RECOM MANAGED SYSTEMS INC DE/
Form 10QSB
August 12, 2003

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

Commission File Number 33-11795

RECOM MANAGED SYSTEMS, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	87-0441351
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

4705 Laurel Canyon Boulevard, Suite 203
Studio City, California 91607
(Address of principal executive offices)

(818) 432-4560
(Registrant's telephone number including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

As of July 31, 2003, the Registrant had 31,791,260 shares of common stock, $.001 par value, outstanding.

Transitional Small Business Disclosure format: Yes [ ] No [X]

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RECOM MANAGED SYSTEMS, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET
JUNE 30, 2003
(UNAUDITED)

ASSETS

CURRENT ASSETS	
Cash	$ 61,460
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net of accumulated	

depreciation of $27,830	153,362
TECHNOLOGY	56,643
TOTAL ASSETS	$ 271,465
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts Payable and Other Liabilities	$ 369,900
TOTAL LIABILITIES	369,900
STOCKHOLDERS' EQUITY	
Common Stock	31,605
Additional paid-in capital	1,965,629
Deficit accumulated during development stage	(2,095,669)
TOTAL STOCKHOLDERS' EQUITY	(98,435)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 271,465

RECOM MANAGED SYSTEMS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF OPERATIONS
(UNAUDITED)

	Successor Company	Predecessor Company	Successor Company	Predecessor Company	Successor C
	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	Cumulativ for the Pe September to June 30
Revenue	-	-	-	-	-
Research and Development	48,879	-	76,176	-	76,
General and Administrative Expenses	1,404,683	12,798	1,860,219	33,151	(2,019,
Net Loss	$(1,453,562)	$(12,798)	$(1,936,395)	$(33,151)	$(2,095,
Basic and Diluted Loss Per Share	$ (0.05)	**	$ (0.06)	**	$ (0

Basic and Diluted Weighted Average Number of Shares Outstanding	31,577,004	1,429,928	31,413,924	1,429,928	30,879,

** Per share amounts are not meaningful due to reorganization.

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RECOM MANAGED SYSTEMS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CASH FLOWS
(UNAUDITED)

	Successor Company	Predecessor Company	Successor Company
	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	Cumulative for the Period September 19, 2002 to June 30, 2003
Cash used in operating activities	$(354,322)	$(41,086)	$(531,199)
Cash Flows from Investing Activities:			
Purchase of equipment and technology	(84,202)	-	(113,243)
Cash Flows from Financing Activities:			
Capital contributions	3,295	35,000	24,695
Issuance of stock	348,000	-	555,786
Sale of warrants	-	-	125,000
Net cash provided by financing activities	351,295	35,000	705,481
Net increase (decrease) in cash	(87,229)	(6,086)	61,039
Cash at beginning of period	148,689	8,262	421
Cash at end of period	$ 61,460	$ 2,178	$ 61,460

RECOM MANAGED SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is in the development stage and has a limited operating history since its reorganization. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the classification and recoverability of recorded asset amounts or the amount of liabilities that may be incurred should the Company be unable to continue in existence. Continuation as a going concern is dependent on raising additional capital to fund the Company's planned operations. There is no assurance that the necessary funds will be generated.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements pursuant to Regulation S-B. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals considered necessary for a fair presentation) have been included. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information refer to the financial statements and footnotes included in the Form 10-KSB for the year ended December 31, 2002.

NOTE 2 - ACQUISITION OF TECHNOLOGY

On September 19, 2002, the Company acquired from ARC Finance Group LLC ("ARC"), certain know how, trade secrets and other intellectual property described below in exchange for 7,800,000 shares of the Company's common stock. This technology was valued at $7,800. As a result of this transaction, ARC owned approximately 84.5% of the Company's outstanding shares. This transaction is considered a reverse acquisition and as a capital transaction that results in a capital reorganization. Accordingly, the reorganized Company's assets have been reflected at fair value. In the reorganization, the Predecessor Company's intangible asset, Reorganization Value in Excess of Amount Allocated to Identifiable Assets (in the amount of $76,667) and its accumulated deficit (in the amount of $164,947) were eliminated against Additional Paid-in Capital. There has been no goodwill or intangible assets recognized for this reorganization in the financial statements.

