COMPUMED INC
Form 10QSB
August 16, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(MARK ONE)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

OR

TRANSITION REPORT UNDER 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.

(Exact name of registrant as specified in its charter)

DELAWARE

(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

95-2860434

(I.R.S. Employer Identification No.)

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

(310) 258-5000
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements in for the past 90 days. Yes X No

As of July 31, 2004, we had 19,094,835 shares of Common Stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes No X

INDEX

COMPUMED, INC. AND SUBSIDIARIES

PART I

INDEX

COMPUMED, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION
BALANCE SHEETS
COMPUMED, INC.

	June 30, 2004 (UNAUDITED)	SE
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 90,000	
Marketable securities.	142,000	
Accounts receivable, less allowance of $21,000 (June 2004) and $22,000 (September 2003).	275,000	
Inventory.	28,000	
Prepaid expenses and other current assets.	30,000	
TOTAL CURRENT ASSETS	565,000	
PROPERTY AND EQUIPMENT		

Machinery and equipment.	1,287,000
Furniture, fixtures and leasehold improvements	42,000
Equipment under capital leases	35,000
	1,364,000
Accumulated depreciation and amortization.	(1,268,000)
TOTAL PROPERTY AND EQUIPMENT	96,000
OTHER ASSETS	
Patents, net of accumulated amortization of $3,000 (June 2004) and $2,000 (September 2003).	55,000
Other assets	17,000
TOTAL ASSETS	$733,000
LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES	
Accounts payable	$ 173,000
Accrued liabilities.	114,000
Current portion of capital lease obligations	1,000
TOTAL CURRENT LIABILITIES.	288,000
STOCKHOLDERS' EQUITY	
Preferred Stock, $.10 par value - authorized 1,000,000 shares	
Preferred Stock- Class A $3.50 cumulative convertible voting - issued and outstanding - 8,400 shares.	1,000
Preferred Stock- Class B $3.50 cumulative convertible voting - issued and outstanding - 300 shares.	-
Common Stock, $.01 par value-authorized 50,000,000 shares, issued and outstanding - 18,635,750 shares (June 2004) issued and outstanding - 17,869,309 shares (September 2003)	187,000
Additional paid in capital	32,382,000
Accumulated deficit.	(32,158,000)
Accumulated other comprehensive income	33,000
Deferred stock compensation.	-
TOTAL STOCKHOLDERS' EQUITY	445,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$733,000

See notes to condensed financial statements.

STATEMENTS OF OPERATIONS (UNAUDITED)
COMPUMED, INC.

	Three Months Ended June 30,		Nine Months E June 30,
	2004	2003	2004

REVENUES FROM OPERATIONS				
ECG services	$ 401,000	$ 381,000	$ 1,192,000	$
ECG product and supplies sales	20,000	27,000	63,000	
OsteoGram(R) sales and services. . . .	42,000	20,000	129,000	
TOTAL OPERATING REVENUE	463,000	428,000	1,384,000	
COSTS AND EXPENSES				
Costs of ECG services.	129,000	116,000	372,000	
Cost of goods sold-ECG	14,000	19,000	47,000	
Cost of goods sold-OsteoGram(R). . . .	2,000	2,000	6,000	
Selling expenses	68,000	63,000	170,000	
Research and development	56,000	53,000	164,000	
General and administrative expenses.	231,000	185,000	747,000	
Depreciation and amortization.	31,000	55,000	125,000	
TOTAL COSTS AND EXPENSES	531,000	493,000	1,631,000	
OPERATING LOSS	(68,000)	(65,000)	(247,000)	
Interest income and dividends.	4,000	6,000	13,000	
Other income	17,000	-0-	45,000	
Realized gain on marketable securities	7,000	11,000	9,000	
Interest expense	-0-	-0-	-0-	
NET LOSS	(40,000)	(48,000)	(180,000)	
NET LOSS PER SHARE (basic and diluted)	(.00)	(.00)	(0.01)	
Weighted average number of common shares outstanding.	18,062,355	17,869,309	17,988,141	

STATEMENTS OF CASH FLOWS (UNAUDITED)
COMPUMED, INC.

