

HOY THOMAS L
Form 4
January 31, 2019

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HOY THOMAS L

2. Issuer Name and Ticker or Trading Symbol
ARROW FINANCIAL CORP
[AROW]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction
(Month/Day/Year)
01/30/2019

Director 10% Owner
 Officer (give title below) Other (specify below)
Chairman

ARROW FINANCIAL CORPORATION, 250 GLEN STREET

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

GLENS FALLS, NY 12801

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D) Code V Amount (D) Price			
Common Stock					181,722	D	
Common Stock					2,851	I	Wife's IRA
Common Stock					5,676	I	By Wife w/Broker

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Title and Amount of Underlying Securities (Instr. 3 and 4)
Director Stock Option (Right to Buy)	\$ 31.71	01/30/2019		A	1,000	(1) 01/30/2029	Common Stock	1,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HOY THOMAS L ARROW FINANCIAL CORPORATION 250 GLEN STREET GLENS FALLS, NY 12801	X			Chairman

Signatures

Thomas J. Murphy, Attorney
in Fact 01/31/2019

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The options vests in four equal installments beginning January 30, 2020

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. align=right width="10%"> 80,711

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	(86,673)
Capital contributed	(1,673)
	56,400
Warrants issued for cash	56,400
	125,000
Issuance of common stock for:	125,000
Technology Sept. 2002 \$0.006	23,400,000
	23,400
	54,623

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Services rendered	Oct. 2002	\$0.021	78,023
			2,925,000
			2,925
			17,958
			(19,678)
Cash	Oct 2002	\$0.03	1,205
			564,810
			565
			17,221
Cash	Nov 2002	\$2.66	17,786
			71,250
			71
			189,929
Contributed services	officer		190,000
			20,000
			20,000

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RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
From Inception Of Development Stage (November 7, 2000) To December 31, 2003
(Continued)

	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				
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
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)			

(continued on next page)

F-5

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
From Inception Of Development Stage (November 7, 2000) To December 31, 2003

	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				
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
Options and warrants issued for:								
Services					2,196,068	(219,010)		1,977,058
Financing cost					74,088			74,088
Issuance of preferred stock for cash			1,792,975	1,793	5,376,857			5,378,650
Series A preferred offering expenses					(572,785)			(572,785)
Preferred stock beneficial conversion feature					896,474		(896,474)	
Allocation of fair value to warrants					949,121		(949,121)	
Preferred stock accrued dividend payable					(107,575)			(107,575)
Net loss							(5,311,377)	(5,311,377)
Balance December 31, 2003	32,993,912	\$ 32,993	1,792,975	\$ 1,793	\$ 11,477,573	\$ (232,020)	\$ (7,455,599)	\$ 3,824,740

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF CASH FLOWS
For The Years Ended December 31, 2003 And 2002 And From
Inception Of Development Stage (November 7, 2000) To December 31, 2003

	For the Years Ended December 31		From Inception of Development Stage (Nov. 7, 2000) to Dec. 31, 2003
	2003	2002	
Cash flow from operating activities:			
Net loss	\$ (5,311,377)	\$ (211,954)	\$ (5,610,004)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	50,897	693	51,590
Amortization of deferred compensation	6,668	1,205	7,873
Salary as contributed capital	80,000	20,000	100,000
Common stock issued for services	1,383,503	1,205	1,388,503
Options and warrants issued for services and financing	2,089,546		2,094,870
Change in assets and liabilities:			
Prepaid expenses	(92,934)	(37,815)	(130,749)
Accounts payable and accrued expenses	470,517	2,829	483,281
Net cash used in operating activities	(1,323,180)	(219,718)	(1,614,636)
Cash used in investing activities:			
Purchase of equipment	(180,703)	(29,041)	(209,744)
Capitalized technology cost	(90,951)		(90,951)
Net cash used in investing activities	(271,654)	(29,041)	(300,695)
Cash flow from financing activities:			
Capital contributions		56,400	136,400
Sale of common stock for cash	598,000	207,786	805,786
Sale of preferred stock for cash, net of expenses	5,805,865		4,805,865
Sale of warrants for cash		125,000	125,000
Net cash provided by financing activities	5,403,865	389,186	5,873,051
Net Increase (decrease) in cash and cash equivalents	3,809,031	140,427	3,957,720
Cash and cash equivalents at beginning of period	148,689	8,262	
Cash and cash equivalents at end of period	\$ 3,957,720	\$ 148,689	\$ 3,957,720

(continued on next page)

F-7

RECOM MANAGED SYSTEMS, INC.

(A Development Stage Company)

STATEMENT OF CASH FLOWS

**For The Years Ended December 31, 2003 And 2002 And From
Inception Of Development Stage (November 7, 2000) To December 31, 2003
(Continued)**

Supplemental Cash Flow Information:

For the years from inception of development stage (November 7, 2000) to December 31, 2003, the Company paid no interest or income taxes.

Supplement Investing and Financing Activities:

In September 2002, 23,400,000 shares of the Company's common stock were issued for a patent valued at \$78,023.

In October 2002, the Company issued 2,925,000 of the Company's common stock as compensation under employment agreements with multi-year terms. The shares were valued at \$20,883, the fair value of the stock at issuance date. The Company has recognized \$7,873 of compensation expense for these agreements through December 31, 2003.

In November 2002, the Company issued warrants to a consultant to purchase the Company's common stock under consulting contracts. The value of the warrants, based upon the fair value of the stock using the Black-Scholes option model is \$5,324. The Company recorded compensation expense of \$5,324 for this agreement.

The Company recorded compensation expense of \$80,000 and \$20,000 for the years ended December 31, 2003 and 2002, respectively for the Chief Executive Officer of the Company. This compensation was recorded as additional paid in capital.

During the year ended December 31, 2003, the Company issued 367,514 shares of common stock, for marketing and business services rendered during the period. These services were valued at \$1,236,905 based upon the market value of the shares at the date of issuance.

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

1. ORGANIZATIONAL MATTERS

Reorganization

On June 26, 2000, Recom Managed Systems, Inc. (the Company) (a Development Stage Company) filed a Voluntary Petition for Reorganization Under Chapter 11 of the Federal Bankruptcy Code and substantially curtailed operations. The Plan of Reorganization was confirmed on November 7, 2000, at which date the Company became a development stage company under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7. This resulted in the post bankruptcy ownership group controlling approximately 87% of the common stock and the elimination of the outstanding liabilities and most assets.

On September 19, 2002, the Company issued 23,400,000 (7,800,000 pre-split) shares of common stock in exchange for intangible technology. The issuance of this stock resulted in a change of control, with the new ownership group controlling approximately 85% of the Company's outstanding stock. See Note 3, Asset Acquisition. The Company is now developing technology in the medical device market focused on cardiac monitors and other diagnostic medical devices which monitor and measure the body's physiological signals in order to detect and prevent medical complications and diseases.

Stock Split

On April 2, 2003, the Board of Directors declared a three-for-one stock split effective as of the close of business on April 11, 2003. All share amounts, exercise prices relating to share purchase options and warrants, and earnings per share in these financial statements and notes have been presented on a post-split basis unless stated otherwise.

Basis of Presentation

The Company has not generated any revenues to date, and no assurance can be given that the Company will produce successful commercial products or services. Further, no assurance can be given that the regulatory agencies, physicians, patients, or insurance providers will accept the products or services. However, the Company will continue its business plan to develop its line of products, which management currently believes will be ready for market approximately in late 2005. Management also believes that the Company has sufficient capital to fund its operations for up to 24 months of operations. The Company successfully raised approximately \$4,806,000 in a unit offering, net of offering expenses (see Note 9, Unit Offering).

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates These financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, management has estimated the expected economic life and value of its patents, the net operating loss for tax purposes and the stock, option and warrant expenses related to compensation to consultants and investment banks. Actual results could differ from those estimates.

Fair Value of Financial Instruments For certain of the Company's financial instruments, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their relatively short maturities.

Cash and Equivalents Cash equivalents are comprised of certain highly liquid investments with maturity of three months or less when purchased. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such account.

Equipment Equipment is recorded at historical cost. Maintenance and repairs are expensed as incurred. Depreciation is provided by the straight-line method over three to five years.

Intangible and Long-Lived Assets The Company follows SFAS No. 144, Accounting for Impairment of Disposal of Long-Lived Assets, which established a primary asset approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long lived asset to be held and used.

Advertising Costs The Company expenses advertising costs as incurred. The Company had advertising costs of \$11,800 for the year ended December 31, 2003 and did not have any advertising costs in the year ended December 31, 2002.

Research and Development Costs Research and development costs consist of expenditures for the research and development of patents, which are not capitalizable. The Company's research and development costs consist mainly of payroll and payroll related expenses, consultants and FDA regulatory expenses.

Stock Based Compensation SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of the grant or the date at which the performance of the services is completed and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation to employees. The Company has elected to use the intrinsic value based method for its employees and directors and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation to employees.

The Company uses the fair value method for equity instruments granted to non-employees and uses the Black Scholes model for measuring the fair value. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed and is recognized over the periods in which the related services are rendered.

Pro Forma Information

Pro forma information regarding the effects on operations as required by SFAS No. 123 and SFAS No. 148, has been determined as if the Company had accounted for its employee stock options under the fair value method of those statements. Pro forma information is computer using the Black Scholes method at the date of grant based on the following assumptions ranges: (i) risk free interest rate of 1.42% to 3.13%; (ii) dividend yield of 0%; (iii) volatility factor of the expected market price of the Company's common stock of 53.84% to 158.48%; and (iv) an expected life of the options of 1.5 years.

This option valuation model requires input of highly subjective assumptions. Because the Company's employee common stock purchase options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value of estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of its employee common stock purchase options.

The Company's pro forma information is as follows:

	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002
Net loss as reported	\$ (5,311,377)	\$ (211,954)
Current period expense calculated under APB 25	38,400	
Stock compensation calculated under SFAS 123	(730,865)	
	<hr/>	<hr/>
Pro forma net loss	\$ (6,003,842)	\$ (211,954)
	<hr/>	<hr/>
Basic and diluted historical loss per share	\$ (0.17)	\$ (0.02)
	<hr/>	<hr/>
Pro forma basic and diluted loss per share	\$ (0.19)	\$ (0.02)
	<hr/>	<hr/>

Income Taxes Deferred income taxes result primarily from temporary differences between financial and tax reporting. Deferred tax assets and liabilities are determined based on the difference between the financial statement bases and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded to reduce a deferred tax asset to that portion that is expected to more likely than not be realized.

Net Loss Per Share The Company uses SFAS No. 128, "Earnings Per Share" for calculating the basic and diluted loss per share. Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

The Company reported a net loss per share of \$0.17 for the year ended December 31, 2003 and \$0.02 for the year ended December 31, 2002. For the years ended December 31, 2003 and 2002, 7,121,431 potential shares and 1,800,000 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their effect is anti-dilutive.

Comprehensive Income Comprehensive income is not presented in the Company's financial statements since the Company did not have any of the items of other comprehensive income in any period presented.

New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. Interpretation 46 changes the criteria by which one company includes another entity in its consolidated financial statements. Previously, the criteria were based on control through voting interest. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity.

In December 2003 the FASB concluded to revise certain elements of FIN 46, which will be issued shortly. The FASB also modified the effective date of FIN 46. For all entities that were previously considered special purpose entities, FIN 46 should be applied in periods ending after December 15, 2003. Otherwise, FIN 46 is to be applied for registrants who file under Regulation S-X in periods ending after March 15, 2004, and for registrants who file under Regulation S-B in periods ending after December 15, 2003. The Company does not expect the adoption to have a material impact on the Company's financial position or results of operations.

During April 2003, the FASB issued SFAS 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of when issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, however, is evaluating the effect of this new pronouncement, if any, and will adopt FASB 149 within the prescribed time.

During May 2003, the FASB issued SFAS 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The Company is evaluating the effect of this new pronouncement and will adopt FASB 150 within the prescribed time.

