BILLSERV INC
Form 10-Q/A
November 18, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

|X| AMENDMENT NO. 1 TO QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

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

For the transition period from ____ to ____

Commission file number 0-30152

Billserv, Inc.
(Exact name of registrant as specified in its charter)

Nevada	98-0190072
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)

211 North Loop 1604 East, Suite 200
San Antonio, TX 78232
(Address of principal executive offices)

(210) 402-5000
(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 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 requirement for the past 90 days. Yes |X| No |_|

At August 1, 2002, 20,603,799 shares of the registrant's common stock, $.001 par value, were outstanding.

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BILLSERV, INC.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BILLSERV, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2002	December 31,
	(Unaudited)	(Note 1)
Assets:		
Current assets:		
Cash and cash equivalents	$ 2,251,803	$ 6,192,55
Restricted cash	800,000	-
Investments	66,900	236,94
Accounts receivable, net	837,021	437,67
Prepaid expenses and other	390,643	225,79
Related party notes receivable	--	162,15
Total current assets	4,346,367	7,255,12
Property and equipment, net	3,894,288	3,701,20
Intangible asset, net	30,000	37,50
Other assets	108,328	421,30
Total assets	$ 8,378,983	$ 11,415,13
Liabilities and stockholders' equity:		
Current liabilities:		

Accounts payable	$ 669,397	$ 201,51
Accrued expenses and other current liabilities	665,081	664,20
Current portion of obligations under capital leases	50,889	148,22
Current portion of deferred revenue	497,004	490,82
Short-term borrowings	645,000	-
Total current liabilities	2,527,371	1,504,77
Deferred revenue, less current portion	105,713	161,80
Stockholders' equity:		
Common stock, $.001 par value, 200,000,000 shares authorized; 20,581,126 issued and outstanding at June 30, 2002, 20,538,526 issued and outstanding at December 31, 2001	20,581	20,53
Additional paid-in capital	45,948,513	45,909,41
Accumulated deficit	(40,223,195)	(36,181,38
Total stockholders' equity	5,745,899	9,748,56
Total liabilities and stockholders' equity	$ 8,378,983	$ 11,415,13

See notes to interim consolidated financial statements.

BILLSERV, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		
	June 30, 2002	June 30, 2001	June
Revenues	$ 1,342,413	$ 690,062	$ 2,
Cost of revenues	1,452,061	1,226,250	2,
Gross margin	(109,648)	(536,188)	(
Operating expenses:			
General and administrative (see Note 7)	1,281,749	1,089,326	2,
Selling and marketing	245,973	551,036	
Research and development	138,798	190,532	
Depreciation and amortization	340,718	377,994	
Total operating expenses	2,007,238	2,208,888	3,
Operating loss	(2,116,886)	(2,745,076)	(4,
Other income (expense), net:			
Interest income	22,342	142,094	
Interest expense	(7,660)	(10,061)	

Equity in loss of unconsolidated subsidiary	(9,856)	--	
Other income (expense) (see Note 7)	(37,122)	36,070	
Total other income, net	(32,296)	168,103	
Loss before income taxes	(2,149,182)	(2,576,973)	(4,
Income taxes	--	--	
Net loss	$ (2,149,182)	$ (2,576,973)	$ (4,
Net loss per common share - basic and diluted	$ (0.10)	$ (0.14)	$
Weighted average common shares outstanding - basic and diluted	20,581,126	18,490,631	20,

See notes to interim consolidated financial statements.

BILLSERV, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$(4,041,812)	$(5,811,278)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	764,717	752,257
(Gain) loss on disposition	3,017	(36,070)
Equity in loss of unconsolidated subsidiary	7,676	--
Non-cash exchange of assets (see Note 5)	(600,000)	--
Loss on renegotiation of facilities lease (see Note 7)	345,880	--
Changes in current assets and current liabilities:		
(Increase) decrease in accounts receivable	(399,344)	39,645
Decrease in related party notes receivables	162,154	162,423
(Increase) decrease in prepaid expenses and other	(164,731)	208,545
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	462,351	(770,193)
Decrease in deferred revenue	(49,912)	(156,726)
Net cash used in operating activities	(3,510,004)	(5,611,397)
Cash flows from investing activities:		
Purchases of property and equipment	(390,597)	(419,575)