	NINE MONTHS EN
	JUNE 30, 2004
OPERATING ACTIVITIES:	
Net loss	$(180,000)
Net adjustments to reconcile net loss to net cash used in operating activities:	
Realized gain on marketable securities	(9,000)
Amortization of deferred stock compensation.	25,000
Depreciation and amortization.	125,000
Increase in accounts receivable	(56,000)
Decrease (increase) in inventory and prepaid expenses	(12,000)
Decrease (increase) in accounts payable and other liabilities	23,000
NET CASH USED IN OPERATING ACTIVITIES.	(84,000)
INVESTING ACTIVITIES:	

Proceeds from sale of marketable securities.	54,000
Purchase of other asset.	(14,000)
Purchase of property, plant and equipment	(11,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES.	29,000
FINANCING ACTIVITIES:	
Proceeds from exercise of stock option	36,000
Net offering of the Equity Line of Credit from Dutchess Private Equities Fund	49,000
Principal payments on capital lease obligations.	(6,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.	79,000
NET DECREASE IN CASH	24,000
Cash and cash equivalents at beginning period.	66,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 90,000

See notes to condensed financial statements.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
COMPUMED, INC.

NOTE A-BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying interim unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending September 30, 2004. For further information, refer to the financial statements for the year ended September 30, 2003 and the notes thereto included in the Company's Annual Report on Form 10-KSB.

The balance sheet at September 30, 2003 has been derived from the Company's year-end audited financial statements but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The Company has historically used existing cash and readily available marketable securities balances to fund operating losses and capital expenditures. The Company raised these funds in 1997 through 2000 through the sale of Preferred Stock issuances and proceeds from the exercise of certain stock options and warrants.

The Company has incurred recurring losses and had net losses aggregating $435,000 for the nine months ended June 30, 2004 and 2003.

STOCK-BASED COMPENSATION

The Company accounts for employee stock option grants in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations (APB 25), and has adopted the "disclosure only" alternative described in Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, amended by SFAS No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure.

SFAS No. 123, Accounting for Stock-Based Compensation, requires pro forma information regarding net income (loss) using compensation that would have been incurred if the Company had accounted for its employee stock options under the fair value method of that statement.

Options to purchase 1,050,000 shares and 1,316,861 shares of Common Stock of CompuMed, Inc. were granted during the three months ended June 30, 2004 and 2003, respectively. The fair value of these options was estimated at $76,000 and $75,000 for the three months ended June 30, 2004 and 2003, respectively.

Options to purchase 0 shares and 1,774,906 shares of Common Stock of CompuMed, Inc. were granted during the three months ended March 31, 2004 and 2003, respectively. The fair value of these options was estimated at $0 and $66,000 for the three months ended March 31, 2004 and 2003, respectively.

Options to purchase 261,087 shares and 0 shares of Common Stock of CompuMed, Inc. were granted during the three months ended December 31, 2003 and 2002, respectively. The fair value of these options was estimated at $65,000 and $0 for the three months ended December 31, 2003 and 2002, respectively.

The fair values were estimated using Black-Scholes Option pricing method with the following assumptions:

	For The Nine Months Ended June 30, 2004	June 30, 2003
Risk free interest rate	4.28% - 4.73%	3.33% - 4.05%
Stock volatility factor	22%	18%
Weighted average expected option life . . .	10 years	10 years
Expected dividend yield	None	None

The pro forma net loss and loss per share had the Company accounted for the options using FAS 123 would have been as follows:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Nine Mo June 30
Net loss as reported	(40,000)	(48,000)	
Basic and diluted loss per share as reported .	(0.00)	(0.00)	

Add: stock-based employee compensation cost included in determination of net loss reported	-	9,000
Deduct: stock-based employee compensation cost that would have been included in the determination of net loss if the fair value based method had been applied to all awards. .	(40,000)	(30,000)
Pro forma net loss if the fair value based method had been applied to all awards.	(44,000)	(78,000)
Basic and diluted pro forma loss per share if the fair value based method had been applied to all awards.	(0.00)	(0.00)

A summary of the stock options activity, and related information for the nine months ended June 30 follows:

	2004		
	Shares	Weighted Average Exercise Price	Shares
Options outstanding, beginning of period	5,027,025	0.22	3,124,466
Options exercised	(394,027)	0.09	-
Options granted	1,311,087	0.20	3,141,768
Options forfeited/canceled	(1,104)	0.96	(353,276)
Options outstanding, end of period	5,942,981	0.22	5,912,958
Options exercisable, end of period	4,284,651	0.23	2,998,061

