US MEDICAL GROUP INC
Form 10QSB
May 15, 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 March 31, 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 its common stock outstanding as of March 31, 2001.

U.S. Medical Group, Inc

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending March 31, 2001

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

ASSETS

	Unaudited March 31, 2001	December 31, 2000
Current assets:		
Cash and equivalents	$ 154,588	$ 337,050
Accounts receivable	596,710	361,833
Prepaid expenses	17,304	44,409
Prepaid Taxes, net	55,974	-
Total current assets	824,576	743,292
Property and equipment - at cost:		
Mobile unit and medical equipment	3,800,174	3,827,196
Furniture and fixtures	110,161	77,383
	3,910,335	3,904,579
Less accumulated depreciation	811,106	728,496
	3,099,229	3,176,083
Other assets:		
Patents & Trademarks, net of amortization	35,417	39,168
Financing fees, less amortization of $11,866 and $10,597 on March 31, 2001 and December 31, 2000, respectively	5,891	7,160
	$ 3,965,113	$ 3,965,703

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable and accrued expenses	$ 104,282	$ 87,145
Current maturities of long-term debt	788,086	641,828
Income tax payable	-	156,036
Deferred tax liability	182,585	106,344
	1,074,953	991,353
Long-term debt less current maturities	1,055,765	1,196,905
Deferred tax liability	355,046	330,096
Stockholders' equity:		
Preferred stock, par value, $ .001 per share, 20,000,000 authorized at March 31, 2001 and December 31, 2000; none issued	-	-
Common stock, par value, $ .001 per share; 100,000,000 authorized, 13,575,380 issued at March 31, 2001 and December 31, 2000	13,575	13,575
Additional paid-in-capital	80,925	80,925
Retained earnings	1,425,975	1,371,419
Treasury Stock	(41,126)	(18,570)
	1,479,349	1,447,349
	$ 3,965,113	$ 3,965,703

See accompanying footnotes to the unaudited financial statements

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

	Three months ended March 31, 2001	2000
Revenues:		
Patient fees	$ 844,840	$ 849,004
Hyperbaric Fees	9,000	-
	853,840	849,004
Operating expenses:		
Selling, general and administrative	572,920	355,954
Interest expense	37,550	40,256
Depreciation expense	87,623	77,016
Operating expense	698,093	473,226
Net income before taxes	155,747	375,778
Income tax provision(benefit)	101,191	142,900

Net income	$ 54,556	$ 232,878
Earnings per common share (basic and assuming dilution)	$ 0.00	$ 0.02
Weighted average shares outstanding		
Basic	13,575,380	13,575,380
Diluted	13,655,380	13,595,380

See accompanying footnotes to the unaudited financial statements

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

	For the three months ended March 31, 2001	2000
Cash flows from operating activities:		
Net income from operating activities	$ 54,556	$ 232,878
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	87,623	77,016
Change in: Receivables	(234,877)	169,843
Prepaid expenses and other assets	27,108	(7,188)
Income Taxes Payable	(156,036)	-
Tax Refunds, net	(55,974)	-
Deferred income taxes and other	101,191	142,900
Accounts payable and accrued expenses	17,137	(61,852)
Net cash from operating activities	(159,272)	553,597
Cash flows used in investing activities:		
Capital expenditures	(5,749)	(61,704)
Net cash used in investing activities	(5,749)	(61,704)
Cash flows (used in)/provided by financing activities:		
Proceeds from bank loans	140,000	-
Proceeds from loans from stockholders	-	441,739
Repayments of bank loans	(134,885)	(264,421)
Repayment of loans from stockholders	-	(17,435)
Purchase of Treasury Stock	(22,556)	-
Dividend Payments	-	(441,739)
Net cash used in financing activities	(17,441)	(281,856)
Net increase in cash and cash equivalents	(182,462)	(210,037)
Cash and cash equivalents at January 1	337,050	22,763
Cash and cash equivalents at March 31	$ 154,588	$ 232,800

Supplemental Information:		
Interest Paid	27,258	-
Income Tax Paid	-	-

See accompanying footnotes to the unaudited financial statements

U.S. MEDICAL GROUP, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 three-month period ended March 31, 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 THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Cautionary Statement Regarding Forward-Looking Information:

This document includes forward-looking statements. All statements other than statements of historical fact included in this document, including, without limitation, the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Liquidity and Sources of

Capital" regarding the Company's strategies, plans, objectives, expectations, and future operating results are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable at this time, it can give no assurance that such expectations will prove to have been correct. Actual results could differ materially based upon a number of factors including, but not limited to, the state of the economy, competition, unanticipated business opportunities, availability of financing, market acceptance, government regulation, dependence on key personnel, limited public market and liquidity, shares eligible for future sale, continuation and renewal of the Florida and North Carolina contracts and other risks that may apply to the Company.

