COMPUMED INC
Form 10KSB
December 29, 2006

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

[ ] TRANSITION 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)

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

Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK, $0.01 PAR VALUE

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] YES [ ]NO

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] YES [ ]NO

Indicate by check mark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]

State the issuer's revenues for its most recent fiscal year: $2,114,000.

As of November 30, 2006, the issuer had 24,259,879 common shares outstanding. The aggregate market value of the common shares held by non-affiliates of the issuer (22,850,245 shares) was approximately $8,454,591 based upon the average bid and asked prices ($0.37) on such date.

Transitional Small business issuer Format: [ ] YES [X] NO

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

We are a developer of Computer Aided Diagnostic (CAD) solutions for the healthcare industry that provide medical imaging software and remote, computer-aided interpretation of electrocardiograms. Our two main products are the OsteoGram(R) and CardioGram systems. The OsteoGram(R) is our proprietary image processing software that utilizes either digital or film-based x-rays of the hand to screen, diagnose and monitor osteoporosis, a disease that affects more than 200 million people worldwide. The CardioGram consists of

computer-aided telemedicine services that offer on-line interpretation of electrocardiograms to physicians, government and corporate healthcare providers.

We view our two businesses as a converging platform for specialized services, and our goal is to be the leading provider of remote analysis in cardiology and radiology. In May 2006 we retained Synthetica, LTD to assist us in developing a strategic plan to grow our business.

We incorporated in the State of Delaware on July 21, 1986.

RECENT EVENTS

Our traditional core business is the remote interpretation of electrocardiograms, or ECGs coupled with a feature that allows customers to have a cardiologist overread of abnormal results. Data is sent over telephones or the Internet to our state-of-the-art analysis center for interpretation.

Our ECG workflow and analytics capability are scalable, and we believe we can readily add other measurement metrics to our cardiology service offering.

We believe that the future of our underlying OsteoGram(R) technology is in the development of medical software applications that can either be integrated into the operating systems of digital imaging equipment or be utilized for remote interpretation at our centralized lab. Digital x-ray and mammography machines are a high growth segment of the medical imaging field. Our OsteoGram technology can be expanded to fit a number of applications to automate tedious procedures that can dominate a busy radiologist's time. By developing new applications, such as following the progression of arthritic disease, we can build a toolbox for clinicians that can be directly licensed or remotely accessed over the Internet.

Our research and development team devoted the majority of their time this fiscal year to integrating our software application into several digital imaging platforms, including a new digital x-ray platform from Kodak Electronics Products Shanghai, Co., LTD. This was a significant event for us, since the integration project required us to break our software into modules that would fit seamlessly into the Kodak software system. The resulting modularized OsteoGram system is now amenable to a wider range of platforms and radiology networks.

THE OSTEOGRAM(R)

GENERAL

The OsteoGram(R) is a medical image processing software system that enables healthcare providers to screen, diagnose and monitor osteoporosis using digital hand images from filmless x-ray equipment or conventional, film-based x-rays. Osteoporosis is diagnosed by measuring bone mineral density. A low bone mineral density is indicative of the disease. The OsteoGram(R) is based on a bone mass measurement technique called radiographic absorptiometry, which was cited in the 2004 Surgeon General's report on bone disease. Radiographic absorptiometry uses a conventional x-ray of the hand, scanned at high resolution, to measure bone density. The radiographic absorptiometry technique not only measures bone mass, but also the cortical thickness of bones. Recent studies affirm the importance of cortical thickness as an additional measure of bone strength and overall fracture risk. Several prominent pharmaceutical manufacturers are developing products that will strengthen cortical bone. Cortical bone is the outer shell that gives bone strength, much like the hollow tubes from which bicycles are constructed. Our technology has the capability to measure bone mineral density

in both cortical and trabecular bone, and we believe this is an important feature to add to the OsteoGram(R) system in the future. Dual energy x-ray absorptiometry, or DXA, is considered the "Gold Standard" of bone mineral density measurement, but it cannot differentiate between cortical and trabecular bone. We believe that the OsteoGram(R) could become a key tool for some pharmaceutical manufacturers, not only in the clinical trial phase, but also in monitoring therapy once a drug is approved. Our development team worked diligently to add cortical thickness measurement to the existing OsteoGram(R) report, and we launched a preliminary product in China.

In May 1999, we received clearance from the United States Food and Drug Administration, or FDA, to market an automated version of the OsteoGram(R) software for use as a stand-alone product by physicians. In 2004 we launched the Digital Imaging and Communications in Medicine, or DICOM, a digital version of the product. Using digital or film-based 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 film-based version of the OsteoGram(R), the developed film is scanned with a high-resolution desktop scanner, and the OsteoGram(R) software analysis program rapidly produces an accurate and precise bone mineral density report. With a filmless x-ray system the digital image is captured on a workstation for analysis. We 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. DICOM is the industry-consortium established information standard that allows the new generation of digital medical imaging equipment to interconnect.