3. ASSET ACQUISITION

On September 19, 2002, the Company acquired certain know how, trade secrets and other proprietary intellectual property rights relating to the development of a human biomedical signal amplification equipment and technology, referred to in these financial statement as the "Signal Technologies", from ARC Finance Group, LLC (ARC) in exchange for 23,400,000 shares of common stock (7,800,000 shares pre-split). As a result of this transaction, ARC acquired approximately 84.5% of the Company's outstanding shares. The Company has valued the issuance of the common stock at \$78,023, which was ARC Finance Group's historical cost basis for the patents.

4. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment as of December 31, 2003 are as follows:

	December 31, 2003
Computer equipment	\$ 68,070
Leasehold improvements	66,792
Furniture and fixtures	50,000
Software	15,904
Other equipment	8,284
Total property, plant and equipment	209,050
Accumulated depreciation	39,751
Property, plant and equipment, net	\$ 169,299

5. PATENTS AND TECHNOLOGY

The Company has one patent and three patent applications concerning its proprietary amplification technology which enables devices to more accurately discriminate physiological signals from electromagnetic background noise than existing amplification technologies. See Note 13,

Subsequent Events for a discussion of the recent FDA approval for the Company's 12-lead, 24-hour ECG heart monitoring device. The value of the patent and the technology is recorded at the historical cost of \$168,974, with accumulated amortization of \$11,146 of December 31, 2003. The Company inherited a licensing agreement with the patent acquisition and therefore the patent has been placed in service (see Note 3). The Company is amortizing the initial patent valued at \$78,023 over the estimated useful life of 7 years. The aggregate amortization expense will be \$56,000 over the next five years. The remaining balance in the intangible account is the cost of further development of the amplification technology including the patent application costs.

6. OPERATING LEASE

The Company has one operating lease for its office space in Studio City, California. The lease expires on August 31, 2005. As of January 1, 2004, the lease was amended to add contiguous office space. The amended lease expires on August 31, 2005. The future lease payments until the end of the lease are \$162,840.

7. CONTINGENT SETTLEMENT PAYABLE

In conjunction with Dr. Budimir Drakulic becoming a Vice President and Chief Technology Officer, the Company also reached an agreement-in-principle with Dr. Drakulic to offer to sell common shares to certain individuals in order to protect the Company's rights to the Signal Technologies. As part of that agreement, the Company agreed that should it raise more than \$2 million in certain offerings, it would pay 4% of the proceeds of those offerings greater than \$2 million to those individuals up to a maximum amount of \$480,350. There are ongoing discussions with these individuals relative to the payment of this obligation based upon certain issues the Company believes may relieve it of the liability to make such payment. The Company has entered into settlement agreements totaling \$110,000 of the maximum amount with four of those investors releasing the Company from the obligation to pay.

In October 2003, the Company raised \$5,378,750 in a unit offering (See Note 9, Unit Offering), and at this time has a maximum potential obligation related to this offering of \$104,241 (included in accounts payable and accrued expenses).

8. INCOME TAXES

All prior net operating loss carryovers were eliminated due to change of ownership in September 2002. The Company has provided no current income taxes due to the losses incurred in 2003 and 2002. Net operating losses for tax purposes of \$6,713,917 and \$184,203 at December 31, 2003 and December 31, 2002, respectively, are available for carryover. The net operating losses will expire from 2022 through 2023. A 100% valuation allowance has been provided for the deferred tax benefit resulting from the net operating loss carryover. The Company has recorded a valuation allowance for the full amount of the deferred tax asset resulting from the net operating loss carryover due to the reorganized Company's limited operating history. In addressing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. A reconciliation of the statutory Federal income tax rate and the effective income tax rate for the year ended December 31, 2003 and 2002 follows:

	December 31, 2003	December 31, 2002
Statutory federal income tax rate	(35)%	(35)%
Accounting effect of:		
Consultant options/warrant expense	12%	--
Consultant options/warrant exercise	(19)%	--
Valuation allowance	42%	35%
Effective income tax rate	0%	0%

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The tax effects of accounting and tax differences that give rise to the deferred tax assets at December 31, 2003 and 2002, are presented below:

	December 31, 2003	December 31, 2002
Deferred tax assets:		
Net operating loss carryforwards	(5,311,377)	(184,203)
Consultant options/warrant expense	2,284,146	--
Consultant options/warrant exercise	(3,690,000)	--
Gross deferred assets	(6,717,231)	(184,203)
Valuation allowance	(6,717,231)	(184,203)
Net deferred tax assets	--	--

9. UNIT OFFERING

During October 2003, the Company sold 53,2875 units with each unit consisting of 33,334 shares of its series 'A' convertible preferred stock and 16,667 class 'C' common stock purchase warrants at a price of \$100,000 per unit. The proceeds to the Company, net of expenses, was approximately \$4,806,000. Each class 'C' warrant entitles the holder to purchase one share of common stock at an exercise price of \$3.75 per share. The class 'C' warrants are exercisable anytime during the four year period commencing on the final closing and do not contain provisions for cashless exercise.

In accordance with EITF 00-27, the proceeds were allocated to the class C common stock purchase warrants based on their relative fair value, which totaled \$949,146 using the Black Scholes option pricing model. Further, a beneficial conversion feature of \$896,474 was attributed to the series A convertible preferred stock and was determined as the difference between the conversion price of the convertible preferred and the closing stock price of the Company on the date of issuance. The assumptions used in the Black Scholes mode are as follows: (i) dividend yield of 0%; (ii) expected volatility of 81.16%, (iii) weighted average risk-free interest rate of 1.68%, and (iv) expected life of 1.5 years as the conversion feature and warrants are immediately exercisable. Both the fair value of the warrants and the beneficial conversion feature were recorded as a dividend and are included on the face of the statement of operations.

The series 'A' convertible preferred stock will pay dividends of 8% annually (\$107,579), accrued and included in accounts payable and accrued expenses as of December 31, 2007), to be paid quarterly either in cash or in the form of convertible preferred stock at the Company's discretion. The series 'A' convertible preferred stock will be valued at \$3 per share when it is issued as a dividend. Each holder of the series 'A' convertible preferred stock will have the option at any time to convert all or any portion of the series 'A' convertible preferred stock held by such holder into common stock. The series 'A' convertible preferred stock shall have a liquidation value equal to \$3 per share and shall be convertible into common stock on a one-for-one basis (the "Conversion Price"). The series 'A' convertible preferred stock shall be senior to all other shares of capital stock now existing or hereinafter created of the Company as to dividend and liquidation rights and shall have voting rights as if converted into common stock.

The Company can force conversion of the series 'A' convertible preferred stock into common stock upon 45 days written notice to the holders of the series 'A' convertible preferred stock, if (1) the common stock is listed on a qualified exchange (NASDAQ, AMEX or NYSE); (2) the closing price of the common stock is at least \$7.50 for 30 consecutive trading days; and (3) the common stock underlying the conversion is subject to an effective registration statement filed with the SEC pursuant to the Securities Act of 1933.

The Company issued the Placement Agent a warrant exercisable into 179,292 units, each unit comprising one share of series A convertible preferred stock and a common stock purchase warrant exercisable into one-half share of common stock at \$3.75 per share and valued at \$238,430 using the Black Scholes model. The Placement Agent's warrant is exercisable at \$3.60 per share and will expire five years following the date of issuance.

10. OTHER EQUITY TRANSACTIONS

Non-Related Party Equity Transactions

The Company issued 150,000 shares (post-split) of its common stock during the year ended December 31, 2001 to various consultants and service providers as partial compensation for services rendered to the Company.

In March 2003, the Company issued 21,000 warrants at an exercise price of \$0.81 per share, for which the company recognized a total of \$13,927 in expense in connection with the issuance of warrants for services rendered. The fair value of warrants was recorded using the Black Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 158.48%, (iii) weighted-average risk-free interest rate of approximately 3.13%, and (iv) expected life of 1.5 years.

In March 2003, the Company's Board of Directors approved the issuance of five-year warrants to purchase 900,000 shares (300,000 pre-split) 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 fair value of warrants was estimated at \$657,779 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 158.48%, (iii) weighted-average risk-free interest rate of approximately 1.65%, and (iv) expected life of 1.5 years.

On April 15, 2003, the Company committed to issue to Brookstreet Securities Corporation warrants to purchase 200,000 shares of the Company's common stock pursuant to an investment banking agreement. The warrants are issuable 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. The fair value of warrants was estimated at \$418,187 under the Black Scholes option-pricing model computed as of the measurement date, which is the date the services were performed (vesting date). The following assumptions were used: (i) dividend yield of 0%, (ii) expected volatility range of 53.84% to 114.24%, (iii) weighted-average risk-free interest rate range of 1.42% to 2.57%, and (iv) expected life of 1.5 years.

In May 2003, the Company completed the first tranche of a private placement pursuant to which it sold 82,667 units to three investors at \$3.00 per unit for cash amounting to \$248,000. 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.

On June 20, 2003, the Board of Directors amended the Company's articles of incorporation to increase the number of authorized shares to 110,000,000 shares, designating 100,000,000 to common stock and 10,000,000 to preferred stock. The Board of Directors is authorized to provide from time to time for the issuance of shares of preferred stock in series and to fix and determine from time to time, before issuance, the designation and relative rights and preferences of the shares of each series of preferred stock and the restrictions or qualifications. See Note 9, Unit Offering .

On June 2, 2003, the Company committed to issue to a consultant warrants to purchase 108,000 shares of the Company's common stock at \$2.40 pursuant to a consulting agreement. The warrants are issuable on demand. The fair value of warrants was estimated at \$199,226 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 114.24%, (iii) weighted-average risk-free interest rate of approximately 1.42%, and (iv) expected life of 1.5 years.

On July 17, 2003 the Company retained Maxim Group, LLC ("Maxim") a New York based investment banking firm to act as its lead investment bank. Under that agreement Maxim provides, 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. Maxim was paid \$50,000 at the inception of the agreement and will be paid \$7,500 per month through June 30, 2004. In addition, Maxim received a total of 100,000 warrants to purchase shares of restricted common stock at \$4.92 per share. The fair value of warrants was estimated at \$133,349 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 81.16%, (iii) weighted-average risk-free interest rate of approximately 1.68%, and (iv) expected life of 1.5 years.

In July 2003, the Company closed the second tranche of a private placement by selling 75.075 units to four investors for total cash of \$250,000, under terms consistent with the first tranche.

In September 2003, the Company issued a consultant warrants to purchase 25,000 shares of the Company's common stock at an exercise price of \$3.29 per share. The fair value of warrants was estimated at \$41,202 under the Black Scholes option-pricing model computed as of the measurement date, which is the date that the services were performed, using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 81.16%, (iii) weighted-average risk-free interest rate of approximately 1.68%, and (iv) expected life of 1.5 years

In September 2003, the Company issued 305,000 shares of restricted common stock to three persons pursuant to the cashless exercise provisions of common stock purchase warrants held by such persons.

In November 2003, The Company issued 800,000 shares of restricted common stock to an investment banking company pursuant to the cashless exercise provisions of the common stock purchase warrants held by such company. The warrants were exercised with the cashless exercise provisions of the common stock purchase warrant agreement.

During the year ended December 31, 2003, the Company issued in the aggregate 367,514 shares of common stock, for marketing and business services rendered during the period.

These services were valued at \$1,236,905 based upon the fair market value of the shares determined as the closing stock price as reported on the OTCBB system, at the date of issuance.

Related Party Equity Transactions

During the years ended December 31, 2002, 2001 and 2000, the Company's former President and former majority shareholder contributed capital totaling \$56,400, \$45,000 and \$35,000. This contribution was made for working capital purposes.

At September 19, 2002, the former President purchased a warrant for \$125,000. The warrant is to purchase 600,000 (200,000 pre-split) shares of common stock at an exercise price of \$0.667 per share, which was above the current market price at the date of issuance. The warrant may not be exercised before September 1, 2003, expires in September 2006, and contains cashless exercise options and certain anti-dilution and other provisions.

