BILLSERV INC
Form 10-Q
May 14, 2003

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

FORM 10-Q

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

For the quarterly period ended March 31, 2003

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 May 1, 2003, 20,722,656 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

| | March 31, 2003 | December 31, |
|---|---|---|
| | (Unaudited) | (Note 1 |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 166,749 | $ 286,1 |
| Cash pledged as collateral for related party obligations | -- | 1,311,9 |
| Accounts receivable, net | 727,667 | 659,0 |
| Prepaid expenses and other | 162,288 | 257,8 |
| Total current assets | 1,056,704 | 2,514,9 |
| Property and equipment, net | 1,853,034 | 2,171,7 |
| Intangible asset, net | 18,750 | 22,5 |
| Total assets | $ 2,928,488 | $ 4,709,2 |
| Liabilities and stockholders' equity (deficit): | | |
| Current liabilities: | | |
| Accounts payable | $ 1,150,009 | $ 797,2 |
| Accrued expenses and other current liabilities | 639,289 | 707,7 |
| Payable under related party guarantees | -- | 1,278,1 |

| | | |
|---|---|---|
| Current portion of obligations under capital leases | 31,315 | 31,3 |
| Current portion of deferred revenue | 335,527 | 309,4 |
| Short-term borrowings | 1,800,000 | 1,800,0 |
| Total current liabilities | 3,956,140 | 4,923,8 |
| Obligations under capital leases, less current portion | 39,168 | 39,1 |
| Deferred revenue, less current portion | 57,448 | 91,4 |
| Stockholders' equity: | | |
| Common stock, $.001 par value, 200,000,000 shares authorized; 20,722,656 issued and outstanding at March 31, 2003, 20,603,799 issued and outstanding at December 31, 2002 | 20,723 | 20,6 |
| Additional paid-in capital | 46,793,027 | 46,770,1 |
| Accumulated deficit | (47,938,018) | (47,136,0 |
| Total stockholders' equity (deficit) | (1,124,268) | (345,2 |
| Total liabilities and stockholders' equity (deficit) | $ 2,928,488 | $ 4,709,2 |

See notes to interim consolidated financial statements.



BILLSERV, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Revenues | $ 903,739 | $ 1,129,672 |
| Cost of revenues | 717,041 | 1,205,096 |
| Gross margin | 186,698 | (75,424) |
| Operating expenses: | | |
| General and administrative | 554,524 | 964,693 |
| Selling and marketing | 25,811 | 322,587 |
| Research and development | 39,550 | 138,675 |
| Depreciation and amortization | 322,506 | 424,000 |
| Total operating expenses | 942,391 | 1,849,955 |
| Operating loss | (755,693) | (1,925,379) |
| Other income (expense), net: | | |
| Interest income | 4,168 | 35,977 |
| Interest expense | (44,393) | (5,622) |
| Equity in earnings of unconsolidated subsidiary | -- | 2,180 |
| Other income (expense) | (6,040) | 214 |

| | | |
|---|---|---|
| Total other income, net | (46,265) | 32,749 |
| Loss before income taxes | (801,958) | (1,892,630) |
| Income taxes | -- | -- |
| Net loss | $ (801,958) | $ (1,892,630) |
| Net loss per common share - basic and diluted | $ (0.04) | $ (0.09) |
| Weighted average common shares outstanding - basic and diluted | 20,686,189 | 20,577,813 |

See notes to interim consolidated financial statements.



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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net loss | $ (801,958) | $(1,892,630) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 322,506 | 424,000 |
| Equity in earnings of unconsolidated subsidiary | -- | (2,180) |
| Changes in current assets and current liabilities: | | |
| Increase in accounts receivable | (68,593) | (48,723) |
| Decrease in related party notes receivables | -- | 134,605 |
| (Increase) decrease in prepaid expenses and other | 95,522 | (83,239) |
| Increase in accounts payable, accrued expenses and other current liabilities | 284,346 | 126,815 |
| Decrease in deferred revenue | (7,985) | (181,994) |
| Net cash used in operating activities | (176,162) | (1,523,346) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | -- | (658,045) |
| Other investing activities | -- | (6,126) |
| Net cash used in investing activities | -- | (664,171) |
| Cash flows from financing activities: | | |
| Cash pledged as collateral for related party obligations | 1,311,984 | 104,157 |

| | | |
|---|---|---|
| Payments for related party obligations | (1,278,138) | -- |
| Proceeds from notes payable | -- | 300,000 |
| Principal payments for capital lease obligations | -- | (49,684) |
| Issuance of common stock, net of issuance costs | 22,960 | 39,145 |
| Net cash provided by financing activities | 56,806 | 393,618 |
| Net decrease in cash and cash equivalents | (119,356) | (1,793,899) |
| Cash and cash equivalents, beginning of period | 286,105 | 4,173,599 |
| Cash and cash equivalents, end of period | $ 166,749 | $ 2,379,700 |

