RECOM MANAGED SYSTEMS INC DE/
Form SB-2
January 26, 2005

As filed with the Securities and Exchange Commission on January 26, 2005

Commission File No. 333 _____

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form SB-2
Registration Statement Under The Securities Act Of 1933

Recom Managed Systems, Inc.
(Name of small business issuer in its charter)

Delaware	**3845**	**87_0441351**
(State or other jurisdiction of incorporation or organization)	**(Primary Industrial Code)**	**(I.R.S. Employer Identification No.)**

Marvin H. Fink
Chief Executive Officer
4705 Laurel Canyon Boulevard, Suite 203
Studio City, California 91607
(818) 432-4560
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)
(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

Copies to

John M. Woodbury, Jr., Esq.
358 Patterson Blvd. SW
Calgary, Alberta T3H 3K1
Telephone (403) 217-5532

Approximate date of proposed sale to public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: x

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: **o**_____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: **o**_____

If delivery of this prospectus is expected to be made pursuant to Rule 434, please check the following box: **o**

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Offering Price Per Share (1)	Proposed Aggregate Offering Price	Amount of Registration Fee
Common stock (2)	380,952(3)	$ 3.80	$ 1,447,618	$ 387.82
Common stock (4)	275,000(5)	$ 3.80	$ 1,045,000	$ 279.96
Common stock (6)	380,952(7)	$ 3.80	$ 1,447,618	$ 387.82
Common stock (8)	131,377(10)	$ 3.80	$ 499,233	$ 133.74
Common stock (9)	200,000(10)	$ 3.80	$ 760,000	$ 203.60
Total	1,368,281		$ 5,199,469	$ 1,392.94

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(1) Estimated solely for the purpose of calculating the registration fee pursuant to SEC Rule 457(c) of Regulation C as of the close of the market on January 18, 2005, based upon the average of the high and low prices for that date.

(2) Represents common stock reserved for issuance by the registrant with respect to the prospective conversion of a convertible debenture issued on December 29, 2004 at the election of the holder of that debenture.

(3) Pursuant to SEC Rule 416(a), also covers additional common shares that may be offered as a result of stock splits, stock dividends or similar transactions relating to these shares, including standard weighted-average and other anti-dilution protective provisions contained in the underlying convertible debenture.

(4) Represents common stock reserved for issuance by the registrant with respect to the prospective exercise of common stock purchase warrants granted to the holder of the aforesaid debenture in connection with the sale of that debenture by the registrant.

(5) Pursuant to SEC Rule 416(a), also covers additional common shares that may be offered as a result of stock splits, stock dividends or similar transactions relating to these shares, including standard weighted-average and other anti-dilution protective provisions contained in the underlying common share purchase warrant.

(6) Represents a pool of common stock reserved for issuance by the registrant with respect to any of the following: (1) the prospective conversion, at the election of the registrant, of principal under the aforesaid convertible debenture at a lower conversion price than that afforded to the debenture holder; or (2) the prospective payment by the registrant in the form of common stock of interest, penalties and/or damages that may accrue under the debenture and/or warrants.

(7) Pursuant to SEC Rule 416(a), also covers additional common shares that may be offered as a result of stock splits, stock dividends or similar transactions relating to these shares, including standard weighted-average and other anti-dilution protective provisions contained in the underlying convertible debenture and/or common share purchase warrants.

(8) Represents common stock reserved for issuance by the registrant with respect to the prospective conversion of 200,000 series A preferred shares issued as a dividend payable in kind in satisfaction of dividends accrued through December 31, 2004 on series A preferred shares then outstanding.

(9) Represents a pool of common stock reserved for issuance by the registrant with respect to the prospective issuance and conversion of up to 200,000 additional series A preferred shares as a dividend payable in kind in satisfaction of dividends that may accrue after December 31, 2004 on series A preferred shares then outstanding.

(10) Pursuant to SEC Rule 416(a), also covers additional common shares that may be offered as a result of stock splits, stock dividends or similar transactions relating to these shares, including standard weighted-average and other anti-dilution protective provisions contained in the certificate of designation underlying the series A preferred shares.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until

this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JANUARY 26, 2005

The information in this prospectus is not complete and may be changed. We have filed a registration statement containing this prospectus with the Securities and Exchange Commission. The common stock offered for sale under this prospectus may not be offered for sale or sold until that registration statement is declared effective by the Securities and Exchange Commission. This prospectus is not an offer to sell the common shares and doesn t solicit an offer to purchase the common shares in any jurisdiction where this offer or sale is not otherwise permitted.

Prospectus

1,368,281 Common Shares

This prospectus relates to the offer and sale by some of our securities holders during the period in which the registration statement containing this prospectus is effective of up to 1,368,281 common shares, consisting of:

· 1,036,904 common shares reserved for issuance by the company in connection with the sale of a $2,000,000 convertible debenture to DKR SoundShore Oasis Holding Fund Ltd. as follows:

o 380,952 common shares issuable by the company upon the prospective conversion, at the election of the debenture holder, of the full $2,000,000 in principal due under the debenture;

o 275,000 common shares issuable by the company with respect to the prospective exercise of 275,000 common share purchase warrants issued to the debenture holder in connection with the sale of the debenture; and

o an additional pool of 380,952 common shares issuable by the company with respect to any of the following: (1) the prospective conversion, at the election of the company, of principal under the aforesaid convertible debenture at a lower conversion price than that afforded to the debenture holder; and/or (2) the prospective payment by the company in the form of common shares of interest, penalties and/or damages that may accrue under the debenture and/or warrants; and

· 331,377 common shares reserved for issuance by the company in connection with dividends paid or payable in kind with respect to the company s series A preferred shares sold in a private placement in fiscal 2003 as follows:

o 131,377 common shares issuable by the company with respect to the prospective conversion of 131,377 series A preferred shares issued as a dividend payable in kind in satisfaction of dividends accrued through December 31, 2004 on series A preferred shares then outstanding; and

- an additional pool of 200,000 common shares issuable by the company with respect to the prospective issuance and conversion of up to 200,000 additional series A preferred shares as a dividend payable in kind in satisfaction of dividends that may accrue after December 31, 2004 on series A preferred shares then outstanding.

This offering is not being underwritten. The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. We will not receive any of the proceeds from those sales.

Our common shares trade on the Over-The-Counter Bulletin Board, also called the OTCBB, under the trading symbol RECM .

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An investment in the common shares offered for sale under this prospectus involves a high degree of risk. See Risk Factors beginning on page 6 of this prospectus.

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Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the common shares offered for sale under this prospectus or the merits of that offering, or has determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The date of this prospectus is ____ , 2005

4705 Laurel Canyon Boulevard, Suite 203, Studio City, California 91607
(818) 432-4560

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PROSPECTUS SUMMARY

This summary highlights important information about our company and business. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire prospectus and the financial statements and related notes included in this prospectus carefully. Unless the context requires otherwise, *Recom* , *we*, *us*, *our* and similar terms refer to Recom Managed Systems, Inc.

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

The Company And Business

Recom is a development stage medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body. Our initial product will be patient modules used as part of a heart monitor system to acquire, amplify and process physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used by heart specialists known as cardiologists to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. Our patient module will operate using a proprietary and patented amplification technology which provides the capability to enlarge and process the physiological signals to discriminate them from ambient or background electromagnetic noise and to facilitate the examination of the signal data for diagnostic purposes. Our amplification technology is an enhancement of an amplification technology first developed for the United States Air Force to record bioelectrical signals from a pilot s brain, known as an electroencephalogram or EEG. The technology was also used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals.

In December 2004, we completed the design, fabrication and testing of a pre-production model of our first product for commercialization, our battery-operated, digital 12-lead Recom Model 100 Patient Module or *Model 100 Module* . The Model 100 Module will be used as the primary component of a 12-lead ambulatory heart monitor system, referred to as the Model 100 Monitor System . The Model 100 Monitor System is an ambulatory patient heart monitor or recording system that will allow a patient s heart to be continuously monitored over a period of 24 to 48 hours while the patient carries out his or her daily activities away from the physicians office or hospital. We anticipate that we will introduce our Model 100 Monitor System to the market at the American College of Cardiolology Convention to be held in March, and will start selling the devices in late 2005.

As of January 6, 2005, we had issued and outstanding 34,860,068common shares, 377,719 series A preferred shares, and common share purchase options and warrants entitling the holders to purchase up to 4,681,395 common shares.

Our corporate offices are located at 4705 Laurel Canyon Boulevard, Suite 203, Studio City, California 91607. Our telephone number is (818) 432-4560.

The Offering

This prospectus relates to the offer and sale by some of our securities holders during the period in which the registration statement containing this prospectus is effective of up to 1,368,281 common shares, consisting of:

- 1,036,904 common shares reserved for issuance by the company in connection with the sale of a $2,000,000 convertible debenture to DKR SoundShore Oasis Holding Fund Ltd. as follows:

- 380,952 common shares issuable by the company upon the prospective conversion, at the election of the debenture holder, of the full $2,000,000 in principal due under the debenture;

- 275,000 common shares issuable by the company with respect to the prospective exercise of 275,000 common share purchase warrants issued to the debenture holder in connection with the sale of the debenture; and

- o an additional pool of 380,952 common shares issuable by the company with respect to any of the following: (1) the prospective conversion, at the election of the company, of principal under the aforesaid convertible debenture at a lower conversion price than that afforded to the debenture holder; and/or (2) the prospective payment by the company in the form of common shares of interest, penalties and/or damages that may accrue under the debenture and/or warrants; and

- · 331,377 common shares reserved for issuance by the company in connection with dividends paid or payable in kind with respect to the company s series A preferred shares sold in a private placement in fiscal 2003 as follows:

- o 131,377 common shares issuable by the company with respect to the prospective conversion of 131,377 series A preferred shares issued as a dividend payable in kind in satisfaction of dividends accrued through December 31, 2004 on series A preferred shares then outstanding; and

- o an additional pool of 200,000 common shares issuable by the company with respect to the prospective issuance and conversion of up to 200,000 additional series A preferred shares as a dividend payable in kind in satisfaction of dividends that may accrue after December 31, 2004 on series A preferred shares then outstanding.

The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. Information regarding the selling shareholders, the common shares they are offering to sell under this prospectus, and the times and manner in which they may offer and sell those shares is provided in the sections of this prospectus captioned *Selling Shareholders* , *Registration Rights* and *Plan of Distribution* . We will not receive any of the proceeds from those sales. Should the selling shareholders in their discretion exercise any of the common share purchase warrants or options underlying the common shares offered under this prospectus, we would, however, receive the exercise price for those warrants. The registration of common shares pursuant to this prospectus does not necessarily mean that any of those shares will ultimately be offered or sold by the selling shareholders, or that any of the common share purchase warrants or options underlying the common shares offered under this prospectus will be exercised.

Summary Financial Data

The following tables summarize the consolidated statements of operations and balance sheet data for our company for the periods or as of the dates indicated, respectively:

	Nine-Month Interim Period Ended September 30,		Year Ended December 31,	
	2004	**2003**	**2003**	**2002**
Consolidated Statements of Operations Data:				
Revenue	$	$	$	$
Research and development expenses	$ (880,523)	$ (166,910)	$ (497,631)	$ (67,500)
General and administrative expenses	$ (3,905,983)	$ (3,262,176)	$ (4,813,746)	$ (144,454)
Net loss	$ (4,786,506)	$ (3,429,086)	$ (5,311,377)	$ (211,954)
Preferred dividend	$ (246,962)	$	$ (1,953,170)	$
Net loss attributed to common stockholders	$ (5,033,468)	$ (3,429,086)	$ (7,264,547)	$ (211,954)
Basic and diluted loss per share	$ (0.14)	$ (0.11)	$ (0.17)	$ (0.02)
Basic and diluted loss per share attributed to common stockholders	$ (0.15)	$ (0.11)	$ (0.23)	$ (0.02)

Weighted average shares outstanding, basic and diluted	33,419,220	31,524,884	31,765,404	11,609,162

	September 30, 2004	December 31, 2003
Consolidated Balance Sheet Data:		
Current assets	$ 1,621,802	$ 4,088,469
Total assets	$ 2,042,105	$ 4,415,596
Current liabilities	$ 476,520	$ 590,856
Total liabilities	$ 476,520	$ 590,856
Total stockholders equity	$ 1,565,585	$ 3,824,740
Total liabilities and stockholders equity	$ 2,042,105	$ 4,415,596

RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. In such an event, the trading price for our common shares could decline substantially, and you could lose all or part of your investment. In order to attain an appreciation for these risks and uncertainties, you should read this prospectus in its entirety and consider all of the information and advisements contained in this prospectus, including the following risk factors and uncertainties.

Risks Relating To Our Business

Our limited operating history will make it difficult for you to predict our future operating results and to otherwise assess or predict the likelihood of our business success.

To date, we are a development stage company principally engaged in research and development, organizational and startup activities which has not yet introduced our heart monitoring products to market. Our limited operating history will make it difficult, if not impossible, to predict future operating results and to assess the likelihood of our business success in considering an investment in our company. Risks and issues inherent in the establishment and expansion of a new business enterprise which we face include, among others, problems of entering new markets, marketing new technologies, hiring and training personnel, acquiring reliable facilities and equipment, and implementing operational controls. As a development stage company, we are also subject to risks and or levels of risk that are often greater than those encountered by companies with established operations and relationships. Development stage companies often require significant capital from sources other than operations. Since we are a start-up business, our management and employees will shoulder the burdens of the business operations and a workload associated with company growth and capitalization that is disproportionately greater than that for an established business. We cannot give you any assurance that we will successfully address these risks. Our prospects must be considered speculative, which may limit our ability to encourage further investment in our company.

We have no revenues to date and have accumulated losses since our inception. Our continued inability to generate revenues and profits could cause us to go out of business.

We have incurred cumulative net losses after preferred dividends available to common shareholders in the amount of $12,596,642 from our inception through September 30, 2004. We have no commercial product sales or revenues to date, and do not anticipate that we will commence commercial sales of our heart monitoring products until the end of fiscal 2005. Once we commence marketing our heart monitoring products, we project that we will not be cash flow positive based solely on projected sales and service revenues less manufacturing, general and administrative, marketing expenses and other operating costs for an indefinite period of time. We anticipate that we will continue to incur substantial operating losses for the foreseeable future, notwithstanding any anticipated revenues we may receive when our products are initially introduced to markets, due to the significant costs associated with the development and marketing of our products and services.

If we are unable to raise additional working capital, we will be unable to fully fund our operations and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately our going out of business.

As of the date of this prospectus and assuming the full conversion of an outstanding debenture in the amount of $2,000,000 into common shares, we will have sufficient cash on hand to our anticipated costs through June 2005, although this coverage could be less than that period as the result of changes in our anticipated level of operations, higher than expected costs such as through an acquisition of new products, or changes in our business plans. As noted in the prior risk factor, we do not anticipate that we will commence commercial sales of our heart monitoring products

until the end of fiscal 2005, and further anticipate that after such introduction we will continue to be cash flow negative due to our costs exceeding our revenues for an indefinite period of time. Based upon the foregoing, we will need to raise additional cash and working capital to cover an expected shortfall in our cash and working capital until such time, if any, as we become cash-flow positive. We currently do not have any binding commitments for, or readily available sources of, additional financing. Should we determine it to be necessary to raise additional cash in the future as our current cash and working capital resources are depleted, we will seek to raise it through the public or private sales of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We may also seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

Even if we are able to raise additional financing, we might not be able to obtain it on terms that are not unduly expensive or burdensome to the company or disadvantageous to our existing shareholders.

Even if we are able to raise additional cash or working capital through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or the satisfaction of indebtedness without any cash outlay through the private issuance of debt or equity securities, the terms of such transactions may be unduly expensive or burdensome to the company or disadvantageous to our existing shareholders. For example, we may be forced to sell or issue our securities at significant discounts to market, or pursuant to onerous terms and conditions, including the issuance of preferred stock with disadvantageous dividend, voting or veto, board membership, conversion, redemption or liquidation provisions; the issuanc e of convertible debt with disadvantageous interest rates and conversion features; the issuance of warrants with cashless exercise features; the issuance of securities with anti-dilution provisions; and the grant of registration rights with significant penalties for the failure to quickly register. If we raise debt financing, we may be required to secure the financing with all of our business assets, which could be sold or retained by the creditor should we default in our payment obligations. We also might be required to sell or license our products or technologies under disadvantageous circumstances we would not otherwise consider, including granting licenses with low royalty rates and exclusivity provisions.

Our products are highly regulated. We will not be able to introduce our products to market if we cannot obtain the necessary regulatory approvals. If we are unable to obtain regulatory approvals for our products in selected key markets at all or in a timely manner, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan. Our failure to receive the regulatory approvals in the United States would likely cause us to go out of business.

The manufacture, sale, promotion and marketing of our heart monitoring products and other products we intend to develop are subject to regulation by the FDA and similar government regulatory bodies in other countries. As we develop or obtain new products we will be required to determine what regulatory requirements, if any, we must comply with in order to market and sell our products in the United States and worldwide. The process of obtaining regulatory approval could take years and be very costly, if approval can be obtained at all. If we fail to comply with these requirements, we could be subjected to enforcement actions such as an injunction to stop us from marketing the product at issue or a possible seizure of our assets. We intend to work diligently to assure compliance with all applicable regulations that impact our business. We can give you no assurance, however, that we will be able to obtain regulatory approval for all of our products. We also cannot assure you that additional regulations will not be enacted in the future that would be costly or difficult to satisfy.

Because we are not diversified, we are subject to a greater risk of going out of business should our single proposed product line fail.

The only business opportunities we are presently pursuing are the heart monitoring or ECG market and, later, using the same technology, the neurological brain scan or EEG market. Unlike many established companies that are diversified, we do not presently have other businesses, properties, investments or other income producing assets upon which we could rely upon should our single product line fail, thereby increasing the risk of our going out of business.

Many of our customers will rely upon third party reimbursements from third party payors to cover all or a portion of the cost of our products. If third party payors do not provide reimbursement for our products, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.

We intend to sell our heart monitoring products to individual patients and doctors, hospitals and clinics who will seek reimbursement from various third party payers, including government health programs, private health insurance plans, managed care organizations and other similar programs. We can give you no assurance that reimbursement will be available from third party payers at all, or for more than a nominal portion of the cost of our products.

We intend to rely upon licensees, strategic partners or third party marketing and distribution partners to provide a significant part of our marketing and sales functions. Should these outside parties fail to perform as expected, we will need to develop or procure other marketing and distribution channels, which would cause delays or interruptions in our product supply and result in the loss of significant sales or customers.

We currently have no internal sales, marketing and distribution capabilities, and will rely extensively on third-party licensees, strategic partners or third party marketing and distribution companies to perform a significant part of those functions. As a consequence of that reliance, our ability to effectively market and distribute our products will be dependent in large part on the strength and financial condition of others, the expertise and relationships of those third-parties with customers, and the interest of those parties in selling and marketing our products. Prospective third-party licensees, strategic partners and marketing and distribution parties may also market and distribute the products of other companies. If our relationships with any third-party licensees, strategic partners or marketing and distribution partners were to terminate, we would need to either develop alternative relationships or develop our own internal sales and marketing forces to continue to sell our products. Even if we are able to develop our internal sales, marketing and distribution capabilities, these efforts would require significant cash and other resources that would be diverted from other uses, if available at all, and could cause delays or interruptions in our product supply to customers, which could result in the loss of significant sales or customers. We can give you no assurance that we will be successful in our efforts to engage licensees, strategic partners or third party marketing and distribution companies to meet our sales, marketing and distribution requirements.

We intend to rely upon the third-party FDA-approved manufacturers or suppliers to manufacture our heart monitoring products. Should these manufacturers fail to perform as expected, we will need to develop or procure other manufacturing sources, which would cause delays or interruptions in our product supply and result in the loss of significant sales **and customers.**

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. Should we be forced to manufacture our products, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure third party suppliers. Moreover, we cannot give you any assurance that any contract manufacturers or suppliers we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications.

We are dependent for our success on a few key executive officers. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital.

