

Edgar Filing: US MEDICAL GROUP INC - Form 10QSB

US MEDICAL GROUP INC  
Form 10QSB  
November 16, 2001

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

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

For the period ended September 30, 2001

Commission file number 000-29579  
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U.S. Medical Group, Inc.  
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(Exact Name of Small Business Issuer as Specified in its Charter)

Nevada

88-0320389

-----  
(State of jurisdiction of incorporation)

-----  
(IRS Employer Identification No.)

1405 South Orange Avenue Suite 600, Orlando, FL 32806  
-----

(Address of principal executive offices)

Registrant's telephone number (407) 849-2288  
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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  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

13,575,380 shares of common stock outstanding as of September 30, 2001.  
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U.S. Medical Group, Inc

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

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## Edgar Filing: US MEDICAL GROUP INC - Form 10QSB

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

	September 30, 2001	December 31, 2000
	----- (Unaudited)	-----
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 749,708	\$ 337,050
Accounts receivable	308,711	361,833
Prepaid expenses	65,012	44,409
	-----	-----
Total current assets	1,123,431	743,292
Property and equipment - at cost:		
Mobile unit and medical equipment	3,727,738	3,827,196
Furniture and fixtures	76,476	77,383
	-----	-----
	3,804,214	3,904,579
Less accumulated depreciation	939,350	728,496
	-----	-----
	2,864,864	3,176,083
Other assets:		
Patents & Trademarks, net of amortization	27,917	39,168
Financing fees, less amortization of \$14,404 and \$10,597 on September 30, 2001 and December 31, 2000, respectively	3,353	7,160

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\$4,019,565	\$3,965,703
=====	=====

See accompanying footnotes to the unaudited financial statements

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

	September 30, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 103,669	\$ 87,145
Current maturities of long-term debt	744,661	641,828
Income tax payable	90,890	156,036
Deferred tax liability	182,086	106,344
	-----	-----
	1,121,306	991,353
Long-term debt less current maturities	689,421	1,196,905
Deferred tax liability	330,096	330,096
Stockholders' equity:		
Preferred stock, par value, \$.001 per share, 20,000,000 authorized at September 30, 2001 and December 31, 2000; none issued	-	-
Common stock, par value, \$.001 per share; 100,000,000 authorized, 13,575,380 issued at September 30, 2001 and December 31, 2000	13,575	13,575
Additional paid-in-capital	80,925	80,925
Retained earnings	1,871,474	1,371,419
	-----	-----
Treasury Stock	(87,232)	(18,570)
	-----	-----
Total Stockholder Equity	1,878,742	1,447,349
-----	-----	-----
	\$ 4,019,565	\$ 3,965,703
	=====	=====

See accompanying footnotes to the unaudited financial statements

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

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	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues:				
Patient fees	\$ 875,778	\$ 905,835	\$ 2,619,481	\$ 2,619,481
Operating expenses:				
Selling, general and administrative	500,138	457,251	1,608,494	1,608,494
Interest expense	18,251	42,905	90,642	90,642
Depreciation expense	82,662	82,868	255,575	255,575
Operating expense	601,051	583,024	1,954,711	1,954,711
Net income before taxes and extraordinary gain	274,727	322,811	664,770	664,770
Provision for income taxes	57,353	117,309	231,202	231,202
Net Income before Extraordinary Gain	\$ 217,374	\$ 205,502	433,568	\$ 433,568
Extraordinary Gain from Sale of Equipment (net of income taxes of \$16,621)	66,487	-	66,487	-
Net Income	\$ 283,861	\$ 205,502	\$ 500,055	\$ 205,502
Earnings per common share (basic and assuming dilution)	\$ .02	\$ .02	\$ .04	\$ .02
Weighted average shares outstanding				
Basic	13,575,000	13,575,000	13,575,000	13,575,000
Diluted	13,655,000	13,655,000	13,655,000	13,655,000