The foremost near-term market opportunity that we have identified for our OsteoGram(R) is in coupling our product with filmless x-ray and mammography systems plus the computer networks that tie imaging modalities together. Our application can reside on a workstation, just like Microsoft(R) Word on a personal computer. There is no need for expensive, dedicated equipment or redundant computers. 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 DXA equipment that requires a dedicated room and specially trained technicians who are usually not available around the clock.

Since we already have an infrastructure in place to remotely interpret ECGs, it makes sense to offer our OsteoGram application and its spin-offs in a service model, as well. Our strategy is to offer a platform of specialized services for a wide spectrum of musculoskeletal and cardiovascular diseases beginning in calendar 2007.

The OsteoGram(R) test is reimbursable by Medicare, adding value to the bundled solution manufacturers of digital radiography equipment can offer to their customers. The OsteoGram(R) not only helps to solve the public health problem of lack of convenient osteoporosis testing, but it also increases revenue for the end user. The projected revenue can be positioned as a means to offset the monthly lease costs of the manufacturer's equipment, allowing the manufacturers and their dealers an attractive sales paradigm.

STRATEGIC PARTNERSHIPS

As a small company, it is difficult to create global demand for our products; therefore we rely on our strategic partners to market the OsteoGram(R) to end-users. Our strategy is to establish distribution and product development partnerships with the major manufacturers of digital imaging platforms and to

launch the integrated solution in a timely manner. Although we have become adept at integrating the OsteoGram(R) into various digital modalities, the process is gated by our partners' schedules, the timing of product launches and market conditions. Orex Computed Radiography was one of our earliest licensees. The company was acquired by the Health Group of the Eastman Kodak Company in early 2005, and the subsequent integration of Orex into the Kodak system slowed our expected progress in the field. The Orex licensing agreement was transferable upon the sale of Orex, and Kodak is a key player in the digital radiography field with platforms in computed radiography (CR), digital radiography (DR) and computer aided diagnostic, or CAD mammography. The terms of our licensing agreement with Orex allow Kodak to effortlessly license the OsteoGram(R) for their existing digital products.

In fiscal 2006 we signed several OsteoGram(R) licensing agreements. Aside from the Orex/Kodak agreement, we licensed the OsteoGram to Fujifilm Medical Systems USA, the market leader in computed radiography (CR) systems. Fuji recently gained FDA approval for their computed radiography mammography system, and the terms of our agreement allow them to sell our software in conjunction with their new digital mammography product. In April we signed a one-year exclusive licensing agreement with Kodak Electronics Products Shanghai, Co., LTD for the Peoples Republic of China.

COMBINED BUSINESS MODEL

Another facet of our OsteoGram strategy is to leverage the workflow and analytics capability of our ECG business by offering our radiology applications as a remote service business with recurring revenues. According to Frost and Sullivan, the number of imaging procedures in the U.S. is increasing annually at a rate exceeding 14%, while the number of radiologists to interpret the scans is not keeping pace. Many of the methods used by radiologists are manual and subjective in nature; therefore there is a pressing need for automation. The Internet is an opportunity to provide analyses and overreads remotely as a service. We currently use the Internet as an ECG transmission tool, and we plan to utilize our ECG infrastructure to expand into specialized radiology services.

We also believe we can expand our cardiology offering by adding new services. The telecardiology market is highly fragmented, and there exists an opportunity for consolidation. As fiscal 2006 drew to a close, we began to investigate strategic acquisitions that will add to our current cardiology business.

RESEARCH AND DEVELOPMENT

Fiscal 2006 was a challenging year for our research and development group. The changing needs of our strategic partners and a turnover in one of our key positions caused us to reevaluate the skill sets required for our team. Coupled with the degree of difficulty in hiring suitable software engineers in the current job market, we are pleased with our results in this area.

Early in fiscal 2006, we completed a small clinical trial to assess the results of utilizing the OsteoGram(R) software with images taken on a market leading Full Field Digital Mammography unit. The trial was conducted at a major teaching hospital, and we were encouraged by the strong correlation between the OsteoGram(R) results on digital mammography equipment and the original OsteoGram(R) film-based product. One of the major issues preventing routine osteoporosis testing is the lack of convenient testing sites. We believe that, by integrating the OsteoGram(R) into Full Field Digital Mammography platforms, women can be conveniently tested for osteoporosis at the same time and on the same equipment as their routine mammogram. Our goal in this area is to employ the dual strategy of licensing our product to key industry players and to offer our application on a cost-per-test basis. We believe there is a growing conviction that CAD applications, such as the OsteoGram, would be greeted enthusiastically by clinicians on a service business model. We believe that

there is a strong market for our product on digital mammography platforms, and we filed a preliminary patent application in November 2005 to protect our intellectual property rights in that regard.