On October 12, 2002, the Company agreed to issue a total of 2,100,000 (700,000 pre-split) shares of its common stock to Marvin H. Fink pursuant to a four-year employment agreement whereby Mr. Fink will serve as the Company's Chief Executive Officer and Chairman of the Board of Directors (see Note 12, Commitments And Contingencies). The shares were valued at \$15,190, reflecting the current market value for the Company's common stock on the measurement date and vest at the rate of 8.33% or 174,999 (58,333 pre-split) shares per quarter with the first vesting on January 12, 2003. The value is being expensed over the life of the agreement of which \$5,063 and \$906 was expensed during the year ended December 31, 2003 and 2002, respectively, and the remainder is presented as deferred compensation in Stockholders' Equity. Also, per Mr. Fink's employment agreement, he is to be paid \$1.00 each year of his agreement. The Company has estimated that the values of his services are approximately \$80,000 per year. The Company has determined that an additional annual expense of \$80,000 should be recorded to fairly present the value of the services rendered and which has been recorded for the year ended December 31, 2003. For the year ended December 31, 2002, the Company has recorded additional compensation expense of \$20,000, which will be classified as contributed capital.

On October 15, 2002, the Company agreed to issue a total of 600,000 (200,000 pre-split) shares of its common stock to B World Technologies, Inc. (a company owned by Budimir Drakulic) pursuant to a Loanout Agreement with Budimir Drakulic and B World Technologies, Inc. whereby Dr. Drakulic will work as an independent contractor for the Company and serve as Vice President and Chief Technology Officer for a term of ten years (see Note 12, Commitments And Contingencies). The shares were valued at \$4,140, the current market value for the Company's common stock on the measurement date and vest at the rate of 5% or 30,000 (10,000 pre-split) shares per quarter with the first shares vesting on January 15, 2003. The value is being expensed over the life of the agreement of which \$828 and \$153 was expensed during the years ended December 31, 2003 and 2002, respectively, and the remainder is presented as deferred compensation in Stockholders' Equity.

Effective October 15, 2002, the Company agreed to issue a total of 225,000 (75,000 pre-split) shares of its common stock to Ellsworth Roston pursuant to a two-year consulting agreement whereby Mr. Roston will consult with the Company with respect to the engineering, development and refining of the Company's technologies (see Note 12, Commitments And Contingencies). Mr. Roston also agreed to join the Company's Board of Directors. The shares were valued at \$1,553, the current market value for the Company's common stock on the measurement date and vest at the rate of 28,125 (9,375 pre-split) shares per quarter with the first shares vesting on February 1, 2003. The value is being expensed over the life of the agreement of which \$777 and \$146 was expensed during the years ended December 31, 2003 and 2002, respectively, and the remainder is presented as deferred compensation in Stockholders' Equity.

On October 30, 2002, Mr. Roston became a Director on the Company's Board and for \$190,000 purchased 71,250 (23,750 pre-split) shares of the Company's common stock and a five-year warrant to purchase 450,000 (150,000 pre-split) shares of the Company's common stock at an exercise price of \$1.667 per share.

On October 22, 2002, the Company issued a total of 564,810 (188,270 pre-split) shares of common stock to eleven individuals for total cash consideration of \$17,786, which was entered into in conjunction with Dr. Budimir Drakulic becoming a Vice President and Chief Technology Officer of the Company and also in order to protect the Company's rights to the acquired patented signal technologies.

On October 11, 2002, the Company issued a five-year warrant to purchase 375,000 (125,000 pre-split) shares of common stock for \$0.007 per share exercisable immediately to one of the individuals mentioned above who also received shares of common stock. The fair value of warrants was estimated at \$5,324, which was expensed as of December 30, 2002, using the Black Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 120.25%, (iii) weighted-average risk-free interest rate of approximately 3.01%, and (iv) expected life of 1.25 years.

In February 2003, the Company issued 216,000 options, in two tranches, to Lowell Harmison for consulting work related to helping the Company with the FDA review process for its heart monitoring device currently in development. The first tranche of options allow Mr. Harmison to purchase 108,000 shares of common stock (36,000 shares pre-split) at \$0.97 per share, exercisable over five years and immediate vesting. A second tranche of 108,000 options vest over three years on a quarterly basis. The fair value of the first tranche of 108,000 options was \$80,456 estimated using the Black Scholes option-pricing model computed as of the grant date with the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 158.48%, (iii) weighted-average risk-free interest rate of approximately 1.65%, and (iv) expected life of 1.5 years. The second tranche of 108,000 options are measured on the vesting dates which are the dates that the services were completed. As of December 31, 2003 there have been three quarterly vestings which were fair valued with the Black Scholes model at \$74,643 and are amortized over the remaining life of the contract. The following assumptions were used in the model: (i) dividend yield of 0%, (ii) expected volatility range between 53.84% and 114.24%, (iii) weighted average risk free rate of between 1.42% and 1.86%, and (iv) expected life of 1.5 years.

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In March 2003, the Company entered into a consulting agreement with its then CFO for certain financial and accounting services, and issued him options to purchase 900,000 (300,000 pre-split) shares of the Company's common stock at \$0.95 per share. The options were issued as compensation for services. The options vest quarterly over a 3-year period. The agreement was terminated in November 2003 with 150,000 options having vested over two quarters. The options have been valued using the Black Scholes value option method; with a measurement date as the date the services are rendered. The fair value of the options was estimated at \$574,196 under the Black-Scholes option-pricing model computed as of the date the services were rendered using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility range of 81.16% to 114.24%, (iii) weighted-average risk-free interest rate of 1.42% to 1.68%, and (iv) expected life of 1.5 years.

On April 1, 2003, the Company completed the private placement of 112,792 (37,604 pre-split) shares of its common stock for a total consideration of \$250,000. The consideration included \$100,000 in cash and the cancellation of \$150,000 of debt previously advanced for \$33,208 in expenses and \$116,792 of furniture and fixtures and leasehold improvements from a related party.

In August 2003, the Company entered into voluntary trading restriction agreements with three shareholders in exchange for warrants to purchase a total of 23,501 shares of the Company's common stock at a price of \$3.29 per share. In September 2003, the Company entered into a voluntary trading restriction agreement with a shareholder in exchange for warrants to purchase 18,000 shares of the Company's common stock at 85% of the closing price of the common stock on the date of the agreement (\$5.29 at September 23, 2003). The fair value of the warrants was estimated at \$74,088 under the Black Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 81.16%, (iii) weighted-average risk-free interest rate of approximately 1.68%, and (iv) expected life of 1.5 years.

The number and weighted average exercise prices of common stock options and warrants issued to consultants and others are as follows: (excluding warrants referred to in Note 9, Unit Offering)

	December 31, 2003		December 31, 2002	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	975,000	\$ 0.21		\$
Granted during the period	2,780,439	1.46	975,000	0.21
Exercised during the period	1,205,000	0.54		
Terminated during the period	750,000	0.95		
Outstanding at end of the period	1,800,439	1.72	975,000	0.20
Exercisable at end of the period	1,583,932	\$ 1.64	375,000	\$ 0.01

The following table summarizes information on common stock purchase options and warrants outstanding issued to consultants and others at December 31, 2003: (excluding warrants referred to in Note 9, Unit Offering)

Range of Exercise Prices	Remaining Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Fair Value	Weighted Average Exercise Price
\$0 to 1	682,000	3.6	\$ 1.16	\$ 0.83
1 to 2	50,000	4.3	\$ 2.01	\$ 1.25
2 to 3	158,000	4.4	\$ 2.11	\$ 2.35
3 to 4	367,439	4.7	\$ 1.28	\$ 3.55
4 to 5	150,000	4.5	\$ 1.19	\$ 4.70
5 to 6	18,000	4.7	2.09	\$ 5.29

Range of Exercise Prices	Remaining Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Fair Value	Weighted Average Exercise Price
\$0 to 1	375,000	3.8	\$ 0.02	\$ 0.01

11.STOCK OPTIONS

Stock Plans

On November 1, 2002, the Company's Board of Directors approved the establishment of the 2002 Stock Plan (the "2002 Stock Plan"). The Company's shareholders approved the plan on June 5, 2003. The total number of shares of common stock available for grant and issuance under the plan may not exceed 6,000,000 (2,000,000 pre-split) shares, subject to adjustment in the event of certain recapitalizations, reorganizations and similar transactions. Common stock purchase options may be exercisable by the payment of cash or by other means as authorized by the committee or the Board of Directors. At December 31, 2003, the Company had issued 3,090,000 common share purchase options under the plan.

On March 31, 2003, the Company's Board of Directors approved the establishment of the 2003 Nonqualified Stock Option And Stock Plan (the "2003 Stock Plan"). The 2003 Stock Plan allows the Board to grant common stock purchase options or issue free-trading or restricted common stock from time to time to the Company's employees, officers, directors and consultants. The total number of shares of common stock available for grant and issuance under the plan may not exceed 1,500,000 (500,000 pre-split) shares, subject to adjustment in the event of certain recapitalizations, reorganizations and similar transactions. Options may be exercisable by the payment of cash or by other means as authorized by the Board of Directors. Options granted under the 2003 Stock Plan will not qualify under Section 422 of the Internal Revenue Code as incentive stock options. At December 31, 2003, the Company had issued 367,514 shares of common stock under the plan, and no options.

Information On Options And Warrants Issued To Employees

The number and weighted average exercise prices of common stock purchase options and warrants issued to employees are as follows:

	December 31, 2003		December 31, 2002	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period		\$		\$
Granted during the period	1,866,000	1.14		
Exercised during the period				
Terminated during the period				
Outstanding at end of the period	1,866,000	1.14		
Exercisable at end of the period	1,002,750	\$ 1.03		\$

Range of Exercise Prices	Remaining Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Fair Value	Weighted Average Exercise Price
\$0 to 1	1,740,000	4.2	\$ 0.62	\$ 0.92
1 to 2			\$	\$
2 to 3	10,000	4.3	\$ 1.48	\$ 2.85
3 to 4	10,000	4.6	\$ 1.46	\$ 3.75
4 to 5	106,000	4.6	\$ 0.82	\$ 4.31

12. COMMITMENTS AND CONTINGENCIES

The Company employs Mr. Marvin H. Fink as its Chief Executive Officer and Chairman of the Board currently under a four-year employment agreement entered into effective as of October 12, 2002. The essential terms of the employment agreement are as follows:

- Mr. Fink's initial base salary under the agreement is \$1 per year. Following the one-year anniversary of the agreement, the Board of Directors may review and adjust the base salary in light of the Company's performance.
- Mr. Fink is entitled to a cash bonus for his second through fourth years of employment. The amount of the bonus is 10% of the after tax income exclusive of extraordinary expenses for the second year, and 15% of that amount for the third and fourth years.
- Mr. Fink is granted 2,100,000 "restricted" shares of common stock (700,000 shares pre-split), to be earned over three years of continuous employment. These shares, which are held in escrow by the company pursuant to the terms of a restricted stock agreement until they are earned, vest in tranches of 174,999 each at the end of the first eleven quarters of Mr. Fink's employment, with the balance vesting at the end of the twelfth quarter. Mr. Fink is entitled to all dividends, which may be declared with respect to these shares, even if not vested. See Note 10, Other Equity Transactions .
- The agreement contains a "gross up" provision obligating the Company to make a cash payment to Mr. Fink to cover any taxes he may incur by reason of receiving any payment or distribution that would constitute an excess golden parachute payment under the federal tax laws. The gross up provision also applies to the 2,100,000 restricted shares of common stock described above, however, Mr. Fink exercised his section 83(b) election under the Internal Revenue Code subjecting him to immediate taxation upon the receipt of the shares notwithstanding their future forfeitability, so the Company's liability, if any, for any taxes imposed under that grant should be nominal.