The following summarizes information concerning stock options outstanding at June 30, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.0000 - $0.4250	5,062,103	8.8	0.14

$0.4251 - $0.8500.	847,375	4.9	0.67
$0.8501 - $1.2750.	33,503	3.2	1.14
	5,942,981	8.2	0.22

PER SHARE DATA

The Company reports its earnings (loss) per share in accordance with Statement of Financial Accounting Standards No.128, "Accounting for Earnings Per Share" ("FAS 128"). Basic loss per share is calculated using the net loss divided by the weighted average common shares outstanding. Shares from the assumed conversion of outstanding warrants, options and the effect of the conversion of the Class A Preferred Stock and Class B Preferred Stock are omitted from the computations of diluted loss per share because the effect would be antidilutive.

NOTE B-OTHER AGREEMENTS

On December 23, 2003, we entered into an Investment Agreement with Dutchess Private Equities Fund, also referred to as an Equity Line of Credit. That agreement provides that, following notice to Dutchess, we may sell to Dutchess up to $5 million in shares of our Common Stock for a purchase price equal to 95% of the average of the three lowest closing bid prices on the Over-the-Counter Bulletin Board of our Common Stock during the five day period following that notice. The number of shares that are permitted to sell pursuant to the Investment Agreement is either: (A) two hundred percent of the average daily volume of our Common Stock for the ten trading days prior to the applicable sale notice, multiplied by the average of the three daily closing best bid prices immediately preceding the day we issue the notice, or (B) $25,000; provided that in no event will the sale be more than $1,000,000 with respect to any single sale.

Dutchess' obligation to purchase our Common Stock is contingent upon certain closing conditions. Such conditions relate to the Investment Agreement and include: (i) that our representations and warranties are true and correct as of the funding date, (ii) that we have performed all of our covenants, agreements and conditions required to be performed us, (iii) that trading of our Common Stock has not been suspended, (iv) that no statute, rule, regulation, executive order, decree, ruling or injunction is in force against the transactions contemplated in the Investment Agreement, (v) that no pending or threatened litigation exists, and (vi) that the SEC has declared effective a registration statement covering the shares to be purchased by Dutchess.

On June 15, 2004, we entered into a six-month agreement with CEOcast, Inc. (the "Consultant") an investor relations company. Such agreement is terminable at any time after three months. During the term of this Agreement, we will pay the Consultant $7,500 per month and 250,000 shares of Common Stock. 125,000 of such shares were issued to the Consultant on July 20, 2004 and the remaining 125,000 shares are to be issued on September 14, 2004, if the Agreement has not been terminated.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

We are including the following cautionary statement in this Quarterly Report on Form 10-QSB 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 us, or on our behalf. 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 section captioned "Management's Discussion and Analysis of Operations". In that and other portions of this Form 10-QSB, 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, the availability of capital on terms satisfactory and the factors discussed in our Annual Report on Form 10-KSB for the year ended September 30, 2003,and other reports filed with the SEC. We do not intend to update any forward-looking statements to reflect events or circumstances after the date hereof.

OVERVIEW

Our core business is providing remote electrocardiogram (ECG) interpretation services to medical facilities that may not have access either to trained physicians that can interpret ECG results or to self-interpreting ECG equipment. Our customers are typically correctional facilities, ambulatory surgery centers, occupational health clinics and physician offices. Although self-interpreting ECG equipment is widely available, many of our customers like the optional feature of automatically sending their ECG results to one of our cardiologists for an overread when the results are abnormal. This overread feature is a key advantage that enables us to market our services in segments of the market where physicians may not be available on a routine basis. We are evaluating new opportunities for our ECG business; however, we could lose customers who choose to receive services from a competitor or who purchase a self-interpretive machine and no longer need our ECG interpretations. If we were to lose existing customers, they may be difficult to replace, and that could have a material adverse impact on our operations and financial condition.