As fiscal 2006 progressed, we focused on releasing Version 1.3.5 of the DICOM OsteoGram software that solidified the foundation of the system and allowed it to work on all configurations of the OREX computed radiography operating software, including their latest release.

Our research and development team devoted the latter half of the year to integrating our software application into a new digital x-ray platform from Kodak Electronics Products Shanghai, Co., LTD. This was a significant event for us, since the integration project required that we break our software into components that would fit within the Kodak software system. The resulting modularized OsteoGram system is now amenable to a wider range of platforms and radiology networks.

We continue to invest in research and development efforts for the OsteoGram(R) technology by planning new applications and filing key patents to protect our intellectual property rights. We are actively engaged in the development of potential diagnostic products based on the technologies covered by our first and second patents awarded by the U.S. Patent and Trademark Office in June 2001 and April 2004.

In fiscal 2006, we spent $340,000 on research and development, as compared to $293,000 in fiscal 2005. None of these costs were borne directly by our customers.

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, osteoporosis affects more than 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, and one of every two women will suffer an osteoporosis-related fracture in her lifetime.

In July 2002, the National Institutes of Health halted a large, in-progress study examining the effects of hormone replacement therapy. The study, which was one of the five major studies that comprise the large clinical trial called the Women's Health Initiative, 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. Hormone replacement therapy 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 hormone replacement therapy, which increased concern about bone loss. As a result, there was an increased awareness of bone mineral density testing and testing methods.

Following the Women's Health Initiative announcement, the U.S. Preventative Services Task Force 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 now enacting a new measure requiring health care providers to test for osteoporosis when a fracture is diagnosed. Failure to test or treat osteoporosis may have negative implications for a hospital's accreditation.

We believe that the global awareness of osteoporosis is increasing, and that there is a resurgence of interest in bone mineral density 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 measurements are the primary methods used to assist physicians in detecting osteoporosis. Bone mineral density is measured by passing x-ray beams or ultrasound through bone and determining how much energy the bone absorbs.

Dual energy x-ray absorptiometry, or DXA is currently the mostly widely used osteoporosis detection technology, with a worldwide installed base in 2003 exceeding 16,000 units according to Frost & Sullivan. The DXA market is divided into axial or central 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 such as 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 and Osteometer (a subsidiary of OSI Systems, U.S.). Whole body DXA products typically cost from $70,000-$150,000 and require specially trained technicians, who must be licensed in most states, and who are not available on a 24-hour, 7 days a week basis.

During fiscal 2006 Medicare considered proposed cuts in DXA reimbursement. Although the final decision has yet to be appealed, it appears that DXA reimbursement will be reduced by 40% by January 1, 2007 and will plummet to $35.48 when the proposed fee schedule is fully implemented in 2010. This amounts to a 75% cut in DXA reimbursement, which will have a profound effect on new system sales and the incentive to use DXA on an ongoing basis. Reimbursement for the OsteoGram is unaffected by these latest cuts.

We experience extensive competition for the OsteoGram(R) from companies that offer DXA machines, primarily because they are considered the "Gold Standard" for measuring bone mineral density 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 bone mineral density reports comparable to tests performed on the expensive, dedicated DXA equipment generally found in hospitals and specialty practices. The OsteoGram(R) test is reimbursed by Medicare and most medical insurance plans.

Other competition for the OsteoGram(R) comes from less accurate ultrasound and other peripheral devices. Our competition also uses single-energy x-ray absorptiometry, quantitative computed tomography, peripheral quantitative computed tomography, and radiographic absorptiometry. All radiographic techniques in use today have been validated through extensive clinical studies and are currently approved in the U.S. for Medicare reimbursement. We employ the

radiographic absorptiometry technology because of its accuracy, ease of use and relative low cost.

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

Quantitative Ultrasound. 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. We believe that there are now approximately 10,000 quantitative ultrasound machines installed worldwide. Quantitative ultrasound has U.S. FDA clearance for screening in the U.S., but unlike the OsteoGram(R), is not recommended by the National Osteoporosis Foundation for diagnosis.

To our knowledge, the only manufacturer using radiographic absorptiometry, other than us, is Alara, Inc. U.S. In 2000, the FDA approved Alara's self-contained, tabletop system that performs digital radiographic absorptiometry of the hand. We believe Alara is currently focused on developing computed radiography systems.

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. We may not be able to compete successfully in the future.