Our success depends to a critical extent on the continued efforts of services of our Chief Executive Officer, Mr. Marvin H. Fink, and our Vice President and Chief Technology Officer, Dr. Budimir S. Drakulic. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. Although Mr. Fink has signed an employment agreement pursuant to which he will provide continued services to the company until October 12, 2006, and Dr. Drakulic is employed as a consultant under a loan-out agreement through October 15, 2012, these agreements will not preclude either of these key officers from leaving the company. We currently maintain key man life insurance policies in the amount of $1 million with respect to Mr. Fink and $3 million with respect to Dr. Drakulic which will assist us in recouping some of our costs in the event of the death of those officers.

Our inability to protect our intellectual property rights could allow competitors to use our property rights and technologies in competition against our company, which would reduce our sales. In such an event we would not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.

We rely on a combination of patent, patent pending, copyright, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties. We also cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we can give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial.

We also rely on proprietary designs, technologies, processes and know-how not eligible for patent protection. We cannot give you any assurance that our competitors will not independently develop the same or superior designs, technologies, processes and know-how.

While we have and will continue to enter into proprietary rights agreements with our employees and third parties giving us proprietary rights to certain technology developed by those employees or parties while engaged by our company, we can give you no assurance that courts of competent jurisdiction will enforce those agreements.

Risks Relating To An Investment In Our Securities

Our common shares are sporadically or thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares

Our common shares have historically been sporadically or thinly traded on the OTCBB, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven development stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

The market price for our common shares is particularly volatile given our status as a relatively unknown development stage company with a small and thinly-traded public float, limited operating history and lack of revenues or profits to date for our newly introduced products, which could lead to wide fluctuations in our share price. The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The volatility in our common share price may subject us to securities litigation.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, we have relatively few common shares outstanding in the public float since most of our shares are held by a small number of shareholders. In addition, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without a material reduction in share price. Secondly, we are a speculative or risky investment due to our limited operating history and lack of revenues or profits to date, and uncertainty of future market acceptance for our products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substan tial costs and liabilities and could divert management s attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our products and services as viable security and technology solutions; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot

make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale o f shares or the availability of common shares for sale at any time will have on the prevailing market price.

Since a single shareholder currently beneficially owns the majority of our outstanding common shares, that single shareholder will retain the ability to control our management and the outcome of corporate actions requiring shareholder approval notwithstanding the overall opposition of our other shareholders. This concentration of ownership could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.

ARC Finance Group, LLC, which is owned and controlled by Ms. Tracey Hampton, owns 65.8% of our outstanding common shares. As a consequence of its controlling stock ownership position, ARC Finance Group will retain the ability to elect a majority of our board of directors, and thereby control our management. ARC Finance Group also has the ability to control the outcome of corporate actions requiring shareholder approval, including mergers and other changes of corporate control, going private transactions, and other extraordinary transactions.

A large number of common shares are issuable upon conversion of our series A preferred shares or the exercise of outstanding common share purchase options or warrants. The conversion or exercise of these securities could result in the substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. The sale of a large amount of common shares received upon the conversion or exercise of these securities on the public market to finance the exercise price or to pay associated income taxes, or the perception that such sales could occur, could substantially depress the prevailing market prices for our shares.

There are currently outstanding as of January 6, 2005, 377,719 series A preferred shares each convertible into one common share at the conversion rate of $3 per share, and common share purchase options and warrants entitling the holders to purchase 4,681,395 common shares at a weighted average exercise price of $2.30 per share, including a number granted to directors, officers, employees and consultants that are subject to vesting conditions. In the event of the conversion or exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their conversion or exercise of these securities.

Our issuance of additional common shares or preferred shares, or options or warrants to purchase those shares, would dilute your proportionate ownership and voting rights. Our issuance of additional preferred shares, or options or warrants to purchase those shares, could negatively impact the value of your investment in our common shares as the result of preferential voting rights or veto powers, dividend rights, disproportionate rights to appoint directors to our board, conversion rights, redemption rights and liquidation provisions granted to the preferred shareholders, including the grant of rights that could discourage or prevent the distribution of dividends to you, or prevent the sale of our assets or a potential takeover of our company that might otherwise result in you receiving a distribution or a pr emium over the market price for your common shares.

We are entitled under our certificate of incorporation to issue up to 100,000,000 common and 10,000,000 blank check preferred shares. After taking into consideration our outstanding common and preferred shares as of January 6, 2005, we will be entitled to issue up to 65,139,932 additional common shares and 9,622,281 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issues shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants

in connection with their services, both in the form of stand-alone grants or under our various stock plans. We cannot give you any assurance that we will not issue additional common or preferred shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

FORWARD-LOOKING STATEMENTS

In this prospectus we make a number of statements, referred to as *forward-looking statements*, which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as *seek*, *anticipate*, *believe*, *estimate*, *expect*, *intend*, *plan*, *budget*, *project*, *may be*, *may continue*, and similar expressions. When reading any forward looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, such as those relating to:

- the success of our research and development activities, the development of a viable commercial production model, and the speed with which regulatory authorizations and product launches may be achieved;
- whether or not a market for our products develops and, if a market develops, the pace at which it develops;
- our ability to successfully sell our products if a market develops;
- our ability to attract the qualified personnel to implement our growth strategies;
- our ability to develop sales, marketing and distribution capabilities;
- our ability to obtain reimbursement from third party payers for the products that we sell;
- the accuracy of our estimates and projections;
- our ability to fund our short-term and long-term financing needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned *Risk Factors* and *Plan of Operation*.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

USE OF PROCEEDS

The proceeds from the sale of the common shares to be sold under this prospectus will be retained by the selling shareholders, and will not be paid or remitted or otherwise made available to our company. Should any selling shareholder acquire the shares to be sold by exercising common share purchase warrants, we would receive the proceeds from the exercise price. In such an event we anticipate we would use the proceeds of such exercise for working capital and general corporate purposes.

BUSINESS

Overview

Recom is a development stage medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body. Our initial product will be patient modules used as part of a heart monitor system to acquire, amplify and process physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used by heart specialists known as cardiologists to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. Our patient module will operate using a proprietary and patented amplification technology which provides the capability to enlarge and process the physiological signals to discriminate them from ambient or background electromagnetic noise and to facilitate the examination of the signal data for diagnostic purposes. Our amplification technology is an enhancement of an amplification technology first developed for the United States Air Force to record bioelectrical signals from a pilot s brain, known as an electroencephalogram or EEG. Earlier versions of the technology were also used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals relating to the brain.

Corporate History

Recom was originally incorporated in Delaware on January 19, 1987 under the name Mt. Olympus Enterprises Inc.. We had no specific business purpose on the date of incorporation and were inactive until October 30, 1998. On that date, we completed a reverse acquisition with J2 Technologies LLC, a California limited liability company formed on July 31, 1998, which was engaged in the business of developing, servicing and managing commercial computer networks both on-site and remotely. As a consequence of the reverse acquisition, we engaged in J2 Technologies business and changed our name to Recom Managed Systems, Inc. We were subsequently unsuccessful in this business and, on June 26, 2000, filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankrupt cy Code. Our plan of reorganization was confirmed by the Bankruptcy Court and the confirmation order became final on November 7, 2000. Subsequent to declaring bankruptcy, we ceased our business operations. The plan of reorganization provided for a total discharge of the company and our officers and directors from all pre-petition debts, expenses and legal causes of action which may have existed on or before the filing of the bankruptcy. The plan further provided for the consolidation of all previously issued common shares, and the issuance of additional common shares to various creditors of the company. As of December 31, 2000, following full implementation of the plan, there were 4,139,784 common shares (1,379,928 shares pre-split) issued and outstanding.

On September 19, 2002, we acquired certain know how, trade secrets and other proprietary intellectual property rights relating to the development of a physiological signal amplification equipment and technology, referred to in this prospectus as the *Signal Technologies* , from ARC Finance Group, LLC, our parent corporation, in exchange for 23,400,000 common shares (7,800,000 shares pre-split). The shares represented approximately 85% of our issued and outstanding common shares. We valued the Signal Technologies at $78,023 for financial accounting purposes,

reflecting the ARC Finance Group s cost to acquire t he Signal Technologies from Dr. Budimir S. Drakulic as discussed below. The terms of the acquisition were determined by the parties on an arms-length negotiated basis. No independent valuation was sought from a business/technology appraiser or other third party due to financial constraints. There was no relationship between Recom, including our officers, directors and shareholders, and ARC Finance Group, including its officers, directors and shareholders, prior to our acquisition of the Signal Technologies from ARC Finance Group. No finder s fees or other forms of consideration were paid by Recom or ARC Finance Group or our respective officers, directors or shareholders in connection with our acquisition of the Signal Technologies.

The principal component of the Signal Technologies is a patented amplification technology which was originally invented by our Vice President and Chief Technology Officer, Dr. Budimir S. Drakulic. The underlying patent covers methods of discriminating different biomedical signals from ambient electromagnetic noise. Also included in the Signal Technologies was an assignment of a license agreement dated December 9, 1993 between Dr. Drakulic and Teledyne Electronic Technologies pursuant to which Dr. Drakulic granted a limited license to that company to manufacture EEG monitor products based upon an early version of the amplification technology. This license agreement specified that Dr. Drakulic retained ownership of the original patent and underling technology and the right to use technology to develop new products as long as they would not infringe on Teledyne s licensed products. Dr. Drakulic has since received a letter from Teledyne acknowledging that the use of the technology for our proposed heart monitor systems does not infringe on Teledyne s licensed products. Concurrent with our acquisition of the Signal Technologies, we obtained Dr. Drakulic s services as our Vice President and Chief Technology Officer to lead our product development efforts.

ARC Finance Group is a Delaware limited liability company formed in May 2002 which is owned and controlled by Ms. Tracy Hampton. In or about May 2002, ARC Finance Group entered into an understanding with Dr. Drakulic pursuant to which it would fund informal proof-of-concept activities and product development costs to be incurred by Dr. Drakulic in order to establish to the satisfaction of ARC Finance the potential of the Signal Technologies for ECG applications, and would also pay other expenses of Dr. Drakulic, in exchange for the rights to acquire and market the Signal Technologies. Pursuant to that understanding, ARC Finance funded these activities and costs in the amount of $78,023 during the summer of 2002, and acquired the Signal Technologies from Dr. Drakulic when it became satisfied that the Signal Technologies could be applied for ECG applications. Following its acquisition of the Signal Technologies, ARC Finance Group sought a third-party company to license or acquire the Signal Technologies for its commercial development, leading to our acquisition of the Signal Technologies from ARC Finance Group. Since that acquisition, ARC Finance Group has remained a holding company for a passive investment in our company. ARC Finance Group s only investment and business activity to date relates to Recom, ARC Finance Group has no investments other than Recom, sources of revenue or liabilities, and there is no past or current relationship between ARC Finance Group and Titan Systems or Teledyne Inc.

On April 11, 2003, we completed a three for one forward stock split, resulting in a total of 31,510,848 common shares being outstanding as of that date.

We do not consider Recom to be a blank check company as that term is defined in Rule 419 of Regulation C promulgated under the Securities Act of 1933, as amended (the *Securities Act*) as our business plan does not contemplate our engaging in any merger or acquisition with any unidentified company, entity or person. Notwithstanding the foregoing, should we in the future identify a technology, product or business we deem advisable to acquire, we reserve the right to consider that acquisition at that time. We had previously considered the acquisition of a non-prescription heart monitor system from TZ Medical, Inc., however we have decided not to pursue that acquisition.

Description Of Heart Monitor Systems And ECGs

A heart monitor system is a system used to monitor and record changes in physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used by heart specialists known as cardiologists to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. An ECG gives the cardiologist important information about the heart. For example, by examining changes in waveforms from 0.67 Hz to 40 Hz frequency range, a cardiologist can identify irregularities in the heart s rate and rhythm, known as arrhythmia. By examining changes in waveforms in the broader 0.05 Hz to 150 Hz frequency range, a cardiologist can identify different types of heart disease, including damage to the heart muscles or tissue resulting from (1) decreased blood flow attributable to the narrowing of the arteries, known as cardiac ischemia, (2)

enlargement of the heart resulting from additional effort attributable to the hardening of the heart muscle, known as hypertrophy, and (3) the existence of past or presently occurring heart attacks.

When an ECG test is ordinarily conducted in a clinical setting, the physiological signals from the patient s heart is displayed through a heart monitor system called a 12-lead ECG, based on acquiring a signal from ten electrodes, one of which is attached to each of the patient s arms, six to the chest and one to each leg. The placement of the ten electrodes enables the heart to be examined for different diseases. Physiological signals generated by the heart are amplified and recorded in the form of a series of waveforms that can be displayed on a screen or printed on paper for interpretation by a cardiologist. Any irregularity in heart rhythm, damage or stress to the heart muscle will result in a deviation from a normal waveform.

There are three settings under which ECGs are normally taken: (1) the clinical or resting setting where the patient is immobile; (2) the ambulatory setting where the patient is mobile; and (3) the exercise setting where the patient is subjected to physical stress in a controlled environment. These three types of ECG tests are more fully described as follows:

- ECGs administered in the resting setting are generally given under either (1) emergency circumstances when an individual complains of symptoms typically associated with heart disease such as chest pains, shortness of breath or heart palpitations, or (2) on an annual basis for older patients as part of their annual physical examination. Most ECGs are obtained in the resting setting. In a resting setting, the principal technical issue in interpreting ECG waveforms arise from the existence of ambient or background noise emanating from other electromagnetic sources, including (1) signals generated by the other organs, muscles and systems of the body, whether from movement or the performance by those organs of their bodily functions, and (2) signals generated by sources external to the body, such as electronic equipment, lights or engines. This ambient noise is commonly referred to as an artifact . As previously discussed, cardiologists can identify irregularities in the heart s rate and rhythm, known as arrhythmia, by examining changes in the 0.67 to 40 Hz frequency range. Because of the relatively large amplitudes of these waveforms in this range, cardiologists can, as a practical matter, easily identify arrhythmia notwithstanding the existence of electromagnetic ambient noise from other sources. However, it is very difficult for cardiologists to distinguish physiological signals from ambient noise in the broader frequency ranges used to identify different types of heart disease, including cardiac ischemia, hypertrophy and the existence of past or presently occurring heart attacks. The reason for this difficulty is that the physiological signals associated with these other heart diseases are of a much lower amplitude or strength in the lower 0.05 to 0.67 Hz and upper 40 to 150 Hz portions of the frequency range, meaning that they do not stand-out from the ambient noise in the se portions and therefore cannot be easily discriminated from that ambient noise. In order to minimize ambient noise in the clinical setting, ECGs are normally taken in the hospital or physician offices. Cardiologists instruct the patient to lie in the supine position, being as still as possible while a reading is taken to reduce ambient noise caused by physical movement. Another method to reduce ambient noise is to reduce the sensitivity of the monitoring equipment, although this alternative results in a loss of signal quality and the ability to read certain signal intricacies.

- ECGs administered in the ambulatory setting are given in an attempt to identify heart disease not evident in the resting setting. Heart disease such as cardiac ischemia and cardiac hypertrophy as well as the existence of past or presently occurring heart attacks can escape detection without longer-term monitoring in a physically active or stressful setting. An ambulatory heart monitor system, commonly known as a Holter monitor, allows the patient s heart to be continuously monitored over a period of hours or days, while the patient carries out his or her daily activities under typical conditions of stress away from the physicians office or hospital. The principal technical limitation in deciphering ECG waveforms in an ambulatory setting is that in many cases, ambulatory heart monitor systems are unable to accurately identify many of the heart conditions they are intended to identify due to their inability to clearly distinguish and discriminate the physiological signals associated with these conditions from electromagnetic ambient noise in the lower and upper portions of the full 0.05 to 150 Hz frequency range. Therefore, the industry standard for ambulatory recorders is 0.67 to 40 Hz.

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- ECGs administered in the exercise or stress setting are given while the patient exercises on a treadmill, step machine or exercise cycle to enable the cardiologist to monitor, among other things, his heart behavior under conditions of physical stress. Exercise can exacerbate cardiovascular abnormalities that are not present at rest and it can be used to determine the adequacy of cardiac function. Similar to an ambulatory ECG, this allows the cardiologist to identify different heart disease such as cardiac ischemia and cardiac hypertrophy as well as the existence of past or presently occurring heart attacks that may not be evident under a clinical resting or simple ambulatory ECG test conditions. However, while external sources of ambient noise can be reduced in the clinical setting when exercise ECGs are conducted, high levels of physical activity inherent in exercise ECGs generate higher internal levels of ambient noise due to necessary patient movement. To address this issue, exercise ECG devices are connected to computers which run sophisticated software to filter and process physiological signals and produce average waveforms for interpretation by the cardiologist. However, the American Heart Association[1] and American College of Cardiology[2] each state that computer processing is not completely reliable because of software limitations in handling noise, the technical limitations of the software algorithms and therefore, cardiologists are advised to look a t the raw data and not rely solely upon the results obtained by software processing of original data.

Description of Current Products

Model 100 Ambulatory Monitor System

In December 2004, we completed the design, fabrication and testing of a pre-production model of our first product for commercialization, our battery-operated, digital 12-lead Recom Model 100 Patient Module or *Model 100 Module*. This work was completed for us in December 2004 by Battelle Memorial Institute, Health and Life Sciences pursuant to a research and development services agreement. As discussed below, the Model 100 Module will be used as the primary component of a 12-lead ambulatory heart monitor system to acquire, process, amplify and store physiological signal data. In operation, the Model 100 Module will be used in conjunction with two accessories. The first being a currently-available FDA-cleared or approved electrode/lead wire set which Recom has engineered the Module 100 to be compatible with and recommends for use with the module, and the second being a currently-available personal digital assistant or PDA device which Recom has also engineered the Module 100 to be compatible with and will recommend for use with the module. Once physiological data is recorded and stored, it will then be interpreted at a later date by a cardiologist using currently-available FDA-cleared or approved ECG analysis software program. By way of example, Recom currently intends to design the Model 100 Module to work with FDA-cleared and available electrodes and lead wire sets such as the ConMED D-series ECG Cable and 3M Red Dot Snap Monitoring Electrodes, and for its data to be interpreted by FDA-cleared analysis software programs marketed such as those offered by Northeastern Monitoring, Mortara, Phillips and/or General Electric. In this prospectus and, as discussed below, in Recom s regulatory filings with the FDA, we refer to the foregoing heart monitor system by which the Model 100 Module interfaces with compatible FDA-cleared or approved electrode/lead wire sets and PDAs as the *Model 100 Monitor System*, and the compatible electrode/lead wire sets, PDAs and ECG analysis software as the *ancillary products*.

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1 ACC/AHA 2002 Guideline Update for Exercise Testing, Gibbons RJ et al.

2 Exercise Standards for Testing and Training: S Statement for Healthcare Professionals, Fletcher GF et al, Circulation 104:1694-1740, published on October 2, 2001.

The Model 100 Monitor System is an ambulatory patient heart monitor or recording system that will allow a patient s heart to be continuously monitored over a period of 24 to 48 hours while the patient carries out his or her daily activities away from the physicians office or hospital. As previously noted, the primary component of the monitor system is the Model 100 Module, a compact device approximately 4 x 3.5 x 1.5 inches in size and 5.5 oz. in weight, which acquires the physiological signals from the patient by means of the electrodes; processes and amplifies the signals using the Signal Technologies; and then transmits the signal data wirelessly to the PDA to be stored as a file on a flash card. Patients using the Model 100 Monitor System will be able to move around freely while data is collected by patient module and sent in real time from the patient module to the PDA and stored on the flash card. At the conclusion of the recording period, the patient returns the Model 100 Monitor System to the cardiologist, who retrieves the flash card and places it in a reading analysis station on which an ECG analysis software program is installed. The raw ECG recorded data is then analyzed by the software providing the cardiologist with the results for interpretation. The Model 100 Monitor System is a non-diagnostic system insofar as it records, processes and stores physiological signals, but does not contain diagnostic software for signal interpretation.