Long-term deposits, net	176,174	66,236
Proceeds from sales and maturities of investments	--	1,035,581
Proceeds from sale of equipment	3,000	--
Other investing activities	(6,126)	(6,471)
Net cash provided by (used in) investing activities	(217,549)	675,771
Cash flows from financing activities:		
Proceeds from notes payable	645,000	--
Principal payments for notes payable	--	(1,500,000)
Increase in restricted cash for collateral on note payable	(800,000)	--
Principal payments for capital lease obligations	(97,339)	(87,180)
Issuance of common stock, net of issuance costs	39,145	6,783,566
Net cash provided by (used in) financing activities	(213,194)	5,196,386
Net increase (decrease) in cash and cash equivalents	(3,940,747)	260,760
Cash and cash equivalents, beginning of period	6,192,550	6,171,822
Cash and cash equivalents, end of period	$ 2,251,803	$ 6,432,582

See notes to interim consolidated financial statements.

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BILLSERV, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Billserv, Inc. (the "Company") have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the Company's financial position, results of operations and cash flows for such periods. The accompanying interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2001. Results of operations for interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year. Certain prior period amounts have been reclassified to conform to the current year presentation. In prior fiscal years, the Company had been in the development stage, but is no longer considered to be a development stage company.

The consolidated balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make 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. Actual results could differ from those estimates.

Note 2. Comprehensive Loss

The Company's comprehensive loss is composed of net loss and unrealized gains and losses on investments held as available-for-sale investments. The following table presents the calculation of comprehensive loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net loss	$(2,149,182)	$(2,576,973)	$(4,041,812)	$(5,811,278)
Unrealized loss on investments	--	(27,634)	--	(2,479)
Total comprehensive loss	$(2,149,182)	$(2,604,607)	$(4,041,812)	$(5,813,757)

Note 3. Line of Credit

On March 29, 2002, the Company executed a working capital line of credit agreement with a bank in the amount of $700,000. Advances under the line of credit accrue interest at the prime rate minus 0.25%, with repayment terms of monthly interest-only payments and principal due in June 2003. As part of the line of credit agreement, the Company must maintain a minimum restricted cash balance of $800,000 with the bank. The Company borrowed $645,000 under this line of credit during the first six months of 2002.

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Note 4. Related Party Transactions

From time to time, the Company has made loans to certain officers of the Company. These amounts are included in Related Party Notes Receivable. The highest aggregate amount outstanding of loans due from officers (including an ex-officer of the Company) during the six months ended June 30, 2002 was $162,000. The Company had an aggregate of $116,000 in notes receivable bearing interest at 8.0% annually from an ex-officer of the Company at December 31, 2001. In March 2002, this ex-officer repaid the balance of these loans in full, including accrued interest. The Company had a $46,000 note receivable bearing interest at 8.0% annually from a certain officer of the Company at December 31, 2001. In May 2002, this officer repaid the balance of this loan in full, including accrued interest. As of June 30, 2002, there were no outstanding loans due from any officer of the Company.

The Company has pledged $1.3 million held as money market funds and certificates of deposit to collateralize margin loans of three officers and an ex-officer of the Company. The margin loans are from an institutional lender and are secured by shares of the Company's common stock held by these individuals. The total balance of the margin loans guaranteed by the Company was approximately $1.3 million at June 30, 2002. The Company has the unrestricted right to use the pledged funds for its operations if necessary.

Note 5. Nonmonetary Transactions

During the six months ended June 30, 2002, the Company entered into two nonmonetary transactions whereby the Company licensed the use of its ASP payment gateway technology to certain third party software vendors to be used as an OEM component of their product offering in exchange for software products from those vendors. These exchanges were determined to culminate the earning process and the Company recognized revenue related to these transactions at the fair value of the software received in accordance with APB Opinion No. 29, "Accounting for Nonmonetary Transactions". The Company recognized $300,000 in a transaction where the Company's technology was exchanged for customer relationship management software and concurrent seat licenses to use in providing customer care services via the Internet or telephone. The Company also recognized $300,000 in a transaction where the Company's technology was exchanged for document archival and retrieval software to use in the storage of electronic billing statements. The book value of the gateway technology exchanged in both transactions was zero. The Company has capitalized the software received and is depreciating these assets over their estimated useful lives of three years.