ELECTROCARDIOGRAM SERVICES

GENERAL

We have been a supplier of telemedicine services for more than twenty years and have established one of the nation's largest telecommunications networks for processing electrocardiograms on a real time basis. Using our customized electrocardiogram terminals, an electrocardiogram is acquired from a patient, transmitted to our central computers, analyzed and received back on the electrocardiogram terminal where the electrocardiogram 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 electrocardiogram supplies including electrodes, recording paper, gel, and patient cables.

Electrocardiogram analysis services are available to end-users 24 hours a day, seven days a week. Our ECG 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 over the latest hand-held systems.

We currently provide electrocardiogram equipment and services to more than 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.

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

MARKETING - ELECTROCARDIOGRAM SERVICES

Our goal in fiscal 2006 was to capture 100% of the state correctional contracts up for bid. We are pleased that we accomplished that goal by renewing our contracts with the Nevada, Oklahoma, Iowa and Nebraska Departments of Corrections and by working in conjunction with our correctional healthcare partners to renew the state correctional contracts for Idaho, Maryland and Wyoming The successful renewals for Wyoming, Idaho and Maryland were noteworthy, since we participated with Correctional Medical Systems and Prison Health Services in winning the overall healthcare award for the three state systems. Our relationships with Correctional Medical Systems and Prison Health Services were solidified during fiscal 2006, and we plan to continue working with these firms to solicit new correctional business. During fiscal 2005 we installed more than 150 new Schiller terminals in the New York and Florida State Departments of Corrections. The New York contract called for the outright purchase of nearly 100 new Schiller terminals, which resulted in a short-term revenue increase that helped boost fiscal 2005 ECG revenue by 27%. This was a one-time event.

We target our sales efforts for electrocardiogram 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 five years. New customers are generated mostly by our direct sales efforts. We attend national medical conventions as needed to generate leads for selling our services, equipment and supplies.

COMPETITION - ELECTROCARDIOGRAM SERVICES

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

The overall domestic electrocardiogram market is mature. However, we believe that the demand for the centralized cardiology services that we provide may increase due to the trend toward decentralized diagnostic testing with central interpretation and data storage, especially in clinical drug trials, where the federal government is likely to approve more automated procedures. Our intentions are to expand our offering in this area and to investigate strategic acquisitions that will roll up this highly fragmented market.

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. We may not 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 in Los Angeles. 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 these services.

Our OsteoGram(R) test and automated software have been cleared by FDA for use and sale. In addition, the OsteoGram(R) is approved for use in China, Korea, and a number of other countries, including the European Union through the award of a CE Mark. The OsteoGram(R) software is subject to regulation as a medical device and is ISO 13485 certified. Our electrocardiogram computer interpretation services are also regulated by the FDA and are compliant.

ECG testing is FDA and Medicare approved.

PATENTS AND PROPRIETARY RIGHTS

The U.S. Patent and Trademark Office awarded us our first OsteoGram(R) patent in June 2001 with a duration of 20 years. The patent covers twenty aspects of method and apparatus for determining bone mineral density. In April 2004 we were awarded a second patent with a duration of 20 years, which includes twenty-four claims covering image processing and bone segmentation technology.

In July 2004, we filed final action on a provisional U.S. patent application for our Digital Communications and Imaging in Medicine 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 standard or digital x-ray equipment and a DICOM image to evaluate bone mineral density and bone degenerative disease. In September 2004, we filed final action on 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. Dual energy x-ray absorptiometry, or DXA technology, which is considered the "Gold Standard" in bone mineral density 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, as clinicians become more aware of fracture risk assessment using parameters beyond bone mineral density.

In November 2005 we filed the final action on our patent application to protect

our intellectual property rights relating to the integration of the OsteoGram(R) with mammography equipment. We believe a strong market exists for coupling mammography and bone mineral density testing onto a single platform. Women often do not get tested for osteoporosis, since the disease is silent in nature and testing is inconvenient. Women do, however, get mammograms, so coupling the two tests is a winning combination for patients, imaging centers and digital imaging manufacturers.

The OsteoGram(R) trademark has been our registered trademark since July 2, 2002. We filed and were awarded trademark protection for the OsteoClick, our remote, pay-per-use system utilizing the OsteoGram(R) software positioned on a central server.

EMPLOYEES

As of September 30, 2006, we had 15 full-time and 2 part-time employees, 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 electrocardiogram "overreads" on a per-diem basis.