The Model 100 Module can be used with any FDA-cleared or approved electrode/lead wire set or PDA, and the signal data produced by the Model 100 Monitor System can be interpreted by any FDA-cleared or approved ECG analysis software, so long as we have listed that equipment or software as being compatible with the module or signal data produced by the monitor system in our packaging in accordance with FDA labeling regulations. For example, the Model 100 Module can be connected to a patient via commercially available cable and electrodes as discussed above. As a practical matter, the determination and provision of the electrode/lead wire set and PDA to be used with the Model 100 Module will be made by patient s cardiologist and the cardiologist will also use his software program to manage and interpret the data in maki ng his diagnosis. We are currently identifying one or more ancillary products that we would recommend for use with the Model 100 Module as part of the monitor system. Upon our identification of the ancillary products with which the Model 100 Module can be operated, we will modify the module to ensure computability.

Our Model 100 Monitor System is a Class II medical device that must be cleared by the FDA in order to be marketed within the United States. On January 28, 2004, we received FDA 510(k) clearance under the FDA s abbreviated 510(k) submission format allowing us to market our Model 100 Monitor System, i.e., our Model 100 Module used in conjunction with its FDA-cleared or approved ancillary products, on the basis of it being substantially equivalent to other ambulatory monitor systems on the market which satisfy the industry s consensual ANSI/AAMI EC-38 standard for non-diagnostic monitor systems. Under the terms of the abbreviated 510(k) clearance, we are required to have supporting data in our files documenting that our Model 100 Monitor System will conform to performance standards before marketing the Module 100 Module. As such, we may continue to perform engineering and design work on the Model 100 Module without resubmitting the system for further FDA 510(k) clearance unless we were to significantly alter the safety or effectives of the system as cleared by FDA. We do not anticipate this will occur.

As previously noted, we engaged Battelle Memorial Institute, Health and Life Sciences to design, fabricate and test the pre-production model of our Model 100 Module pursuant to a research and development services agreement completed by Battelle Memorial Institute in December 2004. Battelle Memorial Institute is a global science and technology enterprise with over 16,000 scientists, engineers and support staff that develops and commercializes technology and manages laboratories for customers. The pre-production model of our Model 100 Module was tested and determined to comply with all applicable performance, safety, environmental and regulatory standards, including the FDA-recognized consensual ANSI/AAMI EC-38 industry standards for ambulatory ECG devices, Federal Communications Commission (FCC) requirements f or Human Exposure to Radiofrequency (RF), the FDA-recognized consensual industry standards for electromagnetic compatibility for medical devices (EMC), the FDA-recognized IE 60601-1 international safety standard relating to medical electrical equipment, and the FDA's Quality System Regulations. These testing results also satisfied our obligation under our abbreviated 510(k) submission to have supporting data in our files before marketing the Model 100 Module as part of the Model 100

Monitor System. As part of our contract with Battelle Memorial Institute, it also manufactured 24 pre-production patient modules which we will use for user preference testing with physicians, hospitals and clinics as discussed below. We anticipate that we will introduce our Model 100 Monitor System to the market at the American College of Cardiolology Convention to be held in March, and will start selling the devices in late 2005. In anticipation of formal product introduction, we must make a final determination as to the FDA-app roved ECG analysis software system that we will recommend that cardiologists use with our Model 100 Monitor System, and finalize third-party contract manufacturing arrangements.

Description of Products Or Services In Investigatory or Early Research & Development Stage

Diagnostic Ambulatory Monitor System

As previously noted, our Model 100 Module will acquire physiological signals from a patient and store the signal data file on a flash card, which will be delivered to the cardiologist for download and analysis. In the longer term we intend to investigate the development of an enhanced version of our Model 100 Module with ANSI/AAMI EC-11 and EC-13 diagnostic ECG features and alarm functions integrated into the patient module (the *Proposed Diagnostic Module*) that would continuously transmit data wirelessly over the Internet to a patient monitoring center as discussed below. A diagnostic heart monitor is one which can instantaneously interpret data and identify heart conditions, such as arrhythmia. The Proposed Diagnostic Module would allow the physician to access the patient record at any time for analysis by simply logging into the server over the Internet, thereby avoiding the necessity of delivering a flash card as contemplated with the Model 100 Monitor System. In cases of the occurrence of a life-threatening cardiac event, the Proposed Diagnostic Module would then also transmit a warning or alarm to the patient monitoring center that would be immediately conveyed to the cardiologist for appropriate action. Similar to the Model 100 Module, the Proposed Diagnostic Module would be used with commercially available FDA-cleared electrodes and diagnostic software. In this prospectus, we refer to the Proposed Diagnostic Module and its ancillary products and ser vices as the *Proposed Diagnostic Monitor System*.

There are several significant hurdles we would need to satisfactorily address before we make any decisions relative to proceeding beyond the investigation stage in developing the Proposed Diagnostic Monitor System, including our ability to develop of the software necessary to process and forward the signal data to a patient monitoring center, and to establish compliance with the ANSI/AAMI EC-11 and EC-13 standards for diagnostic ECG systems. The Proposed Diagnostic Monitor System would also require FDA approval.

At this point we remain in the early investigation stage relative to the Proposed Diagnostic Monitor System, and cannot provide any guidance as to any estimated timeframes as to when or even if we would formally commence or complete the project, or as to any of the estimated costs involved. Should we proceed with the project, we can give you no assurance that we will be successful in developing the Proposed Diagnostic Monitor System including necessary software, procuring the necessary FDA approval or clearance for these products and services, or competitively marketing these products and services.

Patient Monitoring Center

As just discussed, the Proposed Diagnostic Monitor System would transmit signal data and alarms to a patient monitoring center for access over the Internet by a cardiologist. Several companies currently offer monitoring services for heart monitor products using a variety of transmission methods, such as the telephone and the Internet, so the use of a patient monitoring system with the Proposed Diagnostic Monitor System would not be considered to be novel. The establishment of a patient monitoring center enable us to receive a continuous stream of revenues from modules we sell , which would allow us to substantially enhance our revenues over the initial sale of those modules. Should we proceed with this project, we would most likely either develop our own monitoring centers or acquire an ongoing monitoring business, although we might also consider licensing our software to independent monitoring centers. As part of this project we are also investigating the development of continuous preventative monitoring software that could be used by the cardiologist to analyze collected signal data continuously collected through the monitoring process.

Before making any decision relating to the establishment or acquisition of a patient monitoring center and continuous monitoring software project, there are numerous business and technical issues we would need to resolve. Further, the patient monitoring centers and software would also require FDA approval, and the server and network at the patient monitoring center would also need to be compliant with the Health Insurance Portability and Accountability Act, which requires that we meet federally mandated requirements when handling patient data .

At this point we remain in the early investigation stage relative to establishment or acquisition of patient monitoring centers and continuous monitoring software, and cannot provide any guidance as to any estimated timeframes as to when or even if we would formally commence or complete the project, or as to any of the estimated costs involved. Should we proceed with the project, we can give you no assurance that we will be successful in establishing or acquiring the patient monitoring centers, procuring the necessary FDA approval or clearance for these services, or competitively marketing these services.

Patient Vest And Electrodes

We are also in the early stages of investigating the development of a patient vest containing electrodes to be used with our ambulatory heart monitor systems as an alternative to the currently-available FDA-cleared or approved electrode/wire sets. We believe that a patient vest may provide a better signal in an ambulatory setting than the current use of electrodes since the vest as conceived would ensure that the electrodes remained affixed to the body in the correct location throughout the monitoring period. We also believe that the vest will be more convenient and comfortable for a patient. The design is planned to allow a patient to use the vest on a 24/7 basis for extended periods of time, being removed only intermittently for showers, etc. We must address two engineering issues in developing this vest. First, w e need to develop an electrode which can be incorporated into the vest to monitor the patient s heart signal, thus replacing the use of leads and gels currently used in recording ECGs. Second, we need to design the vest in such a fashion that it not only holds the electrode against the body at the correct locations and in the proper manner, but it also can be adapted to fit patients with different heights, weights and physiques. At this point we have not ascertained whether we will be able to develop a workable vest that is not too bulky or otherwise impracticable to wear. We are also in the early stages of investigating the development of an improved electrode to be used with our system. Both the ECG patient vest and new ECG electrodes as presently conceptualized will require FDA approval or clearance. We have not to date determined the cost or timeframe to procure FDA approval or clearance.

We can give you no assurance that we will be successful in developing the patient vest or enhanced electrodes at all or within the timeframes or at the costs estimated, or in procuring FDA approval or clearance for these products, or in designing and engineering durable, reliable and competitively priced production versions of any of these products.

Description of Signal Technologies

Our patient modules will operate using the Signal Technologies. The Signal Technologies are a patented amplification technology originally developed by our Vice President and Chief Technology Officer, Dr. Budimir S. Drakulic, to address the electrical interference or noise issue. In an effort to explore ways to accurately and objectively monitor pilot performance, the United States Air Force desired to record a pilot s neurological brain responses, consisting of tiny electrical impulses generated by the brain, to different tasks and stresses that occur in-flight using an electroencephalogram or EEG test. However, the Air Force found that the neurological signal monitoring equipment then available was not able to accurately monitor EEG in an electromagnetically-charged environment such as the cockpit of a fighter jet or a B-52 bomber. In 1992, Dr. Drakulic led a team from UCLA and the Veterans Administration in an effort to develop a device to resolve this problem. This effort resulted in the creation by Dr. Drakulic in 1994 of a first-generation amplifier that was successfully used by the Air Force to monitor pilot EEG signals. This early version amplifier is also currently used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals.

The Signal Technologies were originally acquired by ARC Finance Group from Dr. Drakulic and then by Recom from ARC Finance Group, based upon the belief of Dr. Drakulic and the principals of these companies that the capability of the technology to discriminate EEG signals, particularly in an electromagnetically-charged environment such as fighter aircraft cockpits, would have a similar application in discriminating ECG signals from ambient noise. Specifically, it was and continues to be believed by these persons that the Signal Technologies; as applied to the ECG market, would have the ability to amplify and discriminate the lower-amplitude electromagnetic physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range, thereby facilitating the abilit y to more clearly identify heart diseases in an ambulatory setting. In developing Recom s initial ambulatory patient modules and overall heart monitor systems, and adopting the Signal Technologies for those modules and systems, Dr. Drakulic has since enhanced the signal processing technology such that Recom has filed three additional patents covering these enhancements. In order to validate our beliefs as to the performance of our technology in the ECG market, on August 30, 2004 we entered into an agreement with the Duke Clinical Research Institute at Duke University to evaluate the performance of our Model 100 Monitor System against top-end ECG systems. Under this agreement, the Duke Clinical Research Institute will evaluate our Model 100 Monitor System for 50 to 90 patients. We anticipate that the study will be completed in August 2005, and published in November 2005. Since commercial models of our Model 100 Monitor System have not yet been fully tested as to their performance characteristics aga inst top-end non-diagnostic ECG systems, no assurance can be given that the Signal Technologies will perform as anticipated in either the non-diagnostic or diagnostic ECG settings.

EEG Products

We intend in the future to devote a portion of our development activities to electroencephalogram or EEG-related applications of our technology, for application in the detection of Alzheimer s, Parkinson s and other neurological diseases. As previously discussed above, earlier versions of our amplification technology are now used in EEG equipment used to measure neurological or brain responses. We believe the enhancements Dr. Drakulic has designed since for ECG purposes may have similar application for the EEG market. As discussed below in this prospectus, this activity will not impact the Teledyne licensing agreement.

Competition

Our principal competitors in the ambulatory heart monitor market include CardioNet, Inc., which markets a 3-lead, ambulatory ECG monitor system claimed to record and wirelessly transmit physiological data by radiofrequency (RF) to a handheld PDA for subsequent modem or Internet transmission; Cardiac Telecom, Inc., which markets an ambulatory heart monitor system claimed to wirelessly transmit ECG data by way of a processor/phone-connected station; Raytel Medical, which markets an ambulatory heart monitor system claimed to transmit data by telephone; Mortara Instrument, which manufacturers and markets a 12-lead Holter ECG system; and Card Guard, which markets event recorders as well as operating monitoring centers through its two divisions in the United States, Instromedix and Lifewatch.

The market for heart monitoring products and services is intensely competitive and characterized by rapidly changing technology, evolving industry standards, and price competition. There are no substantial barriers to entry, and we expect that competition will be intense and may increase. Many of our existing competitors may have substantially greater financial, product development, technical and marketing resources, larger customer bases, longer operating histories, better name recognition and more established relationships in the industry. As a result, certain of these competitors may be able to develop and expand their product and service offerings more rapidly, adapt to new or emerging technologies and changes in customer requirements more quickly, take advantage of acquisition and other opportunities more readily, d evote greater resources to the marketing and sale of their products and services, or aggressively reduce their sales prices below the our costs. We cannot assure you that we will be able compete successfully with existing competitors or new competitors.

Market Size

Cardiovascular disease is the leading cause of death in the industrialized world. According to the American Heart Association s *Heart Disease and Stroke Statistics-2004 Update* :

- Heart disease and stroke, the principal components of cardiovascular disease, claim more lives in the United States each year than the next five leading causes of death combined;

- Approximately 61,800,000 people in the United States suffer from one or more types of cardiovascular disease each year;

    - Approximately 950,000 lives were claimed by cardiovascular diseases in the United States in 1999;

- Patients who have suffered heart attacks in the United States number 7.3 million, congestive heart failure 4.7 million, arrhythmia 2.0 million, and angina 6.4 million;

- Approximately one-sixth of all people in the United States killed by cardiovascular disease are under the age of 65; and

- In 2004 the estimated direct and indirect healthcare cost of cardiovascular disease in the United States will be $368.4 billion.

The Center for Disease Control has stated that, if all forms of major cardiovascular disease were eliminated, life expectancy would rise by almost seven years while, in comparison, if all forms of cancer were eliminated, the gain in life expectancy would only be three years.

Based upon the foregoing statistics, we believe that patients with any of these health problems would most likely, benefit from Recom s heart monitoring technology and systems.

Marketing And Distribution Strategy

Our current plans are to market and distribute our ambulatory patient modules under our own label. We anticipate that we will delegate most sales, marketing and distribution activities for our patient modules to third party, medical-device marketing and distribution companies on a regional basis, while creating a small internal sales, marketing and distribution management staff to oversee these activities and to explore joint venture relationships. In the case of the resting and exercise heart monitoring systems we anticipate developing at some future date, we anticipate licensing our patient module designs and technologies to established medical device manufacturers and distributors, who will most likely, incorporate them into their own systems.

Manufacturing Capacity

To date we have fabricated our prototypes and proof of concept devices in-house and with engineering consultants such at Battelle Memorial Institute. Our manufacturing strategy dictates that we will rely upon third party FDA-certified contract manufacturers or joint-venture partners both domestically and off-shore to satisfy production requirements when we are able to introduce our products to market. Most of the components of our products are standard parts which will be available from multiple supply sources at competitive prices. This, coupled with the significant start-up cost advantages associated with contractors, particularly off-shore contractors, should minimize production and product costs.

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Research And Development

We currently conduct research and early stage development activities in-house and with engineering consultants. We retain title to all improvements or enhancements to our technology developed by or worked on by our engineering consultants under their contracts. Our research and development expenses for fiscal 2003 and 2002 were $497,631 and $67,500, respectively. None of these expenditures were borne by customers. We budgeted $1,000,000 and $2,000,000 for research and development for fiscal 2004 and 2005, respectively.

Regulatory Overview

FDA Regulations And Requirements

ECG heart monitor products are regulated in the United States by the Food and Drug Administration (the *FDA*) under the Medical Device Amendments of 1976 (the *Medical Device Act*), a section of the Federal Food, Drug & Cosmetic Act (the *FDC Act*). Under the Me dical Device Act, medical devices are designated as Class I, II or III devices depending upon the level of control and review necessary to assure the safety and effectiveness of the device, which in turn is based upon the level of risk to the patient. ECG heart monitor products are classified as a Class II medical device, which cannot be sold in the United States unless the seller can first demonstrate or represent to the FDA pursuant to section 510(k) of the FDC Act, that the device is substantially equivalent to one or more similar devices currently on the U.S. market, referred to as predicate devices. To demonstrate substantial equivalency, the applicant must show that the new device (1) has the same intended use as the predicate device or devices; and (2), has either the same technological characteristics as the predicate device or devices, or has different technological characteristics that do not raise new questions of safety and effectiveness. A claim of substantial equivalence does not me an the new and predicate devices must be identical. Substantial equivalence is established with respect to intended use, design, energy used or delivered, materials, performance, safety, effectiveness, labeling, biocompatibility, standards and other applicable characteristics. Until the applicant receives clearance declaring a device substantially equivalent, it may not proceed to market the device within the United States.

The review period and FDA determination of substantial equivalence should be made within 90 days of submission of a 510(k) application, unless additional information or clarification or clinical studies are requested or required by the FDA. As a practical matter, the review process and FDA determination can take significantly longer than 90 days.

It should be noted that 510(k) clearance is a grandfather process. As such, 510(k) clearance does not imply that the safety, reliability and effectiveness of the medical device has been approved or validated by the FDA, but merely means that the medical device is determined to be substantially equivalent to a previously cleared commercially-related medical device.

As an alternative to the traditional 510(k) submission process, the FDA has also adopted an abbreviated or summary 510(k) submission process in cases where device-specific guidance documents or special controls have been established, or the FDA has recognized a relevant consensus standard, and the applicant certifies compliance or conformance with those documents, controls or standards. The applicant can procure abbreviated 510(k) clearance by either; (1) submitting a declaration that the applicant has in its files test data confirming that the medical device conforms to the consensus standard at the time of submission; or (2) submitting a statement that the medical device will conform to the consensus standard and that the applicant will have that supporting data in its files before marketing the device. Under either approach, the FDA reviewers will normally accept the declaration or statement without requesting the submission of information demonstrating conformity with the standard. In the case of ECG heart monitor products, the FDA has recognized the EC-38 Ambulatory Electrocardiograph, EC-11 Diagnostic ECG, and EC-13 Arrhythmia Detection and Alarm standards adopted by the American National Standards Institute or ANSI and the Association for the Advancement of Medical Instrumentation or AAMI as voluntary consensus standards for

Class II 510(k) submission purposes.

Both domestic and foreign manufacturers and distributors of medical devices that intend to market those devices in the United States must register their establishments with the FDA and annually update the registration. Registration provides the FDA with the location of medical device manufacturing facilities and importers. In addition, all medical devices that are manufactured and imported into the United States must be listed with the FDA. Medical device listing is a means of keeping the FDA advised of the generic categories of devices an establishment is manufacturing and marketing.

Manufacturing facilities must undergo FDA inspections to assure compliance with good manufacturing practices or GMPs set forth under the quality system or QS regulation promulgated by the FDA. The quality system regulation provides a basic framework to ensure that manufacturers of finished medical devices intended for commercial distribution in the United States have in place a quality system for the design, manufacture, packaging, labeling, storage, installation and services of finished medical devices intended for commercial distribution in the United States. These regulations require that various specifications and controls be established for devices; that devices be designed under a quality system to meet these specifications; that devices be manufactured under a quality system; that finished devices meet these specifications; that devices be correctly installed, checked and serviced; that quality data be analyzed to identify and correct quality problems and that complaints be processed. Thus, the quality system regulation helps assure that medical devices are safe and effective for their intended use. The FDA monitors device problem data and inspects the operations and records of device developers and manufactures to determine compliance with the GMPs.

Medical devices sold in the United States must also conform to general labeling requirements adopted by the FDA stipulating the content and format of product information that must be provided with the device, including information relating to the manufacturer of, and the intended use of the device, as well as directions for use of the device.

Under Medical Device Reporting or MDR regulations established by the FDA, manufacturers, distributors and users of medical devices are required to report complaints of device malfunctions or incidents of serious injuries or deaths associated with medical devices to the FDA. The MDR regulations provide a post-surveillance mechanism for the FDA and manufacturers to identify, monitor and track significant adverse events involving medical devices for the purpose of detecting and correcting problems in a timely manner.

The FDA has established regulations governing the voluntary recall of medical devices by a manufacturer or importer should it be determined that the devices are defective, present a risk of injury, or are deceptive. Under the Medical Device Recall Authority regulation promulgated by the FDA, that agency also has the authority to order the involuntary recall of medical devices. Under the Medical Device Corrections And Removal regulations established by the FDA, manufacturers and importers are required to report to the FDA the occurrence of any correction or removal of a medical device where made to reduce a risk to health or a violation of the FDC Act.