- Should the Company's shares of common stock be listed on any of the NYSE, AMEX or Nasdaq national stock exchanges or markets, Mr. Fink would be entitled, if then still employed by the Company, to an additional grant of 600,000 shares of common stock (200,000 shares pre-split).
- In the event of a change in control (as that term is defined in the employment agreement), Mr. Fink would be entitled, if then still employed by the Company, to an additional grant of common stock having a market value of \$5,000,000, but not to exceed 600,000 shares (200,000 shares pre-split) in total.
- Mr. Fink is entitled to a number of employee benefits under the agreement, including a \$1,200 per month automobile allowance, individual medical plan reimbursement of up to \$2,000 per month until the Company adopts a group plan for the Company's employees, and the right to participate in all benefit plans established for the Company's employees or executives, including medical, hospitalization, dental, long-term care and life insurance programs.
- The employment agreement provides for early termination in the case of Mr. Fink's death or disability, Mr. Fink's termination by the Company for "cause" as that term is defined in the agreement; Mr. Fink's termination of employment for "good reason" as that term is defined in the agreement, a "change in ownership" as that term is defined in the agreement, or sixty days' prior notice by Mr. Fink. In the event of an early termination of the agreement for any reason, all compensation and benefits under the agreement will terminate and the unvested portion of the 2,100,000 restricted common share grant shall be deemed forfeit as of the effective termination date, with the following exceptions:
 - If the agreement is terminated during years two through four due to Mr. Fink's disability, termination by Mr. Fink for good reason; the Company's termination of Mr. Fink without cause, or a change in ownership, Mr. Fink will nevertheless be entitled to a pro rata portion (based upon the actual number of days of employment) of the cash bonus based on the Company's after-tax income that he would have otherwise received for the year of termination had he remained employed until the end of that year
 - If the agreement is terminated due to Mr. Fink's death, disability, termination by Mr. Fink for good reason; The Company's termination of Mr. Fink without cause, or a change in ownership, the unvested portion of the 2,100,000 restricted common share grant to Mr. Fink will become fully vested and the shares released from escrow; and
 - Mr. Fink and his family will be entitled to an additional three years' medical, hospitalization, dental, long-term care and life insurance coverage if the agreement is terminated by Mr. Fink for good reason or terminated by The Company's termination without cause, and an additional one years' coverage if the agreement is terminated due to Mr. Fink's disability.

The Company has engaged Dr. Budimir Drakulic as Vice President and Chief Technology Officer on an independent contractor basis under a loan-out agreement dated October 15, 2002 with two companies, B World Technologies, Inc. and B Technologies, Inc., and Dr. Drakulic individually. Dr. Drakulic is the president and owner of these companies. The essential terms of the agreement are as follows:

- The agreement provides for a ten-year initial term. After the initial term, the agreement renews automatically for successive one-year terms, unless either party delivers 90-days' written notice to the other of their intent not to renew.
- Dr. Drakulic's services are provided on a mutually-acceptable part-time basis.

- The Company is obligated to pay B Technologies a \$10,000 bonus upon execution, and a monthly service fee of \$15,000 thereafter.
- B World Technologies was granted 600,000 "restricted" shares of common stock (200,000 shares pre-split), to be earned over five years of continuous provision of services by Dr. Drakulic. These shares, which will be held in escrow with the company pursuant to the terms of a restricted stock agreement until they are earned, vest at the rate of 30,000 shares per quarter with the first 30,000 shares vesting on January 15, 2003. B World Technologies is entitled to all dividends, which may be declared with respect to these shares, even if not vested. See Note 10, Other Equity Transactions .
- The loan-out agreement provides for early termination should B World and B Technologies fail, neglect or refuse to provide Dr. Drakulic's services. In such an event, all compensation under the agreement will terminate and the unvested portion of the 600,000 restricted common share grants shall be deemed forfeit as of the effective termination date.

Concurrent with entering into the loan-out agreement, B World Technologies, B Technologies and Dr. Drakulic signed an employment, confidential information, invention assignment and arbitration agreement under which they agreed, among other things, to assign to the Company all of Dr. Drakulic's right, title and interest in and to any and all inventions, discoveries, etc. which he conceives or develops while engaged by the Company.

In conjunction with Dr. Drakulic becoming our Vice President and Chief Technology Officer, we also reached an agreement-in-principle with Dr. Drakulic to offer to sell our common shares to certain individuals in order to protect our rights in the Signal Technologies. Pursuant to this understanding, on October 22, 2002, we sold 564,810 common shares (188,270 shares pre-split) to eleven of those individuals, and issued a five-year warrant to purchase 375,000 common shares (125,000 shares pre-split) for \$0.007 per share to one of those individuals, in consideration of their cash investment of \$17,786. We further agreed that should we raise more than \$2 million in certain offerings, to pay 4% of the proceeds of those offerings to those individuals up to the amount of \$480,350. We are currently in discussion with those individuals relative to the payment of this obligation based upon certain issue we believe may relieve us of the liability to make such payment, and have entered into settlement agreements with four of those investors releasing the Company from the obligation to pay \$110,000 of the \$480,350. See Note 7, Contingent Settlement Payable .

Since March 1, 2003, Dr. Drakulic has worked for the Company on a full-time basis even though the loan-out agreement only provides for the provision of part-time services. The Company has agreed to characterize these additional services as being provided by Dr. Drakulic as an employee, and to pay him \$7,500 annually as compensation for their provision.

On March 10, 2003, as additional incentive for the performance of Dr. Drakulic, the Company granted to B World Technologies options entitling it to purchase 750,000 shares of common stock at \$0.95 per share. These options vest quarterly over a four-year term, and lapse, if not exercised, on March 9, 2008.

Mr. Ellsworth Roston, one of the Company's Directors, provides consulting services to the Company under a two-year agreement dated November 1, 2002. Under this agreement, Mr. Roston provides advice to the Company relating to engineering, developing and refining the Company's products and technologies. Mr. Roston also agreed under the agreement to act as a member of the Company's Board of Directors during its term. Mr. Roston is a patent attorney who handles the Company's patent work. The agreement specifically provides that the consulting services provided by Mr. Roston will not include any legal work, for which the Company will compensate him separately. In compensation for his consulting services, the Company granted to Mr. Roston 225,000 "restricted" shares of common stock (75,000 shares pre-split). See Note 10, Other Equity Transactions .

Dr. Lowell T. Harmison, one of the Company's Directors, provides consulting services to the Company under a three-year agreement dated February 14, 2003. Under this agreement, Dr. Harmison provides advice to the Company in the areas of technological support and strategy, product development, medical and scientific advisory board development, and FDA regulation. The compensatory terms of the agreement are as follows:

- The Company is obligated to pay Dr. Harmison \$36,000 per year over the term of the agreement, payable quarterly. Dr. Harmison was entitled to receive upon execution of the agreement an initial grant of options entitling him to purchase 216,000 shares of common stock, in two tranches of 108,000 options, (36,000 shares pre-split) at \$0.97 per share, exercisable over five years. The first tranche of 108,000 options vest immediately and the second tranche of 108,000 options vest over three years on a quarterly basis. The fair value of the first tranche of options was \$80,456 estimated using the Black-Scholes option-pricing model computed as of the measurement dates, which is the grant date, with the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 158.48%, (iii) weighed-average risk-free interest rate of approximately 1.65, and (iv) expected life of 1.5 years. The second tranche of 108,000 options are measured on the vesting dates which are the dates that the services were completed. As of December 31, 2003 there have been three quarterly vestings which were fair valued with the Black Scholes model at \$74,643 and are amortized over the remaining life of the contract. The following assumptions were used in the model: (i) dividend yield of 0%, (ii) expected volatility range between 53.84% and 114.24%, (iii) weighted average risk free rate range of between 1.42% and 1.86%, and (iv) expected life of 1.5 years.
- Dr. Harmison is entitled to receive options exercisable into shares of common stock in tranches of 20,000 shares per milestone for assisting the Company in attaining various milestones determined by the Company's Board of Directors, including the preparation and filing with the FDA of a 510(k) application for the Company's product, approval of that application by the FDA, and market launch of that product.
- A grant of 20,000 shares of common stock in the event of a "change in control" as that term is defined in the agreement.

In the event the agreement is terminated by the Company for any reason other than negligence, misconduct, breach of its material terms by Dr. Harmison or the failure of Dr. Harmison to render services in a reasonable fashion, all compensation prospectively payable under the agreement will become due and payable in 90 days.

13. SUBSEQUENT EVENTS

On January 28, 2004, the Company received a 510(k) approval from the Food and Drug Administration (FDA) to proceed with the sales and marketing of its first medical device, a 12-lead, 24-hour ECG heart monitoring device. The approval provides that the Company may market the device subject to requirements of annual registration, listing of devices, good manufacturing practice, labeling, prohibitions against misbranding and adulteration as well as other legal provisions.

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RECOM MANAGED SYSTEMS, INC.

INTERIM FINANCIAL STATEMENTS

JUNE 30, 2004

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
BALANCE SHEET
June 30, 2004

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,583,682
Prepaid expenses and other current assets	70,765
	2,654,447
Total current assets (including related party loans of \$22,200)	2,654,447
Property, plant and equipment, net of accumulated depreciation of \$67,924.	143,714
Intangibles patents, net of accumulated amortization of \$16,719	222,332
	3,020,493
TOTAL ASSETS	\$ 3,020,493
LIABILITIES AND STOCKHOLDERS EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 446,368
	446,368
STOCKHOLDERS EQUITY	
Series A convertible preferred stock, \$.001 par value; 10,000,000 shares authorized; 1,083,872 shares issued and outstanding	1,084
Common stock, \$.001 par value; 100,000,000 shares authorized; 33,713,941 shares issued and outstanding	33,713
Additional paid-in capital	13,445,093
Deferred compensation	(21,048)
Deficit accumulated during development stage	(10,884,717)
	2,574,125
TOTAL STOCKHOLDERS EQUITY	2,574,125
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,020,493

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
For The Three and Six Months Ended June 30, 2004 And 2003 And From Inception
Of Development Stage (November 7, 2000) To June 30, 2004

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		From Inception of Development Stage (Nov. 7, 2000 To June 30, 2004)
	2004	2003 (Restated)	2004	2003 (Restated)	
Revenue	\$	\$	\$	\$	\$
Research and development	242,189	51,666	432,444	81,749	997,576
General and administrative expenses	2,050,519	1,065,634	2,996,674	2,434,760	8,041,547
Total expense	2,292,708	1,117,300	3,429,118	2,516,509	9,039,123
Loss before income taxes	(2,292,708)	(1,117,300)	(3,429,118)	(2,516,509)	(9,039,123)
Provision for income taxes					
Net loss	\$ (2,292,708)				
)					
\$					(1,117,300)
)					
\$					(3,429,118)
)					
\$					(2,516,509)
)					
					\$
Preferred dividend					(9,039,123)
					69,371
					178,704

2,131,874

Net loss attributed to common stockholders

\$	(2,362,079)
)	
\$	(1,117,300)
)	
\$	(3,607,822)
)	
\$	(2,516,509)
)	
	\$
	(11,170,997)

Basic and diluted loss per share attributed to common stockholders

\$	(0.07)
)	
\$	(0.04)
)	
\$	(0.10)
)	
\$	(0.08)

)	\$
	(0.51)
<hr/>	
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Basic and diluted loss per share to common stockholders

\$	(0.07)
)	
\$	(0.04)
)	
\$	(0.11)
)	
\$	(0.08)
)	
	\$
	(0.63)

<hr/>	
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Weighted average shares outstanding basic and diluted

	33,423,119
	31,541,587
	33,247,245
	31,395,412
	17,744,380

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

\$

\$

)

\$

(4,139

\$

\$

Contributed capital

35,000

35,000

Net loss

(36,673

)

(36,673

)

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Balance December 31, 2000

4,139,784

4,139

30,861

(36,673

)

(1,673

)

2001:

Capital contributed

45,000

Explanation of Responses:

35

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

Explanation of Responses:

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	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
Explanation of Responses:	39

Warrants issued for services

5,324

5,324

Net loss

(211,954

)

(211,954

)

Balance December 31, 2002

31,250,844

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\$	31,250
\$	
\$	567,166
\$	(19,678)
)	
\$	(298,627)
)	
\$	280,111

(continued on next page)

Issuance of common stock for cash and

contributed property April 2003

\$2.22 Issuance of common stock for cash:

	112,812
\$	113
\$	
\$	249,887
\$	
\$	
\$	250,000
May 2003 \$3.00	
	82,667
	83
Explanation of Responses:	43

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	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
Explanation of Responses:	44

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	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
Explanation of Responses:	45

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	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
Explanation of Responses:	46

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	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	
Explanation of Responses:	47

6,668

6,668

Warrants issued for:

Services

2,196,068

(219,010

)

1,977,058

Financing cost

74,088

74,088

(continued on next page)

-4-

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
From Inception Of Development Stage (November 7, 2000) To June 30, 2004
(Continued)

	Common Stock		Series A Convertible Preferred Stock		Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	From Inception (Nov. 7, 2000) To June 30, 2004
	Shares	Amount	Shares	Amount				
Issuance of preferred stock for cash			1,792,975	1,793	5,376,857			5,378,650
Series A Preferred offering expenses					(572,785)			(572,785)
Preferred stock beneficial conversion feature					896,474		(896,474)	
Allocation of fair value to warrants					949,121		(949,121)	
Preferred stock accrued dividend payable					(107,575)			(107,575)
Net loss							(5,311,377)	(5,311,377)
Balance December 31, 2003	32,993,912	32,993	1,792,975	1,793	11,477,573	(232,020)	(7,455,599)	3,824,740
2004								
Issuance of common stock for services:								
January 2004 \$6.63	52,391	\$ 52			\$ 190,088			\$ 190,140
February 2004 \$4.24	25,714	26			108,979			109,005
March 2004 \$4.90	47,638	48			233,584			233,632
April 2004 \$7.39	11,937	12			88,145			88,157
May 2004 \$6.66	43,425	43			289,006			289,049
June 2004 \$4.30	16,976	17			72,980			72,997
Exercise of class A warrants	130,030	130			274,870			275,000
Cashless exercise of warrants	51,815	52			(52)			
Contributed services officer					40,000			40,000
Amortization of deferred compensation						3,334		3,334
Warrants issued for services					91,048	207,638		298,686
Warrants issued for legal settlement					757,207			757,207

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Cancelled shares	(369,000)	(369)			369			
Convertible Preferred Stock Conversion	709,103	709	(709,103)	(709)				
Preferred stock accrued dividend payable					(178,704)			(178,704)
Net loss							(3,429,118)	(3,429,118)
Balance June 30, 2004 (unaudited)	33,713,941	\$ 33,713	1,083,872	\$ 1,084	\$ 13,445,093	\$ (21,048)	\$ (10,884,717)	\$ 2,574,125

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF CASH FLOWS
For The Six Months Ended June 30, 2004 And 2003 And From
Inception Of Development Stage (November 7, 2000) To June 30, 2004

	For the Six Months Ended June 30,		From Inception of Development Stage (Nov. 7, 2000)
	2004	2003 (Restated)	to June 30, 2004
Cash flow from operating activities:			
Net loss	\$ (3,429,118)	\$ (2,516,509)	\$ (9,039,123)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	33,747	19,307	85,337
Amortization of deferred compensation	3,334	3,334	11,207
Salary as contributed capital	40,000	40,000	140,000
Common stock issued for services	982,979	446,592	2,371,482
Warrants issued for services	298,686	1,244,987	2,393,556
Warrants issued for legal settlement	757,207		757,207
Change in assets and liabilities:			
Prepaid expenses and other current assets	59,984	37,815	(70,766)
Accounts payable and accrued expenses	(331,258)	349,700	125,025
Net cash used in operating activities	(1,584,439)	(374,774)	(3,226,075)
Cash used in investing activities:			
Purchase of equipment	(2,589)	(28,550)	(212,333)
Capitalized technology cost	(62,010)	(35,199)	(125,961)
Net cash used in investing activities	(64,599)	(63,749)	(338,294)
Cash flow from financing activities:			
Capital contributions		3,295	136,400
Issuance of common stock and exercise of warrants for cash	275,000	348,000	1,080,786
Sale of preferred stock for cash, net of expenses			4,805,865
Sale of warrants for cash			125,000
Net cash provided by financing activities	275,000	351,295	6,148,051
Net increase (decrease) in cash and cash equivalents	(1,374,038)	(87,228)	2,583,682
Cash and cash equivalents at beginning of period	3,957,720	148,689	
Cash and cash equivalents at end of period	\$ 2,583,682	\$ 61,461	\$ 2,583,682

Explanation of Responses:

(continued on next page)

-6-

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF CASH FLOWS
From
Inception Of Development Stage (November 7, 2000) To June 30, 2004

(Continued)

Supplemental Cash Flow Information:

For the years from inception of development stage (November 7, 2000) to June 30, 2004, Recom paid no interest or income taxes.

Supplement Investing and Financing Activities:

In April 2003, the company entered into an agreement with a major shareholder in which \$150,000 of common stock was issued for \$33,208 of accrued expenses and \$116,792 of furniture and fixtures and leasehold improvements.

The company recorded compensation expense of \$40,000 for both of the six month periods ended June 30, 2004 and 2003, respectively for the Chief Executive Officer of the company. This compensation was recorded as additional paid in capital.

The company accrued \$8,066 at June 30, 2004 and \$13,644 at June 30, 2003 for legal expenses that were capitalized in intangible assets - patents. Such amounts were paid in July 2004 and July 2003, respectively.

For the six months ended June 30, 2004, the company has accrued \$178,704 in dividends related to the series A convertible preferred stock. Such dividends are a non-cash charge as they will be paid in-kind.

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

-7-

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
For The Quarters Ended June 30, 2004 and 2003 And From
Inception Of Development Stage (November 7, 2000) To December 31, 2003

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements as of June 30, 2004 and for the three-months and six-months periods ended June 30, 2004 and 2003 and from inception (November 7, 2000) to June 30, 2004 have been prepared by Recom pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-QSB and Regulation S-B. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2003 as disclosed in the company's 10-KSB.

The results of the three months and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year ending December 31, 2004.

Restatement Of The Three-Month and Six-Month Periods Ended June 30, 2003

The financial statements for the three-month and six-month periods ended June 30, 2003 have been restated to include certain compensatory contracts for which the appropriate compensation expense had not been allocated quarterly. Additionally, the company corrected certain asset accounts due to the change in the original accounting for the acquisition of the amplification technology from ARC Finance, Inc. .

The primary changes for the three months ended June 30, 2003 were: increases in expenses of \$22,000 for senior management deferred compensation, \$493,000 for stock and warrant compensation for business and consulting services offset by, and a reduction in expense of \$708,000 to adjust warrants issued for investment banking services previously expensed in the first quarter and a reduction in expense of \$143,000 to adjust for stock issued for services previously expensed in the first quarter, \$70,000 in intangible assets to record the original patent at historical cost, and \$13,000 to correct the original acquisition of certain fixed assets.

The effect of these changes to the June 30, 2003 financial statements are as follows:

	For the Three Months Ended June 30, 2003		
	Reported	Adjustments	Restated
Net Loss to common shareholders	\$ (1,453,562)	\$ 336,262	\$ (1,117,300)
Basic and diluted loss per share	\$ (0.05)		\$ (0.04)
Basic and diluted loss per share to common shareholders	\$ (0.05)		\$ (0.04)
Weighted average shares outstanding basic and diluted	31,577,004	(35,417)	31,541,587

The primary changes for the six months ended June 30, 2003 were: increases in expenses of \$43,000 for senior management deferred compensation, \$587,000 for stock and warrant compensation for business and consulting services, and a reduction in expense of \$50,000 to adjust warrants issued for investment banking services, \$70,000 in intangible assets to record the original patent at historical cost, and \$13,000 to correct the original acquisition of certain fixed assets.

The effect of these changes to the June 30, 2003 financial statements are as follows:

For the Six Months Ended June 30, 2003

	Reported	Adjustments	Restated
Net Loss to common shareholders	\$ (1,936,395)	\$ (580,114)	\$ (2,516,509)
Basic and diluted loss per share	\$ (0.06)		\$ (0.08)
Basic and diluted loss per share to common shareholders	\$ (0.06)		\$ (0.08)
Weighted average shares outstanding basic and diluted	31,413,924	(18,512)	31,395,412

Pro Forma Stock Option Information

Pro forma information regarding the effects on operations as required by SFAS No. 123 and SFAS No. 148, has been determined as if the company had accounted for its employee stock options under the fair value method of those statements. Pro forma information is calculated using the Black-Scholes method at the date of grant based on the following assumptions: (i) risk free interest rate of 2.45%; (ii) dividend yield of 0%; (iii) volatility factor of the expected market price of the company's common stock of 81.17%; and (iv) an expected life of the options of 1.5 years. This option valuation model requires input of highly subjective assumptions. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value of the estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of its employee stock options.

The company's pro forma information is as follows:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net loss as reported	\$ (2,292,708)	\$ (1,117,300)	\$ (3,429,118)	\$ (2,516,509)
Current period expense calculated under APB 25				
Stock compensation calculated under SFAS 123	(81,309)	(149,848)	(226,532)	(593,554)
Pro forma net loss	\$ (2,374,017)	\$ (1,267,148)	\$ (3,655,650)	\$ (3,110,063)
Basic and diluted historical loss per share	\$ (0.07)	\$ (0.04)	\$ (0.10)	\$ (0.08)
Pro forma basic and diluted loss per share	\$ (0.07)	\$ (0.04)	\$ (0.11)	\$ (0.10)

2. DEVELOPMENT STAGE COMPANY

As reflected in the accompanying financial statements, the company has losses from inception, negative cash flows from operations, and no established source of revenue. Further, no assurance can be given that the company will produce successful commercial products or services and no assurance can be given that the regulatory agencies, physicians, patients, or insurance providers will accept the products or services. However, the company will continue its business plan to develop its line of products, which management currently believes will be ready for market approximately in late 2005. Management also believes that the company has sufficient capital to fund its operations through mid-August 2005.

3. EQUITY TRANSACTIONS

In February 2004, the company hired an investor relations company. As part of the company's agreement with the investor relations firm, the firm is to be issued 500 unregistered common shares per month during the six-month term of their engagement. During the first quarter of 2004, the investor relations firm was issued 1,000 common shares as part of their services, which were valued at \$5,200 based upon the fair market value of the shares determined as the closing stock price as reported by the Over-The-Counter Bulletin Board, also called the OTCBB, at the date of issuance. During the second quarter of 2004, the investor relations firm was issued an additional 1,500 common shares as part of their services, which were valued at \$6,450 based upon the fair market value of the shares determined as the closing stock price as reported by the OTCBB, at the date of issuance.

In March 2004, the company hired an additional investor relations company. As part of the company's agreement with this investor relations firm, the firm is to be issued 25,000 unregistered common shares. The shares were valued at \$113,750 based upon the fair market value of the shares determined as the closing stock price as reported by the OTCBB at the date of issuance.

During the quarter ended March 31, 2004, the company issued in the aggregate 125,743 common shares for marketing and business services, including those shares mentioned above. These services were valued at \$532,777 based upon the fair market value of the shares determined as the closing stock price as reported by the OTCBB at the date of issuance. Of those shares issued, 52,391 shares of common stock valued at \$190,140 were expensed during the fourth quarter of 2003 since the services were rendered during that period.

During the quarter ended June 30, 2004, the company issued 72,338 common shares for marketing and business services rendered during the period. These services were valued at \$450,203 based upon the market value of the shares at the date of issuance. Of those shares issued, 2,239 common shares valued at \$15,000 based upon the market value of the shares at the date of issuance related to expenses accrued during the first quarter of 2004 since the services were rendered during that period.

On April 28, 2004, the company committed to issue to a shareholder warrants to purchase 250,000 common shares at \$7.90 per share pursuant to a legal settlement. As part of this settlement, the company agreed to immediately register 80,000 common shares previously held by the shareholder, and the shareholder agreed that an additional 369,000 common shares previously held by the shareholder would be cancelled upon the registration of the 80,000 shares. The warrants are exercisable on August 1, 2004, and lapse if unexercised on July 31, 2007. The fair value of warrants was estimated at \$757,207 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 81.17%, (iii) weighted-average risk-free interest rate of approximately 2.45%, and (iv) expected life of 1.5 years. Although the 80,000 shares have not yet been registered, which is the condition precedent for cancellation of the 369,000 shares, the company has nevertheless treated the 369,000 shares as being cancelled for financial statement disclosure purposes.

During the quarter ended June 30, 2004, the company issued 130,030 common shares related to exercises of class A warrants issued as part of a financing transaction in May 2003. The company received cash payments equal to \$275,000 related to these exercises.