Note 6. Stock Option Exchange

In May 2002, the Company tendered an offer to employees and non-employee directors to cancel certain outstanding stock options under a stock option exchange program. In return for voluntarily canceling certain stock options, employees and non-employee directors will be granted an equal number of stock options promptly after six months and one day from the cancellation date. The exercise price of the new options granted will be equal to the fair market value of the Company's common stock on the grant date. The program is not expected to result in any additional compensation expense or variable plan accounting.

Note 7. Facilities Lease

In May 2002, the lease agreement for the office space the Company utilizes for its headquarters and operations was amended. The amendment reduced the leased space to approximately 36,000 square feet and lowered the annual rent to approximately $677,000 from $1,175,000. In return, the Company surrendered a portion of its prepaid rent, which was included in other assets, to the lessor. Including the write-off of affected leasehold improvements, the Company recognized a charge related to the lease amendment of $346,000 for the quarter ended June 30, 2002.

Note 8. Subsequent Events

On July 25, 2002, the Company executed a financing agreement with Laurus Master Fund, Ltd. in exchange for a $1.5 million convertible note and a three-year warrant to purchase 300,000 shares of the Company's common stock at exercise prices of $0.936 for the first 150,000 shares, $0.975 for the next 50,000 shares, and $1.17 for the remaining 100,000 shares. Laurus may convert the convertible note, which bears interest at 7% annually, at any time into shares of our common stock at a fixed conversion price of $0.78, subject to certain restrictions in the purchase agreement.

The Company may pay the principal and interest on the convertible note, which has a one-year term, in cash, shares of its common stock or a combination of cash and stock. If common stock is used to pay the note, the conversion price will be the lesser of (i) $0.78 or (ii) 88% of the average of the 7 lowest closing prices during the 22 trading days prior to the date we give notice of payment. Accrued interest and one-ninth of the principal is due on the first business day of each calendar month beginning on November 1, 2002 and continuing until the maturity date of July 1, 2003. If the required monthly payment is made in cash, the amount paid will be 105% of the monthly amount due. The Company granted Laurus a security interest in its assets.

We expect to record a debt discount as a result of the issuance of the warrant to Laurus of approximately $259,000, which amount will be charged to interest expense over the term of the convertible note using the effective yield method. Furthermore, we expect to record an additional debt discount as a result of the beneficial conversion feature of approximately $283,000, which amount will be charged to interest expense at the date of issuance. The amount related to the beneficial conversion feature was determined by dividing the note proceeds allocated to the convertible security of approximately $1,241,000 by the number of shares it is convertible into. The resulting effective conversion price was then compared to the fair value of the Company's stock on the issuance date. The difference between the fair value of the stock and the effective conversion price was then multiplied by the number of shares the convertible security was convertible into at the date of issuance, taking into account the limitation on the number of shares that Laurus could convert at that time. If the number of issued and outstanding shares increases, additional expense will be recognized to reflect the increase in the number of shares that Laurus is able to acquire through conversion.

The Company agreed to file with the Securities and Exchange Commission, and have declared effective by November 25, 2002, a registration statement registering the resale of the shares of the Company's common stock issuable upon conversion or payment of the note and exercise of the warrant.

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

The following discussion and analysis of financial condition and results of operations contains forward-looking statements that involve a number of risks and uncertainties. Actual results in future periods may differ materially from those expressed or implied in such forward-looking statements. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and the notes thereto included in this report, and the Company's Annual Report on Form 10-K/A for the year ended December 31, 2001. All references to "we," "us" or "our" in this Form 10-Q/A mean Billserv, Inc. ("Billserv" or the "Company").

Overview

We provide electronic bill presentment and payment ("EBPP") and related services to companies that generate recurring bills, primarily in the United States. EBPP is the process of sending bills to consumers securely through the Internet and processing Internet payment of bills utilizing an electronic transfer of funds. Our service offering allows companies to outsource their electronic billing process, providing them a single point of contact for developing, implementing and managing their EBPP process. Billserv offers services to consolidate customer billing information and then securely deliver an electronic bill to the biller's own Billserv-hosted payment Web site, the consumer's e-mail inbox and numerous Internet bill consolidation Web sites, such as those sponsored by financial institutions. Our EBPP services allow billers to establish an interactive, online relationship with their consumers by integrating Internet customer care and direct marketing with the electronic bill. We provide professional services to assist with the implementation and maintenance of an electronic bill offering. The Company also provides Internet-based customer care interaction services and operates an Internet bill presentment and payment portal for consumers under the domain name www.bills.com.

