COMPUMED INC
Form 10KSB
December 24, 2003

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

FORM 10-KSB

(MARK ONE)

X ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-14210

COMPUMED, INC.
(Name of Small Business Issuer in Its Charter)

DELAWARE	95-2860434
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

5777 WEST CENTURY BLVD., SUITE 1285, LOS ANGELES, CA	90045
(Address of principal executive offices)	(Zip Code)

(310) 258-5000
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $.01 PAR VALUE
Title of Class

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months), and (2) has been subject to such filing requirements for the past 90 days. X YES NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. X

State the issuer's revenues for its most recent fiscal year: $1,811,000.

As of December 12, 2003, 17,951,034 common shares were outstanding and the aggregate market value of the common shares (based upon the average bid and asked prices on such date) of the Registrant held by non-affiliates was approximately $6,911,148.

Documents incorporated by reference: None

Transitional Small business issuer Formal: YES X NO

PART I

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

We are including the following cautionary statement in this Annual Report on Form 10-KSB to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical facts. From time to time, we may make written or oral statements that are forward-looking including statements contained in this report and other filings with the Securities and Exchange Commission. These forward-looking statements are principally contained in the sections captioned "Business" and "Management's Discussion and Analysis of Operations". In those and other portions of this Form 10-KSB, the words "anticipates", "believes," "estimates," "seeks," "expects," "plans," "intends" and similar expressions as they relate to us or our management are intended to identify forward-looking statements. All such forward-looking statements are expressly qualified by these cautionary statements.

Forward-looking statements involve risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The forward-looking statements contained herein are based on various assumptions, many of which are based, in turn, upon further assumptions. Our expectations, beliefs and forward-looking statements are expressed in good faith on the basis of management's views and assumptions as of the time the statements are made, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished.

In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements: technological advances by our competitors, the impact of competition, dependence on key employees and the need to attract new management, effectiveness and costs of sales and marketing efforts, acceptance of product offerings, ability to expand into new markets, the risks of patent claims or other third party liability, and the risks of launching a new product or service, such as our Osteogram (R) test, changes in health care regulation, including reimbursement programs, capital needs to fund any delays or extensions of research programs and the availability of capital on terms satisfactory us. We do not intend to update any forward-looking statements to reflect events or circumstances after the date hereof.

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

CompuMed, Inc. ("we", "our", the "Company" or "CompuMed") is a healthcare

informatics company that provides medical imaging software solutions and the remote interpretation of electrocardiograms (ECGs). Our two main products are the Osteogram (R) and CardioGram systems. The Osteogram (R) is our proprietary image processing software that utilizes standard or digital x-rays of the hand to screen, diagnose and monitor osteoporosis, a disease that affects over an estimated 200 million people worldwide. The CardioGram consists of computer-aided telemedicine services that offer on-line interpretation of ECGs to physicians and government and corporate healthcare providers. We incorporated in the State of Delaware on July 21, 1986.

RECENT EVENTS

During fiscal 2003 we changed the strategic direction for the Osteogram (R) product. We believe that the future of the underlying technology is in the development of medical software applications for digital (filmless) imaging equipment, which is a high growth segment of the medical imaging field. The digital or DICOM (Digital Communications and Imaging in Medicine) standards-based version of the Osteogram (R) is the first CompuMed product in this emerging arena. Our R&D team has a number of other applications in development and on the drawing board in the areas of bone disease, dental disease and specific cancers. This year we pursued distribution and product development partnerships with imaging equipment manufacturers, and we expect that these initiatives will bear fruit in the near future. We have also expanded our international distribution through country-specific distributors. These distributors are obtaining the necessary regulatory approvals and gearing up their marketing efforts.

In fiscal 2003 we directed our ECG business towards strengthening our relationships with key customers. In addition, we are exploring a number of business development prospects to expand our service offering to the international markets. Our CardioGram team is evaluating new ECG platforms to exploit these opportunities.

THE OSTEOGRAM (R)

GENERAL

The Osteogram (R) is a software-based image processing system that enables healthcare providers to screen, diagnose and monitor osteoporosis using conventional, film-based hand x-rays or digital images from filmless x-ray equipment. Osteoporosis is diagnosed by measuring bone mineral density (BMD). A low BMD is indicative of the disease. The Osteogram (R) uses Radiographic Absorptiometry (RA) to measure bone mineral density. The practical implementation of the Radiographic Absorptiometry technique began in the early 1980's. We applied several enhancements to the technique in the early 1990's, and in the middle of that decade, we made the Osteogram (R) test available to doctors as a central-lab-based service. This required that the hand x-ray films be mailed by the healthcare provider to a special laboratory for analysis by skilled technicians. The technology was validated in this era by a number of peer-reviewed publications, and it was widely utilized by Merck and Company during clinical trials for their osteoporosis drug- Fosamax.

