

COMPUMED INC
Form 10-Q
August 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

COMPUMED, INC.
(Exact name of registrant as specified in
its charter)

Delaware (State or Other Jurisdiction of Incorporation)	000-14210 (Commission File Number)	95-2860434 (I.R.S. Employer Identification No.)
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5777 West Century Blvd. , Suite 360
Los Angeles, CA 90045
(Address of Principal Executive Office) (Zip
Code)

(310) 258-5000
(Registrant's telephone number, including area
code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months Yes No

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(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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer <input type="radio"/>	Accelerated filer <input type="radio"/>
Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of the registrant's common stock as of July 31, 2010 was 27,287,542.

COMPUMED, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONDENSED BALANCE SHEETS
COMPUMED, INC.

	June 30, 2010 (Unaudited)	September 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 112,000	\$ 97,000
Investments, at fair market value	-	111,000
Accounts receivable, less allowance of \$17,000 (June 2010) and \$14,000 (September 2009)	249,000	293,000
Inventories	17,000	18,000
Prepaid expenses and other current assets	17,000	17,000
TOTAL CURRENT ASSETS	395,000	536,000
PROPERTY AND EQUIPMENT		
Machinery and equipment	1,503,000	1,388,000
Furniture, fixtures and leasehold improvements	76,000	76,000
Equipment under capital leases	343,000	421,000
	1,922,000	1,885,000
Accumulated depreciation and amortization	(1,640,000)	(1,556,000)
TOTAL PROPERTY AND EQUIPMENT	282,000	329,000
OTHER ASSETS		
Patents, net of accumulated amortization of \$38,000 (June 2010) and \$30,000 (September 2009)	127,000	127,000
Other assets	18,000	15,000
TOTAL OTHER ASSETS	145,000	142,000
TOTAL ASSETS	\$ 822,000	\$ 1,007,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 196,000	\$ 153,000
Accrued liabilities	83,000	118,000
Unearned revenue- ECG processing	2,000	2,000
Current portion of capital lease obligations	61,000	70,000
TOTAL CURRENT LIABILITIES	342,000	343,000

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Capital lease obligations	86,000	108,000
TOTAL LIABILITIES	428,000	451,000
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.10 par value - authorized 1,000,000 shares		
Preferred Stock- Class A \$3.50 cumulative convertible voting - issued and outstanding - 8,400 shares	1,000	1,000
Preferred Stock- Class B \$3.50 cumulative convertible voting - issued and outstanding - 300 shares	-	-
Preferred Stock- Class D 2% convertible - issued and outstanding - 4,167 shares	-	-
Common Stock, \$0.01 par value - authorized 50,000,000 shares, issued and outstanding - 27,287,462 shares (June 2010) and 26,093,742 shares (September 2009)	274,000	262,000
Additional paid-in capital	36,675,000	36,497,000
Accumulated deficit	(36,556,000)	(36,204,000)
TOTAL STOCKHOLDERS' EQUITY	394,000	556,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 822,000	\$ 1,007,000

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

CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)
COMPUMED, INC.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
REVENUE FROM OPERATIONS				
ECG services	\$395,000	\$446,000	\$1,183,000	\$1,336,000
ECG product and supplies sales	35,000	21,000	69,000	95,000
OsteoGram and Osteometer sales and services	18,000	8,000	94,000	145,000
TOTAL REVENUE	448,000	475,000	1,346,000	1,576,000
OPERATING EXPENSES				
Costs of ECG services	159,000	157,000	499,000	509,000
Cost of goods sold-ECG	21,000	15,000	45,000	62,000
Cost of goods sold - OsteoGram(R) and Osteometer	1,000	-	17,000	1,000
Selling expenses	77,000	69,000	239,000	270,000
Research and development	1,000	4,000	5,000	40,000
General and administrative expenses	242,000	230,000	734,000	730,000
Depreciation and amortization	29,000	40,000	96,000	115,000
TOTAL OPERATING EXPENSES	530,000	515,000	1,635,000	1,727,000
OPERATING INCOME (LOSS)	(82,000)	(40,000)	(289,000)	(151,000)
Interest income and dividends	-	-	-	1,000
Interest expense	(7,000)	(9,000)	(23,000)	(41,000)
NET LOSS	\$(89,000)	\$(49,000)	\$(312,000)	\$(191,000)
NET LOSS PER SHARE (Basic and diluted)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)
Weighted average number of common shares outstanding	27,093,742	25,882,643	26,655,336	25,882,643

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

CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
COMPUMED, INC.