Prior to 2002, Billserv was in the development stage, but is no longer considered to be a development stage company. We generated our first full year of revenues in 2000 and therefore have a relatively limited operating history on which to base an evaluation of our businesses and prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of growth, particularly companies in new and rapidly evolving markets such as electronic commerce. Such risks include, but are not limited to, an evolving and unpredictable business model and our ability to manage growth. To address these risks, we must, among other things, maintain and increase our customer base, implement and successfully execute our business and marketing strategy, continue to develop and upgrade our technology and transaction-processing systems, provide superior customer service, respond to competitive developments, attract, retain and motivate qualified personnel, and respond to unforeseen industry developments and other factors. We cannot assure you that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business, prospects, financial condition and results of operations.

Since inception, we have incurred operating losses each quarter, and as of June 30, 2002, we have an accumulated deficit of $40.2 million. The Company expects to continue to incur losses during the next several quarters of operations as efforts to achieve profitability continue. We believe that our success will depend in large part on our ability to (a) drive the consumer adoption rate of EBPP, (b) continue to add quality billers to our significant client base, (c) meet evolving customer requirements and (d) adapt to technological changes in an emerging market. Accordingly, we intend to focus on activities and service offerings that serve to encourage EBPP adoption by consumers and billers as well as continue to invest in product research and development, technology and infrastructure as required to remain competitive.

In keeping with this strategy, our sales focus has shifted to a more comprehensive offering that delivers a single, outsourced capability for developing customer relationships utilizing the electronic bill as a dynamic communication medium. By integrating our electronic billing capabilities with online real-time customer care support provided by our Internet Interaction Center ("IIC") and Internet-enabled direct marketing and communication ("IDMC"), Billserv puts billers in direct, interactive contact with their consumers. We refer to this as a "Customer Communication Network". We are actively promoting our Customer Communication Networks to qualified prospective billers as well as converting existing customers to this enhanced service. New accounts are obtained through both direct sales and by working with our valued reseller and referral partners in order to maximize our leverage in the marketplace.

Because growth of our revenues is dependent upon consumer acceptance of EBPP, we work directly and regularly with clients to spur adoption rates and increase the number of EBPP transactions. The Company provides professional marketing consultations as a key element of its account management group to actively assist billers in creating programs to move their consumers to EBPP. The Company also offers billers services for a fee that encourage consumer adoption of EBPP such as Online Demonstrations, Online Enrollment Assistance, Instant Activation of consumers through bill warehousing, and Auto Enrollment, which streamlines the enrollment process for new consumers (collectively, "Preferred Enrollment").

Since we have a significant amount of investment in infrastructure and a certain level of fixed operating expenses, achieving profitability depends on the volume of transactions we process and the revenue we generate from these transactions, as well as other services performed for our customers. The components of our service offering, all of which are currently available to customers and have generated revenue to date with the exception of our electronic publishing and storage services, include:

- Internet billing services for EBPP through a Billserv-hosted payment Web site, secure direct delivery to the consumer's email inbox, or distribution via bill aggregators.
- Electronic publishing and storage services for online document delivery and archival.
- Internet-enabled, interactive customer care services on an in-house or outsourced basis.
- Professional consulting services for EBPP billers or software vendors needing value-added resources to deliver customized EBPP services.
- Gateway services that provide billers who are already participating in EBPP using in-house software a single distribution point to virtually any bill presentment and payment location across the World Wide Web in addition to their existing distribution points or biller direct site. Gateway technology may also be embedded as an OEM (original equipment manufacturer) component within vendors' software or service offerings to provide a cost-effective, proven method to give their clients and consumers the ability to make online payments, and view and pay bills anytime, anywhere through bank and Internet payment portals.
- Licensing of CheckFree e-billing software as an authorized reseller in Australia.
- Online bill payment and management services for consumers through the bills.com Internet portal.

As a result of our limited operating history, the current economic environment and the emerging nature of the markets in which we compete, we are unable to precisely forecast our revenues. Our current and future expense levels are based largely on our investment plans and estimates of future revenues. Revenue and operating results will depend on the volume of transactions processed and related services rendered. The timing of such services and transactions and our ability to fulfill a customer's demands are difficult to forecast. Although we systematically budget for planned outlays and maintain tight controls on our expenditures, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues in relation to our planned expenditures could have a material adverse effect on our business, prospects, financial condition and results of operations. Further, we may make certain pricing, service, marketing or acquisition decisions that could have a material adverse effect on each or all of these areas.