During the six months ended June 30, 2004, the company issued 51,815 common shares related to cashless exercises of class A warrants originally issued as part of a financing transaction in May 2003. The company received no cash payments related to these exercises.

During the quarter ended March 31, 2004, the company issued in the aggregate 158,000 common share purchase options to employees and members of the company's board of directors. All options were issued at an exercise price equal to the closing market price as reported by the OTCBB on the date of issuance. Of those, 50,000 options were issued in January 2004, vested immediately and were exercisable at a price of \$3.50 per share; 80,000 options were issued in January 2004, vest quarterly over a four year time period and are exercisable at \$3.60 per share; and 28,000 options were issued in February 2004, vest quarterly over a one year time period and are exercisable at \$3.70 per share.

During the quarter ended June 30, 2004, the company issued in the aggregate 10,000 common share purchase options to employees and members of the company's board of directors. All options were issued at an exercise price equal to the closing market price as reported by the OTCBB on the date of issuance, vest quarterly over a one year time period and are exercisable at \$6.00 per share.

As of June 30, 2004, 709,103 series A preferred shares were converted into common shares. Of those shares converted, 6,667 and 702,436 were converted during the quarters ended March 31, 2004 and June 30, 2004, respectively.

4. COMMITMENTS AND CONTINGENCIES

In conjunction with Dr. Budimir Drakulic becoming a Vice President and Chief Technology Officer, in October 2002 the company also reached an agreement-in-principle with Dr. Drakulic to offer to sell common shares to certain individuals in order to protect the company's rights in the Signal Technologies from any litigation that might be filed against Dr. Drakulic and to ensure that the development of the technology would not be interrupted or disrupted while Dr. Drakulic defended any such action. As part of that agreement, the company agreed that should it raise more than \$2 million in certain offerings, it would pay 4% of the proceeds of those offerings greater than \$2 million to those individuals up to a maximum amount of \$480,350. At December 31, 2003, the company's potential obligation related to this offering was \$104,201. The company reached settlements with a number of those individuals during the first quarter of 2004 and the potential liability has been further reduced. At June 30, 2004, the remaining liability related to the settlement was \$35,203. Since June 30, 2004, the company has reached agreements with additional individuals to this settlement in the amount of \$28,165.

As of June 30, 2004, the company had accrued dividends payable with respect to the series 'A' preferred shares in the amount of \$286,280. Of this amount, \$107,575 relates to accrued dividends for the year ended December 31, 2003. These amounts are payable either in cash from funds legally available for that purpose, or in kind, in the form of additional series 'A' preferred shares, at the company's discretion. The company intends to pay this dividend in kind. This accrued dividend is included in accounts payable and accrued expenses.

The company needs to complete the design and fabrication of a pre-production version of the Model 100 Module to assure compliance to all performance, safety, environmental and regulatory standards. This activity will be performed for the company by Battelle Memorial Institute, Health and Life Sciences pursuant to a research and development services agreement. Under the agreement, Battelle Memorial Institute will complete the design and engineering of the pre-production patient module in compliance with all applicable performance, safety, environmental and regulatory standards. The fixed cost of these activities under the contract is \$497,700.

5. LEGAL PROCEEDINGS

On February 13, 2004, Recom filed an action with the Superior Court of the State of California, County of Ventura, for declaratory relief, extortion, breach of contract, breach of fiduciary duty and fraud against a prior director, Mr. Steven Sparks, in an action entitled *Recom Managed Systems, Inc. v. Stephen O. Sparks*. In the action the company alleged that Mr. Sparks had been demanding payment in cash and/or securities as additional compensation for providing services as a director without any contractual or other entitlement thereto, and sought declaratory relief from the Court as to whether Mr. Sparks was entitled to those payments. In May 2004, a hearing was held to address a strategic litigation against public policy motion filed by Mr. Sparks seeking to dismiss the action on the basis that it violated his rights to free speech. After consideration, in early June 2004, the judge dismissed the motion and stated that it was probable that Recom would prevail against Mr. Sparks on its extortion claim. Mr. Sparks subsequently filed an answer and cross-complaint on June 16, 2004 generally denying Recom's claims and cross-claiming for breach of contract, promissory estoppel, violations of the California Corporations Code, and intentional interferences with prospective advantage, and claiming damages of at least \$1 million. Recom served an answer to the cross-complaint on June 23, 2004 denying all of Mr. Sparks' claims. The parties are presently in the discovery phase.

On May 19, 2004, a complaint was filed against Recom in the Superior Court of Arizona, County of Maricopa, in an action entitled *William A. Miller v. Recom Managed Systems*. The complaint seeks declaratory relief, specific performance or damages for breach of contract. Mr. Miller alleged he was granted options to purchase 300,000 common shares of Recom at \$0.01 per share. Prior to the filing of the complaint, none of the officers or directors of Recom had ever met or spoken to Mr. Miller or his agents or even knew who Mr. Miller was. Recom believes the claim is without merit and plans to vigorously defend itself in the action.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13 Other Expenses Of Issuance And Distribution

The following table sets forth the estimated costs and expenses which we expect to incur with respect to the offering and sale or distribution of common shares under this registration statement. We have agreed to pay all of these expenses.

SEC Registration Fee	\$ 924.49
Financial Printer Fees to EDGARize and Print Registration Statement	3,000.00*
Transfer Agent Fees, including Printing and Engraving Stock Certificates	1,000.00*
Legal Fees and Expenses	65,000.00*
Accounting Fees and Expenses	15,000.00*
Miscellaneous	1,000.00*
Total	\$ 85,924.49*

* estimated

Item 14 Indemnification Of Directors And Officers

Our Articles of Incorporation, as amended, provide shall that we shall, to the maximum extent and in the manner under Delaware corporate law, indemnify each of our directors and officers against judgments, fines, settlements and other amounts, including expenses such as attorneys' fees, actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. We may also have contractual indemnification obligations under our individual agreements with our directors, officers and employees, including an indemnification agreement we have entered into with Mr. Marvin Fink, our Chief Executive Officer and Chairman of the Board.

The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, including breaches resulting from negligent or grossly negligent behavior, except under certain situations defined by statute, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees, even though such actions, if successful, might otherwise benefit our company and shareholders. We believe that the indemnification provisions in our Articles of Incorporation are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by the

registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and we will be governed by the final adjudication of such issue.

Item 15 Recent Sales Of Unregistered Securities

Rule 506

We have sold or issued the following securities not registered under the Securities Act of 1933 by reason of the exemption afforded under SEC Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act during the three year period ending on the date of filing of this registration statement. The offer and sale of the securities in each offering was exempt from the registration requirements of the Securities Act under Rule 506 insofar as:

(1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) pursuant to Rule 506(b)(2)(i), there were no more than 35 non-accredited investors in the offering; (3) pursuant to Rule 506(b)(2)(ii), each purchaser in the offering who was not accredited either alone or with his purchaser representative had such knowledge and experience in financial and business matters to be capable of evaluating the merits and risk of the investment, or the company reasonably believed immediately prior to making the sale that such investor came with this description; (4) no offers or sales under the offering was effected through any general solicitation or general advertising within the meaning of Rule 502(c); and (5) the transfer of the securities in the offering were restricted by the company in accordance with Rule 502(d). Except as stated below, no underwriting discounts or commissions were payable with respect to any of the offerings.

- On September 19, 2002, immediately prior to our acquisition of the Signal Technologies from ARC Finance Group, Mr. Sim Farar, our president and principal shareholder at that time, invested \$125,000 into the company as working capital in exchange for a warrant entitling him to purchase 600,000 common shares at \$0.21 per share (200,000 shares at \$0.65 per share pre-split). The warrant may not be exercised before September 1, 2003, expires in September 2006, contains cashless exercise options and certain anti-dilution and other provisions. At the time, Vanguard West LLC, a company owned and controlled by Mr. Farar, held approximately 98% of our common shares.
- On September 19, 2002, we issued 23,400,000 common shares (7,800,000 shares pre-split) to ARC Finance Group in connection with our acquisition of the Signal Technologies. The shares represented approximately 85% of our issued and outstanding common shares. We valued the Signal Technologies at \$78,023 for financial accounting purposes using the Black-Scholes model.
- On October 11, 2002, we reached an agreement-in-principle with Mr. Ellsworth Roston to make an investment into the company. Pursuant to that understanding, on October 30, 2002 we sold Mr. Roston 71,250 common shares (23,750 shares pre-split) for \$190,000 in cash, and granted him five-year warrants to purchase an additional 150,000 common shares at \$5 per share (50,000 shares at \$1.67 per share pre-split) effective as of October 15, 2002.
- On April 8, 2003, we sold to Mr. Mitchell Stein 112,812 common shares (37,604 shares pre-split) for \$100,000 in cash and \$150,000 in expenses and equipment.
- On May 15, 2003, we completed the first tranche of a private placement pursuant to which we sold 82,667 units to Mr. Mitchell Stein, SJ Investments and Ms. Norma Provencio at \$3 per unit for cash amounting to \$248,000. Each unit consisted of one common share and one warrant. Each warrant is exercisable at \$3 until May 14, 2004. Upon exercise of the warrants each investor will receive one common share and an additional warrant to purchase one common share \$6 per share until November 15, 2004. As of October 11, 2004, 66,667 of these warrants exercisable at \$3 per share were exercised and converted into common shares.
- On July 24, 2003, we completed the second tranche of a private placement pursuant to which we sold 75,075 units to Messrs. Mitchell Stein, Jerry L. Page and Mark M Giardiano and to Ashton Reed & Company, Inc. at \$3.33 per unit

for cash amounting to \$250,000. Each unit consisted of one common share and one warrant. Each warrant is exercisable at \$3.33 until July 14, 2004. Upon exercise of the warrants each investor will receive one common share and an additional warrant to purchase one common share at \$6.66 per share until November 15, 2004. As of October 11, 2004, 30,030 of these warrants exercisable at \$3.33 per share were exercised and converted into common shares.

- On October 2, 2003, we completed a private placement through Maxim Group LLC pursuant to which we sold 53,787.5 units to 100 investors at a price of \$100,000 per unit, for gross proceeds of \$5,378,750. The net proceeds of this offering, after expenses, was \$4,805,965. Each unit sold consisted of 33,334 series A preferred shares and 16,667 class C warrants. In total, we issued 1,792,976 series A preferred shares and 896,488 class C warrants. Each series A preferred share is convertible into one common share. Each warrant was initially exercisable at \$3.75 for a period of four years. Effective October 1, 2004, the company unilaterally lowered the exercise price to \$3 per share. As of October 31, 2004, all but 842,197 of the series A preferred shares had been converted into common shares.
- Under the terms of our agreement with Maxim Group, we were obligated to pay Maxim Group \$537,875, representing an 8% commission and a 2% non-accountable expense allowance. In addition, we are obligated to issue to Maxim an agent's warrant entitling it to purchase a number of units equal to 10% of the total units sold in this offering. Maxim has the right under the agent's warrant to purchase at total of 179,292 units at the price of \$3.60 per unit, each unit comprised of one series A preferred share and one-half of a class C warrant. The agent's warrant expires in five years to the extent unexercised. We valued the grant at \$238,431 for financial statement purposes using the Black-Scholes model.
- On April 28, 2004, we issued to Mr. Rex Julian Beaber warrants to purchase 250,000 restricted common shares at \$7.90 per share. The warrants are exercisable on or after August 1, 2004, and lapse if unexercised on July 31, 2007. The warrants were granted to Mr. Beaber in connection with a settlement agreement pursuant to which Mr. Beaber agreed to surrender 369,000 unregistered common shares in exchange for the warrants and the company's agreement to register another 80,000 shares held by Mr. Beaber. The value of the grant was \$757,207 for financial statement purposes using the Black-Scholes model. The foregoing value does not take into consideration the value of 369,000 common shares Mr. Beaber is required to surrender under the settlement agreement. In July 2004, the parties agree to cancel the warrants in consideration of a payment to Mr. Beaber in the amount of \$14,500.