	Nine Months Ending June 30,	
	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$(312,000)	\$(191,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of property and equipment	13,000	-
Stock-based compensation	44,000	78,000
Depreciation and amortization	96,000	115,000
(Increase)/Decrease in accounts receivable	41,000	41,000
(Increase)/Decrease in inventories, prepaid expenses and other assets	3,000	23,000
Increase/(Decrease) in accounts payable and other liabilities	(20,000)	(121,000)
NET CASH USED IN OPERATING ACTIVITIES	(135,000)	(55,000)
CASH FLOW FROM INVESTING ACTIVITIES:		
Sale of marketable securities	111,000	26,000
Purchase of other asset	(8,000)	(12,000)
Purchase of property and equipment	(1,000)	(1,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES	102,000	13,000
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(58,000)	(78,000)
Net offering of the private placement of Bathgate Capital	106,000	-
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	48,000	(78,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	15,000	(120,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	97,000	269,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 112,000	\$ 149,000
SUPPLEMENTAL DISCLOSURES:		
Interest paid	23,000	41,000
Equipment acquired under capital lease	27,000	47,000
Disposal of fixed assets, cost	19,000	35,000

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

COMPUMED, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Description of Business: CompuMed, Inc. (the Company) is a medical telemedicine and eHealth provider focusing on the diagnosis, monitoring and management of several costly, high incidence diseases, particularly cardiovascular disease and osteoporosis. The Company's primary business is the provisioning of specialized Cardiology services to primary care settings that do not have access to specialists, particularly in Cardio Vascular disease. We use telemedicine to link specialists to primary care patients and provide a number of diagnostic and disease management services, including the centralized interpretation of electrocardiograms ("ECGs"). We have also developed and marketed diagnostic technologies for skeletal health and bone disease, including the diagnoses of osteo-arthritis and osteoporosis. The Company applies digital workflows, telemedicine, eHealth, medical informatics, medical imaging, telecommunications and networking technologies to provide services to medical providers, professionals and patients, to deliver cost-effective point-of-care solutions, disease risk assessment, diagnosis and management as well as decision support.

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 adjustments) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. For further information, refer to the financial statements for the year ended September 30, 2009 and the notes thereto included in the Company's Annual Report on Form 10-K.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of conducting its business. The Company's ability to continue as a going concern is dependent upon various factors including, among others, its ability to reduce its operating losses and negative cash flows, and the ability to draw from our existing revolving line of credit or other sources of financing. The Company is planning to raise additional equity capital. This capital is needed to drive the market expansion of the Company into new areas of telemedicine and to grow our overall revenues and market penetration. There can be no guarantee that the Company may effect a successful financing upon acceptable terms to the Company and absent such financing the Company might have to delay its expansion plans or might have to curtail some or all of its operations. The Company is continually assessing the performance of its product lines and business units and may engage in further cost-cutting measures as well as other possible strategic transactions involving third parties for any non-performing product line. The Company used existing cash and readily available marketable securities balances to fund operating losses and capital expenditures. The Company has raised funds from 1997 through 2010 through stock issuances and proceeds from the exercise of certain stock options and warrants. The Company also has access to a \$4M revolving line of credit pursuant to the "Amended Credit Agreement" entered in December 16, 2008. Any advances on this credit line must be unanimously approved by the Board of Directors. At June 30, 2010, there have been no draws made against this revolving line of credit.