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 MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31,2000

REVENUE

The Company's total revenues were $853,840 for three months ended March 31, 2001 compared to $849,004 for the same period ended March 31, 2000, an increase of 0.57%. Almost all of the Company's revenues are attributable to patient fees derived from the North Carolina State and Florida State Department of Corrections contracts for mobile surgical facility and support services. In addition to patient fees, $9,000 was generated from the lease of a mobile hyperbaric chamber used for the treatment of wound care and neurological disorders. The Company reported net income from continuing operations for the period three months ended March 31, 2001 of $54,556, compared to net income of $232,878 for the period three months ended March 31, 2000, a decrease of 77%. The decrease in net income is attributed to an increase in recurring and non-recurring expenses during the period.

COSTS AND EXPENSES

The Company's 48% increase in operating expenses from $473,226 for the period ended March 31, 2000 to $698,093 for the three months period ended March 31, 2001 is due primarily to an increase in compensation for certain Company officers , increases in employee compensation and benefits, liability insurance, medical supplies, promotional expenditures and depreciation expense. Having foregone compensation since the Company's inception through the period ended December 31, 2000, the Company began compensating its Chairman and Chief Executive Officer Tom Winters and President and Director Richard Langley during the quarter ended March 31, 2001. The increase in promotional expenses is attributed to the cost of developing and airing a nationally televised program to raise awareness of the Company's products and services. Selling, general and administrative expenses increased 61% from $355,954 for the period three months ended March 31, 2000 to $572,920 for the same period ended March 31, 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 months period ended March 31, 2001 when compared to the three months period ended March 31, 2000. Legal and accounting fees of $71,359 were a necessary component of the company's filing of its form 10-KSB, preparation for the annual meeting, proxy material and other public company matters as a fully reporting company. Legal and accounting fees for three months-ended 2000 were $16,662.

As the Company continues to expand, the Company believes it 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 period three months ended March 31, 2001 was $87,623, an increase of $10,607, or 13.8%, from the same three months period ended March 31, 2000. The increase is primarily attributable to the addition of new surgical equipment in both the North Carolina and Florida facilities.

Interest expense for the period ended March 31, 2001 was $37,550, a decrease of $2,706, or 6.7%, from $40,256 for the same period ended March 31 2000. The interest expense decrease is primarily due to the retirement of certain bank loans that were needed to fund the construction of the Florida mobile surgical unit and subsequent equipment.

For the period ended March 31, 2001, an income tax provision of $101,191 was made compared to an income tax provision $142,900 for the three months period ended March 31,2000.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, the Company had a working capital deficit of $250,377, compared to a deficit of $248,061 at December 31, 2000, a deficit increase of $2,316. In addition, the Company experienced a $234,877 increase in accounts receivable and a $17,137 increase in accounts payable and accrued expenses.

While the Company has raised the funds necessary to meet its working capital and facility financing needs, additional financing will be required in order to acquire additional surgical equipment and 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 experienced a negative cash flow from operations of $159,272 for the period three months ended March 31, 2001 compared to a positive cash flow from operations of $553,597 for the period three months ended March 31, 2000. The negative cash flow from operating activities for the period three months ended March 31, 2001 is primarily attributed to the Company's $178,322 decrease in net income compared to the period three months ended March 31, 2000, an increase in accounts receivable of $234,877 and income taxes payments of $156,036.

Cash flows used in investing activities was $5,749 for the period three months ended March 31, 2001 and $ 61,704 for the period three months ended March 31, 2000. Cash flows used in investing activities for the three months period ended March 31, 2001 were primarily used to purchase surgical equipment for use on the Company's mobile surgery units.

A cash outflow of $17,441 was used during the period three months ended March 31, 2001 compared to cash outflows of $281,856 used in financing activities during the period three months ended March 31, 2000. The principal financing activity in the period three months ended March 31, 2001 was $22,556 used for the purchase of treasury stock. The principal use of cash for financing activities for the period three months ended March 31, 2000 was the repayment of loans from banks in the amount of $264,421.

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

None

Item 5. Other Information

None

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

May 15, 2001

Date

By: /s/ Thomas Winters

Thomas Winters
Chairman of the Board and
Chief Executive Officer