RECOM MANAGED SYSTEMS INC DE/
Form 10QSB/A
November 09, 2004

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

FORM 10-QSB/A

Amendment No.2

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

Commission File Number 33-11795

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

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

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

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

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

[X] Yes [ ] No

As of October 31, 2003, the Registrant had 32,169,125 shares of common stock, $.001 par value.

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

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RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
BALANCE SHEET
September 30, 2003
(Unaudited)
(As Restated)

		September 30, 2003
ASSETS		
CURRENT ASSETS - cash	$	2,979
Equipment, net of accumulated depreciation		165,084
Intangible assets - patents		167,729
TOTAL ASSETS	$	335,792
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES - accrued expenses	$	179,360
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value; 100,000,000 shares authorized; 32,153,740 shares issued and outstanding		32,153
Additional paid-in capital		4,297,484
Deferred compensation		(445,492)
Deficit accumulated during development stage		(3,727,713)
TOTAL STOCKHOLDERS' EQUITY		156,432
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	335,792

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
For The Nine Months Ended September 30, 2003 And 2002 And From Inception Of Development Stage (November 7, 2000) To September 30, 2003
(Unaudited)

	For the Nine Months Ended September 30, (As Restated)		From Inception of Development Stage (November 7, 2000) to September 30, 2003
	2003	2002	(As Restated)
Revenue	$	$	$
Research and development	166,910		234,410
General and administrative expenses	3,262,175	49,341	3,493,303
Loss before income tax provision	(3,429,086)	(49,341)	(3,727,713)
Provision for income taxes			
Net loss	$ (3,429,086)	$ (49,341)	$ (3,727,713)
Basic and diluted loss per share	$ (0.11)	$ (0.01)	$ (0.27)
Weighted average shares outstanding - basic and diluted	31,525,497	5,232,641	13,816,910

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RECOM MANAGED SYSTEMS, INC.

(A Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
For The Nine Months Ended September 30, 2003 And From Inception
Of Development Stage (November 7, 2000) To September 30, 2003
(As Restated)

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	
	Shares	Amount				Total
Balance November 7, 2000 (as restated for 3:1 stock split)	4,139,784	$ 4,139	$ (4,139)	$	$	$
Contributed capital			35,000			35,000
Net loss					(36,673)	(36,673)
Balance December 31, 2000	4,139,784	4,139	30,861		(36,673)	(1,673)
Contributed capital			45,000			45,000
Shares issued for services July 2001 - $0.033	150,000	150	4,850			5,000
Net loss					(50,000)	(50,000)
Balance December 31, 2001	4,289,784	4,289	80,711		(86,673)	(1,673)
Capital contributed			56,400			56,400
Warrants issued for Cash			125,000			125,000
Issuance of common stock:						
Technology Sept. 2002 - $0.006	23,400,000	23,400	4,623			78,023
Services rendered - Oct. 2002 - $0.021	2,925,000	2,925	17,958	(19,678)		1,205
Cash Oct 2002 - $0.03	564,810	565	17,221			17,786
Cash Nov 2002 - $2.66	71,250	71	189,929			190,000
Contributed services - officer			20,000			20.000
Warrants issued for services			5,324			5,324
Net loss					(211,954)	(211,954)
Balance December 31, 2002	31,250,844	$ 31,250	$ 567,166	$ (19,678)	$ (298,627)	$ 280,111

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RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
For The Nine Months Ended September 30, 2003 And From Inception
Of Development Stage (November 7, 2000) To September 30, 2003
(As Restated)
(Continued)

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	
	Shares	Amount				Total
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	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	411,653			411,800
April 2003 - $3.14	11,045	11	34,780			34,791
Issuance of common stock for services:						
April 2003 - $3.705	111,625	112	413,459			413,571
August 2003 - $3.705	33,188	33	122,929			122,962
September 2003 - $3.705	24,292	24	89,982			90,006
Cashless exercise of warrants	305,000	305	(305)			
Contributed services - officer			56,203			56,203
Employee stock options issued at below market			38,400			38,400
Amortization of deferred compensation				6,356		6,356
Warrants issued for:						
Services			1,741,399	(432,170)		1,309,229
Financing cost			74,088			74,088
Net loss					(3,429,086)	(3,429,086)

Balance September 30, 2003 (unaudited)	32,153,740	$ $32,153	$ 4,297,484	$ (445,492)	$ (3,727,713)	$ 156,432

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
For The Nine Months Ended September 30, 2003 And From Inception
Of Development Stage (November 7, 2000) To September 30, 2003
(Unaudited)
(As Restated)