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 generally accepted accounting principles 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 for the year ended December 31, 2002. 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, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles 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. Stock-Based Compensation

The Company applies the intrinsic value method under the recognition and measurement provisions of APB No. 25, "Accounting for Stock Issued to Employees", in accounting for its stock option and stock purchase plans. Accordingly, no stock-based employee compensation expense has been recognized for options granted with an exercise price equal to the market value of the underlying common stock on the date of grant or in connection with the employee stock purchase plan. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), to stock-based employee compensation.

| | Three Months Ended 2003 | |
|---|---|---|
| Net loss, as reported | $ (801,958) | $ |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (190,974) | |
| Pro forma net loss | (992,932) | |
| Net loss per common share - basic and diluted, as reported | $ (0.04) | $ |
| Net loss per common share - basic and diluted, pro forma | $ (0.05) | $ |

The effects of applying FAS 123 in this pro forma disclosure are not indicative of future amounts. Additional awards in future years are anticipated.

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Note 3. Related Party Transactions

As of December 31, 2002, the Company had pledged $1.3 million to collateralize certain margin loans of three officers and an ex-officer of the Company. The margin loans are from institutional lenders and are secured by shares of the Company's common stock held by these individuals. The pledged funds were classified as Cash pledged as collateral for related party obligations on the Company's balance sheet at December 31, 2002. During the fourth quarter of 2002, the Company recognized a loss of $1,278,000 and recorded a corresponding payable related to the probable loss. During the quarter ended March 31, 2003, the institutional lenders applied $1,278,000 of the pledged funds being held to satisfy the outstanding balances of the loans and released the remaining $34,000 for return to the Company. The total balance of the margin loans guaranteed by the Company was zero at March 31, 2003. The Company may institute litigation or arbitration concerning these matters, which may result in the assertion of claims by these officers under their employee agreements. The ultimate outcome of this matter cannot presently be determined.

Note 4. Going Concern

The Company has incurred substantial losses since inception and has experienced a material shortfall from anticipated revenues, which has led to a significant decrease in its cash position and a deficit in working capital. Also, the Company defaulted under its convertible debt agreement during the fourth quarter of 2002 and was unsuccessful in its attempt to access its funds held as collateral to guarantee certain executive margin loans (see Note 3) after attempting to retrieve such funds during the fourth quarter of 2002. Consequently, the Company believes that its current available cash along with anticipated revenues may be insufficient to meet its anticipated cash needs for the foreseeable future. Accordingly, the Company reduced expenditures for operating requirements, including a reduction of 36 employees in its workforce in November 2002, and is currently aggressively pursuing strategic alternatives, including investment in or sale of the Company or its primary assets. The satisfactory completion of a sale or additional investment in the Company is essential or the Company has no other alternative that will provide sufficient cash flows to meet current operating requirements. The sale of additional equity or convertible debt securities would result in additional dilution to the Company's stockholders, and debt financing, if available, may involve restrictive covenants which could restrict operations or finances. There can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all. If the Company cannot raise funds, on acceptable terms, or achieve positive cash flow, it may not be able to continue to exist, conduct operations, grow market share, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which would negatively impact its business, operating results and financial condition.

Note 5. Subsequent Events

On April 16, 2003, CyberStarts, Inc., a financial services technology holding company, signed a letter of intent to acquire certain assets of the Company. Under the agreement, CyberStarts will pay $4.8 million to purchase certain Billserv assets. The acquisition is subject to the negotiation and execution of definitive agreements, and approval by Billserv's shareholders. Currently, the assets to be purchased represent the Company's proprietary technology infrastructure along with certain third party software and hardware platforms and certain furniture and fixtures that support its service offerings, including its eServ and eConsulting products. The assets to be sold represent virtually all of the Company's assets, which it uses to produce nearly all of its revenue, therefore, in the event the purchase transaction is consummated, the Company will cease its primary operations and continue to operate its bills.com consumer bill payment portal and concentrate on building its electronic payments presence. During the quarters ended March 31, 2003 and 2002, these remaining operations that are expected to continue provided revenue of $24,000 and $15,000, respectively.