In May 1999, we received clearance from the United States Food and Drug Administration (FDA) to market an automated version of the Osteogram (R) software for use as a stand-alone product by physicians. We are currently launching the DICOM (Digital Imaging and Communications in Medicine) or digital version of the product. Using standard or digital x-ray equipment, two posterior-anterior views of the left-hand fingers are taken with an aluminum alloy reference wedge in each exposure. The calibration wedge is used to adjust for any differences among x-ray equipment, exposures and other variables. In the case of the PC version of the Osteogram (R) , the developed film is scanned with a standard desktop scanner, and the Osteogram (R) software analysis program

rapidly produces an accurate and precise BMD report. With a filmless x-ray system the image is captured on a workstation for analysis. CompuMed recently developed the DICOM-compliant version of the Osteogram (R) for use on filmless systems, which have become a high growth segment in the medical imaging market. As digital radiography systems proliferate, the need grows for systems and networks to communicate and efficiently move/archive images. DICOM is the industry-consortium established information standard that allows the new generation of digital medical imaging equipment to interconnect.

The foremost market opportunity that we have identified for our Osteogram (R) is the market for filmless x-ray systems. Our application can reside on a workstation, just like Microsoft Word on a PC. There is no need for an additional piece of equipment or a redundant computer. Clinicians can launch the Osteogram (R) application and diagnose osteoporosis at the same time an x-ray is taken for a bone fracture, making it far easier to implement and use than expensive dual x-ray absorptiometry (DXA) equipment that requires a dedicated room and specially trained technicians who are usually not available around the clock.

STRATEGIC PARTNERSHIPS

Cost-effective distribution is a crucial component of our Osteogram (R) strategy. One of our goals is to establish distribution and product development partnerships with the major manufactures of digital imaging platforms and network servers, and a number of these companies are evaluating our software. We expect this process to continue, and it is likely that smaller, nimbler firms will initially commit. A second part of our strategy is to utilize experienced imaging distributors both in the domestic and international market. We made a presentation at the September 2003 national sales meeting of National Imaging Resources (NIR), a prominent consortium of regional imaging distributors, and we hope to establish relationships with many of their member firms. NIR's focus on selling capital equipment, combined with their commitment to serve the market for digital radiography and PACS network servers, compliments our strategy to develop digital applications for the medical imaging field.

Our efforts in the international arena continue. Rather than build our own global sales force, we use existing distribution channels that include a mix of manufacturers' direct sales representatives and local distributors. New distributors are expected to become productive after they meet their country-specific regulatory requirements. During this fiscal year we strengthened our distribution in China, while adding new distributors in Korea, Israel, Egypt, India and Brazil. The member countries to the European Union (EU) are of particular interest, since their conversion to filmless x-ray systems is far ahead of the U.S. market. In order to enter the EU we will need to have a CE Mark, indicating that we have conformed to all the regulatory obligations required by EU legislation. Our technical staff has been working to meet the requirements soon after this year's Medica in November. Located in Dusseldorf, Germany, Medica is the world's largest all-medical trade show, attended by most of the major EU distributors. We are also seeking wider distribution in select areas of Latin America and the Middle East.

RESEARCH & DEVELOPMENT

We continue to invest in research and development efforts for the Osteogram (R) technology by developing new applications and filing key patents to protect our intellectual property rights. Our DICOM version of the Osteogram (R) was essentially completed by the end of fiscal 2003; however, it must be modified to function with each manufacturer's digital system. We have agreed to a clinical trial to validate the DICOM product on one leading manufacturer's system that will likely be completed by the end of December 2003. In addition, we have filed an application for an SBIR (Small Business Innovative Research) grant to help fund our efforts to follow the progression of arthritic disease.

OSTEOPOROSIS

Osteoporosis is a disease characterized by low bone mass and structural deterioration of tissue leading to bone fragility and an increased susceptibility to fractures of the hip, spine and wrist. While there is increased global awareness of osteoporosis, the disease is under-diagnosed and under-treated.

According to the International Osteoporosis Foundation (IOF), osteoporosis affects over 200 million people worldwide, 80% of which are women. Osteoporosis is a major public health threat for 44 million Americans, and the disease costs the U.S. healthcare system in excess of $17 billion annually, compared to breast cancer at $6 billion. In fact, more people die as a result of osteoporosis-related fractures each year than die from breast cancer.

In July 2002 the National Institutes of Health (NIH) halted a large, in-progress study examining the effects of hormone replacement therapy (HRT). The study, which was one of the five major studies that comprise the large clinical trial called the Women's Health Initiative (WHI), was discontinued because the hormones appeared to increase a woman's risk of breast cancer as well as heart disease, blood clots and stroke. This news caused the medical community to question one of the long-accepted practices in the treatment of female menopausal symptoms. HRT is known to protect women against bone loss; however, the negative implications of increased heart disease, stroke and cancer were largely unknown. Subsequently millions of women discontinued HRT therapy, which increased concern about bone loss. As a result, there was an increased awareness of BMD testing and testing methods.

Following the WHI announcement, the U.S. Preventative Services Task Force (USPSTF) published its own recommendations that women over the age of 65 be tested for osteoporosis. Soon afterwards the National Osteoporosis Foundation reaffirmed their more comprehensive recommendations for osteoporosis testing. In July 2003 the American Association for Orthopaedic Surgeons posted a Policy Statement on their web site urging their members to test for underlying bone disease when presented with a fragility fracture. In addition, Medicare is expected to enact a new standard of care encouraging health care providers to test for osteoporosis when a fracture is diagnosed.