Rule 505

We have sold or issued the following securities not registered under the Securities Act of 1933 by reason of the exemption afforded under SEC Rule 505 of Regulation D promulgated under Section 3(b) of the Securities Act during the three year period ending on the date of filing of this registration statement. The offer and sale of the securities in each offering was exempt from the registration requirements of the Securities Act under Rule 505 insofar as:

(1) except as stated below, none of the investors in the offering are to the company's knowledge accredited within the meaning of Rule 501(a); (2) pursuant to Rule 505(b)(2)(i), the aggregate offering price for the offering did not exceed \$5,000,000, less the offering price of all securities sold within the twelve months preceding the start of and during the offering of securities under Rule 505 or in reliance upon any exemption under Section 3(b) of the Securities Act of 1933 or in violation of Section 5 of the Securities Act of 1933; (3) pursuant to Rule 505(b)(2)(ii), there were no more than 35 non-accredited investors in the offering; (4) no offers or sales under the offering was effected through any general solicitation or general advertising within the meaning of Rule 502(c); and (5) the transfer of the securities in the offering were restricted by the company in accordance with Rule 502(d). Except as stated below, no underwriting discounts or commissions were payable with respect to any of the offerings.

- In July 2001, we issued 150,000 common shares (50,000 shares pre-split) to Messrs. Jack Brehm, John Carrasco, Roger Linn, Art Lyons, Stephen Roseberry and Erik Sterling and the law firm of Weintraub, Genshler, Chediak, Sproul as partial compensation for consulting services rendered to the Company. We valued the total grants at \$5,000 for financial statement purposes using the Black-Scholes model.

On October 11, 2002, we reached an agreement-in-principle with Mr. Marvin H. Fink to become our Chief Executive Officer and President. Pursuant to that understanding, we entered into an employment agreement with Mr. Fink on October 12, 2002 and contemporaneously issued to him 2,100,000 restricted common shares (700,000 shares pre-split) as an inducement for that employment. These shares vest over a period of three years based upon Mr. Fink's continuous provision of services. We valued the grant at \$15,140 for financial statement purposes using the Black-Scholes model. For further information relating to this transaction see that section of the prospectus contained in this registration statement captioned *Management Employment And Consulting Agreements With Management*. Mr. Fink was accredited.

- On October 11, 2002, we reached an agreement-in-principle with Dr. Budimir Drakulic to become our Vice President and Chief Technology Officer on a consulting basis through his consulting companies. Pursuant to that understanding, on October 15, 2002, we entered into a loan-out agreement with Dr. Drakulic's two consulting companies, B World Technologies, Inc. and B Technologies, Inc., relative to the provision of Dr. Drakulic's services, and contemporaneously issued to one of those companies, B World Technologies, 600,000 restricted common shares (200,000 shares pre-split) as an inducement for the provision of those services. These shares vest over a period of five years. B World Technologies and B World are each owned and controlled by Dr. Drakulic. We valued the grant at \$4,140 for financial statement purposes using the Black-Scholes model. For further information relating to this transaction see that section of the prospectus contained in this registration statement captioned *Management Employment And Consulting Agreements With Management* .
- As part of the October 11, 2002 agreement-in-principle with Dr. Budimir Drakulic described above, we also reached an agreement-in-principle to offer to sell our common shares to certain individuals in order to protect our rights in the Signal Technologies from any litigation that might be filed against Dr. Drakulic and to ensure that our development of the technology would not be interrupted or disrupted while Dr. Drakulic defended any such action. Pursuant to this understanding, on October 22, 2002, we sold 564,810 common shares (188,270 shares pre-split) to eleven of those individuals, and issued a five-year warrant to purchase 375,000 common shares (125,000 shares pre-split) for \$0.007 per share to one of those individuals, in consideration of their cash investment of \$17,786. For further information relating to this transaction see that section of the prospectus contained in this registration statement captioned *Transactions And Business Relationships With Management And Principal Shareholders* .
- On October 11, 2002, we reached an agreement-in-principle with Mr. Ellsworth Roston to provide consulting advice to us relating to engineering, developing and refining our products and technologies and to become a director of the company. Pursuant to that understanding, on October 30, 2002 we entered into a two year consulting agreement with Mr. Roston documenting the provision of his consulting services and his appointment to our board of directors. Pursuant to that agreement, we granted Mr. Roston 225,000 common shares (75,000 shares pre-split) effective as of October 15, 2002. We valued the grant at \$1,553 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement captioned *Management Employment And Consulting Agreements With Management* . Mr. Roston was accredited.
- On February 5, 2003, pursuant to a director's compensation plan adopted by our board of directors on that date, we issued to each of our five directors as of that date, including Messrs. Fink and Roston and Dr. Robert Koblin, options to purchase 150,000 common shares at \$0.88 per share (50,000 shares at \$2.65 per share pre-split) under our 2002 Stock Plan. The options are fully vested and lapse, if unexercised, on February 4, 2008. We valued the grant at \$446,122 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement *Management Board Compensation* . Each of the directors was accredited.
- On February 14, 2003 we issued to Dr. Lowell Harmison (1) fully vested options entitling him to purchase 108,000 common shares at \$0.97 per share (36,000 shares \$2.91 per share pre-split), and (2) options entitling him to purchase an additional 108,000 common shares at \$0.97 per share (36,000 shares \$2.91 per share pre-split) to vest over twelve quarters. These options were issued as an inducement for Dr. Harmison to provide consulting services pursuant to a consulting agreement entered into on that same date. We valued the grant initial at \$80,456 for financial statement purposes using the Black-Scholes model. Since the initial grant, Dr. Harmison has been receiving quarterly options grants per his agreement. To date, these subsequent grants have been valued at \$151,710 for financial statement purposes. For further information relating to this transaction, see that section of the prospectus contained in this registration statement captioned *Management Employment And Consulting Agreements With*

Management .

- On March 10, 2003, we issued to Dr. Budimir S. Drakulic, our Vice President and Chief Technology Officer, options to purchase 750,000 common shares at \$0.95 per share (250,000 shares at \$2.76 per share pre-split) under our 2002 Stock Plan. The options vest over a period of four years, and lapse if unexercised on March 9, 2008. We valued the grant at \$479,000 for financial statement purposes using the Black-Scholes model. Dr. Drakulic was accredited.
- On March 10, 2003, we issued to Mr. Charles McGill options to purchase 900,000 common shares at \$0.95 per share (300,000 common shares at \$2.85 per share pre-split). These options were issued as an inducement for Mr. McGill to become our Chief Financial Officer pursuant to an employment agreement entered into on that same date. The options were to vest over a period of three years, and lapse if unexercised on March 24, 2008. Mr. McGill retired in November 2003, at which time 150,000 options vested and the balance lapsed. We valued the grant at \$574,196 for financial statement purposes.
- On March 10, 2003, we issued warrants to purchase 900,000 restricted common shares post-split at \$0.50 per share (300,000 shares at \$1.50 per share pre-split). The warrants, which are held by Crown Reef for its provision of strategic planning, marketing and business advisory consulting services, lapse if not exercised by March 9, 2008. We valued the grant at \$657,779 for financial statement purposes using the Black-Scholes model.
- On March 10, 2003, we issued to an employee options to purchase 240,000 common shares at \$0.95 per share (80,000 shares at \$2.76 per share pre-split) under our 2002 Stock Plan. The options vest over a period of four years, and lapse if unexercised on March 9, 2008. We valued the grant at \$153,280 for financial statement purposes using the Black-Scholes model.
- On March 10, 2003, we issued to Mr. Rowland Perkins, in connection with the provision of consulting services relating to identifying prospective directors, warrants to purchase 21,000 common shares at \$0.81 per share (7,000 shares at \$2.43 per share pre-split). The warrants were fully vested, and lapse if unexercised on March 9, 2008. We valued the grant at \$17,010 for financial statement purposes using the Black-Scholes model.
- On April 15, 2003, we issued to an employee options to purchase 10,000 common shares at \$2.85 per share under our 2002 Stock Plan. The options vest over a period of four years, and lapse if unexercised on April 14, 2010. We valued the grant at \$14,847 for financial statement purposes using the Black-Scholes model.
- On April 15, 2003, we issued to Brookstreet Securities Corporation warrants to purchase 200,000 common pursuant to an investment banking agreement. The warrants are exercisable in four tranches of 50,000 common shares each. The first tranche was fully vested upon grant and exercisable at \$1.25 per share. The second tranche vested 90 days after issuance with an exercise price of \$2.25 per share. The third tranche vested 180 days after issuance with an exercise price of \$3.25 per share. The fourth tranche vested 270 days after issuance with an exercise price of \$4.25 per share. We valued the grant at \$432,147 for financial statement purposes using the Black-Scholes model. Brookstreet Securities is accredited. As of October 11, 2004, 100,000 of these warrants were exercised and converted into common shares.

- On June 2, 2003, we issued to Dr. Michael Laks, as compensation providing medical advisory and technical consulting services, options to purchase 108,000 common shares at \$2.40 per share under our 2002 Stock Plan. The options vest over a period of four years, and lapse if unexercised on June 4, 2008. We valued the grant at \$199,266 for financial statement purposes using the Black-Scholes model.
- On June 5, 2003, we issued to Dr. Lowell T. Harmison, in his capacity as a director, options to purchase 50,000 common shares at \$4.20 per share under our 2002 Stock Plan. These options are fully vested, and lapse if unexercised on June 5 2008. We valued the grant at \$109,402 for financial statement purposes using the Black-Scholes model. For further information relating to this transaction, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Dr. Harrison was accredited.
- On July 17, 2003, we issued to Maxim Group, LLC warrants to purchase 100,000 common shares at \$4.62 per share pursuant to an investment banking agreement. The warrants lapse if unexercised on July 16, 2008. We valued the grant at \$136,482 for financial statement purposes using the Black-Scholes model. Maxim was accredited.
- On July 29, 2003, we issued to an employee options to purchase 10,000 common shares at \$3.19 per share under our 2002 Stock Plan. The options vest over a period of five years, and lapse if unexercised on July 28, 2008. We valued the grant at \$14,574 for financial statement purposes using the Black-Scholes model.
- On August 5, 2003, we issued to two shareholders, Messrs. John Epperson Jr. and Jack Lee, warrants entitling them to purchase 23,501 common shares at \$3.29 per share pursuant to a voluntary partial trading restriction (lock-up) agreement entered into with each of those shareholders on that date. These warrants lapse on August 4, 2008 to the extent not exercised by the first shareholder, and February 4, 2005 to the extent not exercised by the second shareholder. We valued the grant at \$77,318 for financial statement purposes using the Black-Scholes model.
- On September 23, 2003, we issued to a current shareholder, Mr. Aaron Grunfield, warrants to purchase 18,000 common shares at \$5.29 per share pursuant to a voluntary partial trading restriction (lock-up) agreement with that shareholder entered into on that same date. These warrants lapse on March 22, 2005 to the extent not exercised. We valued the grant at \$37,655 for financial statement purposes using the Black-Scholes model.
- On September 25, 2003, we issued to Mr. Bill Mathews, as compensation for providing consulting services relating to the procurement of FDA approval for our products, warrants to purchase 25,000 common shares at \$3.19 per share under our 2002 Stock Plan. These warrants lapse on March 24, 2010 to the extent not exercised. We valued the grant at \$41,202 for financial statement purposes using the Black-Scholes model.
- On November 3, 2003, we issued to Messrs. Fink and Roston, in their capacity as directors, options entitling each of them to purchase 28,000 common shares at \$4.40 per share pursuant to our director's compensation plan. The options vest quarterly over a period of one year, and lapse if unexercised on November 2, 2008. We valued the grant at \$66,236 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Messrs. Fink and Roston are accredited.
- On January 20 2004, we issued to Ms. Jennifer Black, in her capacity as a director, options to purchase 50,000 common shares at \$3.60 per share under our 2002 Stock Plan. The options were fully vested upon grant, and lapse if unexercised on January 19,2009. We valued the grant at \$69,798 for financial statement purposes using the Black-Scholes model. For further information relating to this transaction, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Ms. Black is accredited.

