

RECOM MANAGED SYSTEMS INC DE/
Form 10QSB
May 17, 2004

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

FORM 10-QSB

(Mark One)

Quarterly Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For The Quarterly Period Ended March 31, 2004

Transition Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For The Transition Period From _____ To _____

Commission File No. _____

RECOM MANAGED SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0441351
(I.R.S. Employer
Identification No.)

4705 Laurel Canyon Boulevard, Suite 203
Studio City, California 91607
(818) 432-4560
(Address Of Principal Executive Offices)
(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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 requirements for the past 90 days: YES NO

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 33,345,262 shares of common stock, par value \$0.001 per share, as of April 30, 2004

TABLE OF CONTENTS

	Page
ADVISEMENTS	i
BALANCE SHEET	1
STATEMENTS OF OPERATIONS	2
STATEMENT OF STOCKHOLDERS EQUITY	3
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	8
PLAN OF OPERATION	11
Overview	11
Results Of Operations	12
Plan Of Business Through End Of Fiscal 2005	12
Liquidity And Capital Resources	14
UNCERTAINTIES AND OTHER RISK FACTORS THAT MAY AFFECT OUR FUTURE RESULTS AND FINANCIAL CONDITION	14
Risks Relating To Our Business	14
Risks Relating To An Investment In Our Securities	20
LEGAL PROCEEDINGS	23
CHANGES IN SECURITIES AND USE OF PROCEEDS	23
Modification Of Instruments Defining Rights Of Holders Of Class Of Registered Securities	23
Limitation Or Qualification Of Rights Of Class Of Registered Securities By Issuance Or Modification Of Any Other Class Of Securities	23
Recent Sales Of Unregistered Equity Securities	23
Use Of Proceeds Of Registered Offerings	25
Repurchases Of Equity Securities	25
DEFAULTS UPON SENIOR SECURITIES	25
SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	25
DISCLOSURE CONTROLS AND PROCEDURES	25
OTHER INFORMATION	25
Voluntary Reports	25
Material Changes To Director Nominee Procedures	25
EXHIBITS AND REPORTS ON FORM 8-K	26
Exhibits	26
Reports on Form 8-K	28
SIGNATURES	28
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER	29
CERTIFICATION OF PRINCIPAL ACCOUNTING AND FINANCIAL OFFICER	30

ADVISEMENTS

Unless the context requires otherwise, "*Recom*", *the company*, "*we*", "*us*", "*our*" and similar terms refer to Recom Managed Systems, Inc. Our common stock, par value \$.001 per share, and our series A; preferred stock, par value \$.001 per share, are commonly referred to in this report as our *common shares* and *series A preferred shares*, respectively. The information in this report is current as of the date of this report (May 1, 2004), unless an earlier date is specified.

We prepare our interim consolidated financial statements in accordance with United States generally accepted accounting principles. Our consolidated financial condition and results of operations for the three-month interim period ended March 31, 2004 are not necessarily indicative of our prospective consolidated financial condition and results of operations for the full fiscal year ended December 31, 2004. The interim consolidated financial statements presented in this report as well as other information relating to our company contained in this report should be read in conjunction with the annual consolidated financial statements and more detailed background information relating to our company and our business contained in our annual report on form 10-KSB for our fiscal year ended December 31, 2003.

On April 11, 2003, we effected a split in our common shares on a 3:1 forward basis through the mechanism of a stock dividend. Whenever we make any reference in this report to the grant or issuance of common shares or options or warrants to purchase common shares, such reference shall, for comparison purposes, be made in reference to post-split numbers and, in the case of options and warrants, exercise prices, unless we state otherwise.

In this report we make a number of statements, referred to as "*forward-looking statements*", which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as "*seek*", "*anticipate*", "*believe*", "*estimate*", "*expect*", "*intend*", "*plan*", "*budget*", "*project*", "*may be*", "*may continue*", "*may likely result*", and similar expressions. When reading any forward looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, such as those relating to: (1) the success of our research and development activities, the development of a viable commercial production model, and the speed with which regulatory authorizations and product launches may be achieved; (2) whether or not a market for our products develops and, if a market develops, the pace at which it develops; (3) our ability to successfully sell our products if a market develops; (4) our ability to attract the qualified personnel to implement our growth strategies, (5) our ability to develop sales, marketing and distribution capabilities; (6) our ability to obtain reimbursement from third party payers for the products that we sell; (7) the accuracy of our estimates and projections; (8) our ability to fund our short-term and long-term financing needs; (9) changes in our business plan and corporate strategies; and (10) other risks and uncertainties discussed in greater detail in the sections of this report, including those captioned "*Plan of Operation*" and *Uncertainties And Other Risk Factors That May Affect Our Future Results And Financial Condition*.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this report as well as other public reports we file with the United States Securities and Exchange Commission (the "*SEC*"), including our annual report on form 10-KSB for our fiscal year ended December 31, 2003. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this report to reflect new events or circumstances unless and to the extent required by applicable law.