See accompanying footnotes to the unaudited financial statements

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

	For the nine months ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net income from operating activities	\$ 500,055	\$ 601,618
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	270,633	237,237
Change in: Receivables	53,122	(12,125)
Prepaid expenses and other assets	(20,603)	(37,967)

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Deferred income taxes and other	75,742	37,981
Income tax payable	(65,146)	204,228
Accounts payable and accrued expenses	16,524	(10,804)
Net Gain from sale of fixed assets	(83,865)	
	-----	-----
Net cash from operating activities	746,462	1,020,168
Cash flows used in investing activities:		
Capital expenditures	(87,041)	(198,852)
Sale of Equipment	226,550	-
	-----	-----
Net cash used in investing activities	139,509	(198,852)
Cash flows (used in)/provided by financing activities:		
Proceeds from bank loans	-	-
Proceeds from loans from stockholders	-	237,608
Repayments of bank loans	(404,651)	(512,636)
Repayment of loans from stockholders	-	-
Purchase of Treasury Stock	(68,662)	-
Dividend Payments	-	(441,738)
	-----	-----
Net cash used in financing activities	(473,313)	(716,766)
Net increase in cash and cash equivalents	412,658	104,550
Cash and cash equivalents at January 1	337,050	22,763
Cash and cash equivalents at September 30	\$ 749,708	\$ 127,313
	=====	=====
Supplemental Information:		
Interest Paid	\$ 72,190	\$ 109,558
Income Tax Paid	25,217	78,000

See accompanying footnotes to the unaudited financial statements

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

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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 nine-month period ended September 30, 2001 are not

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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 Annual Report on Form 10-KSB, as amended.

### Basis of Presentation

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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.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS NINE MONTHS ENDED SEPTEMBER 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 September 30, 2001 and 2000

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#### REVENUES

The Company's total revenues were \$875,778 for the three-month period ended September 30, 2001, compared to \$905,835 for the same period ended September 30, 2000, a decrease of \$30,057, or 3.3%. The decrease in revenue is primarily a result of a decreased caseload in Florida when compared to the year-ago period. The Company reported net income from continuing operations for the three month period ended September 30, 2001 of \$283,861, compared to \$205,502 for the three-month period ended September 30, 2000, an increase in earnings of \$78,359, or 38%. The earnings increase is primarily attributable to the sale of equipment, which produced a non-recurring extraordinary gain of \$66,487. Net income for the period three months ended September 30, 2001 excluding the extraordinary gain was \$217,374, an increase of \$11,872, or 5.8% when compared to the year-ago period. Revenue and net income for the three-month period ended September 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 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 3% increase in operating expenses from \$583,024 for the three-month period ended September 30, 2000 to \$601,051 for the three-month period ended September 30, 2001 is due primarily to the addition of certain Company officer salaries and increases in staff wages. Having foregone compensation since the Company's inception in April of 1997 through the period

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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 9.4% from \$457,251 for the three-month period ended September 30, 2000 to \$500,138 for the same period ended September 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 September 30, 2001 when compared to the three-month period ended September 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 to current and future employees.

Depreciation and amortization expense for the three-month period ended September 30, 2001 was \$82,622, a decrease of \$206 from the same period in 2000. Both of the Company's mobile surgical units were depreciated over the entire period of three months ended September 30, 2001.

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Interest expense for the three-month period ended September 30, 2001 was \$18,251; a decrease of \$24,654, or 57%, from \$42,905 for the same period ended September 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 September 30, 2001, an income tax provision of \$57,353 was charged to recognize federal, Florida state and North Carolina state income tax liabilities. For the three-month period ended September 30, 2000, an income tax provision of \$117,309 was charged. The decrease in income tax provision is attributed to an income tax overpayment of \$102,100 for the period of twelve months ended December 31, 2000.