- On January 20, 2004, we issued to four employees options to purchase a total of 80,000 common shares at \$3.60 per share. The options vest over a period of five years, and lapse if unexercised on January 19, 2009. We valued the grant at \$114,868 for financial statement purposes using the Black-Scholes model.
- On February 5 2004, we issued to Dr. Robert Koblin, in his capacity as a director, options to purchase 28,000 common shares at \$3.70 per share. The options vest quarterly over a period of one year, and lapse if unexercised on February 4, 2008. We valued the grant at \$41,321 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Dr. Koblin is accredited.
- On February 11, 2004, we entered into a marketing agreement with The Ruth Group under which we agreed to issue 500 restricted common shares to it per month as partial compensation under the agreement for the provision of investor relations and media relations consulting services over a six-month period, including introducing our company to its broker network, disseminating information about our company, organizing conferences and due diligence meetings, fielding calls investors and brokers, and procuring analyst coverage or investment banking sponsorships. We have granted 3,500 common shares to date pursuant to the agreement, with a total value of \$15,530 for financial statement purposes.
- On March 10, 2004, we entered into a marketing agreement with Aurelius Consulting Group, Inc. under which we agreed to issue 25,000 restricted common shares to it as partial compensation under the agreement for the provision of various investor relations services over a six-month period, including introducing our company to its broker network, disseminating information about our company, organizing conferences and due diligence meetings, fielding calls investors and brokers, and procuring analyst coverage or investment banking sponsorships. We valued the grant at \$113,750 for financial statement purposes.
- On April 1 2004, we issued to Messrs. Marvin H. Fink and Ellsworth Roston, Dr. Robert Koblin, and Ms. Jennifer Black, in their capacity as directors, options to purchase 2,000, 2,000, 4,000 and 2,000 common shares at \$6 per share. The options vest quarterly over a period of one year, and lapse if unexercised on March 31, 2009. We valued the grant at \$23,536 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Messrs. Fink and Roston and Dr. Koblin are each accredited.
- On June 6 2004, we issued to Dr. Lowell T. Harmison, in his capacity as a director, options to purchase 28,000 common shares at \$6.25 per share. The options vest quarterly over a period of one year, and lapse if unexercised on June 5, 2009. We valued the grant at \$68,647 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Dr. Harmison is accredited.
- On July 8 2004, we issued to Mr. Ellsworth Roston, in his capacity as a director, options to purchase 2,000 common shares at \$3.95 per share. The options vest quarterly over a period of one year, and lapse if unexercised on July 7, 2009. We valued the grant at \$3,408 for financial statement purposes using the Black-Scholes model. For further information relating to these transactions, see that section of the prospectus contained in this registration statement captioned *Management Board Compensation* . Mr. Roston is accredited.

Item 16 Exhibits And Financial Statement Schedules

- 2.1 Order dated October 26, 2000 Confirming Plan of Reorganization and Granting Final Approval of Disclosure Statement ?(9)
- 3.1 Amended And Restated Certificate Of Incorporation Of Recom Managed System, Inc. filed by the Delaware Secretary of State on November 6, 2000 ?(1)
- 3.2 Certificate Of Amendment Of Certificate Of Incorporation Of Recom Managed System, Inc. filed by the Delaware Secretary of State on June 20, 2003 ?(8)
- 3.3 Certificate Of Designation Of Rights, Preferences And Limitations Of Series A Convertible Preferred Stock Of Recom Managed System, Inc. filed by the Delaware Secretary of State on September 9, 2003 ?(9)
- 3.4 Amendment To Certificate Of Designation Of Rights, Preferences And Limitations Of Series A Convertible Preferred Stock Of Recom Managed System, Inc. filed by the Delaware Secretary of State on April 26, 2004 ?(9)
- 3.5 Bylaws Of Recom Managed Systems, Inc. adopted March 31, 2003 ?(6)
- 4 Legal opinion by Richardson & Patel LLP ?(10)
- 5.1 Specimen common stock certificate ?(8)
- 5.2 Specimen series A preferred stock certificate ?(8)
- 5.3 Recom Managed Systems, Inc. 2002 Stock Plan adopted on November 1, 2002 ?(6)
- 5.4 Form of option issued under Recom Managed Systems, Inc. 2002 Stock ?(8)
- 5.5 Recom Managed Systems, Inc. 2003 Nonqualified Stock Option And Stock Plan adopted on March 31, 2002 ?(6)
- 5.6 Warrant To Purchase Common Stock dated September 19, 2002 issued to Sim Farrar ?(2)
- 5.7 Form of Standard Warrant ?(8)
- 5.8 Form of Class A Warrant ?(8)
- 5.9 Form of Class C Warrant ?(8)
- 5.10 Agent s Warrant dated November 1, 2003 with Maxim Group LLC ?(9)
- 5.11 Agent s Warrant dated November 1, 2003 with Jenkins Capital Management, LLC **

Explanation of Responses:

- 10.1 Standard Multi-Tenant Office Lease dated August 20, 2002 between Bershin Properties I, LLC, as lessor, and Recom Managed Systems, Inc., LLC, as lessee ?(9)
 - 10.2 Addendum To Standard Office Lease dated August 20, 2002 between Bershin Properties I, LLC, as lessor, and Recom Managed Systems, Inc., as lessee ?(9)
 - 10.3 Addendum To Standard Office Lease dated December 17, 2003 between Bershin Properties I, LLC, as lessor, and Recom Managed Systems, Inc., as lessee ?(9)
 - 10.4 Stock Acquisition and Signal Technologies Transfer Agreement dated September 12, 2002 between Recom Managed Systems, Inc. and ARC Finance Group, LLC ?(2)
 - 10.5 Employment Agreement dated October 14, 2002 between Recom Managed Systems, Inc. and Marvin H. Fink ?(3)
 - 10.6 License Agreement dated December 9, 1993 between Dr. Budimir S. Drakulic and Teledyne Electronic Industries, Inc. ?(8)
 - 10.7 Restricted Stock Agreement dated October 14, 2002 between Recom Managed Systems, Inc. and Marvin H. Fink ?(3)?(4)
 - 10.8 Indemnification Agreement dated October 14, 2002 between Recom Managed Systems, Inc. and Marvin H. Fink ?(3)?(4)
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- 10.9 Loan-out Agreement dated October 15, 2002 between Recom Managed Systems, Inc. and Budimir Drakulic, B World and B Technologies (3)
- 10.10 Restricted Stock Agreement dated October 15, 2002 between Recom Managed Systems, Inc. and Budimir Drakulic, B World and B Technologies (3)(5)
- 10.11 Consulting Agreement dated November 1, 2002 between Recom Managed Systems, Inc. and Ellsworth Roston (3)
- 10.12 Employment, Confidential Information, Invention Assignment, And Arbitration Agreement dated October 15, 2002 between Recom Managed Systems, Inc. and Budimir Drakulic, B World and B Technologies (3)(5)
- 10.13 Consulting Agreement dated February 14, 2003 between Recom Managed Systems, Inc. and Lowell T. Harmison (8)
- 10.14 Employment Agreement dated March 10, 2003 between Recom Managed Systems, Inc. and Charles E. McGill (6)
- 10.15 Investment Banking Agreement dated April 15, 2003 between Recom Managed Systems, Inc. and Brookstreet Securities Corporation (7)
- 10.16 Investment Banking Agreement dated July 17, 2003 between Recom Managed Systems, Inc. and Maxim Group, LLC (9)
- 10.17 Placement Agency Agreement dated September 4, 2003 between Recom Managed Systems, Inc. and Maxim Group, LLC (9)
- 10.18 Form of Registration Rights Agreement for purchasers of Series A Preferred Stock (8)
- 10.19 Scope Letters and Engagement Agreements dated December 18, 2003, January 23, 2004 and March 22, 2004 between Recom Managed Systems, Inc. and CFO 911 (9)
- 10.20 Non-Binding Letter of Intent dated January 10, 2004 between Recom Managed Systems, Inc. and TZ Medical Inc. (9)
- 10.21 Settlement Agreement And Releases, Warrant and Piggyback Registration Rights Agreement each dated April 28, 2004 between Recom Managed Systems, Inc., Mitchell J. Stein, ARC Finance Group, LLC, Tracey Hampton-Stein and Rex Julian Beaber (9)
- 10.22 Consulting Agreement between Recom Managed Systems, Inc. and Dr. Michael Laks (10)
- 10.23 Consulting Agreement between Recom Managed Systems, Inc. and Dr. Mitchell W. Krucoff (10)

- 10.24 Research And Development Services Agreement dated May 12, 2004 between Recom Managed Systems, Inc. and Battelle Memorial Institute ?(10)
 - 10.25 Sponsored Research Agreement dated August 30, 2004 between Recom Managed Systems, Inc. and Duke Clinical Research Institute * *
 - 10.26 Consulting Agreement between Recom Managed Systems, Inc. and Dr. Andrea Natale *
 - 21 List of subsidiaries ?(9)
 - 23 Consent of Stonefield Josephson, Inc.*
 - 24.1 Powers of Attorney for Mr. Ellsworth Roston and Drs. Robert Koblin and Lowell T. Harmison ?(11)
 - 24.2 Power of Attorney for Jennifer Black ?(12)
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* Filed herewith
** Refiled herewith

- (1) Previously filed as an exhibit to our report on form 10-KSB for our fiscal year ended December 31, 2001 filed with the SEC on February 22, 2002.
- (2) Previously filed as an exhibit to our report on form 8-K filed with the SEC on September 25, 2002.
- (3) Previously filed as an exhibit to our report on form 10-QSB for our fiscal quarter ended September 30, 2002 filed with the SEC on November 12, 2002.
- (4) Filed as part of the Employment Agreement for Mr. Fink noted in item ?10.5.
- (5) Filed as part of the Loan-Out Agreement for with B World Technologies, B Technologies and Dr. Drakulic noted in item ?10.9.
- (6) Previously filed as an exhibit to our report on form 10-KSB for our fiscal year ended December 31, 2002 filed with the SEC on March 26, 2003.
- (7) Previously filed as an exhibit to our report on form 10-QSB for our fiscal quarter ended March 30, 2003 filed with the SEC on May 7, 2003.
- (8) Previously filed as an exhibit to our registration statement on form SB-2 filed with the SEC on January 2, 2004.
- (9) Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 2) filed with the SEC on May 11, 2004.
- (10) Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 3) filed with the SEC on July 26, 2004.
- (11) Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 4) filed the SEC on October 18, 2004.
- (11) Included on the signature page of our registration statement on form SB-2 filed with the SEC on January 2, 2004.
- (12) Included on the signature page of our registration statement on form SB-2 (amendment no. 1) filed with the SEC on February 23, 2003.

Item 17 Undertakings

We hereby undertake to:

1. File, during any period in which we offer or sell securities, a post-effective amendment to this registration statement to:

- (i) Include any prospectus required by section 10(a)(3) of the Securities Act;
- (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospects filed with the SEC under Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table on the face page of the effective registration statement; or
- (iii) Include any additional or changed material information on the plan of distribution.

2. For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

3. File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

 4. For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by any of our directors, officers or controlling persons in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.
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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorizes this registration statement to be signed on its behalf by the undersigned, in the City of Studio City, State of California, on November 1, 2004.

RECOM MANAGED SYSTEMS, INC.

By: */s/ Marvin H. Fink*
Marvin H. Fink
Chief Executive Officer and President
(principal executive officer)

By: */s/ Charles Dargan*
Charles Dargan
Interim Chief Financial Officer
(principal accounting and financial officer)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

By: */s/ Marvin H. Fink*
Marvin H. Fink
Chief Executive Officer, President and Chairman of the Board (principal executive officer) November 1, 2004

By: */s/ Charles Dargan*
Charles Dargan
Interim Chief Financial Officer (principal accounting and financial officer) November 1, 2004

By: */s/ Ellsworth Roston**
Ellsworth Roston
Director November 1, 2004

By: */s/ Robert Koblin**
Robert Koblin
Director November 1, 2004

By: */s/ Lowell T. Harmison**
Lowell T. Harmison
Director November 1, 2004

By: */s/ Jennifer Black**
Jennifer Black
Director November 1, 2004

* By: */s/ Marvin H. Fink*
Marvin H. Fink
Agent-In Fact