The balance sheet at September 30, 2009 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. The Company had a net loss of \$312,000 for the nine-month period

ended June 30, 2010 and \$191,000 for the same period in 2009. CompuMed plans to expand its present network of Cardiogram sites nationwide by launching a series of initiatives designed to deliver its telecardiology services, via industry partners that already provide healthcare services, to underserved markets in the geriatric, pediatric and rural settings.

Management believes the Company will be able to generate sufficient revenue, reduce operating expenses or obtain financing in order to fund ongoing operations for at least the next twelve months. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability or classifications of assets and liabilities that may result from the outcome of this uncertainty.

.STOCK-BASED COMPENSATION

The Company accounts for stock options in accordance with FASB ASC Topic 718 using the modified prospective method. Under this method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2006, based on the grant-date fair value estimated in accordance with guidance issued by the FASB amortized over the options' vesting period, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2006, based on the grant-date fair value estimated in accordance with guidance issued by the FASB amortized on a straight-line basis over the options' vesting period. Stock-based compensation was \$45,000 and \$78,000 for the nine months ended June 30, 2010 and 2009, respectively.

A summary of the stock options activity and related information for the nine months ended June 30, 2010 is as follows:

	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of period	8,226,748	\$ 0.29
Options granted	300,000	\$ 0.10
Options forfeited/canceled	(459,100)	\$ 0.64
Options outstanding, end of period	8,067,648	\$ 0.27
Options exercisable, end of period	7,825,980	\$ 0.27

During the nine months ended June 30, 2010, the Company granted an aggregate of 700,000 warrants and options to purchase shares of common stock, of which 300,000 warrants were issued to the Chief Executive Officer, 100,000 options to the Principal Financial Officer, and the remaining to certain key employees and consultants.

The fair value of the options and warrants granted during the nine months ended June 30, 2010 is estimated at \$25,000. The fair value is estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield: 0%

Volatility: 21.05% to 27.02%

Risk-free interest rate: 1.17% to 3.85%

Expected Life: 3 to 10 years

PER SHARE DATA

The Company reports its earnings (loss) per share in accordance with FASB ASC Topic 260. 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 anti-dilutive.

	Nine Months Ended June 30, 2010
Net loss	(312,000)
Preferred stock dividends	(78,000)
Net loss available to common stockholders	(390,000)
Net loss per common share (basic and diluted)	\$ (0.01)
Weighted average number of common shares outstanding	26,655,336

FAIR VALUE

The Company measures its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Additionally, the Company is required to provide disclosure and categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level I provides the most reliable measure of fair value while Level III generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level Input Input Definition:

Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
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Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
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Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.
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The following table summarizes fair value measurements by level at June 30, 2010 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 112,000	\$ -	\$ -	\$ 112,000
Total assets	\$ 112,000	\$ -	\$ -	\$ 112,000

For certain of the Company's financial instruments, including accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued new guidance regarding business combinations. The revised guidance requires that the acquisition method of accounting be applied to a broader set of business combinations, amends the definition of a business combination, provides a definition of a business, requires an acquirer to recognize an acquired business at its fair value at the acquisition date and requires the assets and liabilities assumed in a business combination to be measured and recognized at their fair values as of the acquisition date (with limited exceptions). This guidance applies prospectively to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The new standard also converges financial reporting under U.S. GAAP with international accounting rules. The Company adopted this guidance on October 1, 2009. There was no impact upon adoption of this guidance.

In April 2009, the FASB issued an amendment to the revised business combination guidance regarding the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. The requirements of this amended guidance carry forward without significant revision to the guidance on contingencies which existed previously. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can be reasonably estimated. If fair value cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with the Accounting Standards Codification (ASC) Topic 450 on contingencies. The Company adopted this guidance on October 1, 2009. There was no impact upon adoption of this guidance.

In December 2007, the FASB issued new guidance on non-controlling interests in consolidated financial statements. This guidance requires that the non-controlling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the non-controlling interest and changes in ownership interests in a subsidiary and requires additional disclosures that identify and distinguish between the interests of the controlling and non-controlling owners. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company has adopted the new requirements for the fiscal year beginning on October 1, 2009. There was no impact on the financial statements.