Our other business is the development and marketing of medical imaging software tools that automatically make accurate and precise measurements to diagnose bone disease. Our target markets for these products are hospitals, imaging centers and orthopedic office practices, although in the future our underlying technology could be applied to a number of other maladies, including specific cancers and dental disease. Our initial product, the OsteoGram(R), is an automated system for the rapid screening, diagnosis and monitoring of osteoporosis, a disease that effects more than 200 million people worldwide. Osteoporosis is a "silent disease" that costs the U.S. healthcare system over $16 billion annually. Medicare is currently scrutinizing methods to lower the costs of fighting this largely preventable disease through point-of-care testing of "at risk" patients with fragility fractures. We believe that convenient, low-cost methods of screening and diagnosing will become increasingly desirable as hospitals comply with recent initiatives directing them to test for and treat this insidious disease.

The OsteoGram(R) is marketed in both film-based and DICOM (Digital Imaging and Communications in Medicine) formats. The film-based version utilizes a standard hand x-ray film that is digitized on a desktop scanner. The image is then analyzed on a personal computer by means of the patented OsteoGram(R) software. This system is marketed to small hospitals, clinics and physician's offices. The DICOM OsteoGram(R) was developed to take advantage of the growing market for digital x-ray equipment. DICOM is the information standard that allows digital imaging equipment to interconnect, enabling clinicians to readily move, archive and retrieve images over networks. By residing on the workstations of these advanced digital systems, the OsteoGram(R) software can automatically capture and analyze images directly from either the x-ray equipment or the network We license our DICOM OsteoGram software to manufacturers and distributors of DICOM x-ray and PACS equipment.

For the quarter ended June 30, 2004 we continued to focus on the implementation of our DICOM OsteoGram(R) strategy. Our development team completed the integration of the OsteoGram(R) software into the computed radiography (CR) platform of Orex Computed Radiography Inc., and the product was released for sale. Located in Yokneam, Israel and Auburndale, MA, Orex is a developer of digital (i.e., filmless) x-ray systems. Orex has a distribution agreement with the Medical Solutions Group of Siemens, LTD., China, and we attended ChinaMed in April to officially launch the DICOM OsteoGram in conjunction with these two partners. Our technicians subsequently trained a select number of Siemens sales representatives in Beijing.

During May 2004 we installed the first two DICOM OsteoGram systems in hospitals near Shanghai. These two systems were integrated into a market-leading CR workstation, and we received positive preliminary feedback. Our Shanghai distributor continues to work closely with one of the world's largest marketers of digital imaging systems, and we expect that these two trial installations will generate continuing demand for our products.

In addition, we continue to work directly with a number of manufacturers of digital radiography platforms to structure domestic and global agreements to integrate our software into their workstations and network servers. Integrating our software is a complex task, and full automation requires intimate knowledge of each manufacturer's proprietary operating software. We have demonstrated our ability to seamlessly integrate the OsteoGram into several manufacturers' platforms, and we hope to negotiate licensing agreements as a result of our efforts.

Our ECG business grew this quarter as new correctional accounts came on line. We successfully bid our services to a number of state correctional departments, and one of our partners that provides correctional health care services was awarded a state bid that included our CardioGram as part of their package. In addition, we selected ECG market leader, Schiller AG, as our partner for new ECG terminals. As part of our agreement with Schiller, we will acquire a new Schiller server system that will enable us to accept transmissions over the Internet. This will allow us to enter the international markets, where the cost of telephone transmission was previously prohibitive. We believe that an overread by a U.S. based cardiologist could be a value-added service in those countries where cardiologists are not readily available.

RECENT EVENTS

On December 23, 2003, we entered into an Investment Agreement with Dutchess Private Equities Fund, also referred to as an Equity Line of Credit. That agreement provides that, following notice to Dutchess, we may sell to Dutchess up to $5 million in shares of our Common Stock for a purchase price equal to 95% of the average of the three lowest closing bid prices on the Over-the-Counter Bulletin Board of our Common Stock during the five day period following that notice. The number of shares that are permitted to sell pursuant to the Investment Agreement is either: (A) two hundred percent of the average daily volume of our Common Stock for the ten trading days prior to the applicable sale notice, multiplied by the average of the three daily closing best bid prices immediately preceding the day we issue the notice, or (B) $25,000; provided that in no event will the sale be more than $1,000,000 with respect to any single sale.