In March 2003, the Company's amended five-year operating lease for its corporate headquarters was terminated by the lessor for nonpayment of rent. Subsequently, the lessor executed a monthly lease with no renewal option for approximately 25,000 square feet with the Company.

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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 for the year ended December 31, 2002. All references to "we," "us" or "our" in this Form 10-Q 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.

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 continue as a going concern. To address these risks, we must, among other things, maintain our customer base, implement a successful cost reduction strategy, continue to maintain 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 March 31, 2003, we have an accumulated deficit of $47.9 million. The Company expects to continue to incur losses for the foreseeable future 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 client base, (c) meet evolving customer requirements and (d) adapt to technological changes in an emerging market. Accordingly, we intend to focus on activities that serve to encourage EBPP adoption by consumers and billers in order to increase revenue. 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, 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.
- 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, including payment 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 only.
- Online bill payment and management services for consumers through the bills.com Internet portal.

As a result of our limited operating history 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

Billserv's revenues are principally derived from fees for implementing EBPP capabilities, processing EBPP transactions and providing related customer care, and consulting services. Billserv also became a licensed reseller of CheckFree's e-billing software in Australia during 2002. Revenues by type for the three months ended March 31, 2003 and 2002 are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Service revenues: | | |
| Implementation revenues | $ 51,419 | $ 100,680 |
| Transaction revenues | 583,237 | 468,202 |
| Consulting revenues | 269,083 | 560,790 |
| Total revenues | $ 903,739 | $1,129,672 |

Revenues for the quarter ended March 31, 2003 decreased 20% to $903,739 from $1,129,672 for the quarter ended March 31, 2002. The decrease from the prior year quarter was primarily attributable to a decrease in consulting revenues, which includes revenue from the licensing of the Company's gateway technology.

The decrease in consulting revenues was partially offset by the increase in transaction fee revenue, which grew due to an increase in the number of implemented billers and volume of transactions. As of March 31, 2003, we had 128 billers under contract who were in various stages of development, including 118 billers that were in full production or pilot stages, as compared to 92 billers in full production or pilot stages at March 31, 2002.

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 $717,041 and $1,205,096 for the quarters ended March 31, 2003 and 2002, respectively. The decrease is primarily the result of lower salary and benefit costs due to the reduction of personnel during 2002.

General and administrative expenses decreased to $554,524 for the quarter ended March 31, 2003, from $964,693 for the first quarter of 2002. The decrease in such expenses from the prior year quarter is principally due to lower salary and benefit costs due to the reduction of personnel during 2002, which contributed 43% to the decrease, and lower rental expenses under the Company's amended lease agreement, which contributed 34% to the decrease.



Selling and marketing expenses decreased to $25,811 for the quarter ended March 31, 2003, from $322,587 for the first quarter of 2002. The decrease from the prior year quarter was primarily the result of reductions in our direct sales staff, which contributed 89% to the decrease from the prior year quarter, as well as lower related travel expenses, which contributed 5% to the decrease from the prior year quarter. 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.

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 71% in the first quarter of 2003 from the prior year quarter due to a focus on our core competencies in order to implement and service existing products.

Depreciation and amortization decreased to $322,506 for the quarter ended March 31, 2003, as compared to $424,000 for the first quarter of 2002. This decrease was due to lower depreciation related to certain assets that became fully depreciated during 2002. We did not purchase any property and equipment during the quarter ended March 31, 2003 and do not anticipate making any significant capital expenditures over the remaining nine months of 2003.

Net other expense was $46,265 for the quarter ended March 31, 2003, compared to net other income of $32,749 for the first quarter of 2002. This change is primarily attributable to higher interest expense related to the convertible debt issued in the third quarter of 2002 and lower interest income earned in 2003 as a result of lower invested balances.

Net loss improved to $801,958 for the quarter ended March 31, 2003, from

$1,892,630 for the first quarter of 2002 primarily as a result of the overall decrease in total operating expenses from the prior year quarter.