In June 2009, the FASB issued amendments to the accounting rules for variable interest entities (VIEs) and for transfers of financial assets. The new guidance for VIEs eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary. In addition, qualifying special purpose entities ("QSPEs") are no longer exempt from consolidation under the amended guidance. The amendments also limit the circumstances in which a financial asset, or a portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented, and/or when the transferor has continuing involvement with the transferred financial asset. This guidance is effective as of the beginning of a reporting entity's first annual reporting period that begins after November 15, 2009.

and for interim periods within the first annual reporting period. The Company does not expect the adoption of these amendments to have a material impact on the financial statements.

In June 2009, the FASB issued revised guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. This guidance will be effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact the adoption of these standards will have on its financial statements and related disclosures.

In June 2009, the FASB issued new guidance regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance which changes the accounting for equity share lending arrangements on an entity's own shares when executed in contemplation of a convertible debt offering. This guidance requires the share lending arrangement to be measured at fair value and recognized as an issuance cost. These issuance costs should then be amortized as interest expense over the life of the financing arrangement. Shares loaned under these arrangements should be excluded from computation of earnings per share. This guidance is effective for fiscal years beginning after December 15, 2009 and requires retrospective application for all arrangements outstanding as of the beginning of the fiscal year. The Company does not expect the adoption of this guidance to have a material impact on its financial statements.

In October 2009, the FASB issued authoritative guidance on multiple-deliverable revenue arrangements. This new guidance amends the existing criteria for separating consideration received in multiple-deliverable arrangements and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables based on their relative selling price. The guidance establishes a hierarchy for determining the selling price of a deliverable which is based on vendor-specific objective evidence, third-party evidence, or management estimates. Expanded disclosures related to multiple-deliverable revenue arrangements are also required. This guidance is effective for the Company beginning fiscal year 2011, with early adoption permitted. Upon adoption, the guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements, or it may be applied retrospectively. The Company does not expect the adoption of this guidance to have a material impact on its financial statements.

NOTE C- COMMITMENTS AND CONTINGENCIES

During the nine months ended June 30, 2010, the Company entered into a capital lease obligation for equipment at the cost of \$27,500. This obligation bears an interest rate of 19.65%, is payable at \$800 per month, and matures on August 2013. The range of interest rates on capital leases outstanding as of June 30, 2010 was 15.61% to 19.65%.

The following is a summary, as of June 30, 2010, of future minimum lease payments together with the present value of the net minimum lease payments on capital leases:

Fiscal Year	Capital Lease	Operating Leases
2010	\$ 23,000	47,000
2011	76,000	176,000
2012	55,000	174,000
2013	27,000	71,000
	181,000	468,000
Less amount representing interest	34,000	
Net minimum lease payment	147,000	
Less current portion	61,000	
Present value of net minimum payment, less current portion	\$ 86,000	

Rental expenses under operating leases for the nine months ended June 30, 2010 and 2009 were \$126,000 and \$131,000, respectively.

The holders of Class A Preferred Stock are entitled to receive, when and as declared by the Board of Directors, dividends at an annual rate of \$.35 per share, payable quarterly. Dividends are cumulative from the date of issuance. The total dividends accumulated in the quarter ended June 30, 2010 was \$2,000 and the total cumulated dividends not declared at June 30, 2010 was \$28,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

This report on Form 10-Q 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 our annual report on Form 10-K and other reports as may be filed from time to time with the Securities and Exchange Commission. 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.

Statements contained in this 10-Q, such as statements about revenue, operations, and earnings growth and other financial results are forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements including statements concerning the Company's plans, objectives, expectations and intentions are based largely on management's expectations and are subject to and qualified by risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These statements are subject to uncertainties and risks including, without limitation, 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 identified in the Company's filings with the Securities and Exchange Commission. All such forward-looking statements are expressly qualified by these cautionary statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect events, conditions or circumstances on which any such statement is based after the date hereof, except as required by law.