The Company's technology relates to certain proprietary methods, processes and ideas concerning devices and services which, if successfully developed, may be capable of:

* accurately measuring heart functions

* automatically and remotely evaluating these functions over the telephone, the Internet, or other wireless transmission systems

* providing the patient and the patient's physician(s) with vital heart and other data on a real time basis to provide early warnings about the patient's heart functions.

No assurance can be given that commercial products or services will ever result or that those products or services will be accepted by regulatory agencies, physicians, patients or insurance providers.

NOTE 3 - CAPITAL TRANSACTIONS

On April 1, 2003, the Company issued 260,004 shares of common stock (on a post split basis) for $100,000 in cash and $561,801 in expenses (valued using the market value of shares issued) and equipment. On April 15, 2003 the Company split its stock three for one. All share amounts and earnings per share have been presented on a post split basis.

The Company also issued 11,045 shares of stock for marketing services valued at $34,791 (valued using the market value of shares issued).

The Company also issued a total of 900,000 warrants to purchase shares of restricted common stock at $.50 per share. These warrants were issued for services including: the introduction of the Company to investment banking firms; assistance in the structuring of the Company's private offerings; assistance in capital market transactions, mergers and acquisitions, advisory services; and assistance in developing strategic relationships. The Company recognized a $708,000 expense in connection with the issuance of these warrants (valued using the Black-Scholes Model).

On May 19, 2003 the Company completed the first tranche of its current private placement by issuing 82,667 units for $248,000. Each unit consisted of one share of restricted common stock and one Class A common stock purchase Warrant. Each Class A Warrant will entitle the holder to purchase one share of common stock at a price equal to the bid price of the Company's common stock on each tranche closing date and one Class B Warrant. Each Class B Warrant will entitle such holder to purchase one additional share of common stock at a price equal to 200% of the exercise price of the A Warrants.

NOTE 4 - SUBSEQUENT EVENTS

On July 21, 2003, the Company closed the second tranche of its current private placement in the amount of $250,000. The investors in the second tranche also received warrants similar to those issued in the first tranche.

On July 7, 2003 the Company issued 92,474 common shares in exchange for services valued at $337,530 (valued using the market value of shares issued).

On July 17, 2003 the Company retained Maxim Group, LLC, a New York based investment banking firm to act as its lead investment bank. Maxim will provide, among other services, assistance with the Company's financing efforts as it attempts to secure additional capital for product development as well as to fund the process of gaining approval for the Company's cardiac monitoring device by the FDA. Maxim will also assist the Company with general business strategy and with seeking a listing on a national exchange.

On July 28, 2003 the Company issued 19,151 shares to individuals for marketing and business services to be performed during the quarter ending September 30, 2003. These services were valued at $72,774 based on market value of the shares issued.

As the Company has previously announced, the Company recently retained Maxim Group to, among other things, complete a series of financings. Based on the agreement with certain shareholders of Advanced Heart Technologies, Inc. ("AHT") previously entered into by the Company as set forth in the Company's Form 10-KSB for the year ended December 31, 2002, the Company believes that in the event the Company completes a financing of more than two million dollars ($2,000,000), it is possible that up to 4% of any such financing will be utilized by the Company to pay down obligations assumed by the Company previously alleged to be owed to certain AHT shareholders by the Company Chief Technology Officer (and the Inventor of the Company's technologies), Budimir S. Drakulic in the amount of not more than a total of $480,100. The Company assumed this obligation when it signed an agreement to obtain the services of Mr. Drakulic for ten years. The Company provides no assurances that it will ever complete such a financing, or that other conditions precedent in the referenced agreement will ever be satisfied to an extent requiring the Company to actually make such payment out of the proceeds of any equity offerings. Furthermore, the referenced agreement is complex and the Company provides no assurances that its reading of the agreement will ultimately be concurred with by the other parties to the agreement.

ITEM 2. MANAGEMENT'S PLAN OF OPERATION.

FORWARD-LOOKING INFORMATION

This Report on Form 10-QSB contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding the Company contained in this report that are not historical in nature, particularly those that utilize terminology such as "may," "will," "should," "likely," "expects," "anticipates," "estimates," "believes" or "plans," or comparable terminology, are forward-looking statements based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Details about these risks are set forth in the Company's Report on Form 8-K which was filed with the SEC in September 2002.

PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS

The Company intends to proceed with further development and possible commercialization of products and services which employ or otherwise utilize the technology described in Note 2 above. We plan to develop a belt that is worn by the patient which will hold both the electrodes and the electronics. This development will be accomplished in stages with the first stage housing only the electrodes with the electronics in a separate module. Subsequent development will incorporate the electronics in the belt along with the electrodes. We have initiated the study of alternative algorithms for the analysis of ECGs and the Company is also evaluating the advisability of submitting its proof of concept system for hospital institutional review board testing. We are also in discussions with various medical centers regarding beta testing of the low power electronics version of our system.

The Company currently has sufficient cash on hand to fund development and operations through September 2003, because the Company raised approximately $500,000 from the private sale of equity during May-July 2003. The Company needs to continue raising capital to finance its business. The Company entered into an investment banking agreement with Maxim Group, LLC during July 2003, and Maxim Group is expected to assist the Company in conducting a private offering in the range of $1 million to $3 million. If this offering is not successful, the Company will continue to raise capital on its own. Future development tasks and accomplishments are highly dependent upon having adequate funding to support future development milestone activities.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based upon their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

None.

ITEM 2. Changes in Securities.

During April 2003, the Company issued 112,812 shares of its restricted common stock to Mitchell J. Stein for a total consideration of $250,000 ($2.22 per share). The consideration included $100,000 in cash and $150,000 of expenses and capitalized assets which had previously been advanced by Mr. Stein. The Company relied on Section 4(2) of the Securities Act of 1933, as amended. Mr. Stein executed a stock purchase agreement in which he represented that he was acquiring the shares for investment only and not for the purpose of resale or distribution. The appropriate restrictive legend was placed on the certificate and stop transfer instructions were issued to the transfer agent.

During the three months ended June 30, 2003, the Company sold 82,667 units to three accredited investors at $3.00 per unit in cash. Each unit consisted of one share of common stock and one warrant. Each warrant is exercisable at $3.00 until May 14, 2004. Upon exercise of the warrants each investor will receive one share of common stock and an additional warrant to purchase one share of common stock at $6.00 per share until November 15, 2004. The Company relied on the exemption provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder. The investors received a disclosure document and they executed a Subscription Application and a Common Stock Purchase Agreement in which they represented that they were acquiring the units for investment purposes. The certificates for the warrants and the shares contain restrictive legends.

On April 15, 2003 the Company issued to Brookstreet Securities Corporation warrants to purchase 200,000 shares of the Company's common stock pursuant to an investment banking agreement. The warrants were issued in four tranches of 50,000 each with the first tranche of 50,000 fully vested and exercisable at $1.25 per share. The second tranche will vest in 90 days after the date of the agreement and will have an exercise price of $2.25 per share. The third tranche will vest in 180 days and will have an exercise price of $3.25 per share. The fourth tranche will vest in 270 days and will have an exercise price of $4.25 per share.

During the three months ended June 30, 2003 the Company's Board of Directors approved the issuance of five-year warrants to purchase 900,000 shares of the Company's common stock at $.50 per share to a firm which was retained to perform various services including: the introduction of the Company to investment banking firms; assistance in the structuring of the Company's private offerings; assistance in capital market transactions, mergers and acquisitions; advisory services; and assistance in developing strategic relationships. The agreement for the above referenced services was entered into on March 10, 2003. The warrants do not include any registration rights but they do contain a cashless exercise provision. The Company relied on Section 4(2) of the Securities Act of 1933, as amended. The appropriate restrictive legend was placed on the warrant certificate.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

ITEM 5. Other Information.

See Subsequent Event footnote to the financial statements above.

ITEM 6. Exhibits and Reports on Form 8-K.

a. Exhibits.

31.1	Certification of Chief	Filed herewith

	Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	electronically
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	Filed herewith electronically
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	Filed herewith electronically

b. Reports on Form 8-K.

None.

SIGNATURES

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.

RECOM MANAGED SYSTEMS, INC.

Date: August 12 2003

By:/s/ Marvin H. Fink
Marvin H. Fink, Chief Executive Officer

Date: August 12, 2003

By:/s/ Charles E. McGill
Charles E. McGill, Chief Financial Officer