Results of Operations

Revenues for the quarter ended June 30, 2002 increased 95% to $1,342,413 from $690,062 for the quarter ended June 30, 2001. For the six months ended June 30, 2002 and 2001, revenues grew 106% to $2,472,085 from $1,199,471, respectively. The increase from the prior year periods was attributable to growth in professional consulting services, which accounted for 31% and 43% of the growth from the prior year quarter and six-month period, respectively, and transaction fee revenue, which accounted for 30% and 32% of the growth from the prior year quarter and six-month period, respectively, due to an increase in the number of implemented billers and volume of transactions. As of June 30, 2002, we had 112 billers under contract who were in various stages of development, including 96 billers that were in full production or pilot stages, as compared to 60 billers in full production or pilot stages at June 30, 2001. Although revenue from transaction fees increased significantly from the prior year periods, transaction fees are not likely to become the major revenue source until consumer adoption rates increase. While consumer adoption rates cannot be controlled, we are working with our clients and partners to promote EBPP through consumer education and marketing programs and the utilization of programmatic adoption driving services such as Preferred Enrollment. The Company's first sale as a reseller of CheckFree's e-billing software in Australia also contributed 36% and 19% to the increases in revenue from the prior year quarter and six-month period, respectively. The sale was made to an Australian billing service provider that is also an equal partner with the Company in a joint venture formed to provide EBPP services to the Australian market.

During the six months ended June 30, 2002, the Company entered into two nonmonetary transactions whereby the Company licensed the use of its ASP payment gateway technology to certain third party software vendors to be used as an OEM component of their product offering in exchange for software products from those vendors. These exchanges were determined to culminate the earning process and the Company recognized revenue related to these transactions at the fair value of the software received in accordance with APB Opinion No. 29, "Accounting for Nonmonetary Transactions". The Company recognized $300,000 in a transaction where the Company's technology was exchanged for customer relationship management software and concurrent seat licenses to use in providing customer care services via the Internet or telephone. The Company also recognized $300,000 in a transaction where the Company's technology was exchanged for document archival and retrieval software to use in the storage of electronic billing statements. The book value of the gateway technology exchanged in both transactions was zero. The Company has capitalized the software received and is depreciating these assets over their estimated useful lives of three years.

Cost of revenues includes the cost of personnel dedicated to the design of electronic bill templates, creation of connections to third-party aggregators and payment processors, testing and quality assurance processes related to implementation and presentment, as well as professional staff dedicated to providing contracted services to EBPP customers under consulting arrangements. Cost of revenues also includes fees paid for presentation of consumer bills on Web sites powered by aggregators and processing of payments for EBPP transactions by third party providers. Cost of revenues was $1,452,061 and $1,226,250 for the quarters ended June 30, 2002 and 2001, respectively, and $2,657,156 and $2,458,566 for the six months ended June 30, 2002 and 2001, respectively. The increases from the prior year periods are attributable to the cost of the CheckFree software that was resold in the second quarter of 2002.

General and administrative expenses increased to $1,281,749 for the quarter ended June 30, 2002, from $1,089,326 for the prior year quarter. In May 2002, the Company renegotiated the lease terms for its corporate headquarters to provide for a reduction in future rent expense of approximately $1.6 million over the remaining term of the lease. The lease amendment required the Company to expense a portion of its prepaid rent, which resulted in a one-time charge of $312,000 for the second quarter of 2002 and caused the increase in expenses from the prior year quarter. In spite of this charge, general and administrative expenses for the first six months of 2002 decreased to $2,246,443 from $2,271,662 in the prior year period due to the restructuring and realignment of our organization during the latter half of 2001 to better position the Company for current economic and market conditions. We expect total general and administrative expenses to decrease for the remainder of 2002 as we realize the benefit of the rent and other cost reductions made during the second quarter of 2002 and continue to emphasize management of expenses.

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Selling and marketing expenses decreased to $245,973 and $568,561 for the quarter and six months ended June 30, 2002, respectively, from $551,036 and $1,374,393 for the comparable periods of 2001, respectively. The decrease from the prior year periods was primarily the result of reductions in our direct sales staff, which contributed 69% and 62% to the decrease from the prior year quarter and six-month period, respectively, as well as lower related travel expenses and trade show participation, which contributed 16% and 21% to the decrease from the prior year quarter and six-month period, respectively. As we have increased our focus on using strategic partners to provide sales opportunities related to the deployment and use of our EBPP services, we have experienced a significant decrease in the amount of expenses related to our direct sales channel. We will continue to analyze our sales and marketing efforts in order to control costs, increase the effectiveness of our sales force, and broaden our reach through reseller initiatives and advantageous alliances.