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. Claims made in the future with respect to our products may not be successfully defended or our insurance may not be sufficient. Furthermore, liability insurance may not 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 2007 at a monthly rental of $12,177. 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 fourth quarter of the fiscal year ended September 30, 2006.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is currently quoted on the over-the-counter 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, 2006 Quarter Ended:	COMMON STOCK	
	HIGH	LOW
December 31, 2005	$ 0.87	$ 0.35
March 31, 2006	0.89	0.50
June 30, 2006	0.76	0.43
September 30, 2006	0.51	0.27

Year Ended September 30, 2005 Quarter Ended:	COMMON STOCK	
	HIGH	LOW
December 31, 2004	$ 0.43	$ 0.34
March 31, 2005	0.27	0.26
June 30, 2005	0.33	0.25
September 30, 2005	0.40	0.38

As of September 30, 2005, there were approximately 521 record holders of our common stock, which does not include common stock held in "nominee" or "street" name.

DIVIDENDS

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.

STOCK OPTION PLANS

2003 STOCK INCENTIVE PLAN

Options generally become exercisable at a rate of 33% of the shares subject to an option one year after its grant. The remaining shares generally become exercisable over an additional 24 months. The duration of options may not exceed ten years. Options are generally non-assignable, except in the case of death and may be exercised only while the optionee is employed by us or, in certain cases, within three months after termination of employment or six months after death or disability. The purchase price and number of shares of common stock that may be purchased upon exercise of options are subject to adjustment in certain cases, including stock splits, recapitalizations and reorganizations.

Both the amount of options granted and to whom they are granted, are determined by the Board of Directors with the recommendation of the Compensation Committee, at their discretion. There are no specific criteria, performance formulas or measures applicable to the determination of the amount of options to be granted and to whom these options are to be granted.

2006 STOCK INCENTIVE PLAN

There are 2,500,000 shares of common stock available for issuance under the 2006 Stock Incentive Plan. Options generally become exercisable at a rate of 33% of the shares subject to an option one year after its grant. The remaining shares generally become exercisable over an additional 24 months. The duration of the options may not exceed ten years, and in the case of an incentive stock option granted to a 10% stockholder, shall not exceed five years. Options are generally non-assignable, except in the case of death and may be exercised only while the optionee is employed by us or, in certain cases, within twelve months after death or disability. The purchase price and number of shares of common stock that may be purchased upon exercise of options are subject to adjustment in certain cases including stock splits, recapitalizations and reorganizations.

Both the amount of options granted and to whom they are granted are determined by the Board of Directors with the recommendation of the Compensation Committee, at their discretion. There are no specific criteria, performance formulas or measures applicable to the determination of the amount of options to be granted and to whom these options are to be granted.

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

The following discussion and analysis compares our results of operations for the year ended September 30, 2006 to the same period in 2005. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Report on Form 10-KSB contains forward-looking statements, including, without limitation, statements concerning our possible or assumed future results of operations. These statements are preceded by, followed by or include the words "believes," "could," "expects," "intends" "anticipates," or similar expressions. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons including, but not limited to, product and service demand and acceptance, changes in technology, ability to raise capital, the availability of appropriate acquisition candidates and/or business partnerships, economic conditions, the impact of competition and pricing, capacity and supply constraints or difficulties, government regulation and other risks described in this report. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made, and our future results, levels of activity, performance or achievements may not meet these expectations. We do not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in our expectations, except as required by law.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2006 AS COMPARED TO 2005

Total revenues for fiscal 2006 were $2,114,000 as compared to $2,284,000 in fiscal 2005, a decrease of 7%. The decrease was mainly due to a one-time sale of ECG terminals to the New York State Department of Corrections in fiscal 2005, partially offset by increased OsteoGram sales.

ECG services revenue, consists of ECG processing, equipment rental, overread and maintenance, during fiscal 2006, decreased by 3% to $1,669,000 from $1,726,000 due to three fewer correctional healthcare providers.

ECG product and supplies sales decreased by 59% in fiscal 2006 to $180,000 from $440,000 due to the above mentioned one-time sale of ECG terminals to the New York State Department of Corrections.

OsteoGram (R) revenues increased by 125% to $265,000 from $118,000 due to orders from our original equipment manufacturer, or OEM, licensing partners.

In proportion with the decrease of ECG services referenced above, cost of ECG services decreased by 9%, $548,000 in fiscal 2006 compared to $602,000 fiscal 2005, and cost of goods sold of ECG decreased by 61%, $128,000 in fiscal 2006 compared to $327,000 fiscal 2005.

Cost of goods sold for OsteoGram (R) decreased by 13% during fiscal 2006 to $7,000 from $8,000 for fiscal 2005 due to elimination of hardware sales.

Selling expenses increased by 18% for fiscal 2006 to $369,000 from $313,000 for fiscal 2005 due to the hiring of the Vice President of Sales.