The FDA has established regulations governing the import and export of medical devices. For a Class II medical device to be legally imported into the United States, it must meet FDA regulatory requirements. At this time, the FDA does not recognize regulatory approvals from other countries. Any Class II medical device may be legally exported from the United States without prior FDA notification or approval so long as it is in legal commercial distribution within the United States. Legal commercial distribution means that (1), the manufacturing establishment is registered with the FDA; (2) the device is listed with the FDA; (3) the sale of the device in the United States is authorized by either 510(k) notification or pre-market approval (PMA); (4) FDA labeling requirements are satisfied; and (5) the device is manufactured in accordance with GMP practices stipulated under the QS regulation. While the FDA does not place any restrictions on the export of these medical devices, certain countries may require written certification that a manufacturer or its devices are in compliance with U.S. law. In such instances the FDA will accommodate the exporter by providing a certificate of compliance called a Certificate for Foreign Government or CFG . If the medical device does not satisfying the foregoing requirements, it may be generally exported under two alternatives. First, if

510(k) clearance for the device is pending in the United States, it may be exported upon a showing that the device will reasonably obtain 510(k) clearance. In addition, the exporter must obtain a Certificate of Exportability from the FDA should the foreign country or consignee request assurance that the device complies with U.S. law. If the exporter does not intend to market the device in the United States, he may obtain a Certificate of Exportabilit y to export the device based upon a showing that the device (1) complies with the laws of the foreign country; (2) meets the foreign purchaser s specifications; (3) is labeled for export on the shipping carton; and (4) is not sold or offered for sale in domestic commerce.

The failure of the manufacturer, importer, distributor or user to meet any of the FDA requirements imposed on it under the FDC Act or administrative regulations adopted thereunder by the FDA, may subject it to civil money penalties, administrative remedies or legal remedies under that Act or regulations.

Other Regulations And Requirements

Our heart monitor products and systems must also conform to a number of performance, safety, environmental and regulatory standards, such as those relating to electromagnetic interference, electromagnetic susceptibility, shock and current leakage, and transmission frequency. These standards include the IEC60601-2-27 requirements for the safety of electrocardiograph devices; the IEC 60601-1-2 requirements for safety and electromagnetic compatibility; the UL2601-1 medical equipment general requirements for safety, and FCC regulations under part 15, subpart C, governing allowable frequency ranges for different types of transmission devices, including medical devices.

The server and network we will use in our monitoring station to collect heart data must comply with the Health Insurance Portability and Accountability Act, which requires that we meet federally mandated requirements when handling patient data.

Patents And Licenses

We hold patent number 5,678,559 issued by the United States Patent and Trademark Office for our core technology, the Recom amplification device. This patent, labeled *A Method and System of Recording Different Physiological Signal from a Human Body* , describes methods of discriminating different biomedical signals from ambient electromagnetic noise. This patent, which was assigned to us by ARC Finance Group as part of our acquisition of the Signal Technologies, was granted on October 21, 1997 and expires on October 21, 2014.

We also hold the following patent applications filed with the United States Patent and Trademark Office:

- number 10/293,105 captioned *System for, and Method of, Acquiring Physiological Signals of a Patient* filed on November 13, 2002, which describes technical methods for processing and amplifying physiological signals;

- number 10/611,696 captioned *Amplified System for Determining Parameters of a Patient* filed July 1, 2003; which describes methods of amplifying physiological signals while a patient is ambulatory without changing the characteristics of the signal;

- number 10/664,711 captioned *Apparatus for, and Method of, Determining the Characteristics of a Patient s Heart* filed September 17, 2003, which describes the use of electrodes and amplifiers in a vest;

- a patent for which a number has yet to be assigned captioned *System for, And Method of, Monitoring Heartbeats of a Patien*, filed on December 9, 2004, which describes technical methods for monitoring a patient s heart; and

- a patent for which a number has yet to be assigned captioned *Electrode for and Method of, Indicating Signal Characteristics at Particular Positions in a Patient Body* filed on December 9, 2004, which describes electrodes for monitoring a patient s heart.

Dr. Drakulic is the inventor named in our core patent and in each of the above patent applications. We are currently waiting for initial comment from the United States Patent and Trademark Office on each of the above patent applications, which generally occurs between two and two and one-half years after submission based upon current Patent and Trademark Office staffing levels. We anticipate that it will take three to four years for the above patent applications to issue**.**

Also included in the Signal Technologies agreement was an assignment of a license agreement dated December 9, 1993 between Dr. Drakulic and Teledyne Electronic Technologies pursuant to which Dr. Drakulic granted Teledyne a limited license to manufacture and sell EEG monitor products based upon early version of the amplification technology. We do not expect to earn significant revenues from that license. To our knowledge Teledyne is not currently marketing any EEG devices using that early version of the amplification technology, and we do not anticipate that they will in the future market any such products due to technical advancements that they would be required to incorporate into the products. We believe that the incorporation of these advancements would effectively change the underlying product fro m that which was licensed. Based upon the foregoing, we do not believe the license will prevent Recom from competing in the broader market for EEG diagnostic products.

Competition

Because we do not yet have a saleable product, we have no competitive presence in the medical monitoring device market. When our heart monitor system is available for sale, we do not expect to establish a competitive presence in this market for several years, if at all. There are numerous suppliers of heart monitor products, all of which have established products and methods of distribution as well as more money. We may never be able to compete successfully in this or any other medical device market.

Costs And Effects Of Compliance With Environmental Laws

There are no special or unusual environmental laws or regulations that will require us to make material expenditures or that can be expected to materially impact on the operation of our business.

Subsidiaries

On October 21, 2003, we formed Memonitor, Inc., a Delaware corporation, to act as a vehicle for the prospective application of our technology for the treatment and monitoring of Alzheimer s, Parkinson s and related neurological diseases of the brain. To date, Memonitor has not commenced business activities.

Employees

We currently have eight full-time employees and engage the services of seven engineering, marketing and financial consultants on a part-time basis. None of our employees is represented by a labor union and we consider our relationships with our employees to be good.

PROPERTIES

Our executive offices are located at 4705 Laurel Canyon Boulevard, Suite 203, Studio City, California. We leased these facilities, consisting of approximately 3,550 square feet and encompassing four suites including our administrative offices and research and development/laboratory facilities, from Bershin Properties I, LLC through August 31, 2005. We may terminate the lease upon 30 days notice and the payment of two months rent. We currently pay approximately $8,600 per month in base rent for these facilities, which we believe reflects market value, and are also required to pay our share of any increase in operatin g expenses after August 2002. Operating expenses include

expenses for maintenance of common areas, heating, air conditioning, plumbing, trash disposal, janitorial and security services and other like expenses. The leased premises are in good condition and we believe they will be suitable for our purposes for at least twelve months. There is no affiliation between Recom or any our principals or agents and Bershin Properties I, LLC or any of its principals or agents.

PLAN OF OPERATION

General

The following discussion of our consolidated financial condition and results of operations should be read in conjunction with our audited financial statements for the year ended December 31, 2003 and our interim financial statements for the nine-month period ended September 30, 2004 and their explanatory notes included as part of this prospectus.

Overview

Recom is a medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body. Our initial product will be patient modules used as part of a heart monitor system to acquire, amplify and process physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used by heart specialists known as cardiologists to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. Our patient module will operate using a proprietary and patented amplification technology which provides the capability to enlarge and process the physiological signals to discriminate them from ambient or background electromagnetic noise and to facilitate the examination of the signal data for diagnostic purposes. Our amplification technology is an enhancement of an amplification technology first developed for the United States Air Force to record bioelectrical signals from a pilot s brain, known as an electroencephalogram or EEG. Earlier versions of the technology were also used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals relating to the brain.

In December 2004, we completed development of a pre-production model of our first product for commercialization, our battery-operated, digital 12-lead Recom Model 100 Patient Module or *Model 100 Module* . The Model 100 Module will be used as the primary component of a 12-lead ambulatory heart monitor system, referred to as the *Model 100 Monitor System* . The Model 100 Monitor System is an ambulatory patient heart monitor or recording system that will allow a patient s heart to be continuously monitored over a period of 24 to 48 hours while the patient carries out his or her daily activities away from the physicians office or hospital. The pre-production version satisfies all performance, safety, environmental and regulatory standards. We are now in the process of conducting various user preference performance comparison tests relative to top-end ECG systems in anticipation of our planned introduction of the Model 100 Monitor System to market in March 2005.

Development Stage Company; Going Concern

We are a development stage company under the provisions of SFAS No. 7, and have negative cash flows from operations and no current established source of revenue. We do not anticipate that we will introduce our Model 100 Monitor System to the market until March 2005, and will not start selling the device until late 2005. At present, we only have sufficient capital on hand to fund our operations only through June of 2005. The foregoing matters raise substantial doubt about our ability to continue as a going concern. See note 2 to the interim financial statements for the nine-month period ended September 30, 2004 included in this prospectus and *Liquidity And Capital Resources* below relating our plans to address our anticipated capital deficiency.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. For a description of those estimates, see note 2, *Significant Accounting Policies*, contained in the explanatory notes to our annual audited financial statements for the y ear ended December 31, 2003 as disclosed in our annual report on form 10-KSB for that year as filed with the SEC, as it may be amended. On an ongoing basis, we evaluate our estimates, including those related to reserves, impairment of long-lived assets, value of our stock issued to consultants for services and estimates of costs to complete contracts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

Results of Operations

Prior to September 19, 2002 we were an inactive shell company with no revenues and minimal expenses. On September 19, 2002, we acquired the Signal Technologies and adopted a new business plan to develop that technology and began to hire employees in order to commence research and development activities. As a consequence of these activities, our net loss before preferred dividends increased from $211,954 in fiscal 2002; most of which occurred in the fourth quarter of that year, to $5,311,377 for fiscal 2003. Research and development expenditures increased from $67,500 in fiscal 2002 to $497,631 in fiscal 2003, reflecting the ramp-up of research and development activities. General and administrative expenses increased from $144,454 in 2002 to ;$4,813,746 for 2003, reflecting the ramp-up in overall operations. The primary components of general and administrative expenses for fiscal 2003 were investment banking fees ($1,339,691) general consulting fees ($1,218,342), and legal fees ($1,094,978). The principal component of general and administrative expenses for fiscal 2002 was $55,000 incurred in professional and other costs to maintain the company s status as a public shell. We also incurred a preferred dividend of $1,953,170 in fiscal 2003, attributable to a combination of: (1), the value of the beneficial conversion feature of the preferred shares ($896,474), (2), the fair value of the warrants ($949,121), and (3), accrued dividends payable on the preferred shares ($107,575).

Our net loss before preferred dividends increased by $1,357,420 from $3,429,086 for the nine-month interim period ended September 30, 2003, to $4,786,506 for the nine-month interim period ended September 30, 2004, largely due to equity compensation expense related to a legal settlement in the second quarter of fiscal 2004 ($757,207) and to increased research and development expenditures. Research and development expenditures increased from $166,910 for the nine-month interim period ended September 30, 2003 to $880,523 for the nine-month interim period ended September 30, 2004, reflecting the continued ramp-up in our research and development activities, including the addition of engineering personnel. General and administrative expenses increased from $3,262,176 to $3,905,983 for the nine-month interim periods ended Septe mber 30, 2003 and 2004, respectively, reflecting the previously mentioned legal settlement. The primary components of general and administrative expenses were investment banking, legal and general consulting fees. We also incurred preferred dividend expense of $246,962 for the nine-month interim period ended September 30, 2004.

Plan of Operation

Our plan of operation for the twelve month period following the date of this prospectus is to (1) commence marketing our Model 100 Monitor System, (2) continue the investigation relative to the merits of developing our Proposed

Diagnostic Monitor System and establishment or acquisition of patient monitoring centers and, if the decision is made to proceed with these activities, to commence such activities; and (3) to continue the investigation and potential development of our patient electrode vest and enhanced electrodes product ancillaries. We currently have budgeted $3,500,000 in costs for the twelve month period following the date of this prospectus, including (1) $1,500,000 to cover our projected general and administrative expenses during this period; (2) $2,000,000 to cover our projected research and developmen t, product testing and pre production engineering costs.

Described below are the company s various research and development, testing and pre production engineering projects and activities that are currently in progress or which we anticipate will commence during the twelve month period following the date of this report. As noted below, we anticipate that several of these projects or activities will not be completed until after the twelve month period cited. Since the anticipated overall cost of each of these later-completed projects or activities cited below necessarily include costs anticipated to be incurred after the end of the twelve month period cited, please note that the aggregate costs for all of the projects and activities cited below exceed the $2,000,000 budgeted as stated above.

- We need to finalize our selection of an ECG analysis software system that we will recommend for use with our Model 100 Module, as well as the necessary integration engineering to ensure that our Model 100 Module reliably and accurately produces signal data in a format compatible with that software. We anticipate we will spend approximately $50,000 to purchase the selected software packages, and an additional $20,000 to conduct the requisite integration engineering and testing activities. We anticipate we will identify and purchase the software and complete the integration engineering and testing activities by the end of the first quarter of 2005.

- We will conduct product performance studies comparing our Model 100 Monitor System against top-end ECG systems in order to identify and optimize the performance, usability and aesthetic aspects of our Model 100 Monitor System for marketing purposes. This testing will be conducted at our on-site laboratory facility. A minor expense of the testing plan will be the cost to acquire competitive devices. We have budgeted $28,000 for this phase, and have recently reached an oral agreement with Coast IRB, LLC to conduct our first user preference test at a date to be determined at a cost of $2,500.

- We will make arrangements with four or more hospitals, clinics or research institutions to evaluate our monitor system in a patient setting, in order to identify and optimize the performance, usability and aesthetic aspects of our Model 100 Monitor System for marketing purposes. Our anticipated budget for these activities is $400,000, including $92,000 to be paid to the Duke Clinical Research Institute with respect to the first pending evaluation of 50 to 90 patients. We anticipate that this study will be completed in August 2005, and the results published in November 2005. We are currently in the process of arranging a second patient study through the Cleveland Clinic, and anticipate developing a protocol for this study by the end of the first quarter of 2005.

- In order to generate product awareness for our Model 100 Monitor System, we also intend to exhibit at trade shows and coordinate the writing of a number of technical papers relating to the effectiveness of our monitor system and to publish the results in peer review journals. The papers will also be presented at technical conferences and/or published in peer-reviewed scientific and medical journals. We have budgeted $100,000 for this phase.

    - We must finalize third-party contract manufacturing arrangements to fabricate our Model 100 Module.

- We will also continue investigation and preliminary development work on our Proposed Diagnostic Monitor System, patient monitoring centers and continuous preventative monitoring software project. We have budgeted approximately $250,000 to conduct these preliminary activities. Should we decide to proceed with the entire project, our budget would need to be increased significantly both to complete development of the Proposed Diagnostic Monitor System as well as to establish or acquire patient monitoring centers. No date is yet scheduled for the completion of our investigation activities, and the target date for the completion of the entire project (should be decide to proceed with it) would be mid-2006 at the earliest, and could be substantially farther in the future, and in any event will be subject to our ability to procure the necessary funding to cover the cost of the project.

- We will also continue investigation and development work on our patient vest. We project that we will spend approximately $230,000 to conduct these development activities, and expect to complete them by the last quarter of 2005.

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Included in our anticipated general and administrative expenses for the twelve month period following the date of this prospectus is $395,000 in marketing expenses. We intend during the twelve month period following the date of this prospectus to expend a portion of our marketing budget on: (1) hiring three sales managers by the end of 2005 for the East Coast, Midwest, and South ($100,000); (2) exhibiting at various trade shows, including shows for the North American Society for Pacing and Electrophysiology, American College of Cardiology and American Heart Association to be held in 2005 ($30,000); (3) commencing an advertising program in cardiology journals in 2005 ($20,000); and (4) providing sample heart monitor systems to key cardiologists, hospitals and monitoring centers in early to mid-2005 ($15,000). The balance of the $395,000 will be spent on wages for current personnel ($160,000) and on miscellaneous marketing expense ($70,000).

We anticipate that we will add five additional employees to our staff during the twelve month period following the date of this report, comprised of the three regional sales managers noted above, a permanent chief financial officer who will replace our outside interim chief financial officer who we currently engage on a part-time contract basis, and a chief operating officer.

We can give you no assurance that we will be successful in developing our modules, patient vest or enhanced electrodes at all or within the timeframes or at the costs estimated, or in procuring FDA approval or clearance for these products when necessary, or in designing and engineering durable, reliable and competitively priced production versions of any of these products.

Our anticipated costs and project completion dates described above are estimates based upon our current business plan. Our actual costs or actual project completion dates could vary materially from those estimated. We may also decide at any time to terminate our ongoing development plans with respect to ancillary products such as our patient vests, enhanced electrodes and proprietary software should we deem them to be impracticable or not be commercially viable. Further, change to our current business plan could also result, such as the acquisition of new products or services or the decision to manufacture our own products, resulting in a change in our anticipated. See that section of this prospectus captioned *Forward-Looking St atements* . At present, no changes to our business plan are being considered, nor is it our plan to change our business plan.

Liquidity and Capital Resources

As reported in our annual and interim financial statements included with this prospectus, for the period January 1, 2000 through September 30, 2004, we principally financed our operations through a combination of (1) contributed capital, the sale of our common shares, series A preferred shares and common share purchase warrants for cash, and the exercise of stock purchase warrants for cash ($6,720,836); and (2) the issuance of common shares or common share purchase warrants in payment of the provision of services ($5,181,359). Since September 30, 2004 through the date of this prospectus, we procured additional financing for our operations in the amount of $2,000,000 through the sale of a debenture and common share purchase warrants.

Included in the above are the following significant transactions:

- From October through December 2003, we raised $5,378,650 in gross proceeds from a private placement to 100 investors effected through Maxim Group, LLC, a registered broker-dealer, as placement agent, pursuant to which we sold 1,792,976 series A convertible preferred shares, with each share convertible into one common share; and 896,488 Class C warrants, each warrant entitling the holder to purchase one common share for $3.75 (later voluntarily reduced by the company to $3).

- On December 29, 2004, we sold an 8% convertible debenture in the amount of $2,000,000 to DKR SoundShore Oasis Holding Fund Ltd. We are obligated to pay $400,000 in principal on the debenture in cash on May 16, 2005,

June 1, 2005, July 1, 2005, August 1, 2005 and August 31, 2005, respectively. We are also obligated to pay 8% in interest on the outstanding principal on the debenture in cash on May 10, 2005, June 1, 2005, July 1, 2005, August 1, 2005 and August 31, 2005, respectively.

For so long as the debenture is unpaid, the debenture holder is entitled to convert the debenture into a number of common shares equal to the outstanding principal on the debenture divided by $5.25, such amount representing 105% of the closing price for our common shares on the trading day prior to the sale of the debenture. We also have the right to pay the principal and interest on the debenture in common shares in lieu of cash provided that we first register those shares with the SEC, are not otherwise in default under the debenture, and have satisfied certain other conditions including notice requirements. Should we elect to make payment in common shares, the principal and interest under the debenture subject to conversion would be convertible into those shares at the rate of 85% of the average of the three lowest cl osing prices for those shares during the ten day period prior to the repayment date. If we only elect to pay interest with common shares, the conversion rate shall be fixed at 90% of the closing price immediately prior to the payment or delivery date.

While we are not generally allowed to pre-pay the debenture before its August 31, 2005 due date without the consent of the debenture holder, we may do so in cash so long as we pay the entire outstanding balance due through maturity and also pays a 10% premium on the outstanding principal.

In the event of our default under the debenture, including both our failure to make principal and interest payments and our failure to comply with various covenants, the interest rate will increase to 15%, and we will be obligated to pay the greater of (1) the principal due under the debenture together with a 30% premium, plus interest accrued; or (2) the principal due under the debenture, plus interest accrued, divided by conversion price were the debenture holder to elect to convert the debentures into company common shares.

As additional consideration for the purchase of the debenture, we also granted to the debenture holder warrants entitling it to purchase 275,000 common shares at the price of $5.75 per share, or 115% of the closing price for those shares on the trading day prior to the sale of the debenture. These warrants lapse if unexercised by December 29, 2009. These warrants lapse if unexercised by December 29, 2009. As the result of such grant, we have recorded a non-cash deferred financing charge in the amount of $266,000 reflecting the fair value attributable to these warrants, thereby resulting in an effective annual rate of interest on the debenture of 34%.