Research and development expenses consist primarily of the cost of personnel devoted to the design of new processes that will improve our electronic presentment and payment abilities and capacities, new customer care and direct marketing services, additional business-to-consumer applications, and integration of third-party applications. These expenses decreased 27% and 32% in the first quarter and six months of 2002, respectively, from the comparable prior year periods due to a focus on our core competencies in order to implement and service existing products. Research and development expenses were flat with those in the first quarter of 2002. We plan to maintain our research and development activities, as we believe this is critical in order to remain competitive.

Depreciation and amortization decreased to $340,718 for the quarter ended June 30, 2002, from $377,994 for the second quarter of 2001, as a result of certain assets becoming fully depreciated during 2002. During the six months ended June 30, 2002 and 2001, depreciation and amortization expenses were $764,717 and $752,257, respectively. This increase was due to depreciation related to the capital expenditures made for infrastructure and operating systems in support of our growth strategy. We acquired approximately $991,000 of property and equipment during the six months ended June 30, 2002 and anticipate making capital expenditures of approximately $300,000 over the remaining six months of 2002.

Net other expense was $32,296 for the quarter ended June 30, 2002, as compared to net other income of $168,103 for the second quarter of 2001. Net other income decreased to $453 for the six months ended June 30, 2002 from $251,635 for the prior year period. These changes were primarily attributable to lower interest income earned in 2002 as a result of lower investment balances and lower market interest rates.

Net loss improved to $2,149,182 for the quarter ended June 30, 2002, from $2,576,973 for the second quarter of 2001 primarily as a result of the increase in revenue of $652,000 from the prior year quarter. The overall decrease in total operating expenses from the prior year quarter was offset by the decrease in net other income. Net loss improved to $4,041,812 for the six months ended June 30, 2002, from $5,811,278 for the comparable period of 2001 primarily as a result of the increase in revenue of $1.3 million from the prior year period. Also contributing to the improvement was the overall decrease in total operating expenses of $947,000 from the prior year period that was offset partially by the decrease in net other income of $251,000.

Liquidity and Capital Resources

At June 30, 2002, the Company's principal sources of liquidity consisted of $3.1 million of cash and cash equivalents, including $800,000 of restricted cash, and $67,000 in short-term investments, compared to $6.2 million of cash and cash equivalents and $237,000 in short-term investments at December 31, 2001.

Net cash used in operating activities was $3.5 million and $5.6 million for the six months ended June 30, 2002 and 2001, respectively. The Company's average monthly net cash outflows, or cash burn rate, decreased from approximately $621,000 in the first quarter of 2002 to approximately $440,000 for the second quarter of 2002 as a result of one-time annual payments for items such as property taxes and insurance renewals in the first quarter. We plan to continue to focus on expending our resources prudently and expect to achieve positive cash flow in 2003 as a result of expense reductions and anticipated future revenues. The Company believes that positive cash flow will be realized before achieving profitability due to the Company's history of collecting up-front fees for certain work performed in implementing services for new customers and the expectation of future new service contracts and collection of similar fees related to them. Since these up-front implementation fees are deferred and recognized over

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the term of the related service contract while the related costs are expensed as incurred, cash receipts related to a new service contract that includes an up-front fee will typically exceed the amount of related revenue that is recognized during the implementation period following inception of such a contract. If sales of future new service contracts with up-front implementation fees do not occur as expected, the realization of positive cash flow may be delayed.

Net cash used in investing activities was $218,000 for the six months ended June 30, 2002 and primarily reflected capital expenditures of approximately $391,000 for computer equipment and software offset by the return of $176,000 of deposits. We anticipate making capital expenditures of approximately $300,000 for the remaining six months of 2002. Net cash provided by investing activities was $676,000 for the six months ended June 30, 2001 and reflected the sale of a marketable security held for investment for $1.0 million and purchases of property and equipment.