General and administrative expenses in fiscal 2006 increased by 8% to $1,104,000 from $1,024,000 from fiscal 2005, due to increased in costs related to the investor relations, $152,000 compared to $66,000 in fiscal 2005, and consulting services, $38,000 compared to $17,000 in fiscal 2005.

Research and development costs increased for fiscal 2006 increased by 16% to $340,000 from $293,000 for fiscal 2005 due to the hiring of the Vice President of Engineering.

Interest income and dividends for fiscal 2006 increased by 206% to $49,000 from $16,000 in fiscal 2005 due to increased investments in marketable securities.

The net loss for fiscal year 2006 increased by 26% to $424,000 from $336,000 in fiscal 2005 due to lower equipment sales in the ECG business and increased research and development and sales expenses.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2006, we had approximately $578,000 in cash and marketable securities, as compared to a balance of $571,000 at September 30, 2005, a net increase of $7,000 or 1%.

During fiscal year 2006, purchases of property and equipment decreased to $41,000 from $176,000 for fiscal 2005, due to new acquired and renewed contracts with several Departments of Corrections in fiscal 2005.

We have historically used existing cash and readily marketable securities balances to fund operating losses and capital expenditures. We have raised these funds in 1997 through 2006 through the placement of Preferred Stock issuances and proceeds from the exercise of certain stock options and warrants. Currently, we raise funds through the Investment Agreement with Dutchess Private Equities Fund and during 2006 we raised $252,000 through the sale of 375,000 shares of common stock.

We have incurred recurring losses and had net losses aggregating $760,000 in fiscal years ended September 30, 2006 and 2005. However, 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. 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 were 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 bulletin board, which will make it more difficult to raise funds through the issuance of equity securities. These additional sources of financing may not be available on acceptable terms, if at all.

Our primary capital resource commitments at September 30, 2006 consist of capital and operating lease commitments, primarily for computer equipment, electrocardiogram terminals and for our corporate office facility. We lease our corporate offices at a monthly rental of $12,176 which expires August 31, 2007.

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. These investments would be subject to our obtaining financing through issuance of debt or other securities. An acquisition may be dilutive to stockholders.

FINANCING ACTIVITIES

On February 25, 2004, we entered into an Investment Agreement and a Registration Rights Agreement with Dutchess Private Equities Fund, L.P., pursuant to which Dutchess agreed to purchase up to $5,000,000 of shares of our common stock over a three-year period. The purchase price of the shares of our common stock equals 95% of the three lowest closing best bid prices of our common stock during the 5 days after we deliver a put notice to them. As of September 30, 2006, we have sold 3,674,623 shares and raised $973,000.

MATERIAL TRENDS AND UNCERTAINITIES

We are disappointed by the rate of progress in commercializing the Digital Communications and Imaging in Medicine (DICOM) OsteoGram (R). In order to accelerate the efforts of our OEM partners, in October 2006, we hired a new sales director whose prime directive will be to manage these relationships and stimulate growth.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations, including the discussion on liquidity and capital resources, are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us 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, we re-evaluate our estimates and judgments, particularly those related to the determination of the estimated recoverable amounts of trade accounts receivable, impairment of long-lived assets and deferred tax valuation allowance. We believe the following critical accounting policies require our more significant judgment and estimates used in the preparation of the financial statements.

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our 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 uncollectibility of our trade accounts receivable balances. If we determine that the financial conditions of any of our 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 future operating cash flows expected to be generated by the asset. If these 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.

ECG sales and services revenue is recognized in accordance with SAB 104 as the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) the product has been delivered or the services have been rendered, (3) the fee is fixed or determinable, and (4) collectibility of the fee is reasonably assured.

ECG SERVICES are comprised of ECG processing, Overread, Rental and Maintenance. ECG Processing and Overread revenue is recognized monthly on a per-usage basis after the services are performed. Equipment rental and maintenance revenue is recognized monthly over the terms of the customer's agreement.

ECG PRODUCT AND SUPPLIES SALES revenue is recognized upon shipment of the products and passage of title to the customer.

OsteoGram software revenue is recognized in accordance to paragraph 8 of SOP 97-2 as the following criteria have been met: (1) persuasive evidence of an arrangement exits, (2) the software has been delivered, (3) the fee is fixed or determinable, and (4) collectibility of the fee is probable.

OsteoGram PCS revenue is recognized in accordance to paragraph 59 of SOP 97-2 as we met the following criteria: (1) the PCS is part of the initial license (software) fee, (2) the PCS period is for one year, (3) the estimated cost of providing the PCS is immaterial, (4) we do not offer upgrades and enhancements during the PCS arrangement. Our policy is to accrue all estimated costs of providing the PCS services.

