	\$6,541	\$2,109	\$8,780	\$4,490	
Printing	\$4,804	\$2,826	\$8,926	\$5,624	
Travel	\$22,651	\$10,861	\$52,879	\$27,574	
	\$65,639	\$120,881	\$174,219	\$249,849	
General and Administrative Expenses:					
Related Parties	\$13,305	\$13,305	\$26,610	\$26,610	
Bad Debt	\$0	\$0	\$0	\$0	
Other	\$164,299	\$163,887	\$330,523	\$351,557	
	\$177,604	\$177,192	\$357,133	\$378,167	
Income (Loss) from Operations	(\$111,965)	(\$56,311)	(\$182,914)	(\$128,318)	
Other Income (Expenses):					
Interest Income - Related Party	\$0	\$0	\$0	\$0	
Interest Income - Other	\$2,145	\$7,378	\$3,890	\$12,899	
Dividends	\$0	\$0	\$0	\$0	
Interest Expense	(\$11,418)	(\$64,935)	(\$21,624)	(\$128,732)	
	(\$9,273)	(\$57,557)	(\$17,734)	(\$115,833)	
Income (Loss) Before Provision for Income Taxes	(\$121,238)	(\$113,868)	(\$200,648)	(\$244,151)	
Income Tax Expense (Benefit)	-	-	-	-	
Net Income (Loss) Before Extraordinary Item	(\$121,238)	(\$113,868)	(\$200,648)	(\$244,151)	
Extraordinary Item - Gain on Settlement	-	\$2,924,875	-	\$2,924,875	
Net Income (Loss) Per Share	(\$121,238)	\$2,811,007	(\$200,648)	\$2,680,724	
Earnings (Loss)	(\$0.01)	\$0.26	(\$0.02)	\$0.25	
Weighted Average Number of Common Shares Outstanding	10,844,117	10,844,117	10,844,117	10,844,117	

See accompanying notes to consolidated condensed financial statements.
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MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES
<TABLE>
Consolidated Condensed Statements of Cash Flows
<CAPTION>
(Unaudited)

	Six Months Ended September 30,	
<S>	1996	1995
	<C>	<C>
Cash flows from operating activities:		
Net Income (Loss)	(\$200,648)	\$2,680,724
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	\$4,982	\$10,249
Provision for losses on accounts receivable	\$0	\$0
Changes in assets and liabilities:		

Decrease (increase) in marketable securities	\$0	\$0
Decrease in accounts receivable	\$172,511	\$86,721
Decrease (increase) in prepaid expenses	(\$1,562)	\$4,858
Increase (decrease) in current maturities of long term debt	\$0	(\$1,362,087)
Increase (decrease) in accounts payable	29,540	(\$187,890)
Increase (decrease) in demand reserve deposits	(\$15,173)	\$197,847
Increase (decrease) in accrued expenses	\$15,918	(\$1,452,921)
Total adjustments	\$206,216	(\$2,703,223)
Net cash (used) provided by operating activities	\$5,568	(\$22,499)
Cash flows from investing activities:		
Capital expenditures	(\$18,362)	(\$3,787)
Payments received on note receivable, related party	\$6,380	\$170,337
Net cash provided by (used in) investing activities	(\$11,982)	\$166,550
Cash flows from financing activities:		
Principal payments on long term debt	\$0	\$0
Net cash used in financing activities	\$0	\$0
Net increase (decrease) in cash	(\$6,414)	\$144,051
Cash at beginning of period	\$216,463	\$27,026
Cash at end of period	\$210,049	\$171,077
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$21,624	\$16,378

See notes to consolidated financial statements.

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MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 - In the opinion of the Company, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 1996 and the results of operations for the three months and six months ended September 30, 1996 and 1995 and changes in cash flows for the six months ended September 30, 1996 and 1995. The consolidated condensed financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ending March 31, 1996.

Note 2 - The results of operations for the three months and six months ended September 30, 1996 are not necessarily indicative of the results to be expected for the full year.

MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Company management has worked on improving the Company's financial condition and future by providing more services for fees; less factoring & financing; and considered areas of focus other than Health Care given that industry's uncertain future. Management is reviewing all options and sources of revenue available to the Company at this time and believes that a re-direction of the Company focus is imperative to provide a viable future for the Company. There is no plan to discontinue all of the services the Company has provided in the past. However, some services which require substantial upfront capital, such as factoring, will be discontinued. Services, such as providing credit reports,

collection letters and collection services will be pursued on a fee for service basis. In addition, the Company is considering the opportunities that are available for its' printing and travel services. There can be no assurance that the Company will be successful in these efforts. Gross transactions (the total amount of sales, including billings submitted by Health Care Providers during the period, as well as a portion of income from other operations) decreased \$229,550 or 38% and \$480,033 or 39% for the three months and six months ended September 30, 1996 as compared to the same period in 1995 from \$601,767 to \$372,217 and from \$1,242,874 to \$762,841, respectively. Net revenues decreased \$55,242 or 46% and \$75,630 or 30% for the three months and six months ended September 30, 1996 as compared to the same period in 1995 from \$120,881 to \$65,639 and from \$249,849 to \$174,219, respectively. These decreases are a result of the Company discontinuing to provide some of the services that have been provided in the past and redirecting the efforts of the company to generate revenues by focusing on "fee for services". These services do not require the Company to provide upfront cash to its clients but, instead, will operate in a fee for service situation. Consequently, the Company has become a TRW authorized reseller of credit reports and is providing credit reports, billing services and pre-collection & collection services to clients. Although this direction will initially result in a decrease in revenues, management has determined that it is in the best interest of the Company.

General and administrative expenses increased \$412 or less than one-half percent and decreased \$21,034 or 6% for the three months and six months ended September 30, 1996 as compared to the same period in 1995 from \$177,192 to \$177,604 and from \$378,167 to \$357,133, respectively. Management will continue to focus on controlling expenses and increasing revenues in an effort to become profitable.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital for the six months ended September 30, 1996 of a negative \$(571,591) decreased \$216,333 from the March 31, 1996 balance of a negative \$(355,258). The change is primarily due to the reduction in revenues and the operating loss that resulted during the six month period.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

NONE. There are no pending legal proceedings outside of the normal course of business to which the Company is a party or of which any of its property is the subject.

Item 2. CHANGES IN SECURITIES

NONE.

Item 3. DEFAULTS UPON SENIOR SECURITIES

NONE.

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

NONE.

Item 5. OTHER INFORMATION

NONE.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

NONE.

SIGNATURES

Pursuant to the requirements of Section 13 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.

MEDMASTER SYSTEMS, INC. AND SUBSIDIARIES

Date: November 14, 1996

BY _____ [SIGNED] _____

David C. Marx
President and
Chief Executive Officer

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</TABLE>