Nine Months Ended September 30, 2001 and 2000

### REVENUES

The Company's total revenues were \$2,619,481 for the nine-month period ended September 30, 2001 compared to \$2,618,212 for the same period ended September 30, 2000. Revenue for the nine-month period ended September 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 nine-month period ended September 30, 2001 of \$500,055 compared to \$601,618 for the nine-month period ended September 30, 2000, a decrease in earnings of \$101,563, or 16.9%. Net income for the nine-month period ended September 30, 2001 was affected by the addition of certain Company officer salaries, increases in wages, promotional expenses, insurance premiums and increased depreciation expense.

### COSTS AND EXPENSES

The Company's 20.8% increase in operating expenses from \$1,618,385 for the nine-month period ended September 30, 2000 to \$1,954,711 for the nine-month period ended September 30, 2001 is due primarily to the addition of certain

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Company officer salaries, increases in wages, insurance premiums, 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 28.8% from \$1,248,720 for the nine-month period ended September 30, 2000 to \$1,608,494 for the same period ended September 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 nine-month period ended September 30, 2001 when compared to the nine months period ended September 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 to current and future employees.

Depreciation and amortization expense for the nine-month period ended September 30, 2001 was \$255,575, an increase of \$16,254, or 6.8%, 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 nine months ended September 30, 2001.

Interest expense for the nine-month period ended September 30, 2001 was \$90,642, a decrease of \$39,702, or 30.5%, from \$130,344 for the same period ended September 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 nine-month period ended September 30, 2001, an income tax provision of \$231,202 was charged to recognize federal, Florida state and North Carolina state income tax liabilities. For the nine-month period ended September 30, 2000, an income tax provision of \$398,209 was charged. The decrease in income tax provision is attributed to an income tax overpayment of \$102,100 for the period twelve months ended December 31, 2000.

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### LIQUIDITY AND CAPITAL RESOURCES

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As of September 30, 2001, the Company had working capital of \$2,125 compared to a deficit of \$248,061 at December 31, 2000. The increase in working capital is attributed to a \$380,139 increase in current assets compared to a current liability increase of \$129,953. The increase in current liabilities is primarily attributable to a \$102,833 increase in current maturities of long-term debt.

The Company's accounts payable balance as of September 30, 2001 was \$103,669, a \$16,524, or a 19% increase, from the balance as of December 31, 2000. As of September 30, 2001, current maturities of long-term debt increased 16% to \$744,661 as of September 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 \$746,462 for the nine-month period ended September 30, 2001 and \$1,020,168 for the nine-month period ended September 30, 2000, a decrease of \$273,706, or 26.8%. The decrease in cash flow



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from operating activities for the nine-month period ended September 30, 2001 when compared to the year-ago period is primarily attributable to the decrease in the Company's net income from operations of \$101,563 when compared to the same period ended September 30, 2000, a \$65,247 change in receivables, and a \$269,374 change in income tax payable when compared to the nine month period ended September 30, 2000.

Cash flows from investing activities of \$226,550 for the nine-month period ended September 30, 2001 were derived from the sale of equipment. Cash flows used in investing activities involved the acquisition of \$ 87,041 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 \$473,313 during the nine-month period ended September 30, 2001. The Company repaid \$404,651 in bank loans and used \$68,662 for the purchase of Company stock during the nine-month period ended September 30, 2001.

While the Company has raised capital through 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.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

None

#### Item 2. Changes in Securities and Use of Proceeds

Not Applicable

#### Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

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### Item 5. Other Information

None

### Item 6. Exhibits and reports on Form 8-K

#### (a) Exhibits

The following documents are filed herewith or have been included as exhibits to previous filings with the Commission and are incorporated herein by this reference:

Exhibit No. -----	Exhibit -----
3.1	Articles of Incorporation and of the Company and all amendments thereto (filed as Exhibits 3.1, 3.2 and 3.3 to Amendment No. 1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
3.2	By-laws of the Company (filed as Exhibit 3.4 to Amendment No. 1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
4.1	Articles Fourth, Tenth and Eleventh of the Articles of Incorporation of the Company, as amended (filed as Exhibits 3.1, 3.2 and 3.3 to Amendment No. 1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
4.2	Article I of the By-laws of the Company (filed as Exhibit 3.4 to Amendment No. 1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
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10.1	Consulting Agreement dated April 26, 1999, by and between the Company and TransGlobal Financial Corporation (filed as Exhibit 10.1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
10.2	Form of Stockholders Lock-up Agreement dated March 25, 1999, by and between the Company and American Mobile Surgical Services, Inc. (filed as Exhibit 10.2 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
10.3	Agreement by and between the Company's subsidiary, U.S. Medical Group (Florida), Inc., and the Florida Department of Corrections dated April 2, 1997, with amendments (filed as Exhibit 10.3 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
10.4	Agreement by and between the Company's subsidiary, U.S. Medical Group (Florida), Inc., and the North Carolina Department of Corrections dated October 15, 1999, with

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amendments (filed as Exhibit 10.4 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)

- 10.5 Employment agreement by and between the Company and Dr. Thomas F. Winters dated January 2, 2001 (filed herewith)
- 10.6 Employment agreement by and between the Company and Richard H. Langley dated January 2, 2001 (filed herewith)
- 11 Computation of earnings per common share (included in unaudited statement of operations of the Company in Item 1 hereof)
- 21 Subsidiaries of the registrant (filed as Exhibit 21 to the Company's annual report on Form 10-KSB for the year ended December 31, 2000, and incorporated herein by reference)

(b) Reports on Form 8-K  
 Not applicable.

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)

Date November 15, 2001  
 -----

By: /s/ Charles Baumann  
 -----  
 Charles Baumann  
 Chief Financial Officer

EXHIBIT INDEX

Exhibit No. -----	Exhibit -----
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- 4.1 Articles Fourth, Tenth and Eleventh of the Articles of Incorporation of the Company, as amended (filed as Exhibits 3.1, 3.2 and 3.3 to Amendment No. 1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
- 4.2 Article I of the By-laws of the Company (filed as Exhibit 3.4 to Amendment No. 1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
- 10.1 Consulting Agreement dated April 26, 1999, by and between the Company and TransGlobal Financial Corporation (filed as Exhibit 10.1 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
- 10.2 Form of Stockholders Lock-up Agreement dated March 25, 1999, by and between the Company and American Mobile Surgical Services, Inc. (filed as Exhibit 10.2 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
- 10.3 Agreement by and between the Company's subsidiary, U.S. Medical Group (Florida), Inc., and the Florida Department of Corrections dated April 2, 1997, with amendments (filed as Exhibit 10.3 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
- 10.4 Agreement by and between the Company's subsidiary, U.S. Medical Group (Florida), Inc., and the North Carolina Department of Corrections dated October 15, 1999, with amendments (filed as Exhibit 10.4 to the Company's registration statement on Form 10-SB on April 13, 2000, and incorporated herein by reference)
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- 11 Computation of earnings per common share (included in unaudited statement of operations of the Company in Item 1 hereof)
- 21 Subsidiaries of the registrant (filed as Exhibit 21 to the Company's annual report on Form 10-KSB for the year ended December 31, 2000, and incorporated herein by reference)

January 2, 2001

Dr. Thomas F. Winters:

This letter agreement will permit you to perform services for, US

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Medical Group, Inc. (Company) as an employee under the following terms and conditions:

1. You agree to perform the following services for Company:

Chairman and Chief Executive Officer

2. The term of this employment agreement is for an unspecified period beginning on January 2, 2001.

3. Unless otherwise mutually agreed and approved by the board of directors, compensation for employment performed hereunder during the term shall be \$120,000 per year. In addition, U.S. Medical Group will reimburse you for any business expenses incurred while providing such services. All expenses over \$200.00 must be pre-approved by U.S. Medical Group.

4. This agreement may be terminated at the option of either party by giving thirty days' written notice. In the event of termination, the Company shall be obligated to pay only for services performed up to the date of termination.

5. Any information (written, oral, or observed) received by you during the course of you providing services to Company will be deemed to be confidential. This information may only be used in the provision of services under this agreement and may not be revealed to any third parties during this agreement or after its expiration without the prior written consent of Company.