Assuming the entire $2,000,000 debenture described above is converted into common shares, we estimate that we will have sufficient cash on hand to fund our anticipated costs through June 2005. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, such as through an acquisition of new products, the depletion of our working capital would be accelerated. Once we commence marketing our patient modules as part of our monitor systems, we will nevertheless continue to be cash flow negative due to our costs exceeding our revenues for an indefinite period of time. We will need to raise additional cash and working capital to cover the shortfall in our cash and working capital anti cipated to occur by June 2005 until such time, if at all, we become cash-flow positive. We will seek to raise this additional cash and working capital through the public or private sales of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We may also seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. We currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

Recom will pay all of the costs for registering the common shares offered for sale under this prospectus. The payment of these costs will not have a material effect on our liquidity.

LEGAL PROCEEDINGS

As of the date of this prospectus, there are no material pending legal or governmental proceedings relating to our company or properties to which we are a party, and to our knowledge there are no material proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us, other than the following:

- 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. Recom believes the claim is without merit and plans to vigorously defend itself in the action. Prior to the filing of the complaint, none of the officers or directors of Recom had ever met with or spoken to Mr. Miller or his agents or even knew who Mr. Miller was. In July 2004, Recom filed a motion to dismiss the action on the basis of lack of personal jurisdiction, and is waiting for the court to set a hearing date for the motion.

MANAGEMENT

Identity

The following table identifies our current executive officers and directors, their respective offices and positions, and their respective dates of election or appointment:

Name And Municipality Of Residence	Age	Office	Initial Election Or Appointment Date
Marvin H. Fink Los Angeles, California	68	Chief Executive Officer, President, Secretary, and Chairman of the Board	October 12, 2002
Budimir S. Drakulic, Ph.D. Los Angeles, California	54	Vice President and Chief Technology Officer	October 15, 2002
Robert C. Scherne Syosset, New York	48	Interim Chief Financial Officer	January 12, 2005
Ellsworth Roston Los Angeles, California	81	Director	November 1, 2002
Robert Koblin, M.D. Los Angeles, California	72	Director	February 6, 2003
Lowell T. Harmison, Ph.D.	67	Director	June 6, 2003

Washington, D.C.			
Jennifer Black Lake Oswego, Oregon	48	Director	January 20, 2004

Messrs. Fink and Drakulic provide their services as executive officers on a full-time permanent basis. Mr. Scherne provides his services on a part-time interim leased basis through Robert C. Scherne, CPA, PC, a company that specializes in providing financial management personnel to businesses on a temporary basis. On average, Mr. Scherne and the company anticipate that Mr. Scherne will devote between 5-25% of his time, or two to fifteen hours per week, to Recom depending upon the nature of the financial projects he is working on.

There are no family relationships between any two or more of our directors or executive officers. There is no arrangement or understanding between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current board of directors. There are also no arrangements, agreements or understandings to our knowledge between non-management shareholders that may directly or indirectly participate in or influence the management of our affairs.

Business Experience

Marvin H. Fink has served as our Chief Executive Officer, President and Chairman of the Board since October 12, 2002, and our Secretary since November 2003. Prior to joining us, Mr. Fink was president of his own management consulting group from August 2001 until he joined Recom in October 2002. Mr. Fink has 45 years of experience in the management of high technology programs from development stage through production including projects for the Department of Defense, NASA, Teledyne Systems, Litton Industries and Hughes Aircraft. Until his retirement in August 2001, Mr. Fink served as President of Teledyne Electronic Technologies from 1993, which was then a subs idiary of Teledyne Technologies, Inc. (NYSE:TDY). From 1986 until 1993, he served as President of Teledyne Microelectronics. Mr. Fink has served as a director of RF Industries (Nasdaq:RFIL), a manufacturer of coaxial connectors used for communication applications, since October 2001. Mr. Fink holds a bachelors degree in electrrical engineering from City College of New York, a Masters of Science degree in Electrical Engineering from the University of Southern California, and a Juris Doctor degree from the San Fernando Valley College of Law.

Dr. Budimir S. Drakulic has served as our Vice President and Chief Technology Officer since October 15, 2002. Dr. Drakulic has more than 25 years of experience in the design, development and integration of hardware and software modules for biomedical microelectronics circuits and systems. From 1997 through February of 2002, Dr. Drakulic was research and development principal for Advanced Heart Technologies, Inc., and its predecessor Advanced Heart Monitoring. From February of 2002 until October 15, 2002 Dr. Drakulic was involved in independent research. Dr. Drakulic was the Consultant and Chief Scientist, Medical Device Business Unit for Teledyne El ectronic Technologies from 1992 through 1997. Before that, he held numerous positions affiliated with the University of California at Los Angeles, including Visiting Assistant Professor with the Electrical Engineering Department and Director of the Microelectronics Development Lab at the Crump Institute for Medical Engineering. He holds a Bachelor of Science degree in electrical engineering from the University of Belgrade, Yugoslavia. He also holds a Masters degree and a Ph.D. in Electronic and Biomedical Engineering from the same university. Dr. Drakulic was the recipient of the Ralph and Marjorie Crump Prize for Excellence in Medical Engineering from UCLA in 1985, and was a Research Fellow with the Crump Institute for Medical Engineering at UCLA. Dr. Drakulic filed a petition for bankruptcy in November 2001.

Mr. Robert C. Scherne has provided his services as our interim Chief Financial Officer since January 12, 2005 on a leased basis through Robert C. Scherne, CPA, PC, a company that specializes in providing financial management personnel to businesses on a temporary basis. We are planning to recruit a full-time Chief Financial Officer. Mr. Scherne has been the principal of Robert C. Scherne, CPA, PC, since March 2003. Prior to that, Mr. Scherne was employed as an accountant by Merdinger, Fruchter Rosen and Company from December 1993 to December 2002; by Louis Sturz & Co. and its successor firm Grossman, Russo & Shapiro from July 1986 until November 2002; and by L.H. Frishkoff &Co. and its successor firm A. Uzzo &Co. from July 1978 to June 1986. Mr. Scherne holds a BBA in Accounting from Pace University (New York City), and is an active member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants

Mr. Ellsworth Roston has served as a director since November 1, 2002. Mr. Roston has practiced patent law since 1943, and currently serves as Of Counsel to the patent firm of Fulwider Patton Lee & Utecht since 1997. Mr. Roston has a history of assisting technology companies during their development stages. Most recently,

Mr. Roston has served as a director of Natgram, Inc., an internet software developer, since 1998, Amerlin Inc., a pet house/kennel manufacturer, since 1996, and American Legal Net, a provider of legal forms, since April 2004. Mr. Roston also served as a director of Rokenbok Corporation, a toy manufacturer, from 1996 through Febr uary 2004, and of Dome Industries, an electronic hardware manufacturer, from 1991 through 2002. Mr. Roston was one of three founders of Brooktree Corporation, and served on its board of directors for 15 years until it was purchased by Rockwell Corporation in 1998. Mr. Roston received his undergraduate degree and his law degree from Yale University.

Dr. Robert Koblin has served as a director since February 6, 2003. Dr. Koblin, a cardiologist, has more than 30 years of medical experience beginning during the time he served in the United States Army as a medic and continuing most recently as a staff physician and instructor at the Cedars-Sinai Medical Center in Los Angeles since 1966. He has also served as the Managing Director of the Robertson Diagnostic Center in Beverly Hills, California since April 2002, and as an assistant clinical professor of medicine at the University of California, Los Angeles (UCLA), since 1982. Dr. Koblin received his undergraduate degree from New York University, his medical degree from Stanford University.

Dr. Lowell T. Harmison has served as a director since June 6, 2003 and as a Senior Advisor since February of 2003. Dr. Harmison has a very distinguished 35 year career in the field of biomedicine. Most recently, Dr. Harmison has served as a director and as chairman of the board of World Doc Foundation, a private foundation promoting health education and expanded knowledge of telemedicine, since June 2002. Dr. Harmison has also served as a director and chief executive officer of ProCell Corporation, a cancer research company, since June 2000, and as a director of pHA Bio Remediation, an environmental restoration company, since 1997. Dr. Harmison also serv ed as chairman of Sequella Foundation, which promotes research into tuberculosis, from 1997 to 2001, and served as a director of Sequella Inc., a research and development company for tuberculosis products, from 1997 to 2000. Dr. Harmison is the holder of the first domestic and foreign patents on the fully implantable artificial heart; and served as Chief Executive Officer of USET, Inc. from 1987 to 1989. Dr. Harmison also served as the Director of the Robert Maxwell Foundation, a private foundation operating internationally and consisting of 21 operating companies, from 1987 to 1989. He also served as the Principal Deputy Assistant Secretary for Health of the U.S. Public Health Service, Department of Health and Human Services. Dr. Harmison has a Ph.D. from the University of Maryland and a B.S. and M.S. from West Virginia University. He was also given an honorary Doctor of Science degree from the West Virginia University.

Ms. Jennifer Black has served as a director since January 20, 2004. Ms. Black has been President of her own business, Jennifer Black & Associates, since September 2003. Her firm provides independent research for institutional clients. Previously, since 1979, Ms. Black was with Black & Co., where she was responsible for research coverage on the apparel and specialty retail industries. Ms. Black was President of Black & Co. when it was acquired by First Security Van Kasper in April 2000. Subsequently, Wells Fargo Securities acquired First Security Van Kasper in September 2000. Ms. Black left Wells Fargo Securities in September 2003. Ms. Bl ack serves on the Governors Council of Economic Advisors for the State of Oregon, where she has been re-appointed to a second three-year term. Ms. Black attended Washington State and Portland State Universities.

Board Of Directors

Our bylaws set the authorized number of directors on our board of directors at not less than three nor more than nine, with the actual number fixed by a resolution of our board. As noted above, there are currently five directors serving on our board, Messrs. Fink, Roston, Koblin and Harmison and Ms. Black. All of the directors will serve until the next annual meeting of shareholders and until their successors are elected and qualified by our shareholders, both common and preferred, voting on a cumulative basis as one class, or until their earlier death, retirement, resignation or removal. Mr. Roston, Dr. Koblin and Ms. Black are each independent directors as that term is defined by the SEC.

Board Committees

Our board of directors has established two committees to date, an audit committee currently comprised of Mr. Roston and Ms. Black, and a compensation committee currently comprised of Messrs. Fink and Roston and Dr. Koblin. None of our directors serving on the audit committee have the requisite public company accounting background or experience to be considered an audit committee financial expert as that term is defined by the SEC. Due to our development stage status, we believe that the current members of the audit committee have the requisite financial background and experience to carry out their duties.

Board Compensation

Our current compensation policy for our directors for service on the full board is to compensate them through stock grants under our 2002 Stock Plan pursuant to a director s compensation policy adopted on February 6, 2003. Upon joining our board of directors, each member is granted an option to purchase 50,000 (pre-split and post-split) common shares, exercisable at its then trading price. These options are fully vested upon grant, and lapse in five years if not exercised. Each director will thereafter be granted options on an annual basis entitling him to purchase an additional 28,000 (post-split) common shares, which options will vest quarterly based upon the continued provision of services as a director, and lapse in five years if not exercised. The exercise price for these options will b e fixed at current market price as of the date of grant. Following our April 11, 2003 stock split, our board determined to maintain the grants at 50,000 common shares post-split for grants to new directors insofar as it believed such number was an appropriate number of option shares after taking into consideration factors it deemed relevant.

Our current compensation policy for our directors for serving on our various committees to the board is to compensate them through the grant of common share purchase options. Prior to January 3, 2005, each committee member was granted an option to purchase 2,000 common shares, exercisable at its then trading price, upon his or her appointment to a committee. Commencing January 3, 2005, the amount of the grant was increased to 10,000 shares for serving on the audit committee, and 5,000 shares for serving on the compensation committee, with the first grants being made effective as of that date. All committee options vest in four quarterly installments subject to attendance at least 90% of the committee meetings during that quarter, and lapse in five years if not exercised.

The following table described the common share purchase options granted to our directors as of January 6, 2005 as compensation for serving on our board and, if applicable, committees of our board.

Name	Grant Date	Common Shares Purchasable	Exercise Price	Expiration Date
Marvin H. Fink	2/6/2003	150,000(3)	$ 0.88	2/5/2008
	11/3/2003	28,000	$ 4.40	11/2/2008
	4/1/2004	2,000	$ 6.00	3/31/2009
	10/12/2004	28,000	$ 2.29	10/11/2009
	1/3/2005	5,000	$ 5.05	1/2/2010
Ellsworth Roston(1)	2/6/2003	150,000(3)	$ 0.88	2/5/2008
	11/3/2003	28,000	$ 4.40	11/2/2008
	4/1/2004	2,000	$ 6.00	3/31/2009
	7/8/2004	2,000	$ 3.95	7/7/2009
	11/1/2004	28,000	$ 2.90	10/31/2009
	1/3/2005	10,000	$ 5.05	1/2/2010
	1/3/2005	5,000	$ 5.05	1/2/2010
Dr. Robert Koblin	2/5/2003	150,000	$ 0.88	2/4/2008
	2/5/2004	28,000	$ 3.70	2/4/2009
	4/1/2004	2,500(4)	$ 6.00	3/31/2009
	1/3/2005	5,000	$ 5.05	1/2/2010
Dr. Lowell T. Harmison(2)	6/6/2003	50,000	$ 4.20	6/5/2008
	6/6/2004	28,000	$ 6.25	6/5/2009
Jennifer Black	1/20/2004	50,000	$ 3.50	1/19/2009
	4/1/2004	500(5)	$ 6.00	3/31/2009
	1/3/2005	10,000	$ 5.05	1/2/2010

(1) Excludes 450,000 common share purchase warrants unrelated to the provision of services as a director which were granted to Mr. Roston as compensation for providing consulting services. See *Business-Employment And Consulting Agreements With Management* .

(2) Excludes 216,000 common share purchase warrants unrelated to the provision of services as a director which were granted to Dr. Harmison as compensation for providing consulting services. See *Business-Employment And Consulting Agreements With Management* .

(3) 50,000 shares pre-split.

(4) Dr. Koblin was originally granted 4,000 options, however, 1,500 options lapsed upon his resignation from the audit committee effective July 27, 2004.

(5) Ms. Black was originally granted 2,000 options, however, 1,500 options lapsed upon her resignation from the audit committee effective July 8, 2004. Ms. Black subsequently rejoined the audit committee on January 3, 2005.

We do not currently provide our directors with cash compensation, although we do reimburse their expenses.

Medical Advisory Board

Recom has composed a board of medical advisors comprised of Drs. Lowell T. Harmison, Michael M. Laks, Mitchell W. Krucoff and Andrea Natale to provide strategic assistance in the design, development and marketing of our medical devices.

Dr. Lowell T. Harmison, Ph. D., is a member of Recom s board of directors, and has served as a Senior Advisor since February of 2003. Dr. Harmison s background is provided earlier in this prospectus in that section captioned *Business Experience* .

Mitchell W. Krucoff, M.D., F.A.C.C., F.C.C.P., who was appointed as a senior advisor in June 2004, is presently Associate Professor of Medicine/Cardiology at Duke University Medical Center, as well as the Director of eECG Core Laboratory and Interventional Device Trials at Duke Clinical Research Institute. Dr. Krucoff is a Fellow of the American College of Cardiology, on the Executive Committee of the International Society of Computerized Electrocardiology as well as a member of the Circulatory Devices Advisory Panel, U.S. FDA. Dr. Krucoff has published over 200 scientific and medical related papers. Dr. Krucoff received has bachelors degree from Yale University in 1976 and his medical degree from George Wa shington University in 1980.

Andrea Natale, M.D., who was appointed as a senior advisor in September 2004, is presently Professor of Medicine at the Ohio State University, and Program Director of the EP Fellowship Program at the Department of Cardiology of the Cleveland Clinic Foundation. Dr. Natale has been with the Ohio State University and the Cleveland Clinic Foundation since 1999, having previously served as Director of Electrophysiology Laboratories of the Section of Electrophysiology and Pacing, then Co-Section Head of the Section of Electrophysiology and Pacing, and then as Medical Director, Center for Atrial Fibrillation. Previously, Dr. Natale was Associate Professor of Medicine at the University of Kentucky from 1997 to 1998, Assi stant Professor of Medicine at the Duke University Medical Center and Director of the Electrophysiology Laboratory at the Durham Veterans Administration Medical Center from 1994 to 1997, and Head of the Cardiovascular Physiopathology Section of the Italian Air Force Aerospace Research Centre in Rome, Italy, from 1988 to 1989. Dr. Natale received his medical degree from the Medical School at the University of Florence, Italy.

Senior Medical Advisors

Dr. Michael M Laks, M.D., who has been a senior medical advisor to Recom since June 2003, is presently a Distinguished Professor of Medicine in the Division of Cardiology at the UCLA School of Medicine, Senior Physician at the Harbor-UCLA Medical Center, a reviewer for the New England Journal of Medicine, and Associate Editor of the Journal of Electrocardiology. Dr. Laks has published over 400 scientific and medical-related papers, and is a leading researcher in the field of computerized electrocardiography, with a research focus on microelectronics, cardiovascular system, bioengineering, electrophysiology, cardiovascular diseases, cardiology, automated clinical analysis, medical instrumentation, biotechnology an d death and mortality, and having served as a consultant to Hewlett Packard on first computerized ECG program.

Medical Advisor Compensation

Each of the members of the medical advisory board and each senior medical advisor provide consulting services to Recom under consulting agreements and, as such, do not receive additional compensation for acting as a member of the medical advisory board.

Dr. Lowell T. Harmison is compensated for providing consulting services under an agreement dated February 14, 2003. For a description of the terms of that agreement see that section below captioned *Employment And Consulting Agreements With Management* .

Dr. Michael M. Laks is compensated for providing consulting services under an agreement dated June 2, 2003. Under that agreement, Dr. Laks received an initial grant of options entitling him to purchase 108,000 common shares at $2.40 per share, vesting over equally over four quarters, and cash compensation of $9,000 per quarter for the provision of up to 50 hours of consulting during that quarter. Any additional consulting services are compensated at the rate of

$450 per hour.

Dr. Mitchell W. Krucoff is compensated for providing consulting services under an agreement dated May 26, 2004. Under that agreement Recom will pay Dr. Krucoff for his services the sum of $3,750 per quarter.

Dr. Natale is compensated for providing consulting services under a three-year agreement dated September 10, 2004. Under that agreement Recom will pay Dr. Natale for her services the sum of $4,500 per quarter.

Other Significant Employees And Consultants

James J. Mazeika has served as our Director of Business Development since February 2004. Prior to joining Recom, Mr. Mazeika was Director of Strategic Marketing/Business Development for Bard Endoscopic Technologies from December 2002 to February 2004; President of his own consulting firm, Mazemac Group, from August 2001 to December 2002; Vice President /General Manager (Teledyne Medical) and then Vice President of Business Development (Medical Device Business Unit) of Teledyne Electronics Technologies, Inc., subsidiary of Teledyne Technologies, Inc. (NYSE:TDY); from December 1998 to August 2001; Product Manager (Catheters), Senior Market Manager (Devices) and ultimately Business Manager (Restenosis) of Mallinkrodt Medical from December 1991 to December 1998; Research and Development Manager, Senior Project Engineer and ultimately Product Development Engineer with Bard Critical Care from November 1982 to December 1991, and Research Scientist for The Kendall Company from July 1980 to November 1982. Mr. Mazeika holds a bachelors of science degree in biology from Loyola University (Chicago), a masters of science degree in biomedical engineering from the University of Illinois, and a masters of business administration degree from River College (Nashua, Hew Hampshire).