	For Nine Months Ended September 30, 2003	For Nine Months Ended September 30, 2002	From Inception of Development Stage (November 7, 2000) to September 30, 2003
Cash flow from operating activities			
Net loss	$ (3,429,086)	$ (49,341)	$ (3,727,713)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	21,522		22,215
Amortization of deferred compensation	6,356		6,356
Services as contributed capital	56,203		76,203
Common stock issued for services	1,141,071	5,000	1,147,276
Warrants issued for services	1,286,985		1,292,309
Change in assets & liabilities:			
Prepaid expenses	37,815		
Accrued expenses	139,596	1,500	153,360
Cash used in operating activities	(739,538)	(42,841)	(1,029,994)
Cash flows from investing activities -			
Purchase of equipment	(41,466)		(70,507)
Capitalized technology cost	(62,706)		(62,706)
Cash used in investing activities	(104,172)		(133,213)
Cash flow from financing activities:			
Capital contributions		35,000	135,400
Sale of common stock for cash	598,000	125,000	905,786
Sale of warrants for cash			125,000
Net cash provided by financing activities	598,000	160,000	1,166,186
Net increase (decrease) in cash	(145,710)	117,159	2,979
Cash at beginning of period	148,689	8,262	

Cash at end of period	$ 2,979	$ 125,421	$ 2,979

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RECOM MANAGED SYSTEMS, INC.
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STATEMENTS OF CASH FLOWS
For The Nine Months Ended September 30, 2003 And 2002 From Inception
Of Development Stage (November 7, 2000) To September 30, 2003
(Unaudited)
(As Restated)

(Continued)

Supplemental Cash Flow Information:

For the nine months ended September 30, 2003, and from inception of development stage (November 7, 2000), the Company paid no interest or income taxes.

Supplemental Investing and Financing Activities:

For the nine months ended September 30, 2003, the Company issued warrants to consultants to purchase the Company s common stock under consulting agreements. The value of the warrants based upon the fair value of the stock at the measurement dates using the Black-Scholes option model is $ 1,815,407. The Company recorded compensation expense of $1,383,317 for those agreements.

The Company recorded $56,203 of compensation expense for the CEO of the Company. This compensation was recorded as additional paid in capital for the nine months ended September 30, 2003.

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
For The Nine Months Ended September 30, 2003 And 2002 From Inception
Of Development Stage (November 7, 2000) To September 30, 2003

1. BASIS OF PRESENTATION

The unaudited financial statements have been prepared by Recom Managed Systems, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. 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 consolidated 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. These financial statements should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2002 included elsewhere in the prospectus containing these unaudited financial statements. The results of the nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003.
As reflected in the accompanying financial statements, the Company has losses from inception, negative cash flows from operations, limited working capital and no established source of revenue. These matters raise substantial doubt about the Company's ability to continue as a going concern.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheet is dependent upon continued operations of the Company, which, in turn, is dependent upon the Company's ability to continue to raise capital and generate positive cash flows from operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue its existence.

Management plans to, or has taken, the following steps that it believes will be sufficient to provide the Company with the ability to continue in existence. See Note 5 for further details.

- The Company has raised approximately $$4,806,000 through the sale of series 'A' convertible stock that will be used to fund any capital shortfalls. See Note 5 for further details.

- Management will continue its business plan to develop its line of products, which will be ready for market approximately in late 2005. However, no assurance can be given that commercial products or services will ever result or that regulatory agencies, physicians, patients or insurance providers will accept those products or services.

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2. STOCK OPTIONS

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 using the Black-Scholes method at the date of grant based on the following assumptions: (i) risk free interest rate of 3.13%; (ii) dividend yield of 0%; (iii) volatility factor of the expected market price of the Company's common stock of 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 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 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:

	Nine Month Period Ended September 30, 2003	Nine Month Period Ended September 30, 2002
Net loss, attributable to common shareholders as reported	$ (3,429,086)	$ (49,341)
Current period expense	242,550	
Stock compensation calculated under APB 25	(459,241)	
Pro forma net loss	$ (3,645,777)	$ (49,341)
Basic and diluted historical loss per share available to common shareholders	$ (0.12)	$ (0.01)
Pro forma basic and diluted loss per share available to common shareholders	$ (0.12)	$ (0.01)

3. 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:

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- The Company is obligated to pay Dr. Harmison $36,000 per year over the term of the agreement, payable quarter. Dr. Harmison was entitled to receive upon execution of the agreement an initial grant of options entitling him to purchase 108,000 common shares (36,000 shares pre split) at $0.97 per share, exercisable over five years. The fair value of warrants was $153,352 estimated using the Black-Scholes option-pricing model computed as of the measurement date, which is the date that the service were performed, with thee following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 158.48%, (iii) weighed-average risk-free interest rate of approximately 3.13, and (iv) expected life of 1.5 years.