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, we consider estimated future taxable income and taxable timing differences expected to reverse in the future. Actual results may differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the SEC released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides interpretive guidance on the SEC's views regarding the process of quantifying materiality of financial statement misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of this accounting pronouncement is not expected to have a material effect on our financial statements.

In September 2006, the FASB issued FAS 157 (SFAS 157), Fair Value Measurements. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is encouraged. The adoption of this accounting pronouncement is not expected to have a material effect on our financial statements.

In March 2006, the FASB issued FAS 156 (SFAS No. 156), Accounting for Servicing of financial Assets - an amendment of FASB Statement No. 140. This standard clarifies when to separately account for servicing rights, requires servicing rights to be separately recognized initially at fair value, and provides the option of subsequently accounting for servicing rights at either fair value or under the amortization method. The standard is effective for fiscal years beginning after September 15, 2006 but can be adopted early as long as financial statements for the fiscal year in which early adoption is elected, including interim statements, have not yet been issued. The adoption of this accounting pronouncement is not expected to have a material effect on our financial statements.

In February 2006, the FASB issued FAS 155 (SFAS No. 155), Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140. This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise have to be accounted for separately. The new statement also requires companies to identify interests in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest-and principal-only strips are subject to Statement 133, and amend Statement 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivates. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, but can be adopted early as long as financial statements for the fiscal year in which early adoption is elected, including interim statements, have not yet been issued. The adoption of this accounting pronouncement is not expected to have a material effect on our financial statements.

In March 2005, the FASB issued Interpretation No. 47 (FIN No. 47), Accounting for Conditional Asset Retirement Obligations, and Interpretation of FASB Statement No. 143. This interpretation clarifies the timing for recording certain asset retirement obligations required by FASB Statement No. 143, Accounting for Asset Retirement Obligations. The provisions of FIN No. 47 are effective for years ending after December 15, 2005. The adoption of this accounting pronouncement did not have a material effect on our financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of Accounting Principles Board Opinion ("APB") Opinion No. 20 and FASB Statement No. 3. This statement applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement where no specific transition provisions are included. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Retrospective application is limited to the direct effects of the change; the

indirect effects should be recognized in the period of the change. This statement carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. However, SFAS 154 redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The provisions of SFAS 154 are effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005, although early adoption is permitted. The adoption of this accounting pronouncement did not have a material effect on our financial statements.

In December 2004, the FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment." SFAS No. 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method that is currently used and requires that such transactions be accounted for using a fair value-based method and recognized as expense in the consolidated statement of operations. The effective date of SFAS No. 123R is for our year beginning October 1, 2006. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. APB Opinion No. 29, "Accounting for Nonmonetary Transactions," provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. Under APB Opinion No. 29, an exchange of a productive asset for a similar productive asset was based on the recorded amount of the asset relinquished. SFAS No. 153 eliminates this exception and replaces it with an exception of exchanges of nonmonetary assets that do not have commercial substance. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this accounting pronouncement did not have a material effect on our financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4." SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) be recorded as current period charges and that the allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 was effective for the fiscal year beginning on October 1, 2005. The adoption of this accounting pronouncement did not have a material effect on our financial statements.

ITEM 7. FINANCIAL STATEMENTS

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

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and our Principal Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-KSB. Based on this evaluation, our Chief Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance that the control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting that occurred during our last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as discussed above we are committed to a process of change and improvement throughout the enterprise intended to optimize our operations, and this process will necessarily entail improvements to our financial controls over the coming year.

OTHER INFORMATION

On October 28, 2005, we declared a dividend of one Common Stock Purchase Right for each outstanding share of common stock. The dividend is payable to holders of record at the close of business on August 1, 2005. Each Right entitles the registered holder to purchase shares of common stock at a purchase price of $0.40, subject to adjustment.

Initially, the Rights will not be exercisable, certificates for the Rights will not be issued and the Rights will automatically trade with our common stock. Until the close of business on the earlier of (i) the tenth day following the public announcement that a person or group of affiliated or associated persons, together the "Acquiring Person" other than us, our subsidiary or any employee benefit plan or employee stock plan, together an "Exempt Person" has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of our outstanding common stock or (ii) the tenth business day following the commencement by any person, other than an Exempt Person of, or the announcement of the intention to commence, a tender or exchange offer that would result in the ownership of 15% or more of our outstanding common stock with the earlier of such dates in clauses (i) and (ii) being called the "Distribution Date", the Rights will be evidenced, with respect to any of the common stock certificates outstanding as of August 1, 2005, by such common stock certificate, together with a copy of the Summary of Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire at the close of business on October 28, 2009, unless redeemed or exchanged.