Liquidity and Capital Resources

At March 31, 2003, the Company's principal source of liquidity consisted of $167,000 of cash and cash equivalents, compared to $286,000 of cash and cash equivalents at December 31, 2002. The Company has incurred substantial losses since inception and has experienced a material shortfall from anticipated revenues, which has led to a significant decrease in its cash position and a deficit in working capital. Also, the Company defaulted under its convertible debt agreement during the fourth quarter of 2002 and was unsuccessful in its attempt to access its funds held as collateral to guarantee certain executive margin loans after attempting to retrieve such funds during the fourth quarter of 2002. Consequently, the Company believes that its current available cash and cash equivalents along with anticipated revenues may be insufficient to meet its anticipated cash needs for the foreseeable future. Accordingly, the Company is currently aggressively pursuing strategic alternatives, including investment in or sale of the Company or its primary assets. The satisfactory completion of a sale or additional investment in the Company is essential or the Company has no other alternative that will provide sufficient cash flows to meet current operating requirements. The sale of additional equity or convertible debt securities would result in additional dilution to the Company's stockholders, and debt financing, if available, may involve restrictive covenants which could restrict operations or finances. There can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all. If the Company cannot raise funds, on acceptable terms, or achieve positive cash flow, it may not be able to continue to exist, conduct operations, grow market share, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which would negatively impact its business, operating results and financial condition.

On April 16, 2003, CyberStarts, Inc., a financial services technology holding company, signed a letter of intent to acquire certain assets of the Company. Under the agreement, CyberStarts will pay $4.8 million to purchase certain Billserv assets. The acquisition is subject to the negotiation and execution of definitive agreements, and approval by Billserv's shareholders. Currently, the assets to be purchased represent the Company's proprietary technology infrastructure along with certain third party software and hardware platforms and certain furniture and fixtures that support its service offerings, including its eServ and eConsulting products. The assets to be sold represent virtually all of the Company's assets, which it uses to produce nearly all of its revenue, therefore, in the event the purchase



transaction is approved and consummated, the Company will cease its primary operations and continue to operate its bills.com consumer bill payment portal and concentrate on building its electronic payments presence. During the quarters ended March 31, 2003 and 2002, these remaining operations that are expected to continue provided revenue of $24,000 and $15,000, respectively. In the event that the purchase transaction is consummated, the Company believes that its remaining cash after payment of existing liabilities along with anticipated future revenues may be insufficient for it to continue as a going concern.

As of December 31, 2002, the Company had pledged $1.3 million to collateralize certain margin loans of three officers and an ex-officer of the Company. The margin loans are from institutional lenders and are secured by shares of the Company's common stock held by these individuals. The pledged funds were classified as Cash pledged as collateral for related party obligations on the Company's balance sheet at December 31, 2002. During the quarter ended March 31, 2003, the institutional lenders applied $1,278,000 of the pledged funds being held to satisfy the outstanding balances of the loans and released the remaining $34,000 for return to the Company. The total balance of the margin loans guaranteed by the Company was zero at March 31, 2003. The Company may institute litigation or arbitration concerning these matters, which may result in the assertion of claims by these officers under their employee agreements. The ultimate outcome of this matter cannot presently be determined.

Net cash used in operating activities was $176,000 and $1.5 million for the quarters ended March 31, 2003 and 2002, respectively. The Company plans to focus on expending its resources prudently given its current state of liquidity and does not expect to achieve positive cash flow from operations for 2003 as a result of lower than anticipated revenue growth.

There were no investing activities for the quarter ended March 31, 2003 due to the Company's current state of liquidity. We do not anticipate making any significant capital expenditures during the remaining nine months of 2003. Net cash used in investing activities was $664,000 for the quarter ended March 31, 2002 and primarily reflected capital expenditures for computer equipment and software, which amounted to approximately $658,000 in the first three months of 2002.

Net cash provided by financing activities was $57,000 for the quarter ended March 31, 2003 and included a net return of $34,000 under the Company's guarantees of related party obligations. Net cash provided by financing activities of $394,000 for the quarter ended March 31, 2002 included a $300,000 draw under the Company's line of credit.

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 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 for the year ended December 31, 2002 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 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 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, 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.

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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) |
| 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:

On March 18, 2003, the Company filed a report on Form 8-K regarding the resignation of three Directors of the Company.

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

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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: May 14, 2003

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CERTIFICATIONS

I, Michael R. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 14, 2003

/s/ Michael R. Long
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Michael R. Long
Chief Executive Officer



I, Terri A. Hunter, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 14, 2003

/s/ Terri A. Hunter

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Terri A. Hunter
Chief Financial Officer