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
BALANCE SHEET
March 31, 2004

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 3,251,490
Prepaid expenses and other current assets	89,684
	3,341,174
Total current assets	3,341,174
Property, plant and equipment, net of accumulated depreciation of \$39,751	157,855
Intangibles - patents, net of accumulated amortization of \$13,933	183,206
	3,682,235
TOTAL ASSETS	\$ 3,682,235

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 372,308
	372,308
STOCKHOLDERS EQUITY	
Series A convertible preferred stock, \$.001 par value; 10,000,000 shares authorized; 1,786,308 shares issued and outstanding	\$ 1,786
Common stock, \$.001 par value; 100,000,000 shares authorized; 33,141,322 shares issued and outstanding	33,141
Additional paid-in capital	11,959,856
Deferred compensation	(92,848)
Deficit accumulated during development stage	(8,592,008)
	3,309,927
TOTAL STOCKHOLDERS EQUITY	3,309,927
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,682,235

The accompanying notes are an integral part of these financial statements.

RECOM MANAGED SYSTEMS, INC.

(A Development Stage Company) STATEMENTS OF OPERATIONS

For The Quarters Ended March 31, 2004 And 2003 And From Inception
Of Development Stage (November 7, 2000) To March 31, 2004

	For the Quarters Ended March 31,		From Inception of Development Stage (Nov. 7, 2000) to March 31, 2004
	2004	2003 (Restated)	
Revenue	\$	\$	\$
Research and development	190,255	30,083	755,386
General and administrative expenses	946,154	1,369,126	5,991,027
Total expense	1,136,409	1,399,209	6,746,413
Loss before income taxes	(1,136,409)	(1,399,209)	(6,746,413)
Provision for income taxes			
Net loss	\$ (1,136,409)	\$ (1,399,209)	\$ (6,746,413)
Preferred dividend	109,334		2,062,500
Net loss attributed to common stockholders	\$ (1,245,743)	\$ (1,399,209)	\$ (8,808,913)
Basic and diluted loss per share attributed to common stockholders	\$ (0.03)	\$ (0.04)	\$ (0.41)
Basic and diluted loss per share to common stockholders	\$ (0.04)	\$ (0.04)	\$ (0.53)
Weighted average shares outstanding basic and diluted	33,072,549	31,250,844	16,614,443

The accompanying notes are an integral part of these financial statements.

RECOM MANAGED SYSTEMS, INC. (A Development Stage Company) STATEMENT OF STOCKHOLDERS EQUITY From Inception Of Development Stage (November 7, 2000) To March 31, 2004
--

	Common Stock		Series A Convertible Preferred Stock		Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	From Inception (Nov. 7, 2000) To Dec. 31, 2003
	Shares	Amount	Shares	Amount				
2000:								
Balance November 7, 2000 (as restated for 3:1 stock split)	4,139,784	\$ 4,139		\$	\$ (4,139)	\$	\$	\$
Contributed capital					35,000			35,000
Net loss							(36,673)	(36,673)
Balance December 31, 2000	4,139,784	4,139			30,861		(36,673)	(1,673)
2001:								
Capital contributed					45,000			45,000
Shares issued for services July 2001 \$0.033	150,000	150			4,850			5,000
Net loss							(50,000)	(50,000)
Balance December 31, 2001	4,289,784	4,289			80,711		(86,673)	(1,673)
2002:								
Capital contributed					56,400			56,400
Warrants issued for Cash					125,000			125,000
Issuance of common stock for:								
Technology Sept. 2002 \$0.006	23,400,000	23,400			54,623			78,023
Services rendered Oct. 2002 \$0.021	2,925,000	2,925			17,958	(19,678)		1,205
Cash Oct 2002 \$0.03	564,810	565			17,221			17,786
Cash Nov 2002 \$2.66	71,250	71			189,929			190,000
Contributed services officer					20,000			20,000
Warrants issued for services					5,324			5,324
Net loss							(211,954)	(211,954)
Balance December 31, 2002	31,250,844	\$31,250		\$	\$ 567,166	\$ (19,678)	\$ (298,627)	\$ 280,111

(continued on next page)

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS EQUITY

From Inception Of Development Stage (November 7, 2000) To March 31, 2004
(Continued)

	Common Stock		Series A Convertible Preferred Stock		Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated From During Inception (Nov. 7, 2000) To Dec. 31, 2003	
			Shares	Amount			Shares	Amount
2003:								
Issuance of common stock for cash and contributed property April 2003 \$2.22	112,812	\$ 113		\$	\$ 249,887	\$	\$	\$ 250,000
Issuance of common stock for cash:								
May 2003 \$3.00	82,667	83			247,917			248,000
May 2003 \$3.33	75,075	75			249,925			250,000
Issuance of common stock for services:								
April 2003 \$2.80	147,192	147			411,654			411,801
April 2003 \$3.15	11,045	11			34,780			34,791
July 2003 \$3.67	111,625	112			410,192			410,304
August 2003 \$3.68	33,188	33			121,103			121,136
September 2003 \$3.77	24,292	24			91,673			91,697
October 2003 \$4.78	15,385	15			73,525			73,540
November 2003 \$3.65	18,834	19			68,783			68,802
December 2003 \$3 60	5,953	6			21,425			21,431
Cashless exercise of warrants	1,105,000	1,105			(1,105)			
Contributed services officer					80,000			80,000
Employee stock options issued below market					38,400			38,400
Amortization of deferred compensation						6,668		6,668
Warrants issued for:								