The terms and conditions of the Rights are contained in a Rights Agreement between U.S. Stock Transfer Corporation and us. A copy of the Rights Agreement was filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A on November 2, 2005. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, as amended from time to time, which is incorporated in this summary description by reference.

In July 2006, the FASB issued Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes. This interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The adoption of this accounting pronouncement is not expected to have a material effect on our financial statements.

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, 2006:

NAME	POSITION WITH COMPANY	YEAR BECAME DIRECTOR	AGE
Robert Stuckelman	Chairman of the Board	1973	74
John G. McLaughlin. . . .	President and Chief Executive Officer		58
John Minnick.	Director	1985	58
John Romm, M.D.	Director	1997	76
Stuart L. Silverman, M.D.	Director	1999	59
Phuong Dang	Principal Financial Officer and Secretary		50

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 our company in 1973 and served as our President until 1982. From 1982 through 1989, Mr. Stuckelman was a business consultant for small and medium size companies. In 1989, he rejoined us as President and Chief Executive Officer, in which capacities he served until October 1994. Mr. Stuckelman has been our director since our 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 M.S.E.E. from the University of Southern California and a B.E.E. from Cornell University.

Mr. McLaughlin joined us in May 2002 as President and Chief Executive Officer. 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 B.S. 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 Bars. He is a member of the Association for Investment Management and Research. Mr. Minnick is a graduate of Washburn University (B.A.) and the Washburn University School of Law (J.D.).

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 B.S. 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 Osteoporosis Medical Center 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.

Ms. Dang has a degree in Accounting and been employed by us since 1990. She has served as Controller, Secretary and Principal Financial Officer since 1997. Ms. Dang has 26 years of corporate accounting and finance experience in the healthcare field, mail order and retail stores . Prior to joining to us, she served as Accounting Manager for the Maxicare Medical Center from 1984 to 1990. From 1978 to 1984, she served as Bookkeeper and Senior Staff Accountant for Sunset House/ Gadget Tree a division of Carter Hawley Hale.

BOARD MEETINGS AND COMMITTEES

Our Board of Directors held a total of twelve meetings during the fiscal year ended September 30, 2006. 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 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 five times during the fiscal year ended September 30, 2006. Mr. Stuckelman has been approved by our Board of Directors as the independent Audit Committee Financial Expert.

COMPENSATION COMMITTEE

The Compensation Committee reviews and approves our compensation policy and has assumed responsibility for administration of our Stock Option Plans. This

Committee currently consists of Mr. Minnick and Dr. Silverman. The Compensation Committee met two times during the fiscal year ended September 30, 2006.

EXECUTIVE COMMITTEE

The Executive Committee is comprised of Dr. Silverman and Mr. Stuckelman and meets monthly with the Chief Executive Officer to review company strategy and our financial condition. The Executive Committee met eleven times during the fiscal year ended September 30, 2006.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act, as amended, requires our executive officers, directors and persons who beneficially own more than 10% of our common stock to file reports of their beneficial ownership and changes in ownership (Forms 3, 4 and 5, and any amendment thereto) with the SEC. Executive officers, directors, and greater-than-ten percent holders are required to furnish us with copies of all Section 16(a) forms they file. Based on our review of the activity of our officers and directors for the fiscal year ended September 30, 2006, we believe Forms 3, 4 or 5 were timely filed.

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. We will provide to any person without charge, upon written request to our above address, a copy of such code of ethics.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation for the fiscal years ended September 30, 2006, 2005 and 2004 for our chief executive officer and all executive officers whose compensation exceeded $100,000.00 for such fiscal year.

		Annual Compensation			Awards	Long Term Compensation
(a) Name and Principal Position	(b) Year	(c) Salary ($)	(d) Bonus ($)	(e) Other Annual Compensation ($)	(f) Restricted Stock Award(s)($)	(g) Securities Underlying Options/SARs(
John G. McLaughlin, President and CEO	2006	$ 174,000	-	-	-	210,000
	2005	$ 150,000	-	-	-	45,000
	2004	$ 150,000	7,200	-	-	245,000
Phuong Dang Principal Financial Officer and Secretary	2006	$ 104,000	-	-	-	170,000

STOCK OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth the stock options granted to our executive officer named during the fiscal year ended September 30, 2006.

	INDIVIDUAL GRANTS			
NAME	NUMBER OF SECURITIES (SHARES OF COMMON STOCK) UNDERLYING OPTIONS GRANTED(1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES/DIRECTORS IN FISCAL	EXERCISE PRICE ($/SHARE)	EXPIRATION DATE
John G. McLaughlin	60,000	19%	$ 0.64	2015
	150,000	24%	$ 0.39	2016
Phuong Dang	45,000	15%	$ 0.64	2015
	125,000	20%	$ 0.39	2016