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RECOM MANAGED SYSTEMS INC DE/  
Form 10QSB  
May 07, 2003

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

FORM 10-QSB

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

For the quarterly period ended March 31, 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)

(303) 893-2300

-----  
(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 April 15, 2003, the Registrant had 31,510,848 shares of common stock, \$.001 par value, outstanding.

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

INDEX

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Part I: Financial Information	Page No.
Item 1. Financial Statements:	
Unaudited Balance Sheet - as of March 31, 2003 .....	3
Unaudited Statements of Operations - Three Months Months Ended March 31, 2002 and 2003 .....	4
Unaudited Statements of Cash Flows - Three Months Ended March 31, 2002 and 2003 .....	5
Notes to Consolidated Financial Statements.....	6 - 7
Item 2. Management's Plan of Operation.....	8
Item 3. Controls and Procedures.....	8
Part II: Other Information.....	9
Item 1. Legal Proceedings.....	9
Item 2. Change in Securities.....	9
Item 3. Defaults Upon Senior Securities.....	9
Item 4. Submission of Matters to a Vote of Security Holders.....	9
Item 5. Other Information.....	9
Item 6. Exhibits and Reports on Form 8-K.....	9
Signatures .....	10
Certifications .....	10 - 11

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RECOM MANAGED SYSTEMS, INC.  
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEET  
March 31, 2003  
(UNAUDITED)

ASSETS

CURRENT ASSETS

Cash	\$ -
EQUIPMENT, net of accumulated depreciation of \$12,982	149,801
TECHNOLOGY	34,881
	-----

TOTAL ASSETS	\$ 184,682
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable and Other Liabilities	\$ 324,086
Bank overdraft	8,061
Advance from stockholder	150,000
	-----

TOTAL LIABILITIES	482,147
-------------------	---------

STOCKHOLDERS' EQUITY

Common Stock	10,417
Additional paid-in capital	334,225
Deficit accumulated during development stage	(642,107)
	-----

TOTAL STOCKHOLDERS' EQUITY	(297,465)
	-----

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 184,682
	=====

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

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	Successor Company -----	Predecessor Company -----	Successor Company ----- Cumulative for the Period of September 19, 2002 to March 31, 2003 -----
	Three Months Ended March 31, 2003 -----	Three Months Ended March 31, 2002 -----	
Revenue	-	-	-
Research and Development General and Administra- tive Expenses	27,297 455,536 -----	- 20,353 -----	27,297 614,810 -----
Net Loss	\$ (482,833) =====	\$ (20,353) =====	\$ (642,107) =====
Basic and Diluted Loss Per Share	\$ (0.05) =====	** =====	\$ (0.06) =====
Basic and Diluted Weighted Average Number of Shares Outstanding	10,416,948	1,429,928	10,193,582

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

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	Successor Company -----	Predecessor Company -----	Successor Company -----
	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002	Cumulative for the Period September 19, 2002 to March 31, 2003 -----
Cash used in operating activities	\$ (116,014)	\$ (28,015)	\$ (292,891)
Cash Flows from Investing Activities:			
Purchase of equipment and technology	(44,031)	-	(73,072)
Cash Flows from Financing Activities:			
Increase in bank overdraft, net	8,061		8,061
Capital contributed	3,295	20,000	24,695
Issuance of stock	-	-	207,786
Sale of warrants	-	-	125,000
	-----	-----	-----
Net cash provided by financing activities	11,356	20,000	365,542
Net increase (decrease) in cash	(148,689)	(8,015)	(421)
Cash at beginning of period	148,689	15,084	421
	-----	-----	-----
Cash at end of period	\$ -	\$ 7,069	\$ -
	=====	=====	=====

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

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

### NOTE 2 - ACQUISITION OF TECHNOLOGY

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

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

- \* accurately measuring heart functions
- \* automatically and remotely evaluating these functions over the telephone, the Internet, or other wireless transmission systems

6

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

No assurance can be given that commercial products or services will ever result or that those products or services will be accepted by regulatory

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agencies, physicians, patients or insurance providers.

### NOTE 3 - SUBSEQUENT EVENTS

On April 1, 2003, the Company entered into a common stock purchase agreement with M. Stein, whose spouse is a majority shareholder, pursuant to which Mr. Stein purchased 37,594 shares of the Company's common stock at a price of \$6.65 per share for a total consideration of \$250,000. The consideration included \$100,000 in cash and \$150,000 of expenses and capitalized assets which had previously been advanced by Mr. Stein. An advance of \$150,000 has been reflected on the March 31, 2003 Balance Sheet for expenses totaling \$33,208 and equipment and leasehold improvements totaling \$116,792.

On April 1, 2003, the Company issued 49,064 shares of common stock to individuals in exchange for consulting services rendered. The March 31, 2003 financial statements reflect the accrual of \$268,500 for these services.

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.

On April 15, 2003, the Company entered into an investment banking agreement with Brookstreet Securities Corporation which has its offices in Irvine, California. The agreement provides that Brookstreet will provide various investment banking services including advising the Company in connection with financing strategies and assisting the Company with its capital needs including locating potential sources of debt and equity capital and establishing an orderly market for the Company's securities. As compensation for these services Brookstreet is being issued warrants to purchase an aggregate of 200,000 shares of the Company's common stock. The warrants will be issued in 4 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.

7

### 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

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The Company intends to proceed with further development and possible commercialization of products or services which embody or otherwise utilize the technology described above in Note 2. We plan to develop a belt that can be used by the patient which will hold the electrodes and electronics. We also plan to initiate the study of alternative algorithms for the analyzing of ECGS. The Company currently has no cash on hand and in order to fund its immediate short-term working capital needs, management is attempting to raise at least \$50,000 in either debt or equity financing. Management is also considering a private equity offering to raise up to \$5 million to complete the development of its first product and become fully operational. There is no assurance that any of these financing efforts will be successful. In the event the Company is not able to secure financing, many adverse contingencies may result such as downsizing of the Company's facilities and/or personnel, ceasing development efforts and/or operations. Notwithstanding any of these activities, the Company believes it is highly likely that it will not achieve any revenues or earnings during the next twelve months, and for a significant period of time thereafter.

### 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.

8

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings.

None.

### ITEM 2. Changes in Securities.

None.

### ITEM 3. Defaults Upon Senior Securities.

None.

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

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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.

10.12 Employment Agreement with Charles E. McGill dated  
March 10, 2003

10.13 Investment Banking Agreement with Brookstreet Securities  
Corporation dated April 15, 2003

b. Reports on Form 8-K.

None.

9

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: May 6, 2003

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

Date: May 6, 2003

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

CERTIFICATIONS

I, Marvin H. Fink, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Recom Managed Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such

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statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

10

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 6, 2003

/s/ Marvin H. Fink  
Marvin H. Fink  
President  
(Chief Executive Officer)

CERTIFICATIONS

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I, Charles E. McGill, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Recom Managed Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

11

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Dated: May 6, 2003

/s/ Charles E. McGill  
Charles E. McGill  
(Chief Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER OF  
RECOM MANAGED SYSTEMS, INC.  
PURSUANT TO 18 U.S.C. SECTION 1350

We certify that, to the best of our knowledge, the Quarterly Report on Form 10-QSB of Recom Managed Systems, Inc. for the period ending March 31, 2003:

(1) complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of Recom Managed Systems, Inc.

/s/ Marvin H. Fink  
Marvin H. Fink  
Chief Executive Officer

/s/ Charles E. McGill  
Charles E. McGill  
Chief Financial Officer