We believe that the global awareness of osteoporosis is increasing, and that there is a resurgence of interest in BMD testing as a result of the increased publicity. We also believe that osteoporosis testing is a significant public health care issue that can best be dealt with in a routine manner at a point-of-care care setting.

COMPETITION-OSTEOGRAM (R)

Bone mineral density (BMD) measurements are the primary methods used to assist physicians in detecting osteoporosis. BMD is measured by passing x-ray beams or ultrasound through bone and determining how much energy the bone absorbs.

Dual x-ray absorptiometry (DXA) is currently the mostly widely used osteoporosis detection technology, with a worldwide installed base of approximately 16,000 units. The DXA market is divided into "whole-body" machines, which are designed to measure bone mass and density at a variety of skeletal sites (primarily the hip and spine), and "peripheral" machines, which measure bone mass and density at appendicular sites (forearm, hand or heel).

The leading manufacturers of whole-body DXA scanners include General Electric's Lunar Division (U.S.) and Hologic, Inc. (U.S.), which together

command most of the worldwide DXA market. The leading manufacturers of peripheral DXA machines are General Electric, Hologic, Norland, Osteometer (a Danish subsidiary of OSI Systems, U.S.), and Schick Technologies, Inc. Whole body DXA products typically cost from $70,000-$150,000 and require continued maintenance during their lifetime. They also require specially trained technicians, who must be licensed in most states, and who are not available on a 24/7 basis.

We experience extensive competition for the Osteogram (R) from companies that offer DXA machines, primarily because they are considered the "gold standard" for measuring BMD and have a large installed base worldwide. We compete by offering cost effective testing and a product with a unique digital format. The Osteogram (R) was developed to enhance the use of existing radiological equipment for generating BMD reports comparable to tests performed on the expensive, dedicated DXA equipment generally found in hospitals and specialty practices.

Other competition for the Osteogram (R) comes from less accurate ultrasound and other peripheral devices. Our competition also uses single-energy x-ray absorptiometry (SXA), quantitative computed tomography (QCT), peripheral quantitative computed tomography (pQCT), and radiographic absorptiometry (RA). All radiographic techniques in use today have been validated through extensive clinical studies and are currently approved in the U.S. for Medicare reimbursement. RA is the technology we employ because of its accuracy, ease of use and relative low cost.

Quantitative Computed Tomography (QCT) utilizes existing computed tomography (CT or CAT) scanners that have been upgraded with specialized software, while pQCT utilizes specialized peripheral CT machines. QCT and pQCT are expensive to perform and require a high degree of expertise to operate properly. In addition, the radiation dose of QCT is remarkably high compared to the Osteogram (R) process.

Quantitative Ultrasound (QUS) bone densitometers were introduced in the early 1990s, and they are widely available. General Electric Lunar and Hologic are leaders in the ultrasound market segment; however, the market also includes numerous regional manufacturers such as Myriad and Sunlight (Israel), IGEA (Italy) and McCue (Great Britain). The Company believes that there are now approximately 10,000 QUS machines installed worldwide. QUS has FDA clearance for screening in the U.S., but unlike the Osteogram (R) , is not recommended by the National Osteoporosis Foundation for diagnosis and monitoring.

The only manufacturer using RA, other than CompuMed, is Alara, Inc. (U.S.). In 2000 the FDA approved Alara's self-contained, tabletop system that performs digital RA of the hand. Alara appears to be currently focused on developing computed radiography (CR) systems.

Biochemical Marker Tests that measure the level of bone metabolic substances present in the blood or urine were introduced in the 1990s. There is no clear consensus yet on the appropriate use of these technologies, since they only measure the rate of bone loss, not bone density. Although their role in monitoring the effect of drug therapy may grow, their use at the present time is limited. Manufacturers of biochemical marker tests include Quidel, Inc. (U.S.) and Ostex International, Inc., a division of Inverness Medical Innovations, Inc. (U.S.).

Our existing and potential competitors consist principally of companies that have substantially greater financial, technical, marketing, distribution and other resources, greater current market penetration and longer-standing relationships with customers than us. We believe that our ability to compete successfully depends on a number of factors, both within and outside of our control, including the price, quality and performance our products and those of

our competitors. Other factors include the timing and success of our new product introductions and our competitors, the development of technical innovations, the number and nature of our competitors in a given market, and general market and economic conditions. There can be no assurance that we will be able to compete successfully in the future.

ECG SERVICES

GENERAL

We have been a supplier of telemedicine services, establishing one of the nation's largest telecommunications networks for processing electrocardiograms (ECGs) on a real time basis, for nearly twenty years.

Using a CompuMed ECG terminal, an ECG can be acquired from a patient, telecommunicated to our central computers, analyzed and received back on the ECG terminal where the ECG trace and computer interpretation are printed- all within three minutes. If necessary, we can provide an "overread" by a cardiologist and return the results within an hour. We bill for this service on a per-use basis, and we sell a full range of ECG supplies including electrodes, recording paper, gel, and patient cables.