6. During the term of this agreement, you shall refrain from action or conduct which is inimical or opposed to the interest of Company. Company shall be advised promptly of any possible conflict of interest.

7. This agreement constitutes the entire agreement between the parties, and any amendment to this agreement must be in writing and signed by both parties.

If you agree to the above terms, please sign both copies of this agreement in the space below, and retain one copy for your files.

Thomas Winters

-----  
(Name)

/s/ Thomas Winters

-----  
(Signature)

3/13/01

-----  
(Date)

US Medical Group is looking forward to working with you and anticipates long term success.

Regards,

/s/ Sandra Thompson

Sandra Thompson, Chief Operating Officer

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EMPLOYEES CONFIDENTIAL DISCLOSURE AGREEMENT

In consideration of my employment with US Medical Group, Inc. (hereinafter "Employer") its subsidiaries or affiliates, and of the salary/wages/fees I am receiving and shall receive from time to time, I hereby endorse and accept personally the duties and obligations undertaken by Employer to keep secret and confidential any proprietary information received either observed, orally or in writing. In the event that my employment should terminate, either voluntarily or involuntarily, prior to the termination of Employer's obligations under agreement, I also agree that my obligation of confidentiality hereunder shall survive said termination.

/s/ Thomas Winters

-----  
(Signature)

3/13/01

-----  
(Date)

/s/ Sandra L. Thompson

-----  
(Witness)

3/13/01

-----  
(Date)

EXHIBIT 10.6

January 2, 2001

Mr. Richard H. Langley:

This letter agreement will permit you to perform services for, U.S. Medical Group, Inc. (Company) as an employee under the following terms and conditions:

2. You agree to perform the following services for Company:

President and Director

2. The term of this employment agreement is for an unspecified period beginning on January 2, 2001.

5. Unless otherwise mutually agreed and approved by the board of directors, compensation for employment performed hereunder during the term shall be \$110,000 per year. In addition, U.S. Medical Group will reimburse you for any business expenses incurred while providing such services. All expenses over \$200.00 must be pre-approved by U.S. Medical Group.

6. This agreement may be terminated at the option of either party by giving thirty days' written notice. In the event of termination, the Company shall be obligated to pay only for services performed up to the date of termination.

5. Any information (written, oral, or observed) received by you during

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the course of you providing services to Company will be deemed to be confidential. This information may only be used in the provision of services under this agreement and may not be revealed to any third parties during this agreement or after its expiration without the prior written consent of Company.

6. During the term of this agreement, you shall refrain from action or conduct which is inimical or opposed to the interest of Company. Company shall be advised promptly of any possible conflict of interest.

7. This agreement constitutes the entire agreement between the parties, and any amendment to this agreement must be in writing and signed by both parties.

If you agree to the above terms, please sign both copies of this agreement in the space below, and retain one copy for your files.

Richard H. Langley  
-----  
(Name)

/s/ Richard H. Langley  
-----  
(Signature)

March 23, 2001  
-----  
(Date)

U.S. Medical Group is looking forward to working with you and anticipates long term success.

Regards,

/s/ Tom Winters

Dr. Thomas F. Winters, Chairman and CEO

EMPLOYEES CONFIDENTIAL DISCLOSURE AGREEMENT

In consideration of my employment with U.S. Medical Group, Inc. (hereinafter "Employer") its subsidiaries or affiliates, and of the salary/wages/fees I am receiving and shall receive from time to time, I hereby endorse and accept personally the duties and obligations undertaken by Employer to keep secret and confidential any proprietary information received either observed, orally or in writing. In the event that my employment should terminate, either voluntarily or involuntarily, prior to the termination of Employer's obligations under agreement, I also agree that my obligation of confidentiality hereunder shall survive said termination.

/s/ Richard H. Langley  
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(Signature)

March 23, 2001  
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(Date)

/s/ Linda M. Topping

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(Witness)

March 23, 2001  
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(Date)