Dutchess' obligation to purchase our Common Stock is contingent upon certain closing conditions. Such conditions relate to the Investment Agreement and include: (i) that our representations and warranties are true and correct as of the funding date, (ii) that we have performed all of our covenants, agreements and conditions required to be performed us, (iii) that trading of our Common Stock has not been suspended, (iv) that no statute, rule, regulation, executive order, decree, ruling or injunction is in force against the transactions contemplated in the Investment Agreement, (v) that no pending or threatened litigation exists, and (vi) that the SEC has declared effective a registration statement covering the shares to be purchased by Dutchess.

On June 15, 2004, we entered into a six-month agreement with CEOcast, Inc. (the "Consultant") an investor relations company. Such agreement is terminable at any time after three months. During the term of this Agreement, we will pay the Consultant $7,500 per month and 250,000 shares of Common Stock. 125,000 of such shares were issued to the Consultant on July 20, 2004 and the remaining 125,000 shares are to be issued on September 14, 2004, if the Agreement has not been terminated.

RESULTS OF OPERATIONS

Revenues from ECG operations increased by 3% for the third quarter of fiscal 2004 to $421,000 from $408,000 for the same period in fiscal 2003, due to the acquisition of new correctional facility accounts, and for the nine months ended June 30, 2004 decreased by 2% to $1,255,000 from $1,276,000 for the same period in fiscal year 2003 mostly due to lower sales of ECG equipment replacing rentals. Revenues from the OsteoGram(R) sales and services for the third quarter of fiscal 2004 increased by 110% to $42,000 from $20,000 due to initial shipments of the DICOM version of the product, and for the nine months ended June 30, 2004 increased by 50% to $129,000 from $86,000 for the same period in fiscal 2003 due to initial orders from new international distributors, repeat orders from Asian customers and the first DICOM shipments to the Czech Republic and China.

Cost of services and goods sold consists of the costs of ECG services provided, supplies, electrocardiograph equipment sold and OsteoGram(R) systems sold. Costs of services of ECG for the third quarter of fiscal 2004 increased by 11% to $129,000 from $116,000 for the same period in fiscal 2003, and for the nine months ended June 30, 2004, increased by 4% to $372,000 from $359,000 for the same period in fiscal 2003, mostly due to increased demand for overread services and restocking of raw materials to refurbish ECG machines provided to newly contracted facilities. Cost of goods sold of ECG for the third quarter of fiscal 2004 decreased by 26% to $14,000 from $19,000, and for the nine months ended June 30, 2004 decreased by 22% to $47,000 from $60,000 for the same period in fiscal 2003, primarily due to lower sales of ECG equipment. The cost of goods sold for OsteoGram(R) remained the same for the third quarter of of fiscal years 2004 and 2003, and for the nine months ended June 30, 2004 decreased by 33% to $6,000 from $9,000 for the same period in fiscal 2003, primarily due to recent sales that do not include computer hardware.

Selling expenses for the third quarter 2004 increased by 8% to $68,000 from $63,000, mostly to the increased travel expenses related to product launch and training in China, and for the nine months ended June 30, 2004 decreased by 18% to $170,000 from $207,000 for the same period in fiscal 2003, primarily due to decreased marketing communication and trade show related expenses.

General and administrative expenses for the third quarter of fiscal 2004 increased by 25% to $231,000 from $185,000 in fiscal 2003, and for the nine months ended June 30, 2004 increased by 7% to $747,000 from $699,000 for the same period in fiscal 2003, due to increased expenses related to regulatory compliance and cash payment to our Directors that previously were accepting stock in lieu of cash.

Research and development costs for the third quarter of fiscal 2004 increased by 6% to $56,000 from $53,000 in fiscal 2003, and for the nine months ended June 30, 2004 increased by 3% to $164,000 from $160,000 for the same period in fiscal 2003 due to salary adjustments.

Interest income for the third quarter of fiscal 2004 decreased by 33% to $4,000 from $6,000, and during the nine months ended June 30, 2004 decreased by 35% to $13,000 from $20,000 for the same period in fiscal 2003, primarily due to decreased investments in marketable securities and reduced interest income from such investments.

Other miscellaneous income was $17,000 for the third quarter of fiscal 2004, $45,000 for the nine months ended June 30, 2004 and none for the same period in fiscal 2003 due to the reversal of a reserve related to a property tax assessment dispute that was settled in our favor.