William R. Matthews has served as our Director of Regulatory Affairs since July 2004. Prior to joining Recom, Mr. Matthews provided consulting services to Recom from December 2003 to July 2004, was Vice President, Government Affairs and Product Assurance for Viasys Healthcare (NYSE:VAS) from February 1999 to December 2003, was Executive Vice President, Operations, of Xylum Corporation from 1993 to 1998; was Corporate Director Engineering and Manufacturing, and ultimately Corporate Director, Product Assurance and Regulatory Affairs f or W.R. Grace Company (NYSE:GRA) from 1987 to 1993; was Plant Manager for Beiersdorf, Inc. from 1981 to 1987; and Production Supervisor, R&D Supervisor and ultimately Production Superintendent for Best Foods Inc. from 1976 to 1981. Mr. Matthews holds a Bachelors of Science degree chemistry awarded by St. Peters University (New Jersey).

Employment And Consulting Agreements With Management

Marvin H. Fink, Chief Executive Officer **and President**

On October 11, 2002, Recom reached an agreement-in-principle with Mr. Marvin H. Fink to become our Chief Executive Officer and President and to issue him restricted common shares. Pursuant to that understanding, on October 12, 2002, we entered into a four-year employment agreement with Mr. Fink. The essential terms of the employment agreement are as follows:

- Mr. Fink s will receive an initial base salary of $1 per year. Following the one-year anniversary of the agreement, our board of directors may review and adjust the base salary in light of our company s performance. Given the status of Recom s development efforts, the board has not decided to increase Mr. Fink s base salary under this provision to date.

- Mr. Fink is entitled to a cash bonus for his second through fourth years of employment. The amount of the bonus is 10% of our after tax income exclusive of extraordinary expenses for the second year, and 15% of that amount for the third and fourth years. On May 10, 2004, Mr. Fink and Recom agreed to pay Mr. Fink 250,000 common shares upon Recom achieving $0.50 in fully-diluted earnings per share in lieu of the cash bonus.

- Mr. Fink is granted 2,100,000 restricted common shares (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 175,000 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.

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- The agreement contains a gross up provision obligating us 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 common shares 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 our liability, if any, for any taxes imposed under that grant should be nominal.

- Should our common shares 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 us, to an additional grant of 600,000 common shares (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 us, to an additional grant of common shares having a market value of $5,000,000, but not to exceed 600,000 common 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, and the right to participate in all benefit plans established for company 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 Recom 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; Recom 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 our 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; Recom 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 Recom s termination without cause, and an additional one years coverage if the agreement is terminated due to Mr. Fink s disability.

Concurrent with entering into the employment agreement, we entered into an indemnification agreement with Mr. Fink.

Budimir Drakulic, Vice President and Chief Technology Officer

On October 11, 2002, Recom 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 B World Technologies, Inc. and B Technologies, Inc. relative to the provision of Dr. Drakulic s services, which formally commenced as of that date. Dr. Drakulic is the president and owner of these companies. The essential terms of the loan-out 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.

- Recom 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 common shares (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.

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 grant shall be deemed forfeit as of the effective termination date.

Since March 1, 2003, Dr. Drakulic has worked for us on a full-time basis even though the loan-out agreement only provides for the provision of part-time services. We have 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. Since January 1, 2004, this annual compensation was increased to $37,000.

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

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 us 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 Recom.

Robert C. Scherne, Interim Chief Financial Officer

Mr. Robert C. Scherne provides his services as Interim Chief Financial Officer on a leased basis through Robert C. Scherne, CPA, PC, a company that specializes in providing financial management personnel to businesses on a temporary basis. Under our engagement agreement with Robert C. Scherne, CPA, PC, we pay the company the sum of $150 per hour, subject to a cap of $15,000 with respect to the preparation of financial statements for each annual

report on form 10-KSB or quarterly report on form 10-QSB.

Ellsworth Roston, Director and Consultant

On October 11, 2003, Recom 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; to become a director of the company, and 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 on November 1, 2002 we entered into a two year consulting agreement with Mr. Mr. Roston documenting the provision of his consulting services and his appointment to our board of directors. The agreement provides for us to grant to Mr. Roston 225,000 common shares (75,000 shares pre-split) and five-year warrants to purchase an addition al 450,000 common shares (150,000 shares pre-split) at $1.67 per share. We consider the grant of common shares to Mr. Roston to be compensation for the provision of his consulting services, and the grant of the common share purchase warrants to be additional consideration for his cash investment pursuant to our original understanding.

Mr. Roston is a patent attorney whose law firm also handles our patent work. The agreement specifically provides that the consulting services provided by Mr. Roston will not include any legal work, for which we will compensate his law firm separately.

Lowell T. Harmison, Director and Consultant

Dr. Lowell T. Harmison, one of our directors, provides consulting services to Recom under a three-year agreement dated February 14, 2003. Under this agreement, Dr. Harmison provides advice to us 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:

- Recom 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 108,000 common shares (36,000 shares pre-split) at $0.97 per share, exercisable over five years.

- Dr. Harmison was further entitled to receive upon execution of the agreement an additional grant of options entitling him to purchase 108,000 common shares (36,000 shares pre-split) at $0.97 per share, vesting in increments of 9,000 common shares each upon the first through twelfth quarterly anniversary dates of the agreement based upon his provision of services. These options are exercisable for a period of five years following vesting.

- Dr. Harmison is entitled to receive grants of common share purchase options in tranches of 20,000 shares per milestone for assisting Recom in attaining various milestones determined by our board of directors, including the preparation and filing with the FDA of a 510(k) application for our product as it relates to its incorporation into a vest, approval of that application by the FDA, and market launch of that product.

- Dr. Harmison is entitled to receive 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 Recom 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.

Summary Compensation Table

The following table shows the compensation paid over the past three fiscal years with respect to Recom s named executive officers as that term is defined by the SEC.

		Annual Compensation (1)			Long Term Compensation Awards		Payouts	
Named Executive Officer and Principal Position	**Year**	**Salary**	**Bonus**	**Other**	**Restricted Stock**	**Securities Underlying Options & SARs**	**Long Term Incentive Plan**	**All Other Comp-ensation**
Marvin H. Fink (2) *Chief Executive Officer*	2004 2003 2002	$ 1(5)(5) 1 1	$	$ 21,576(9)(10) 19,598	$ 14,284 (11)	178,000	$	$
Dr. Budimir Drakulic (3) *Vice President and Chief Technology Officer*	2004 2003 2002	$ 207,105(6) 180,000(6) 45,000(6)	$	$	$ 3,987 (12)	750,000	$	$
Charles Dargan (4) *Former Interim Chief Financial Officer*	2004 2003 2002	$ 75,000(8)(8) 7,500	$	$	$		$	$

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(1) Includes, among other things, perquisites and other personal benefits, securities or property which exceed in the aggregate the lesser of either $50,000 or 10% of the total annual salary and bonus reported for that fiscal year.

(2) Mr. Fink has served as our Chief Executive Officer since October 12, 2002.

(3) Dr. Drakulic has served as our Vice President and Chief Technology Officer since October 15, 2002.

(4) Mr. Dargan served as our interim Chief Financial Officer from December 18, 2003 through January 12, 2005 on a leased basis through CFO 911, an agency that specializes in providing financial management personnel to businesses on a temporary basis.

(5) Recom has recorded a non-cash accounting expense in the amount of $80,000 to reflect the value of Mr. Fink s services.

(6) These amounts were paid in consulting payments to B Technologies in connection with its provision of Dr. Drakulic s services. Payment of a portion of these services in fiscal 2003 and 2004 were satisfied with common shares issued directly to Dr. Drakulic at the direction of B Technologies pursuant to the requirements of a registration statement on form S-8.

(7) Includes the grant of 39,087 registered common shares with a value of $164,389.

(8) Amounts paid to CFO 911.

(9) Includes $14,400 in automobile allowance payments and $7,176 in premiums payable on health insurance.

(10) Includes $14,400 in automobile allowance payments and $5,598 in premiums payable on health insurance.

(11)

Reflects the value of an award to Mr. Fink of 2,100,000 restricted common shares (700,000 shares pre-split) in conjunction with the execution of his employment agreement dated October 12, 2002. The value cited is based upon the closing price for on common shares as of the date of the employment agreement. As of December 31, 2004, all 2,100,000 restricted common shares remained outstanding. The value of those shares as of that date was $10,605,000 based upon the $5.05 closing price for our common shares as quoted on the OTCBB for December 31, 2004.

(12) Reflects the value of an award to B. World Technologies of 600,000 restricted common shares (200,000 shares pre-split) in conjunction with the execution of a loan-out agreement dated October 12, 2002 by which it provided the services of Dr. Drakulic to Recom. The value cited is based upon the closing price for on common shares as of the date of the loan-out agreement. As of December 31, 2004, all 600,000 restricted common shares remained outstanding. The value of those shares as of that date was $3,030,000 based upon the $5.05 closing price for our common shares as quoted on the OTCBB for December 31, 2004.

Stock Options And Stock Appreciation Rights Grant Table

The following table provides certain information with respect to individual grants during the 2004 fiscal year to each of our named executive officers of common share purchase options or stock appreciation rights relating to our common shares:

Name	Common Shares Underlying Grant Of Options Or SARs	As Percentage Of Grants To All Employees(1)	Exercise Or Base Price	FMV At Grant Date	Expiration Date
Marvin H. Fink	2,000	1.8%	$ 6.00	$ 6.00	March 31, 2009
Marvin H. Fink	28,000	25.5%	$ 02.29	$ 02.29	October 11, 2009
Dr. Budimir S. Drakulic					
Charles Dargan					

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(1) The numerator in calculating this percentage includes common share purchase options granted to each named executive officer in fiscal 2004 in his capacity as an officer or employee and, if applicable, as a director. The denominator in calculating this percentage is 110,000, which represents options granted to all Recom employees during fiscal 2004, including those to the named executive officers.

Stock Options And Stock Appreciation Rights Exercise And Valuation Table

The following table provides certain information with respect to each of our named executive officers concerning any common share purchase options or stock appreciation rights they may have exercised in fiscal 2004, and the number and value of any unexercised common share purchase options or stock appreciation rights they may hold as of December 31, 2004:

			Unexercised In-The-Money Options and SARs at December 31, 2004	
Named Executive Officer	Shares Acquired On Exercise	Value Realized (1)	Number (Exercisable/ Unexercisable)	Value (2) (Exercisable/ Unexercisable)
Marvin H. Fink			178,000 / 28,000	$ 742,260 / $116,760
Dr. Budimir S. Drakulic			328,125 / 421,875	$ 1,355,156 / $1,742,344
Charles Dargan			/	/

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(1) The dollar amount shown represents the difference between the fair market value of our common stock underlying the options as of the date of exercise and the option exercise price.

(2) The dollar value provided represents the cumulative difference in the fair market value of our common stock underlying all in-the-money options as of December 31, 2004 and the exercise prices for those options. Options are considered in-the-money if the fair market value of the underlying common shares as of the last trading day in fiscal 2004 exceeds the exercise price of those options. The fair market value of Recom common shares for purposes of this calculation is $5.05, based upon the closing price for our common shares as quoted on the OTCBB on December 31, 2004.

PRINCIPAL SHAREHOLDERS

The following table sets forth selected information, calculated as of January 6, 2005, about the amount and nature of our securities beneficially owned by each of (1) our *executive officers*, defined as our President, Secretary, Chief Financial Officer or Treasurer, any vice-president in charge of a principal business function, such as sales, administration or finance, or any other person who performs similar policy making functions for our company; (2) each of our directors; (3) each person known to us to own beneficially more than 5% of any class of our securities; and (4) the group comprised of our current directors and executive officers.

The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 and 13d-5 of the Securities Exchange Act of 1934, as amended (the *Exchange Act*), and the information is not necessarily indicative of beneficial ownership for any other purpose. See footnote (1) to this table. We believe that each individual or entity named has sole investment and voting power with respect to the securities indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted. Unless otherwise stated, the address of each person is 4705 Laurel Canyon Boulevard, Suite 203, Studio City, California 91607.

	Class Of Stock(1)			
	Common (Voting)		Series A Preferred (2) (Voting)	
Name	**Amount**	**%**	**Amount**	**%**
Marvin H. Fink (3)(4)(5)	2,286,500(7)	6.5%	0	
Dr. Budimir S. Drakulic (4)	931,015(8)	2.7%	0	
Robert C. Scherne (4)	0		0	
Ellsworth Roston (3)	933,750(9)	2.6%	0	
Dr. Robert Koblin (3)	180,000(10)	*	0	
Dr. Lowell T. Harmison (3)	286,793(11)	*	0	
Jennifer Black (3)	50,500(12)	*	0	
Tracey Hampton / ARC Finance Group, LLC (5)(6)	22,950,000(13)	65.8%	0	
Maxim Group, LLC	0		256,433(14)	42.1%
Otape Investments LLC	0		89,988	14.8%
Allen B. Guirguis	0		36,062	5.9%
Directors and executive officers, as a group	4,668,558(15)	12.8%	0	

* Less than one percent.

(1) Pursuant to Rules 13d-3 and 13d-5 of the Exchange Act, beneficial ownership includes any shares as to which a shareholder has sole or shared voting power or investment power, and also any shares which the shareholder has the right to acquire within 60 days, including upon exercise of common shares purchase options or warrant or conversion of series A preferred shares. The number of outstanding shares of our common and series A preferred shares as of January 6, 2005 are 34,860,068and 377,719 shares, respectively.

(2) Each series A preferred share is convertible into one common share.

(3) Director.

(4) Executive officer.

(5) 5% shareholder.

(6) The address of Ms. Hampton and ARC Finance Group LLC is 23679 Calabasas Road, Suite 754, Calabasas, CA 91302.

(7) Includes 2,100,000 common shares held by the Fink Family Trust, and 186,500 common shares issuable upon exercise of options granted to Mr. Fink in his capacity as a director.

(8) Includes 600,000 common shares held by B World Technologies, Inc., and 328,125 common shares issuable upon exercise of options granted to B World Technologies in connection with services performed by Dr. Drakulic. B World Technologies is are owned and controlled by Dr. Drakulic.

(9) Includes 296,250 common shares held by Roston Enterprises, 450,000 common shares issuable upon exercise of warrants granted to Mr. Roston in his capacity as a consultant, and 187,500 common shares issuable upon exercise of options granted to Mr. Roston in his capacity as a director.

(10) Includes 180,000 common shares issuable upon exercise of options granted to Dr. Koblin in his capacity as a director.

(11) Includes 216,000 common shares issuable upon exercise of warrants granted to Dr. Harmison in his capacity as a consultant, and 64,000 common shares issuable upon exercise of options granted to Dr. Harmison in his capacity as a director.

(12) Includes 50,500 common shares issuable upon exercise of options granted to Ms. Black in her capacity as a director.

(13) Includes 22,950,000 common shares held by ARC Finance Group, Inc. ARC Finance Group is owned and controlled by Ms. Hampton.

(14) Includes 256,433 common shares issuable upon exercise of common share purchase warrants.

(15) Includes 1,662,625 common shares issuable upon exercise of common share purchase options and warrants.

TRANSACTIONS AND BUSINESS RELATIONSHIPS WITH MANAGEMENT AND PRINCIPAL SHAREHOLDERS

Transactions With Executive Officers, Directors And Shareholders

Summarized below are certain transactions and business relationships between Recom and persons who are or were an executive officer, director or holder of more than five percent of any class of our securities since January 1, 2003:

- On February 14, 2003, we entered into a three-year consulting agreement with Dr. Lowell T. Harmison, who later became one of our directors. Under the terms of that agreement, we granted to Dr. Harmison, among other things, (1) fully vested options entitling him to purchase 108,000 common shares (36,000 shares pre-split) at $0.97 per share, and (2) options entitling him to purchase an additional 108,000 common shares (36,000 shares pre-split) at $0.97 per share subject to vesting over twelve quarters. All of the aforesaid options are exercisable over five years after vesting. For a description of the full terms of that agreement see that section of this prospectus captioned *Management Employment And Consulting Agreements With Management* .

- 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. Mr. Stein is the spouse of Ms. Tracey Hampton, who owns and controls ARC Finance Group, LLC, which owns 65.8% of our outstanding common shares.

- On May 15, 2003, we sold to Mr. Mitchell Stein 16,000 units at $3 per unit for cash amounting to $48,000. 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, Mr. Stein will receive one common share and an additional warrant to purchase one common share $6 per share until November 15, 2004. The sale of units to Mr. Stein was part of a larger private placement on the same terms and conditions with two other investors. These warrants have since lapsed unexercised.

- On July 24, 2003, we sold to Mr. Mitchell Stein 30,030 units at $3.33 per unit for cash amounting to $100,000. 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, Mr. Stein will receive one common share and an additional warrant to purchase one common share at $6.66 per share until November 15, 2004. The sale of units to Mr. Stein was part of a larger private placement on the same terms and conditions with three other investors. These warrants have since lapsed unexercised.

Parent Corporation

ARC Finance Group, LLC, owns 65.8% of our outstanding common shares. ARC Finance Group is principally owned and controlled by Ms. Tracey Hampton. As a consequence, Ms. Hampton has the ability, through ARC Finance Group, to elect a majority of our board of directors, and thereby control our management. Ms. Hampton also has the ability to control the outcome of corporate actions requiring shareholder approval, including mergers and other changes of corporate control, going private transactions, and other extraordinary transactions.

DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital consists of (1) 100,000,000 shares of common stock, par value $.001 per share, which are referred to in this prospectus as *common shares*, and (2) 10,000,000 shares of blank check preferred stock, par value $.001 per share, which are referred to in this prospectus as *preferred shares*, having such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board. On September 25, 2003, our board of directors designated 1,818,710 of the preferred shares as series A convertible preferred stock (these shares are referred to in this prospectus as *series A preferred shares*), with the rights, preferences, privileges and restrictions described below. On April 26, 2004, we increased the number of shares designated as series A preferred shares to 3,000,000. As of January 6, 2005, there were issued and outstanding 34,860,068common shares and 377,719 series A preferred shares.

Common Shares

Our common shareholders are entitled to one vote per share on all matters to be voted upon by those shareholders, and are also entitled to cumulative voting for the election of directors. Subject to the rights of our series A preferred shares, our common shareholders are entitled to receive ratably dividends as they may be declared by our board of directors out of funds legally available for that purpose. Subject to the rights of our series A preferred shares, upon the liquidation, dissolution, or winding up of Recom, our common shareholders will be entitled to share ratably in all of the assets which are legally available for distribution, after payment of all debts and other liabilities. Our common shareholders have no preemptive, subscription, redemption or conversion rights.

Preferred Shares

We may issue our preferred shares from time to time in one or more series as determined by our board of directors. The voting powers and preferences, the relative rights of each series, and the qualifications, limitations and restrictions thereof may be established by our board of directors without any further vote or action by our shareholders.

Series A Preferred Shares

Our series A preferred shares have the following rights, preferences, privileges and restrictions:

- ***Rank*** Our series A preferred shares rank senior to our common shares, and any other securities we may issue;

- ***Dividends*** Our series A preferred shareholders are entitled to receive an annual cumulative dividend on each share equal to $0.24 payable quarterly, on March 31, June 30, September 30 and December 31 of each year, either in cash from funds legally available for that purpose, or in kind, in the form of additional series A preferred shares, at our discretion. Dividends for the period between the October 2, 2003 sale of the shares and December 31, 2003 are pro rated based upon the actual number of days elapsed, assuming a 360- day year. If the dividend is paid in the form of series A preferred shares, each share which is paid will be valued at $3 per share.

- ***Conversion*** Each series A preferred share, together with any accrued dividends payable in series A preferred shares, is convertible at the option of the holder at any time into common shares on a one-for-one basis. The conversion price for the series A preferred shares is subject to certain weighted average anti-dilution adjustments.

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· ***Forced Conversion*** We can force conversion of the series A preferred shares into common shares upon 45 days written notice to the holders of the shares in the event that:

o our common shares are listed on a qualified national exchange (Nasdaq, AMEX or NYSE);

o the closing bid price for our common shares as reported by the Nasdaq, AMEX or NYSE is at least $7.50 for 30 consecutive trading days ending within three trading days prior to the date of the written notice of conversion;

o the average trading volume during any such 30 consecutive trading day period equals or exceeds 30,000 shares per day; and

o the common shares underlying the series A preferred shares are covered by an effective registration statement filed with the SEC.