OVERVIEW

According to the Centers for Disease Control (CDC)/National Center for Health Statistics (NCHS), Centers for Disease Control and Prevention, National Center for Health Statistics, "Health, United States, 2008", for persons born in the United States, the probability at birth that they will die of some form of cardiovascular disease (CVD) is 47 percent. Since 2007 the form of CVD remain the number one cause of death for men and women alike, and the number three cause of death for children under the age of 15 in the United States. Additionally, 3 to 4 people on average die every few minutes in the US from varying forms of CVD, which equals approximately 2,600 US lives daily.

The term CVD includes several different types of cardiovascular disorders, including high blood pressure, stroke, and coronary heart disease, which include heart attacks (myocardial infarction). Congestive heart failure and congenital heart defects are also forms of CVD. Recent statistics published by the American Heart Association show that CVD affects approximately 64.4 million Americans. The financial burden for CVD was estimated at \$368.4 billion in 2007, up from \$351 billion in 2006, an increase of 5 percent in one year alone. Of this, \$226.7 billion consisted of healthcare expenditures, with the remaining \$141.7 billion attributed to indirect costs, such as lost productivity. With risk factors such as obesity, high cholesterol, and sedentary lifestyles steadily increasing, the prevalence of CVD, demand for ECG, and cardiac monitoring services is poised to increase.

CompuMed has created an electronic telemedicine infrastructure to link clinical cardio-vascular data collected at the patient's point of care, such as 12-lead ECGs, provide computerized interpretation of the data and to transmit that data to cardiologists for over-read interpretations. Our innovation in this area is the workflow technology being used to manage the inflow of data to its servers, and the routing of that data to a network of cardiologists who provide interpretations under contracts. Our services are available 7x24 and are designed to support general clinical workflows. We have specialized expertise and intellectual properties in electronic workflow, telemonitoring, imaging and analysis. Our services and products are designed to improve healthcare provider workflow and patient care, while reducing costs. We also develop imaging based diagnostic systems for the detection of certain musculoskeletal diseases such as Osteoporosis.

We are registered with the Food & Drug Administration, (FDA) and our medical devices including those used in our core products CardioGram™, OsteoGram® and OsteoCare™, are cleared by the FDA. Our products and services are reimbursable by Medicare and many private insurers.

The CardioGram is an electronic workflow and telemedicine application focused on tele-cardiology. We have been a supplier of telemedicine services for more than twenty years and have established one of the nation's largest networks for electronic processing of electrocardiograms on a near-real-time basis, providing ECG equipment and services to hundreds of healthcare providers throughout the U.S and performing tens of thousands of ECG interpretations annually. Using our customized electrocardiogram terminals, an electrocardiogram is acquired from a patient, digitized, transmitted in electronic form to our central computers for digital workflow processing, analyzed and received back on the electrocardiogram terminal where the electrocardiogram trace and computer interpretation are printed,- all within a few minutes. If necessary, we can provide an "overread" by a cardiologist and return the results within a short time frame, often in under an hour. We bill for this service on a per-use basis, and we sell or rent a full range of electrocardiogram machines and supplies including electrodes, recording paper, gel, and patient cables. CardioGram can also be used to manage electronic records in connection of electronic medical records and digital workflow applications.

The OsteoGram is a non-invasive diagnostic software system that has been shown in clinical studies to provide an effective and accurate bone density measurement in connection with screening for osteoporosis and assessing hip fracture risk from digital X-Rays of the hand and wrist. We believe that the OsteoGram may have significant cost

advantages over other non-invasive diagnostic technologies in the marketplace. We license the OsteoGram software for license fees. Our target markets for these products are OEMs and settings where digital X-Ray infrastructure is used such as hospitals, radiology practices, imaging centers, and orthopedic office practices.