Net loss for the third quarter of fiscal 2004 decreased by 17% to $40,000 from $48,000, and for the nine months ended June 30, 2004 decreased by 29% to $180,000 from $255,000 for the same period in fiscal 2003, primarily due to increased OsteoGram (R) sales.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004, we had approximately $232,000 in cash and marketable securities, as compared to a balance of $247,000 at September 30, 2003, a net decrease of $15,000 primarily due to cash used in operations. Purchases of property, plant and equipment used $11,000 in the quarter ended June 30, 2004.

Our business strategy includes an increase in OsteoGram(R) revenue through OEM sales to manufactures of medical digital x-ray equipment and through direct sales through domestic and international distributors. 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 ECG and OsteoGram(R) sales will be sufficient to offset related expenses.

We have historically used existing cash and readily available marketable securities balances to fund operating losses and capital expenditures. We raise funds through the sale of Common and Preferred stock issuances and proceeds from the exercise of stock options and warrants.

PLAN OF OPERATIONS

We anticipate that our cash flow from operations, available cash and marketable securities will be sufficient to meet our anticipated cash requirements 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. If we raise additional capital we will probably do it through our $5,000,000 equity line of credit recently established with Dutchess Private Equities Fund (see "Recent Events"). 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 or convertible securities, the percentage of ownership of existing stockholders will be reduced. Furthermore, some equity and convertible securities might have rights, preferences or privileges senior to our Common Stock. Our Common Stock is currently traded on the over-the-counter (OTC) bulletin board, which makes it more difficult to raise funds through the issuance of equity or convertible securities because of our Common Stock is thinly traded and those who wish to sell shares of our Common Stock may have difficulty locating buyers. 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 June 30, 2004 consist of capital and operating lease commitments, primarily for office 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.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and regulations.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

There was no change in our internal control over financial reporting during our third quarter of fiscal 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

LIMITATION ON THE EFFECTIVENESS OF CONTROLS

Our management, including our chief executive officer and principal financial officer, does not expect that our disclosure controls and internal controls 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 control 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 in part upon 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 II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the fiscal quarter ended June 30, 2004, the Company issued an aggregate of 684,726 shares of Common Stock, of which 394,027 shares were exercise of stock options by directors as set forth in the table below and 290,699 shares of which were sold to Dutchess Private Equities Fund at price ranging form $0.16 and $0.21. All sales were made pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder. All proceeds received were added to the Company's working capital.

DIRECTORS	GRANT DATE	GRANT TYPE	EXERCISE DATE	EXERCISE TYPE	OPTIONS EXERCISED	OPTION PRICE	AGGREGATE OPTION COST
PLAN:	1992 STOCK OPTION PLAN						
Robert Stuckelman	8/15/2001	Non-Qualified	6/24/2004	Cash	66,667	$ 0.14	$ 9,333.3
PLAN TOTALS					66,667		$ 9,333.3
PLAN:	2003 STOCK INCENTIVE PLAN						
John D. Minnick .	2/11/2003	Non-Qualified	6/23/2004	Cash	85,729	$ 0.08	$ 6,858.3
John D. Romm. . .	2/11/2003	Non-Qualified	6/24/2004	Cash	91,631	$ 0.08	$ 7,330.4
Stuart Silverman.	2/11/2003	Non-Qualified	6/24/2004	Cash	150,000	$ 0.08	$ 12,000.0
PLAN TOTALS					327,360		$ 26,188.8
GRAND TOTALS					394,027		$ 35,522.1

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K
(a) Exhibits

NUMBER	DESCRIPTION OF EXHIBIT
11	Statement re: computation of per share earnings*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer**
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer**
32.1	Section 1350 Certification of Chief Executive Officer**
32.2	Section 1350 Certification of Principal Financial Officer**

* Data required is provided in the financial statements in this report.
** Included herein

(b) Form 8-K -None during the period of this Report.

SIGNATURES

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

COMPUMED, INC.

(Registrant)

Date August 13, 2004 By: /s/ John G. McLaughlin

John G. McLaughlin
President and Chief Executive Officer
(Chief Executive Officer)

Date August 13, 2004 By: /s/ Phuong Dang

Phuong Dang
Controller (Principal Financial and Accounting Officer)