Net cash used in financing activities was $213,000 for the six months ended June 30, 2002 and included $645,000 of draws under the Company's line of credit and the restriction of $800,000 as collateral for the line of credit. Net cash provided by financing activities of $5.2 million for the six months ended June 30, 2001 resulted from proceeds, net of issuance costs, of $6.8 million from the issuance of common stock under the March 2001 private placement offering. The $1.5 million repayment of the outstanding line of credit in January 2001 reduced the amount of net cash provided by financing activities.

On March 29, 2002, the Company executed a working capital line of credit agreement with a bank in the amount of $700,000. Advances under the line of credit accrue interest at the prime rate minus 0.25%, with repayment terms of monthly interest-only payments and principal due in June 2003. As part of the line of credit agreement, the Company must maintain a minimum restricted cash balance of $800,000 with the bank. The Company borrowed $645,000 on this line of credit during the six months ended June 30, 2002.

Our capital requirements depend on several factors, including:

- The rate of consumer acceptance of the Internet, Internet technology, electronic commerce and our online services
- The ability to adapt quickly to rapid changes in technology and competition in electronic commerce and related financial services
- The ability to expand our customer base and increase revenues
- The level of expenditures for marketing and sales
- The level of purchases of computer equipment and software
- Possible acquisitions of or investments in complementary businesses, products, services and technologies
- The need to respond to unforeseen industry developments and other factors

We believe that our current cash and cash equivalents and investment balances along with anticipated revenues and additional debt financing will be sufficient to meet our anticipated cash needs for the foreseeable future; however, material shortfalls or variances from anticipated performance or unforeseen expenditures could require the Company to seek alternative sources of capital or to limit expenditures for operating or capital requirements. If such a shortfall in liquidity should occur, the Company has both the intent and the ability to take the necessary actions to preserve its liquidity through the reduction of expenditures. We expect to experience operating losses and negative cash flow for the next several quarters as we work toward achieving profitability and generating positive cash flow from operations.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Except for the historical information contained herein, the matters discussed in our Form 10-Q/A include certain forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief and expectations, such as statements concerning our future and our operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the Risk Factors section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Annual Report on Form 10-K/A for the year ended December 31, 2001 and other factors detailed from time to time in our filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect, our businesses and financial results in the future and could cause actual results to differ materially from plans and projections. We believe that the assumptions underlying the forward-looking statements included in this Form 10-Q/A will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Form 10-Q/A are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's current investment portfolio. Certain of the Company's marketable securities are designated as "available for sale" and accordingly, are presented at fair value on the balance sheets. The Company generally invests its excess cash in high-quality short- to intermediate-term fixed income securities. Fixed-rate securities may have their fair market value adversely impacted by a rise in interest rates, and the Company may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates.

Item 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this Quarterly Report on Form 10-Q/A, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934). Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective in ensuring that material information relating to the Company with respect to the period covered by this report was made known to them. Since the date of their evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses, other than a significant reduction in workforce of 36 employees in November 2002. The workforce reduction is not expected to have a significant effect on the effectiveness of the Company's disclosure controls, particularly with respect to the period covered by this report.

Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Description
3.1	Articles of Incorporation, as amended (incorporated by reference to such exhibit in the Registrant's Registration Statement on Form SB-2, filed December 29, 1999)
3.2	By-laws, as amended (incorporated by reference to such exhibit in the Registrant's Registration Statement on Form SB-2, filed December 29, 1999)
4.1	Rights Agreement, dated October 4, 2000 (incorporated by reference to such exhibit in the Registrant's Registration Statement on Form 8-A, filed October 11, 2000)
10.1	Securities Purchase Agreement, dated July 25, 2002, relating to the purchase and sale of a convertible note and warrant (incorporated by reference to such exhibit in the Registrant's Current Report on Form 8-K, filed August 1, 2002)

99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the three months ended June 30, 2002.

Items 1, 2, 3, 4 and 5 are not applicable and have been omitted.

SIGNATURE

Pursuant to the requirements 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.

Billserv, Inc.

By: /s/ Terri A. Hunter

Terri A. Hunter
Executive Vice President and
Chief Financial Officer
(Duly authorized and principal
financial and accounting officer)

Date: November 15, 2002

CERTIFICATIONS

I, Michael R. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Billserv, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 15, 2002

/s/ Michael R. Long

Michael R. Long
Chief Executive Officer

I, Terri A. Hunter, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Billserv, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 15, 2002

/s/ Terri A. Hunter

Terri A. Hunter
Chief Financial Officer

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