- On the date of Dr Harmison's execution of the agreement, as well as the commencement of the first and second years of service under the agreement, the Company is obligated to grant Dr. Harmison options entitling him to purchase 108,000 (36,000 pre-split) common shares at $0.97 per share, exercisable over five years; except that these options will vest quarterly based upon his provision of services over the first year of the agreement.

- Dr. Harmison is entitled to receive common shares grants in tranches of 20,000 common 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 common shares 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.

In March 2003, for services rendered, the Company recognized a total of $14,000 in expense in connection with the issuance of warrants. 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) weighed-average risk-free interest rate of approximately 3.13, and (iv) expected life of 1.5 years.

In March 2003, the Company entered into an agreement with its then CFO to issue him warrants to purchase 900,000 (300,000 pre-split) shares of the Company s common stock at $0.95 per share. The warrants were issued as compensation for services. The warrants vest quarterly over a 3-year period. The warrants 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 warrants was estimated at $204,170 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) weighed-average risk-free interest rate of approximately 3.13, and (iv) expected life of 1.5 years.

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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 business advisory consulting firm 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 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) weighed-average risk-free interest rate of approximately 1.65, 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 leasehold improvements.

On April 2, 2003, the Board of Directors declared a three-for-one stock split effective as of the close of business on Friday, April 11, 2003. All share amounts and earnings per share have been presented on a post split basis.

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 $338,261 using the Black-Scholes option-pricing model computed as of the measurement date, which is the date the at the services were performed, using the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 114.24%, (iii) weighed-average risk-free interest rate of approximately 1.42, 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 accredited 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, 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.

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 and vest quarterly over three years. The fair value of warrants was estimated at $199,226 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 114.24%, (iii) weighed-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 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 81.16%, (iii) weighed-average risk-free interest rate of approximately 1.68, and (iv) expected life of 1.5 years.

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

In August 2003, the Company entered into voluntary trading restriction agreements with two 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 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 81.16%, (iii) weighed-average risk-free interest rate of approximately 1.68, and (iv) expected life of 1.5 years.

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 using 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) weighed-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.

During the nine month period ended September 30, 2003, the Company issued 327,342 shares of common stock, for marketing and business services rendered during the period. These services were valued at $1,073,131 based upon the market value of the shares at the date of issuance.

The Company has issues 1,359,000 options to employees under the 2002 Stock Plan.

4. STOCK-BASED COMPENSATION PLANS

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

	September 30, 2003			September 30, 2002	
	Number		Average Exercise Price	Number	Average Exercise Price
Outstanding at beginning of the period					
Granted during the period	2,560,000	$	0.98		
Exercised during the period					
Terminated during the period					
Outstanding at end of the period	2,560,000		0.98		
Exercisable at end of the period	1,090,833	$	1.04		

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The following table summarizes information on stock options and warrants outstanding and exercisable issued to employees at September 30, 2003:

Range of Exercise Prices	Remaining Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Fair Value	Exercise Price
0 to 1	2,490,000	4.3	$ 0.60	$ 0.90
1 to 2				
2 to 3	10,000	4.5	1.90	2.85
3 to 4	10,000	4.8	2.50	3.19
4 to 5	50,000	4.7	2.80	4.20

The number and weighted average exercise prices of the options and warrants issued to consultants are as follows:

	September 30, 2003			September 30, 2002		
	Number	Average Exercise Price		Number	Average Exercise Price	
Outstanding at beginning of the period	1,025,000	$	1.25		$	
Granted during the period	1,426,501		1.12	575,000		0.71
Exercised during the period						
Terminated during the period						
Outstanding at end of the period	2,451,501		1.36	575,000		0.71
Exercisable at end of the period	1,207,250	$	1.39	575,000	$	0.71

The following table summarizes information on stock options and warrants outstanding and exercisable issued to consultants at September 30, 2003:

Range of Exercise Prices	Remaining Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Fair Value	Exercise Price
0 to 1	971,000	3.6	$ 0.90	$ 0.53
1 to 2	131,000	2.9	2.24	1.14
2 to 3	158,000	5.6	2.10	2.35
3 to 4	48,501	4.9	1.60	3.24
4 to 5	118,000	4.9	1.47	4.98

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5. SUBSEQUENT EVENTS

Subsequent to September 30, 2003, the Company issued 15,385 shares of common stock to individuals for business services. These shares were valued at $3.90 based on the market value of the stock at the date of issuance.

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 $4,645,000. 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.