ECG analysis services are available to end-users 24 hours a day, seven days a week. Our computer laboratory is staffed or on-call at all times and has been recently upgraded to provide additional features and faster turn around time for "overreads" by replacing telephone requests with electronic notification.

We currently provide ECG equipment and services to over 500 government and corporate healthcare facilities, clinics, and hospitals nationwide. Our customers include physicians, correctional healthcare facilities, ambulatory surgery centers, clinics, rural hospitals, occupational health facilities, and behavioral health facilities.

ECG terminals are available for purchase, rental or lease, and transmission fees are charged on a per-use basis. Customers who choose to purchase an ECG terminal are charged either hardware maintenance fees or repair fees for maintaining and repairing the equipment.

We assess our customer's equipment needs on an ongoing basis, and we plan to offer upgraded ECG instruments with value-added features that should expand our market reach. We are also evaluating the need for an XML- enabled, web-based version of our service that would allow us to enter the international markets and those domestic markets where Internet access is readily available. A web-based service would not only extend our scope, but also significantly reduce costs by eliminating the need for long distance phone transmissions. An XML-enabled system would also enable a number of features including archiving and comparisons with previously stored ECGs.

MARKETING - ECG SERVICES

During fiscal 2003 our goal was to strengthen relationships with key customers and preserve a stable base of business. Although our ECG-related revenue dipped slightly during the year, we accomplished this goal, and September 2003 was the best month for ECG revenue in several years. We believe that there are growth areas for the ECG business that can be exploited with minimal cost. A proactive, outbound telemarketing approach will be a key strategy for fiscal 2004, and we plan to identify and contact key current and potential customers to expand our business in targeted segments.

Besides seeking cost reductions in our operations, we are seeking co-marketing agreements with our equipment suppliers. Equipment upgrades are being explored, which will enable us to enter higher margin segments, such as

clinical trials. A critical component of the upscale market segments is customer support and increased regulatory compliance.

We target our sales efforts for ECG products and services toward physicians, correctional healthcare facilities, ambulatory surgery centers, rural hospitals and occupational health facilities located throughout the U.S. We maintain a long-standing customer base with contracts for services generally extending between one to three years. New customers are generated mostly by our direct sales efforts. We advertise in trade journals and attend national medical conventions to generate leads for selling our services, equipment and supplies.

COMPETITION - ECG SERVICES

Our primary competitors are the Laboratory Corporation of America, Biomedical Systems, Inc. and Covance, Inc. These companies all offer ECG terminals that provide ECG interpretation and data storage services at a central location. We estimate that our centralized ECG analyses constitute less than 1% of the total number of ECGs taken each year in the U.S.

The overall domestic ECG market is mature. However, we believe that the demand for the centralized ECG services that we provide may increase due to the trend toward decentralized diagnostic testing with central interpretation and data storage. The principal methods under which we compete are service, ease-of-use, and price.

Our existing and potential competitors consist principally of companies that have substantially greater financial, technical, marketing, distribution and other resources, greater current market penetration and longer-standing relationships with customers than us. We believe that our ability to compete successfully depends on a number of factors, both within and outside of our control, including the price, quality and performance our products and those of our competitors. Other factors include the timing and success of our new product introductions and our competitors, the development of technical innovations, the number and nature of our competitors in a given market, and general market and economic conditions. There can be no assurance that we will be able to compete successfully in the future.

ASSEMBLY, REPAIR AND CUSTOMER SERVICE

We repair and maintain most of the electrocardiographs rented, leased or sold to our customers. All repair and assembly operations are conducted at our headquarters. Our internal customer service staff handles customer equipment and training problems, and our customer service department handles initial installation and set-up, usually over the telephone.

GOVERNMENT REGULATION

The Centers for Medicare and Medicaid Services approve diagnostic tests for reimbursement by Medicare. The Osteogram (R) is approved for reimbursement by Medicare as a centralized laboratory test and as a stand-alone system. Government regulations may change at any time and Medicare reimbursement for the Osteogram (R) test, as well as for other bone mineral density tests, may be withdrawn or reduced. Furthermore, other forms of testing for bone mineral density as an indicator of osteoporosis have been or may be approved for reimbursement, which may reduce our market share or profit margins for such services.

Our Osteogram (R) test and automated software have been cleared by the FDA for use and sale. In addition, the Osteogram (R) is approved for use in China, Korea, and a number of other countries. The Osteogram (R) software is subject to regulation as a medical device. Our ECG computer interpretation services are

also regulated by the FDA and are compliant.

PATENTS AND PROPRIETARY RIGHTS

The U.S. Patent and Trademark Office awarded us our first Osteogram (R) patent in June 2001. The patent covers twenty aspects of Method and Apparatus for determining Bone Mineral Density. In addition, we have a second patent pending, which includes twenty-four claims covering image processing and bone segmentation technology. Final action for the second patent was filed in August 2003. There is no assurance that the second patent will be issued, or that any issued patents will provide protection from competitors, or that any patents, if challenged, will be upheld by the courts. The Osteogram (R) trademark is a registered trademark of CompuMed.