OsteoCare is a similar product to our OsteoGram but based on a self-contained peripheral unit with a dual-energy absorption X-ray technology. OsteoCare is useful to provide a self-contained BMD testing device in clinical point-of-care settings where a larger digital X-Ray system might not be cost-effective. We sell, lease or rent the OsteoCare system. The Company targets the OsteoCare product at point-of-care markets such as general practices and obstetric-gynecology practices.

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

Telecardiology & Telemedicine Services

CompuMed's historical customer base for its telecardiology services has been the correctional healthcare segment. During the quarter, we were able to leverage the significant investments to expand our telecardiology and telemedicine platform supporting our CardioGram into new market segments. While much of the revenue opportunity from some of these new markets remains ahead of us, we established new initial customer relationships in new markets. These include, (i) California test sites in pediatric in connection with school based health clinics for pre-athletic and other at-risk students, and (ii) the continued expansion into the rural health market.

Frost and Sullivan, (US ECG and Cardiac Monitoring Products and Services Markets, 2006), estimates the overall market size for ECG services in clinical care settings to be in excess of \$1 billion in 2010. Additionally trends towards telemedicine use in support of diagnosis and treatment of disease, including cardiovascular disease, appear to be accelerating due to recent push from the federal government, healthcare reform and cost reductions. We believe that we might be at a strategic inflection point in the marketplace acceptance of our telemedicine services in the broader point of care clinical market, and believe we might have the opportunity to move the Company into a position of leadership in providing telecardiology services to primary care patients, including to patients directly at home. Currently our products have been used principally in institutional settings within certain niches, but some of our activities during the year in pediatrics, rural and occupational healthcare have allowed us to test both technology and reimbursements for this primary care targets. Additionally recent trends are showing greater acceptance of teleconsultations and real-time cardiac telemetry, (MCOT) with significant approved reimbursements. As a result, the Company has been testing its ability to become a Medicare primary provider for such services and is looking to add MCOT and Teleconsult services to its ECG platforms. These services are reimbursed at a rate an order of magnitude larger than ECG services and could potentially be a material source of new revenue for the Company.

Expansion into eHealth and Mobile Cardiac Outpatient Telemetry (MCOT)

Telemedicine technologies are also gaining in acceptance because they help reduce cost of healthcare. According to market research firm Parks Associates, the total digital home health market in the US could grow at an average annual rate of 36% and turn into a \$2.1 billion industry in 2012. According to Parks, the rapid expansion of wellness monitoring programs and online patient-physician messaging services might partly drive this growth. In another study conducted by Penn, State University (C. Cruise, M Lee, Physical Medicine and Rehabilitation Clinics of North America, Volume 16, Issue 1, pages 267-284), remote home health monitoring for a single group of diabetes patients cut costs for hospital care by 69%. A Veterans Administration study (Dibya Sarkar, "Broadband Could Be Health Boom For Seniors, Government Health IT, December 9, 2005) of remote monitoring of patients showed a 40% cut in emergency room visits and another study by the Kaufman Foundation (Better Health Care Together – Robert Litan, Vital Signs via Broadband: Remote health Monitoring transmits savings, enhances lives, October 2008) forecasted that 30% of all hospital, out-patient and drug expenses could be saved from remote monitoring for the chronically ill.

The Company begun in prior quarters to deliver its existing services in primary care to new eHealth markets including geriatric, pediatric and rural areas. Planned in conjunction with that expansion is the addition of new MCOT and eHealth teleconsult services for those same customers. The Company believes the timing is favorable for CompuMed to enter these markets and provide these new services, as reimbursement policies are changing to encourage telemedicine-based services as a means to reduce costs while improving the quality of care for underserved patients. There are recent trends suggesting that reimbursers are recognizing its cost effective to provide certain diagnostic and clinical services to patients outside of the hospital setting whenever possible, like doctors' offices, schools, nursing homes and other point-of-care facilities in medically underserved markets or 'MUAs.