The series 'A' convertible preferred stock will pay dividends of 8% annually, 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 shares of 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 will issue the Placement Agent a common stock purchase warrant exercisable for a number of units equal to 10% of the number of units sold in the offering. The Placement Agent's warrant will be exercisable at $3.60 per share and will expire five years following the date of issuance.
As part of the unit offering, the Company entered into registration rights agreements which require the Company to use its best efforts to file a registration statement with the Securities and Exchange Commission statement as soon as reasonably practicable after the first closing for the offering (October 1, 2003), but in no event less than 90 days following the first closing, to register the shares of common stock issuable upon conversion of the series 'A' convertible preferred stock and upon exercise of the class 'C' warrants. If the Company fails to do so, the exercise price for the class 'C' warrants will be reduced to $3 from $3.75.

ITEM 2. MANAGEMENT'S PLAN OF OPERATION.

FORWARD-LOOKING INFORMATION

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

PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS

The Company intends to proceed with further development of products and services which employ or otherwise utilize the technology described in Note 2 above. We plan to develop a "belt" that is worn by the patient which will hold both electrodes and the electronics. This development will be accomplished in stages with the first stage housing only the electrodes with the electronics in a separate module. Subsequent development will incorporate the electronics in the belt along with the electrode. We have initiated the study of alternative algorithms for the analysis of ECG's and the Company is also evaluating the advisability of submitting its proof of concept system for hospital institutional review board testing. We are also in discussion with various medical centers regarding beta testing of the low power electronics version of our system. The Company will also work with the inventor of an alternative to standard electrodes (a sensor). The Company plans to develop the sensor technology for possible future incorporation into the "belt." The Company will have an option to acquire the intellectual property rights to the technology if the proof of concept results are as anticipated. The Company estimates it has sufficient cash on hand to fund development and operations for approximately 12 months, because the Company raised approximately $4,645,000 in net proceeds from the private sale of Series A Convertible Preferred Stock.

The Company plans on using a portion of its funds to develop a sales and marketing infrastructure and a key physician information program. The Company believes it will need to continue to raise funds to finance the full rate production of its ECG System. Additionally, the Company plans to invest in other medical applications of its technology. The first such application being, the monitoring of brain waves to aide in the treatment of neurological diseases.

ITEM 3. Controls and Procedures

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

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

None.

ITEM 2. Changes in Securities.

During July 2003, the Company sold 75,075 units to four accredited investors at $3.00 per unit in cash. Each unit consisted of one share of common stock and one warrant. Each warrant is exercisable at $3.00 until May 14, 2004. Upon exercise of the warrants each investor will receive one share of common stock and an additional warrant to purchase one share of common stock at $6.00 per share until November 15, 2004. The Company relied on the exemption provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder. The investors received a disclosure document and they executed a Subscription Application and a Common Stock Purchase Agreement in which they represented that they were acquiring the units for investment purposes. The certificates for the warrants and the shares contain restrictive legends.

During September 2003, the Company issued 305,000 restricted shares of common stock to three persons pursuant to cashless exercise provisions of common stock purchase warrants held by such persons. The persons who exercised the warrants were accredited investors. The Company relied on Section 4(2) of the Securities Act of 1933, as amended. The appropriate restrictive legend was placed on the certificates and stop transfer instructions were issued to the transfer agent.

On July 17, 2003 the Company issued to Maxim Group LLC a warrant to purchase 100,000 restricted shares of the Company's common stock pursuant to an investment banking agreement. The warrants have a five year term and are exercisable at a price of $4.92 per share. The Company relied on Section 4(2) of the Securities Act of 1933, as amended.

During March 2003, the Company issued to a consultant a warrant to purchase 21,000 shares of the Company's common stock at an exercise price of $.81 per share as payment for services rendered by the consultant. During August 2003, the Company also issued a total of 23,501 warrants to two shareholders as consideration for their agreement to a partial lockup of shares they own. The warrants have an exercise price of $3.29. During September 2003, the Company issued to a consultant a warrant to purchase 25,000 shares of the Company's common stock at an exercise price of $3.19 as payment for services rendered by the consultant. The Company relied on Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. Defaults Upon Senior Securities.

None.

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

None.

ITEM 5. Other Information.

See Subsequent Event footnote to the financial statements above.

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

a. Exhibits.

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of Chief Executive Officer and Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.2	Certification of Chief Financial Officer and Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith electronically

b. Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RECOM MANAGED SYSTEMS, INC.

Date: November 5, 2004 By:/s/Marvin H. Fink
Marvin H. Fink, Chief Executive Officer

Date: November 5, 2004 By:/s/ Charles Dargan
Charles Dargan, Interim Chief Financial Officer

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