In July 2003 we filed a final action on a provisional U.S. patent application for software to monitor the progression of both inflammatory and degenerative joint disease, such as rheumatoid arthritis and osteoarthritis. The application covers a system that uses many of the same imaging tools employed in our Osteogram (R) product for the screening, diagnosis and monitoring of osteoporosis, but extends the system into the area of monitoring joint degeneration. This new feature will be sold as separate product.

In July 2003 we filed a provisional U.S. patent application for our DICOM version of the Osteogram (R) product, which we believe will be a key patent in our field. We are unaware of any other patent to utilize x-ray equipment and a DICOM image to evaluate BMD and bone degenerative disease. We also filed final action for a separate provisional patent that was originally filed in 1999 for bone segmentation and edge detection, along with final action on a provisional patent to follow the progression of arthritic disease. In September 2003 we filed an additional provisional U.S. patent application on a method to determine the percentage cortical versus trabecular bone utilizing a DICOM image. This is important, since many clinicians are turning their attention to bone microstructure for a more precise diagnosis and prediction of fracture risk. DXA technology, which is considered the Gold Standard in BMD testing, is unable to distinguish between cortical and trabecular bone. We believe that our ability to assess bone quality and other emerging parameters will help us to compete effectively with DXA.

In September 2003 our technical staff presented an abstract at the annual meeting of the American Society of Bone Mineral Research, one of the most prestigious organizations in the field. We submitted the abstract in conjunction with Professor Liu Zonghou, President of the Osteoporosis Committee of China. The work validated the unique ability of the Osteogram (R) technology to differentiate between cortical and trabecular bone.

EMPLOYEES

As of September 30, 2003, we had 13 full-time and 1 part-time employee, in addition to our network of independent sales representatives and distributors. None of our employees is represented by a labor union and we have experienced no work stoppages. We consider our relations with our employees to be good. We also retain consultants from time to time when necessary. Independent cardiologists are retained for ECG "overreads" on a per-diem basis.

RESEARCH AND DEVELOPMENT

Our R&D efforts in fiscal 2003 focused primarily on expanding the Osteogram (R) platform with differentiating features and additional applications that will open new market segments and expand our business with existing customers. Our DICOM-compliant version of the Osteogram (R) platform will open up a new market for our product with many players in the digital imaging arena. In addition, we

plan to develop a new, lower-cost version of the Osteogram (R) that will open up a new market segment for customers that would rather purchase BMD testing on a "per test" basis. Our arthritis module will allow clinicians to help patients with this debilitating affliction by offering the first automated procedure to follow the progression of the disease.

We are actively engaged in the development of potential diagnostic products based on the technologies covered by our first patent awarded by the U.S. Patent and Trademark Office in June 2001 and a second patent expected in the first half of fiscal 2004. An additional patent filed in the fourth quarter of fiscal 2003 will protect our intellectual property as CompuMed develops a new application to follow the progression of arthritic disease. We expect that a portion of this development will be funded by research grants, contracts and SBIR (Small Business Innovation Research) grants.

Our technical team is also working to select a new ECG supplier that will enable us to compete effectively in the coming years. We intend to be an active partner with our new supplier in the product planning process. Our goal is to offer a number of systems with features that will appeal to both cost-conscious customers and those desiring the additional benefits of upgraded systems. An XML-enabled system will open up the international markets for our services, plus cut transmission costs. Additionally, upgraded systems will enable us to compete in the market for clinical drug trials and electronic medical records.

In fiscal 2003, the Company spent $216,000 in research and development, as compared to $217,000 in fiscal 2002. None of such costs were borne by our customers.

INSURANCE

We maintain liability insurance on our current products and are not aware of any claims based on the use or failure of our products that are expected to have material adverse effect on our operations or financial condition. There is no assurance that claims made in the future with respect to our products will be successfully defended or that our insurance will be sufficient. Furthermore, there is no assurance that liability insurance will continue to be available to us on acceptable terms.

ITEM 2. DESCRIPTION OF PROPERTY

Our corporate office, computer center and warehouse facilities are located in 9,496 square feet in an office building located at 5777 West Century Blvd., Los Angeles, CA 90045. This facility is leased through August 2004 at a monthly rental of $9,577 per month during the first year with 3% annual increases in the ensuing lease years. We have the option to extend the lease term for an additional five years. This is a full service lease that includes utilities, maintenance and taxes on the property, janitorial and security service.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to stockholders during the quarter of the fiscal year ended September 30, 2003.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is currently quoted on the over-the-counter (OTC) bulletin board under the symbol "CMPD.OB". Prior to December 1, 1999, our Common Stock was listed on the Nasdaq National Market System. The following table sets forth the range of high and low bid prices for our Common Stock during the periods indicated. The prices set forth below represent inter-dealer prices, which do not include retail mark-ups and markdowns, or any commission to the broker-dealer, and may not necessarily represent actual transactions.