· ***Liquidation Rights*** In the event of any liquidation, dissolution or winding up of Recom, either voluntary or involuntary, our series A preferred shareholders are entitled to receive an amount per share equal to the greater of $3 for each outstanding share plus accrued and unpaid dividends, as adjusted for stock dividends, stock distributions, splits, combinations or recapitalizations, or the amount such shareholders would be entitled to receive had they converted their series A preferred shares into common shares. These rights are prior and in preference to any distribution of any of our assets to our common shareholders or holders of any other series or class of preferred shares.

· ***Voting Rights*** Our series A preferred shareholders have the right to vote on an as-converted basis, with our common shareholders on all matters submitted to a vote of our shareholders. In addition, we cannot, without the prior approval of the holders of at least a majority of our then issued and series A preferred shares voting as a separate class:

o issue or create any series or class of equity securities with rights superior to or on a parity with our series A preferred shares or increase the rights or preferences of any series or class of equity securities having rights or preferences that are junior to our series A preferred shares so as to make the rights or preferences of such series or class equal or senior to our series A preferred shares;

o pay any cash dividends on shares of our capital stock; or

o effect any exchange or reclassification of any stock affecting our series A preferred shares or a recapitalization involving Recom and our subsidiaries, if any, taken as a whole;

Further, we cannot, without the approval of each series A preferred shareholder:

o effect any amendment of our Certificate of Incorporation or Bylaws which would materially and adversely affect his or her rights as a shareholder; or

o amend, alter, or repeal the preferences, special rights, or other powers of the series A preferred shares so as to adversely effect the shareholder.

Options And Warrants Convertible into Common Shares

As of January 6, 2005, there were outstanding common share purchase options or warrants entitling the holders to purchase up to 4,681,395 common shares at an average weighted exercise price of $2.30 per share.

Delaware Business Combination Act

As a Delaware corporation, we are subject to the Delaware Business Combination Act which precludes a shareholder who owns 15% or more of our shares from entering into a business combination involving our company for a period of three years, unless (1) our board of directors approves the combination before the shareholder acquires the 15% interest; (2) the interested shareholder acquires at least 85% of our shares as part of the transaction in which he acquired the initial 15%, excluding shares owned by our officers who are also directors and voting stock held by employee benefit plans; or (3) the combination is approved by our board of directors by a majority vote and two-thirds of our other shareholders at a duly called shareholders meeting. A business combinati on is defined as (1) a merger or consolidation requiring shareholder approval, (2) the sale, lease, pledge, or other disposition of our assets, including by dissolution, having at least 50% of the entire asset value of our company, or (3) a proposed tender or exchange offer of 50% or more of our voting stock.

EQUITY COMPENSATION PLANS

Summary Equity Compensation Plan Data

The following table sets forth information compiled on an aggregate basis, with respect to equity compensation plans, including individual compensation arrangements as of December 31, 2004 under which we are granted or are authorized to issue equity securities to employees or non-employees in exchange for consideration in the form of goods or services:

Plan Category	Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants Or Rights	Weighted-Average Exercise Price Of OutstandingOptions, Warrants And Rights	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights)
Equity compensation plans approved by shareholders:			
Recom Managed Systems, Inc. 2002 Stock Plan	2,100,000	$ 1.56	3,894,000
Equity compensation plans not approved by shareholders:			
Recom Managed Systems, Inc. 2003 Nonqualified Stock Option And Stock Plan		$	707,843
Stand-alone grants	437,000	$ 2.50	
Total	2,537,000	$ 1.72	4,601,843

Description of Equity Compensation Plans Approved By Shareholders

Recom has one equity compensation plan or arrangement that has been approved by our shareholders, the Recom Managed Systems, Inc. 2002 Stock Plan (the *2002 Stock Plan*). Recom adopted the 2002 Stock Plan, pursuant to which 6,000,000 common shares (2,000,000 shares pre-split) were originally reserved for issuance, on November 1, 2002. Shareholder approval was received on June 5, 2003.

The 2002 Stock Plan was adopted by our board of directors as a vehicle to encourage and provide for the acquisition of an equity interest in Recom by our employees, officers, directors and consultants. Our board believes the plan will enable us to attract and retain the services of key employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of its operations is largely dependent, and to motivate those individuals by providing additional incentives and motivation toward superior performance.

The 2002 Stock Plan allows our board of directors, or a committee established by our board, to award restricted stock and stock options from time to time to our employees, officers, directors and consultants. The board has the power to determine at the time an option is granted whether the option will be an incentive stock option, which is an option which qualifies under Section 422 of the Internal Revenue Code of 1986, or an option which is not an incentive stock option. Incentive stock options may only be granted to persons who are our employees. Vesting provisions are determined by our board at the time options are granted. Options may be exercisable by the payment of cash or by other means as authorized by the committee or our board of directors.

The 2003 Stock Plan also provides that our board of directors, or a committee established by our board, may issue restricted stock pursuant to restricted stock right agreements which will contain such terms and conditions as our board or committee determines.

As of January 6, 2005, there were 2,141,000 common shares issued or reserved for issuance under the 2002 Stock Plan, and 3,859,000 common shares available for issuance.

Description of Equity Compensation Plans Not Approved By Shareholders

2003 Stock Plan

Recom has one formal stock plan considered to be an equity compensation plan or arrangement that has not been approved to date by our shareholders, the Recom Managed Systems, Inc. 2003 Nonqualified Stock Option And Stock Plan (the *2003 Stock Plan*). Recom adopted the 2003 Stock Plan, pursuant to which 1,500,000 common shares (500,000 shares pre-split) were originally reserved for issuance, on March 31, 2003. The 2003 Stock Plan was adopt ed by our board of directors as a vehicle to encourage and provide for the acquisition of an equity interest in Recom by our employees, officers, directors and consultants. Our board believes the plan will enable us to attract and retain the services of key employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of its operations is largely dependent, and to motivate those individuals by providing additional incentives and motivation toward superior performance.

The 2003 Stock Plan allows our board of directors to grant stock options or issue stock from time to time to our employees, officers, directors and consultants. Options granted under the 2003 Plan do not qualify under Section 422 of the Internal Revenue Code as incentive stock options.

The 2003 Plan also provides that our board of directors, or a committee, may issue free-trading or restricted stock pursuant to stock right agreements containing such terms and conditions as our board of directors deems appropriate.

As of January 6, 2005, there were 813,071 common shares issued or reserved for issuance under the 2003 Stock Plan, and 686,929 common shares available for issuance.

On March 26, 2003, we filed with the SEC a registration statement on form S-8 for the purpose of registering the common shares issuable under our 2003 Stock Plan under the Securities Act. We have, to date, principally used the 2003 Stock Plan to grant registered common shares to selected consultants as compensation for services, while utilizing the 2002 Stock Plan for unregistered grants of stock and options to directors, officers, employees and other

consultants.

The stand-alone grant to Mr. Marvin Fink of 2,100,000 restricted shares under his employment agreement pursuant to which he agreed to become our Chief Executive Officer, President and Chairman of the Board; the stand-alone grant to B Technologies of 600,000 restricted common shares under the terms of the loan-out agreement by which we procured the services of Mr. Budimir S. Drakulic as our Vice President and Chief Technology Officer, and the stand-alone grant to Mr. Ellsworth Roston of 225,000 restricted common shares and warrants entitling him to purchase an additional 450,000 common shares under the terms of his consulting agreement with our company, each constitute an equity compensation plan or arrangement that has not been approved to date by our shareholders. For further information relating to these transactions, see that section of this prospectus captioned *Management Employment And Consulting Agreements With Management* .

Stand-Alone Grants

From time to time our board of directors grants common share purchase options or warrants to selected directors, officers, employees, consultants, advisors or vendors in payment of goods or services provided by such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are individually negotiated.

MARKET FOR SECURITIES

Description Of Market

Our common shares are currently quoted on the OTCBB under the symbol RECM. The following table sets forth the quarterly high and low bid prices for our common shares on the OTCBB for the periods indicated. The prices set forth below represent inter-dealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions. The prices have been adjusted to reflect a 3 for 1 stock split that was effective on April 11, 2003.

Period	Volume	Bid Price High	Bid Price Low
2004:			
Fourth Quarter	8,279,376	$ 5.25	$ 1.80
Third Quarter	6,462,439	4.90	1.93
Second Quarter	6,265,699	8.90	4.07
First Quarter	5,541,962	6.15	3.05
2003:			
Fourth Quarter	3,808,295	$ 5.15	$ 2.70
Third Quarter	3,683,800	5.55	3.24
Second Quarter	2,494,700	4.20	1.98
First Quarter	1,464,600	2.30	0.88

The closing price for our common shares on January 6, 2005 as reported on the OTCBB was $4.35 per share. We had 456registered holding or entitled to hold 34,860,068common shares as of that date pursuant to a shareholders list provided by our transfer agent as of that date and our records relating to issuable shares. The number of registered shareholders excludes any estimate by us of the number of beneficial owners of common shares held in street name.

Dividend Policy

We have never paid any cash dividends on our common shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion development of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors as our board may deem relevant at that time.

SELLING SHAREHOLDERS

The following table sets forth the total number of common shares beneficially owned by each of the selling shareholders as of January 6, 2005, the total number of common shares they may sell under this prospectus, and the number of common shares they will own thereafter assuming no other acquisitions or dispositions of common shares.

For purposes of preparing the following table, common shares acquirable upon the conversion of currently outstanding debentures or series A preferred shares, or the exercise of currently outstanding options or warrants, are deemed to be currently issued and outstanding pursuant to Rule 13d-3 and 13d-5 of the Exchange Act (see footnote (1) to this table), and the information is not necessarily indicative of beneficial ownership for any other purpose. We believe that each individual or entity named has sole investment and voting power with respect to the securities indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted.

The following table assumes that all common shares registered under this prospectus are issued to the selling shareholders, with the exception of the pool of 200,000 common shares issuable by the company with respect to the prospective issuance and conversion of up to 200,000 additional series A preferred shares as a dividend payable in kind in satisfaction of dividends that may accrue after December 31, 2004 on series A preferred shares then outstanding. The aforesaid 200,000 common shares are not reflected in the table insofar as the number of underlying series A preferred shares that would be paid as a dividend in kind cannot yet be determined, and the selling shareholders who would receive those underlying shares cannot yet be identified, although we have included al l current series A shareholders who might receive those underlying shares in the table. The following table will be updated by supplemental filings to this prospectus to reflect the number of shares attributable to those recipients when the underlying series A preferred shares are issued. As a consequence, while 1,368,281 common shares are registered under this prospectus, the following table reflects only 1,168,281 of those shares.

The total number of common shares sold under this prospectus may be adjusted to reflect adjustments due to (1) stock splits, stock dividends, stock distributions, combinations, recapitalizations or similar transactions or (2) the triggering of standard weighted-average and other anti-dilution protective provisions.

The selling shareholders are under no obligation to sell all or any portion of the common shares offered for sale under this prospectus. Accordingly, no estimate can be given as to the amount or percentage of our common shares that will ultimately be held by the selling shareholders upon termination of sales pursuant to this prospectus.

Unless otherwise stated below, to our knowledge no selling shareholder nor any of affiliate of such shareholder has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus. To our knowledge, the only selling shareholders who are a broker-dealer or an affiliate of a broker-dealer within the meaning of Rule 405 are Maxim Group, LLC and Jenkins Capital Management, LLC.

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	Common Shares Owned or Acquirable Before Sales (1)							Common Shares Owned or Acquirable After Sales (2)	
Selling Shareholder	**Held Outright**	**Underlying Conver-tible Debenture**	**Underlying Series A Prefered Shares**	**Underlying Options And Warrants**	**Total**	**%**	**Common Shares Offered For Sale**	**Number**	**%**
Allen, Bernd	8,334		371	4,167	12,872	*	371	12,501	*
Anszelowicz, Marcos	16,667		621	8,334	25,622	*	621	25,001	*
Anthony Polak, IRA			766	8,334	9,100	*	766	8,334	*
Anthony Polak S Account			766		766	*	766	0	*
Asher, Donald	33,334		2,865	16,667	52,866	*	2,865	50,001	*
Axius Holdings, LLC (3)	8,333		726	1	9,060	*	726	8,334	*
Banks, Jamie			4,570	2,084	6,654	*	403	6,251	*
Bergman, Ronald			6	4,167	4,173	*	6	4,167	*
Berkowitz, Steven and Pamela	3,334		755	4,167	8,256	*	755	7,501	*
Binder, Hermann	8,334		706	4,167	13,207	*	706	12,501	*
Brazier, Stephen	8,334		706	4,167	13,207	*	706	12,501	*
Burdick, Kenneth and Denise	8,334		371	4,167	12,872	*	371	12,501	*
Catherine Polak Trust			766	4,167	4,933	*	766	4,167	*
Chasanoff, Teddy			766	4,167	4,933	*	766	4,167	*
Chatpar, Prem C.			31	8,334	8,365	*	31	8,334	*
Chatwin, Michael			18,341	8,334	26,675	*	1,674	25,001	*
Clarke, Kevin			741	4,167	4,908	*	741	4,167	*
Coy, Geoffrey	8,334		702	4,167	13,203	*	702	12,501	*
Damaco Venture			725	4,167	4,892	*	725	4,167	*

Capital (4)									
D Amato, Alfonse	34		1,413	16,667	18,114	*	1,413	16,701	*
Dean Erickson Irrevocable Trust	16,667		667	8,334	25,668	*	667	25,001	*
Doubovik, Alexei and Filek, Tatyana	4,166		702	4,168	9,036	*	702	8,334	*
DKR SoundShore Oasis Holding Fund Ltd. (5)		761,904		275,000	1,036,904	2.9%	1,036,904		*
Englebert, Mark			766	4,167	4,933	*	766	4,167	*
Equity Interest Inc. (4)			766	4,167	4,933	*	766	4,167	*
Ferrari, Michael	4,167		200	2,084	6,451	*	200	6,251	*
Fixel, Arthur and Deborah	8,334		355	4,167	12,856	*	355	12,501	*
Fountain, Derward G.			6	4,167	4,173	*	6	4,167	*
Fryer, Leonard and Michael Ann	12,000		553	6,000	18,553	*	553	18,000	*

Selling Shareholder	Common Shares Owned or Acquirable Before Sales (1)						Common Shares Offered For Sale	Common Shares Owned or Acquirable After Sales (2)	
	Held Outright	Underlying Conver-tible Debenture	Underlying Series A Prefered Shares	Underlying Options And Warrants	Total	%		Number	%
Garfinkle, Arthur	8,333		1,493	8,334	18,160	*	1,493	16,667	*
Ghauri, Najeeb			9,157	4,167	13,324	*	823	12,501	*
Goodge, Genevieve R.	2,083		96	1,042	3,221	*	96	3,125	*
Greenbaum, Leonard	6,667		1,727	8,334	16,728	*	1,727	15,001	*
Grodko, Allen	2,083		366	1	2,450	*	366	2,084	*
Grodko, Jeffrey	2,083		366	1	2,450	*	366	2,084	*
Gross, John			725	4,167	4,892	*	725	4,167	*
Guirguis, Allen B.			36,626	16,667	53,293	*	3,292	50,001	*
Haddad, Charles			18,328	8,334	26,662	*	1,660	25,002	*
Halikas, James	16,667		1,412	8,334	26,413	*	1,412	25,001	*
Halpern, Bart	16,667		741	8,334	25,742	*	741	25,001	*
Harley, Michael	33,334		3,044	16,667	53,045	*	3,044	50,001	*
Hight, Randall			766	4,167	4,933	*	766	4,167	*
Himpele, Richard	8,334		386	4,167	12,887	*	386	12,501	*
Jack Polak IRA			766	4,167	4,933	*	766	4,167	*
Jenkins Capital Management, LLC (5)				12,506	12,506	*		12,506	
Jegou, Peter J.	3,333		154	1,667	5,154	*	154	5,000	*
John O Neal Johnston Trust	4,167		183	2,084	6,434	*	183	6,251	*
Judith T. Huff Revocable Living Trust	4,167		420	2,084	6,671	*	420	6,251	*
Kamins, David	4,167		224	2,084	6,475	*	224	6,251	*
Kaufman, Robert			1,618	8,334	9,952	*	1,618	8,334	*
Kennan, Christopher	16,667		800	8,334	25,801	*	800	25,001	*
Kent, Richard			12,772	21,667	34,439	*	2,772	31.,667	*
Laden, Susan			6	4,167	4,173	*	6	4,167	*
Landing Wholesale Group (7)			6	3,334	3,340	*	6	3,334	*
Largarticha, Richard C.	16,667		621	8,334	25,622	*	621	25,001	*
Long, Leo	41,668		3,120	20,834	65,622	*	3,120	62,502	*
Margrit Polack S Account			766	4,167	4,933	*	766	4,167	*
Marotta, Joseph and Nancy	8,334		706	4,167	13,207	*	706	12,501	*
Maxim Group, LLC (8)				256,433	256,433	*		256,433	*
McClure, Ian			9,171	4,167	13,338	*	837	12,501	*

Selling Shareholder	Common Shares Owned or Acquirable Before Sales (1)						Common Shares Offered For Sale	Common Shares Owned or Acquirable After Sales (2)	
	Held Outright	Underlying Conver-tible Debenture	Underlying Series A Prefered Shares	Underlying Options And Warrants	Total	%		Number	%
Morgan Witt Alliance (9)	233,338		15,982	158,337	407,657	1.2%	15,982	391,675	1.1%
O Silver, Arthur, Trustee of the Arthur O Silver Trust	16,667		1,287	8,334	26,288	*	1,287	25,001	*
Otape Investments LLC (10)			91,403	41,668	133,071	*	8,068	125,003	*
Pearlmutter, Lee	8,334		355	4,167	12,856	*	355	12,501	*
Polak, Fred			766	4,167	4,933	*	766	4,167	*
Richard Wallace IRA			400	4,167	4,567	*	400	4,167	*
Richman, Catherine M.			90	1,250	1,340	*	90	1,250	*
Richman, Joseph			149	2,084	2,233	*	149	2,084	*
RL Capital Partners (11)			3,183	16,667	19,851	*	3,184	16,667	*
Robinson, Jeffrey			7	4,167	4,174	*	7	4,167	*
Ron Lazar IRA			1,564	8,334	9,898	*	1,564	8,334	*
Rosenberg, Leslie and Sybil			782	4,167	4,949	*	782	4,167	*
Rosenberg, Robert	16,667		1,433	8,334	26,434	*	1,433	25,001	*
Rothschild, Jonathan			9,141	4,167	13,308	*	807	12,501	*
Ryan, Earl James			9,171	4,167	13,338	*	837	12,501	*
Saker, Wayne			2,814	16,667	19,481	*	2,814	16,667	*
Sander, Bella			371	4,167	4,538	*	371	4,167	*
Savey, W. R.	33,334		2,880	16,667	52,881	*	2,880	50,001	*
Sands Brothers Venture Capital LLC (12)			1,569	8,334	9,903	*	1,569	8,334	*
Sands Brothers Venture Capital II LLC (12)			1,569	8,334	9,903	*	1,569	8,334	*
Sands Brothers Venture Capital III, LLC (12)			7,944	41,668	49,612	*	7,944	41,668	*
Sands Brothers Venture Capital IV LLC (12)			3,137	16,667	19,804	*	3,137	16,667	*
SB Mechanical Associates LLC (12)			1,569	8,334	9,903	*	1,569	8,334	*
Shaw, Sr., Roy G.			18,313	8,334	26,647	*	1,646	25,001	*
Stadmauer, Gary			766	4,167	4,933	*	766	4,167	*
Stadmauer, Murray and Clare			76	4,167	4,933	*	766	4,167	*
Stone, Michael			1,467	16,667	18,134	*	1,467	16,667	*

	Common Shares Owned or Acquirable Before Sales (1)							Common Shares Owned or Acquirable After Sales (2)	
Selling Shareholder	Held Outright	Underlying Conver-tible Debenture	Underlying Series A Prefered Shares	Underlying Options And Warrants	Total	%	Common Shares Offered For Sale	Number	%
Tarica, Michele			766	4,167	4,933	*	766	4,167	*
Vallarino, Vincent			12,472	5,667	18,139	*	1,138	17,001	*
Van Emon, Peter	5,333		154	1,667	7,154	*	154	7,000	*
Viney, John			10,104	50,001	60,105	*	10,104	50,001	
Wallace, Richard	12,501		584	6,251	19,336	*	584	18,752	*
Warner, Larry and Rebecca			4,578	2,084	6,662	*	411	6,251	*
Weinger, Jerold			3,147	16,667	19,814	*	3,147	16,667	*
William Peterson Living Trust			725	4,167	4,892	*	725	4,167	*
Wolkowicki, Shimon	4,166		702	4,168	9,036	*	702	8,334	*
Young, Jonathan			18,313	8,334	26,647	*	1,646	25,001	*
Total	674,467	761,904	377,719	1,411,281	3,225,371	9.2%	1,168,281	2,057,090	5.9%

* Less than one percent.