YEAR ENDED SEPTEMBER 30, 2002 QUARTER ENDED:	COMMON STOCK	
	HIGH	LOW
December 31, 2001.	$ .15	$ .06
March 31, 2002	.40	.09
June 30, 2002.	.44	.15
September 30, 2002	.28	.09

YEAR ENDED SEPTEMBER 30, 2003 QUARTER ENDED:	COMMON STOCK	
	HIGH	LOW
December 31, 2002.	$ .23	$ .09
March 31, 2003	.15	.07
June 30, 2003.	.18	.06
September 30, 2003	.45	.09

As of September 30, 2003, there were approximately 600 record holders of Common Stock, which does not include Common Stock held in "nominee" or "street" name.

We have not paid cash dividends on our Common Stock since our inception. At the present time, we intend to follow a policy of retaining any earnings in order to finance the development of our business and do not anticipate paying cash dividends in the foreseeable future.

On December 12, 2003 the closing price of our Common Stock was $0.42.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This analysis should be read in conjunction with the consolidated financial statements and notes thereto. See ITEM 7 "Financial Statements" and ITEM 13 "Exhibits and Reports on Form 8-K".

RESULTS OF OPERATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2003 AS COMPARED TO 2002

Total revenues for fiscal 2003 were $1,811,000 as compared to $1,955,000 in fiscal 2002, a decrease of 7%. Our ECG services revenues during fiscal 2003 decreased by 6% to $1,601,000 from $1,696,000. ECG product and supplies sales decreased in fiscal 2003 to $129,000 from $138,000. During fiscal 2003 the Osteogram (R) revenue decreased to $81,000 from $121,000. The decrease was due to our strategic shift away from selling the PC version of our Osteogram (R) system.

Cost of ECG Services for fiscal 2003 decreased by 6% to $477,000 from $508,000 due to us adopting new telecommunication carriers. Cost of goods sold of ECG for fiscal 2003 decreased by 9% to $88,000 from $97,000 for fiscal 2002, due to lower sales of ECG equipment due to the continuing trend toward equipment leasing in lieu of outright purchase. Cost of goods sold for Osteogram (R) decreased by 38% during fiscal 2003 to $8,000 from $13,000 for fiscal 2002, since Osteogram (R) sales to international distributors did not include computer hardware, which is normally purchased locally.

Selling expenses decreased by 23% for fiscal 2003 to $282,000 from $364,000 for fiscal 2002, due to reduction in domestic marketing activities and marketing-related consulting services associated with the Osteogram (R).

General and administrative expenses in fiscal 2003 decreased by 14% to $945,000 from $1,097,000 for fiscal 2002 due to incremental cost cutting measures, including deferring our 2003 annual shareholders' meeting.

Research and development costs decreased slightly for fiscal 2003 to $216,000 from $217,000 for fiscal 2002 primarily due to decrease of clinical trial expenses.

Interest income decreased by 33% for fiscal 2003 to $26,000 from $39,000 for fiscal 2002 due to decreased investments in marketable securities and reduced interest income on such investments.

The net loss decreased by 24% to $375,000 for fiscal 2003 from $494,000 for fiscal 2002. The decrease is primarily due to reduced expenditures related to marketing activities for our Osteogram (R) products, resulting from our decision to withhold investment in marketing activities until we confirmed the validity of our new strategies.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003, we had approximately $247,000 in cash and marketable securities, as compared to a balance of $327,000 at September 30, 2002. The net decrease of $80,000 in cash and marketable securities is primarily due to losses from operations. Purchases of property, plant and equipment decreased by 77% for fiscal 2003 to $9,000 from $39,000 for fiscal 2002, mostly due to decrease in acquiring computers for the Osteogram (R) systems sales.

We have historically used existing cash and readily marketable securities balances to fund operating losses and capital expenditures. We had raised these

funds in 1997 through 2000 through the placement of Preferred Stock issuances and proceeds from the exercise of certain stock options and warrants.

We have incurred recurring losses and had net losses aggregating $869,000 in fiscal years ended September 30, 2003 and 2002. Our business strategy includes an increase in Osteogram (R) sales through domestic and international marketing and distribution efforts, including partnerships with the manufacturers of digital imaging equipment. We intend to finance this business strategy by using our current working capital resources and cash flows from existing operations, including the ECG and Osteogram (R) businesses. There can be no assurance that the Osteogram (R) sales will be sufficient to offset related expenses.

We anticipate that our cash flow from operations, available cash and marketable securities will be sufficient to meet our anticipated financial needs for at least the next 12 months. However, in certain circumstances we may need to raise additional capital in the future, which might not be available on reasonable terms or at all. Failure to raise capital when needed could adversely impact our business, operating results and liquidity. If additional funds are raised through the issuance of equity securities, the percentage of ownership of existing stockholders would be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to our Common Stock. Our Common Stock is currently quoted on the over-the-counter (OTC) bulletin board, which will make it more difficult to raise funds through the issuance of equity securities. We cannot assure you that such additional sources of financing will be available on acceptable terms, if at all.

Our primary capital resource commitments at September 30, 2003 consist of capital and operating lease commitments, primarily for computer equipment and for our corporate office facility.

We intend to pursue additional research and/or sub-contractor agreements relating to our development projects. Additionally, we may seek partners and acquisition candidates of businesses that are complementary to our own. Such investments would be subject to our obtaining financing through issuance of debt or other securities. No assurance can be given that any acquisition would not be dilutive to stockholders.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations, including the discussion on liquidity and capital resources, are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management re-evaluates its estimates and judgments, particularly those related to the determination of the estimated recoverable amounts of trade accounts receivable, impairment of long-lived assets, revenue recognition and deferred tax assets. The Company believes the following critical accounting policies require its more significant judgment and estimates used in the preparation of the financial statements.

The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectability of the Company's trade accounts receivable balances. If the Company determines that the financial conditions of any of its customers deteriorated, whether due to

customer specific or general economic issues, increases in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

We have a significant amount of property, equipment and intangible assets, including patents. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, we review our long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of long-lived and amortizable intangible assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future operating cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds their fair value.

The Company follows the provisions of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), for revenue recognition. Under SAB 101, four conditions must be met before revenue can be recognized: (i) there is persuasive evidence that an arrangement exists, (ii) delivery has occurred or service has been rendered, (iii) the price is fixed or determinable and (iv) collection is reasonably assured.

Income taxes are accounted for under the asset and liability method. Under this method, to the extent that we believe that the deferred tax asset is not likely to be recovered, a valuation allowance is provided. In making this determination, the Company considers estimated future taxable income and taxable timing differences expected to reverse in the future. Actual results may differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, was issued. This statement nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), which required that a liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

In November 2002, SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued. SFAS No. 150 requires that certain financial instruments previously reported as equity be reported as liabilities (such as mandatory redeemable equity instruments and buy-sell arrangements). Depending on the type of financial instrument, it will be accounted for at either fair value or present value of future cash flows determined at each balance sheet date with the change in that value reported as interest expense in the income statement. In the past, either those financial instruments were not required to be recognized, or if recognized were reported in the balance sheet as equity and changes in the value of those instruments were normally not recognized in net income. The statement is effective for instruments entered into or altered after May 31, 2003, and is otherwise effective for interim periods ending after June 15, 2003.

In November 2002, Financial Interpretation Number (FIN) 45, Guarantor's Accounting and Disclosure Requirement for Guarantees, including Indirect Guarantees of Indebtedness of Others, was issued. FIN No. 45 requires that a guarantor recognize, at the inception of the guarantee, a liability for the fair

value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provision of FIN No. 45 does not apply to certain guarantee contracts, such as warranties, derivatives or guarantees between either parent and subsidiaries or corporations under common control, although disclosures of such guarantees is required. For contracts that are within the initial recognition and measurement provisions of FIN No. 45, the provisions are to be applied to guarantees issued or modified after December 31, 2002.

In January 2003, FIN No. 46, Consolidation of Variable Interest Entities, was issued. FIN 46 clarifies existing accounting principles that determine when a company should include in its financial statements the assets, liabilities and activities of another entity when the equity investors do not have the characteristics of a controlling financial interest or when the equity at risk is not sufficient for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN No. 46 apply to variable interest entities (commonly evidenced by a guarantee arrangement or other commitment to provide financial support) created after January 31, 2003. It required us to perform this assessment by September 30, 2003, and consolidate any variable interest entities for which it absorbed a majority of the entities' expected losses or receive a majority of the expected residual gains.

The adoption of the provisions of these pronouncements did not have a material impact on our results of operations, financial position, cash flows and related disclosures.

ITEM 7. FINANCIAL STATEMENTS

The following financial statements are included as a separate section following the signature page to this Form 10-KSB:

INDEX TO FINANCIAL STATEMENTS

Report of Independent Auditors - Rose Snyder & Jacobs

Report of Independent Auditors - Ernst & Young LLP

Balance Sheet as of September 30, 2003

Statements of Operations for the years ended September 30, 2003 and 2002

Statements of Stockholders' Equity for the years ended September 30, 2003 and 2002

Statements of Cash Flows for the years ended September 30, 2003 and 2002

Notes to Financial Statements

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On September 16, 2003, the Company retained Rose Snyder & Jacobs (RS&J) as its independent public accountants. The Company's audit committee and board of directors separately adopted resolutions on September 12, 2003 approving RS&J's selection.

During the Company's two most recent fiscal years, the Company did not consulted with RS&J regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any matter that was the subject of a disagreement, within the meaning of Item

304(a)(1)(iv) of Regulation S-K, or a reportable event, as described in the Item 304(a)(1)(v) of Regulation S-K.

ITEM 8A. CONTROLS AND PROCEDURES

We carried out an evaluation required by the 1934 Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions, and there can be no assurance that any design will succeed in achieving its stated goals.