(1) Pursuant to Rules 13d-3 and 13d-5 of the Exchange Act, beneficial ownership includes any common shares as to which a shareholder has sole or shared voting power or investment power, and also any common shares which the shareholder has the right to acquire within 60 days, including upon exercise of common shares purchase options or warrant or conversion of series A preferred shares. There were 34,860,068common shares outstanding as of January 6, 2005.

(2) Assumes the sale of all common shares offered under this prospectus.

(3) Mr. Henry Robertelli is the controlling person of Axius Holdings, LLC.

(4) Mr. Jack Polak is the controlling person of Damaco Venture Capital and Equity Interest Inc.

(5) Mr. Bradford L. Caswell is the controlling person of DKR SoundShore Oasis Holding Fund Ltd.

(6) Mr. Dave Jenkins is the controlling person of Jenkins Capital Management, LLC.

(7) Mr. Andrew Bello is the controlling person of Landing Wholesale Group.

(8) Mr. Michael Rabinowitz is the controlling person of the Maxim Group LLC.

(9) Mr. Edward Witt is the controlling person for Morgan Witt Alliance.

(10) Mr. James W. Santori is the controlling person of Otapi Investments LLC.

(11) Mr. Ron Lazar is the controlling person of RL Capital Partners.

(12) Mr. Martin Sands is the controlling person of Sands Brothers Venture Capital LLC, Sands Brothers Venture Capital II, LLC, Sands Brothers Venture Capital III, LLC, Sands Brothers Venture Capital IV, LLC, and SB Mechanical Associates LLC.

(13) Includes (1) 380,952 common shares issuable by the company upon the prospective conversion, at the election of the debenture holder, of the full $2,000,000 in principal due under the convertible debenture; and (2) an additional 380,952 common shares issuable by the company with respect to any of the following: (i) the prospective conversion, at the election of the company, of principal under the aforesaid convertible debenture at a lower conversion price than that afforded to the debenture holder; and/or (ii) the prospective payment by the company in the form of common shares of interest, penalties and/or damages that may accrue under the

debenture and/or warrants. With respect to the category of shares described in subparagraph (ii), all of those shares have been allocated to that column as a matter of convenience. In the event of the actual issuance of common shares to satisfy penalties and/or damages under the warrants, those shares will be reallocated to the column of this table captioned Underlying Convertible Debenture Warrants .

REGISTRATION RIGHTS

On December 29, 2004, we sold an 8% convertible debenture in the amount of $2,000,000 to DKR SoundShore Oasis Holding Fund Ltd. For so long as the debenture is unpaid, the debenture holder is entitled to convert the debenture into a number of common shares equal to the outstanding principal on the debenture divided by $5.25, such amount representing 105% of the closing price for our common shares on the trading day prior to the sale of the debenture. We also have the right to pay the principal and interest on the debenture in common shares in lieu of cash provided that we first register those shares with the SEC, are not otherwise in default under the debenture, and have satisfied certain other conditions including notice requirements. Should we elect to make payment in common shares, the principal and interest under the debenture subject to conversion would be convertible into those shares at the rate of 85% of the average of the three lowest closing prices for those shares during the ten day period prior to the repayment date. If we only elect to pay interest with common shares, the conversion rate shall be fixed at 90% of the closing price immediately prior to the payment or delivery date. As additional consideration for the purchase of the debenture, we also granted to the debenture holder warrants entitling it to purchase 275,000 common shares at the price of $5.75 per share, or 115% of the closing price for those shares on the trading day prior to the sale of the debenture. These warrants lapse if unexercised by December 29, 2009. The debenture and warrants are subject to standard weighted-average and anti-dilution protection for issuances of securities below the conversion price.

As part of the private placement, we entered into a registration rights agreements with the debenture and warrant holder under which we would register the common shares issuable upon conversion of the debenture by the debenture holder or the exercise of the warrants by the warrant holder, plus an additional amount of shares equal to the number of shares issuable upon conversion of the debenture by the debenture holder sufficient to satisfy the issuance of common shares issuable in payment of interest, penalties or damages, or pursuant to the weighted-average and anti-dilution provisions contained in the debenture or warrants. In the event of our failure to file a registration statement with the SEC by January 31, 2005, or in the event such registration statement is filed but is not declared effective by the SEC by April 30, 2005, the company will be obligated to pay the debenture holder liquidated damages in cash in the amount of $40,000 per month until such event of default is cured. This obligation shall cease in the event of the sale by the debenture holder of the common shares, or in the event that the debenture holder may rely upon Rule 144(k) to sell the shares, or may otherwise rely upon Rule 144 to sell the shares free of any volume restrictions. Further, in the event the common shares underlying the warrant are not registered with the SEC on or before December 29, 2005, the warrant holder shall be entitled to cashless exercise rights at the average closing price for company common shares for the five trading days preceding the exercise of those rights.

The other common shares registered for sale under this prospectus have been registered by the company voluntarily.

PLAN OF DISTRIBUTION

Each selling shareholder and any of their pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their common shares offered for sale under this prospectus on the OTCBB or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling shareholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the date of this prospectus;
- broker-dealers may agree with the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. Each selling shareholder does not expect these commissions and discounts relating to its sales of shares to exceed what is customary in the types of transactions involved.

In connection with the sale of the common shares offered by this prospectus or interests therein, the selling shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the shares in the course of hedging the positions they assume. The selling shareholders may also sell the common shares short and deliver these securities to close out their short positions, or loan or pledge the shares to broker-dealers that in turn may sell these securities. The selling shareholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of common shares offered by this prospec tus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling shareholders and any broker-dealers or agents that are involved in selling the common shares offered by this prospectus may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling shareholder has informed us that he or she does not have any agreement or understanding, directly or indirectly, with any person to distribute the common shares offered by this prospectus.

We are required to pay certain fees and expenses incident to the registration of the common shares offered by this prospectus. We have also agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act 0f 1933.

Because the selling shareholders may be deemed to be underwriters within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of that Act. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. Each selling shareholder has advised us that they have not entered into any agreements, understandings or arrangements with any underwriter or broker-dealer regarding the sale of the resale shares. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling shareholders.

We have agreed to keep this prospectus effective until the earlier of (1) the date on which the common shares offered under this prospectus may be resold by the selling shareholders without registration and without regard to any volume limitations by reason of Rule 144(e) under the Securities Act or any other rule of similar effect, or (2) all of those shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common shares offered under this prospectus for a period of two business days prior to the commencement of the distribution. In addition, the

selling shareholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common shares by the selling shareholders or any other person. We will make copies of this prospectus available to the selling shareholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.< /DIV>

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the penny stock rules. The penny stock rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors, generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser s written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer m ust deliver, before the transaction, a disclosure schedule prescribed by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell the common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On December 1, 2003, we dismissed our independent auditor, Burnett + Company, LLC, and on December 2, 2003, we engaged Stonefield Josephson, Inc. as our independent auditor for the fiscal year ending December 31, 2003. The decision to dismiss Burnett + Company was approved by our board of directors.

Burnett + Company s reports on our financial statements as of and for the years ended December 31, 2002 and December 31, 2001 did not contain an adverse opinion or a disclaimer of opinion, nor were they modified as to uncertainty, audit scope, or accounting principles. During the periods ended December 31, 2001 and December 31, 2002, and the interim period from January 1, 2003 through the date of Burnett + Company s dismissal, we did not have any disagreements with Burnett + Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Burnett + Company s satisfaction, would have caused it to make a reference to the subject matter of the disagreements in c onnection with its reports.

Prior to engaging Stonefield Josephson, we did not consult with Stonefield Josephson regarding the application of accounting principles to a specified completed or contemplated transaction or the type of audit opinion that might be rendered on our financial statements.

TRANSFER AGENT

The transfer agent for our common shares is Atlas Stock Transfer Corporation, 5899 South State Street, Salt Lake City, Utah 84107. We act as our own transfer agent with regard to our series A preferred shares and our outstanding common share purchase options and warrants.

LEGAL MATTERS

The validity of the issuance of the common shares to be sold by the selling shareholders under this prospectus and the underlying series A preferred shares and class C common share purchase warrants was passed upon for our company by John M. Woodbury, Jr., Esq.

EXPERTS

The financial statements included in this prospectus have been audited by Stonefield Josephson, Inc., independent certified public accountants to the extent and for the periods set forth in their report appearing elsewhere herein and are included in reliance upon such report given upon the authority of that firm as experts in auditing and accounting.

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 Incorp oration are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act 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. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement on form SB-2 we have filed with the SEC. This prospectus does not contain all of the information set forth in that registration statement and the exhibits and schedules filed therewith because that information has been omitted from this prospectus in accordance with the SEC s rules and regulations. You should refer to that registration statement and those exhibits and schedules for further information regarding our company and the common shares to be offered and sold under this prospectus. Please also note that any statements or descriptions contained in this prospectus relating to the contents of any contract or other document are not necessarily complete, and those statements or descriptions are qualified in all respects to the underlying contract or document in each instance where it is filed as an exhibit to the registration statement.

You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. Neither the delivery of this prospectus nor any sale or distribution made under this prospectus shall, under any circumstances, create any implication that information contained in this prospectus is correct as of any time subsequent to the date of this prospectus.

We are also a voluntary reporting company under Section 15(d) of the Securities Act and, as such, voluntarily file annual reports on form 10-KSB, quarterly reports on form 10-QSB, proxy statements and other reports, statements and information with the SEC prepared in accordance with the requirements of the Exchange Act. While we mail our annual proxy materials and annual reports on form 10-KSB to our shareholders prior to our annual meeting of shareholders, we do not mail any other periodic reports and other information to our shareholders other than in response to specific requests for these materials.

You may review and print-out the registration statement containing this prospectus as well as any other reports and statements we may file with the SEC through its website at http://www.sec.gov. You may also inspect and copy any document we file with the SEC at its public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. For obtain information about these references rooms you should call the SEC at 1-800-SEC-03 30.

You may also request a copy of any document we file with the SEC, at no cost, by either writing us at our principal executive offices located at 4705 Laurel Canyon Boulevard, Suite 203, Studio City, California 91607; telephoning us at (818) 432-4560; or e-mailing your request to info@recom-systems.com. Selected documents we file with the SEC are also available for print-out in pdf format on our corporate website at www.recom-systems.com.

RECOM MANAGED SYSTEMS, INC.

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2003

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board Of Directors And Stockholders Of Recom Managed Systems, Inc.
Studio City, California

We have audited the accompanying balance sheet of Recom Managed Systems, Inc. as of December 31, 2003 and the related statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2003 and from inception of development stage (November 7, 2000) to December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that the Company plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Recom Managed Systems, Inc. as of December 31, 2003 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003 and from inception of development stage (November 7, 2000) to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Stonefield Josephson, Inc.

Stonefield Josephson, Inc.
Certified Public Accountants

January 30, 2004

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
BALANCE SHEET
December 31, 2003

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	3,957,720
Prepaid expenses		130,749
Total current assets		4,088,469
Property, plant and equipment, net of accumulated depreciation of $39,751		169,299
Intangible patents, net of accumulated amortization of $11,146		157,828
TOTAL ASSETS	$	4,415,596
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	158,282
Accrued dividend payable		107,575
Accrued expenses		324,999
Total current liabilities		590,856
STOCKHOLDERS EQUITY		
Series A convertible preferred stock, $.001 par value; 10,000,000 shares authorized; 1,792,975 shares issued and outstanding		1,793
Common stock, $.001 par value; 100,000,000 shares authorized; 32,993,912 shares issued and outstanding		32,993
Additional paid-in capital		11,477,573
Deferred compensation		(232,020)
Deficit accumulated during development stage		(7,455,599)
TOTAL STOCKHOLDERS EQUITY		3,824,740
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	4,415,596

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
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
	2003	2002	Dec. 31, 2003
Revenue	$	$	$
Research and development	497,631	67,500	565,131
General and administrative expenses	4,813,746	144,454	5,044,873
Total expense	5,311,377	211,954	5,610,004
Provision for income taxes			
Net loss	$ (5,311,377)	$ (211,954)	$ (5,610,004)
Preferred dividend	1,953,170		1,953,170
Net loss attributed to common stockholders	$ (7,264,547)	$ (211,954)	$ (7,563,174)
Basic and diluted loss per share	$ (0.17)	$ (0.02)	$ (0.37)
Basic and diluted loss per share attributed to common stockholders	$ (0.23)	$ (0.02)	$ (0.49)
Weighted average shares outstanding basic and diluted	31,765,404	11,609,162	15,311,041

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

RECOM MANAGED SYSTEMS, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS EQUITY
From Inception Of Development Stage (November 7, 2000) To 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				
2000:								
Balance November 7, 2000 (as restated for 3:1 stock split)	4,139,784	$ 4,139		$	$ (4,139)	$	$	$
Contributed capital					35,000			35,000
Net loss							(36,673)	(36,673)
Balance December 31, 2000	4,139,784	4,139			30,861		(36,673)	(1,673)
2001:								
Capital contributed					45,000			45,000
Shares issued for services July 2001 $0.033	150,000	150			4,850			5,000
Net loss							(50,000)	(50,000)
Balance December 31, 2001	4,289,784	4,289			80,711		(86,673)	(1,673)
2002:								
Capital contributed					56,400			56,400
Warrants issued for cash					125,000			125,000
Issuance of common stock for:								
Technology Sept. 2002 $0.006	23,400,000	23,400			54,623			78,023
Services rendered Oct. 2002 $0.021	2,925,000	2,925			17,958	(19,678)		1,205
Cash Oct 2002 $0.03	564,810	565			17,221			17,786
Cash Nov 2002 $2.66	71,250	71			189,929			190,000
Contributed services officer					20,000			20,000

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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)

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 tonet 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		1,388,503
Options and warrants issued for services and financing	2,089,546	5,324	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

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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 curtained 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 accounts.

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% to3.13%; (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)	-
Pro forma net loss	$ (6,003,842)	$ (211,954)
Basic and diluted historical loss per share	$ (0.17)	$ (0.02)
Pro forma basic and diluted loss per share	$ (0.19)	$ (0.02)

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 31,2003**
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%

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.

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 AverageExercise 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 AverageExercise 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 employee s, 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.

RECOM MANAGED SYSTEMS, INC.

NINE-MONTH INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	1,583,697
Prepaid expenses and other current assets		38,105
Total current assets		1,621,802
Property, plant and equipment, net of accumulated depreciation of $82,920.		159,274
Intangibles - patents, net of accumulated amortization of $19,506		261,029
TOTAL ASSETS	$	2,042,105
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	476,520
STOCKHOLDERS EQUITY		
Series A convertible preferred stock, $.001 par value; 10,000,000 shares authorized; 1,042,204 shares issued and outstanding		1,042
Common stock, $.001 par value; 100,000,000 shares authorized; 33,853,112 shares issued and outstanding		33,853
Additional paid-in capital		13,780,804
Deferred compensation		(8,009)
Deficit accumulated during development stage		(12,242,105)
TOTAL STOCKHOLDERS EQUITY		1,565,585
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	2,042,105

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 Nine Months Ended September 30, 2004 And 2003 And From Inception Of Development Stage (November 7, 2000) To September 30, 2004

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		From Inception of Development Stage (Nov. 7, 2000 To September 30, 2004
	2004	2003	2004	2003	
Revenue	$	$	$	$	$
Research and development	448,078	85,161	880,523	166,910	1,445,654
General and administrative expenses	909,310	827,416	3,905,983	3,262,176	8,950,856
Total expense	1,357,388	912,577	4,786,506	3,429,086	10,396,510
Loss before income taxes	(1,357,388)	(912,577)	(4,786,506)	(3,429,086)	(10,396,510)
Provision for income taxes					
Net loss	$ (1,357,388)	$ (912,577)	$ (4,786,506)	$ (3,429,086)	$ (10,396,510)
Preferred dividend	68,258		246,962		2,200,132
Net loss attributable to common stockholders	$ (1,425,646)	$ (912,577)	$ (5,033,468)	$ (3,429,086)	$ (12,596,642)
Basic and diluted loss per share attributable to common stockholders	$ (0.04)	$ (0.03)	$ (0.14)	$ (0.11)	$ (0.55)
Basic and diluted loss per share to common stockholders	$ (0.04)	$ (0.03)	$ (0.15)	$ (0.11)	$ (0.67)
Weighted average shares outstanding basic and diluted	33,758,040	31,781,529	33,419,220	31,524,884	18,797,489

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

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

	Common Stock Shares	Amount	Series A Convertible Preferred Stock Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	From Inception (Nov. 7, 2000) To September 30, 2004
2000:								
Balance November 7, 2000 (as restated for 3:1 stock split)	4,139,784	$ 4,139		$	$ (4,139)	$	$	$
Contributed capital					35,000			35,000
Net loss							(36,673)	(36,673)
Balance December 31, 2000	4,139,784	4,139			30,861		(36,673)	(1,673)
2001:								
Capital contributed					45,000			45,000
Shares issued for services July 2001 - $0.033	150,000	150			4,850			5,000
Net loss							(50,000)	(50,000)
Balance December 31, 2001	4,289,784	4,289			80,711		(86,673)	(1,673)
2002:								
Capital contributed					56,400			56,400
Warrants issued for Cash					125,000			125,000
Issuance of common stock for:								
Technology - Sept. 2002 - $0.006	23,400,000	23,400			54,623			78,023
Services rendered - Oct. 2002 - $0.021	2,925,000	2,925			17,958	(19,678)		1,205
Cash - Oct 2002 - $0.03	564,810	565			17,221			17,786
Cash - Nov 2002 - $2.66	71,250	71			189,929			190,000
Contributed services - officer					20,000			20,000

Warrants issued for services				5,324			5,324
Net loss						(211,954)	(211,954)
Balance December 31, 2002	31,250,844	$ 31,250	$	$ 567,166	$ (19,678)	$ (298,627)	$ 280,111

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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 September 30, 2004
(Continued)

	Common Stock Shares	Common Stock Amount	Series A Preferred Stock Shares	Convertible Stock Amount	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	From Inception (Nov. 7, 2000) To September 30, 2004
2003:								
Issuance of common stock for cash and contributed property - April 2003 - $2.22	112,812	$ 113		$	$ 249,887	$	$	$ 250,000
Issuance of common stock for cash:								
May 2003 - $3.00	82,667	83			247,917			248,000
May 2003 - $3.33	75,075	75			249,925			250,000
Issuance of common stock for services:								
April 2003 - $2.80	147,192	147			411,654			411,801
April 2003 - $3.15	11,045	11			34,780			34,791
July 2003 - $3.67	111,625	112			410,192			410,304
August 2003 - $3.68	33,188	33			121,103			121,136
September 2003 - $3.77	24,292	24			91,673			91,697
October 2003 - $4.78	15,385	15			73,525			73,540
November 2003 - $3.65	18,834	19			68,783			68,802
December 2003 - $3.60	5,953	6			21,425			21,431
Cashless exercise of warrants	1,105,000	1,105			(1,105)			
Contributed services - officer					80,000			80,000
Employee stock options issued below market					38,400			38,400
Amortization of deferred compensation						6,668		6,668
Warrants issued for:								

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

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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 September 30, 2004
(Continued)

	Common Stock Shares	Common Stock Amount	Series A Convertible Preferred Stock Shares	Series A Convertible Preferred Stock Amount	Additional Paid-in Capital	Deferred Compensation	Deficit Accumulated During Development Stage	From Inception (Nov. 7, 2000) To September 30, 2004
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:								