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our chief executive officer and principal financial officer do not expect that our disclosure controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Executive Officers and Directors

The following table sets forth certain information concerning our directors and executive officers as of September 30, 2003:

NAME	POSITION WITH COMPANY	YEAR BECAME DIRECTOR	AGE
Robert Stuckelman	Chairman of the Board	1973	71

John G. McLaughlin. . . .	President, CEO		55
John Minnick.	Director	1985	55
John Romm, M.D.	Director	1997	73
Stuart L. Silverman, M.D.	Director	1999	56
Phuong Dang	Controller and Secretary		47

The terms of the Board of Directors will expire at the next annual meeting of stockholders. Our officers are elected by the Board of Directors and hold office at the will of the Board.

BACKGROUND EXPERIENCE OF DIRECTORS AND OFFICERS

Mr. Stuckelman founded the Company in 1973 and served as its President until 1982. From 1982 through 1989 Mr. Stuckelman was a business consultant for small and medium size companies. In 1989 he rejoined the Company as President and Chief Executive Officer, in which capacities he served until October 1994. Mr. Stuckelman has been a director of the Company since its incorporation. He became Chairman of the Board in April 2002. From 1994 to present, he has been President of Technical Management Consultants, which provides business consulting services to many companies. He holds an MSEE from the University of Southern California and a BEE from Cornell University.

Mr. McLaughlin joined the Company in May 2002 as President and CEO. He has thirty years of experience in the medical products arena, most recently as President of the Great Circle Consulting Group, Inc. from May 1998 through May 2002. There he provided strategic and operational guidance to domestic and international firms in the medical device, diagnostic and biotech markets. Mr. McLaughlin's prior experience includes five years as an officer and Vice President of Marketing and Sales at Diagnostic Products Corporation (NYSE:DP), a global leader in the design, manufacture and marketing of clinical laboratory instrumentation. He served in that capacity from February 1993 to February 1998. Prior to that, Mr. McLaughlin was the President of Biometric Imaging, which was subsequently acquired by Becton Dickinson in 1999. He holds a Bachelor of Science degree in Pharmacy from the State University of New York at Buffalo.

Mr. Minnick has been the President of Minnick Capital Management, an investment management firm from 1972 to present. Mr. Minnick is a member of the Kansas and Federal Bar. He has served as a director on other corporate and non-profit boards and is a member of the Association for Investment Management and Research (AIMR). Mr. Minnick is a graduate of Washburn University (BA) and the Washburn University School of Law (JD).

Dr. Romm has practiced internal medicine and gastroenterology in private practice from 1962 to present. He earned his M.D. at Wayne State College of Medicine and also holds a BS in biology. He is an associate professor of medicine at the University of California, Los Angeles and is an attending physician at Cedars-Sinai Medical Center.

Dr. Silverman has been the Medical Director of the Osteoporosis Medical Center in Beverly Hills, CA, from 1986 to present. The OMC is a nationally recognized clinical research center for osteoporosis and is also a Clinical Professor of Medicine at the UCLA School of Medicine. Dr. Silverman is a graduate of the Johns Hopkins University Medical School (1973) and earned his undergraduate degree from Princeton University (1969) Cum Laude in biology. He is an internationally recognized authority on osteoporosis and related fields and has been principal investigator for six research grants in the field of osteoporosis and has authored numerous published articles in the field.

Phuong Dang has been employed by the Company since 1990 and has served as the Controller and Corporate Secretary since 1997.

There is no family relationship among the directors or executive officers of the Company.

BOARD MEETINGS AND COMMITTEES

Our Board of Directors held a total of four meetings during the fiscal year ended September 30, 2003. All of our Directors attended each meeting.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for approving the services performed by our independent auditors and reviewing reports of our internal and external auditors regarding our accounting practices and systems of internal accounting controls. This Committee currently consists of Mr. Stuckelman and Dr. Romm. The Audit Committee met four times during the fiscal year ended September 30, 2003. Mr. Stuckelman has been approved by our Board of Directors as the Audit Committee Financial Expert.

COMPENSATION COMMITTEE

The Compensation Committee reviews and approves our compensation policy and has assumed responsibility for administration of our 2003 Stock Option Plan. This Committee currently consists of Mr. Minnick and Dr. Silverman. The Compensation Committee met twice during the fiscal year ended September 30, 2003.

EXECUTIVE COMMITTEE

The Executive Committee is comprised of Dr. Silverman and Mr. Stuckelman and meets monthly with the Chief Executive Officer.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Based solely on our review of our records, we believe that, during the fiscal year ended September 30, 2003, our officers, directors, and greater than ten-percent beneficial owners complied with all applicable filing requirements under Section 16(a) of the Security Exchange Act of 1934, as amended.

CODE OF ETHICS

We have adopted a Code of Ethics that applies to our principal executive officer and controller. A copy of the Code of Ethics is available on our website at http://www.compumed.net/info/index.html. We intend to disclose any amendment or waiver to the Code of Ethics on our website at http://www.compumed.net/info/index.html

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation for the fiscal year ended September 30, 2003 for our chief executive officer and all executive officers whose compensation exceeded $100,000.00 for such fiscal year.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LON COMPE
NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL SALARY	BONUS	SEC UNDERL O
John G. McLaughlin, President and CEO	2003	$ 150,000 (1)	7,200(2)	434,