Additionally there is increasing clinical evidence (<http://www.liebertonline.com/doi/abs/10.1090/tmj.2008.0021>), especially in cardio-vascular care, of improved clinical outcomes and fewer hospital stays for patients with access to telemedicine, which can help the reimbursers' bottom line while also helping patients, (<http://www.sciencedaily.com/releases/2008/05/080501161223.htm>).

These changing reimbursement policies are also being driven by national trends in healthcare reform and legislation. Policy groups are demanding better cardiac care for MUAs, which represents an estimated 12 percent of the U.S. population, (<http://hrc.nwlc.org/status-indicators/Womens-Access-to-Health-Care-Services/People-in-Medically-Underserved-Areas.aspx>) and new federal funding and tax incentives are promoting broader adoption of eHealth technologies.

Additionally there is increasing clinical evidence in the published literature that close monitoring of CV patients can lead to improved clinical outcomes, including as it relates to drug therapies. In part, this is because patients can better understand the causes and effects of their treatments, and physicians have more and longer-term patient data upon which to base their treatment decisions. New reimbursement options have emerged that provide us with an incentive to evolve our telecardiology platform from ECGs interpretation alone to a wide set of cardiac event monitoring and teleconsults. Reimbursements for MCOT event monitoring, for example, are an order of magnitude larger than for ECGs.

To reach these underserved markets, CompuMed has launched a series of initiatives designed to deliver its telecardiology services via industry partners that already provide healthcare services to underserved markets in the geriatric, pediatric and rural settings. The Company announced the first of such partnerships with the California School Health Centers Association (CSHC) to promote CompuMed's telemedicine technologies for use in school health centers throughout California. CSHC represents more than 150 school health centers that serve more than 800 primary and secondary schools throughout California.

Pursuant to that relationship, we have begun installing our systems at target school health clinic and are targeting 50 sites that agree to student-body wide screening programs. We expect to begin to provide such student body wide screens in the fourth quarter of 2010. It is unclear at this time the exact revenue impact, but unit economic assumptions for such screens show potential for increased revenues from these new customers.

CompuMed's geriatric target market includes nursing homes, long-term care, assisted living and rehabilitation facilities that are all underserved by cardiology specialists, yet are experiencing increasing growth in cardiovascular (CV) disease. According to a National Health and Nutrition Examination Study (NCHS), about 80 million Americans have a CV condition, with the vast majority at risk over age 60 – the nation's fastest growing age group. We have been engaged in negotiations with leading healthcare providers in the skilled nursing homes market. Such partnerships could deliver rapid entry into nursing homes that could benefit from our ECG, and new teleconsults and MCOT services. Because of the increased reimbursements associated with these new services, the revenue impact from this market could be material. However there can be no guarantees that we will be able to complete our negotiations at terms favorable for the Company or at all, and that we will be successful in driving market penetration in the nursing home market.

In order to complete the evolution into a comprehensive telecardiology provider that includes event monitoring and full patient teleconsults, the Company has elected to become an Independent Diagnostic Testing Facility (IDTF) under the Center for Medicare Services (CMS) definitions. This will allow the Company to bill for, and recognize as revenue, the full scope of services provided to client facilities. This could have the effect of materially expand our revenues and to increase the depth of our services to existing and new clients. While the Company is focusing significant effort on launching these complementary monitoring services and becoming an IDTF, there can be, however, no guarantees that the Company will be successful in becoming approved as an IDTF or that it will be successful in expanding its revenues through these new services.

Multiple factors are also increasing the attention on improving cardiac care for our nation's youth. In its approach to the pediatric market, CompuMed plans to build upon the CardioGramKids™ parental education program it introduced last summer, designed to help parents identify at-risk kids taking psychotropic medication and those participating in athletic events.

According to the US Census Bureau, there are more than 55 million children enrolled in schools nationwide and we estimate that large percentage participate in school sponsored sports. Our strategy envisions partnering with school-based health care clinics. By partnering with school-based health clinics, we can provide wider screening for CV disease in the segment of this population that has risk factors, and in so doing identify earlier the children and adolescents at risk for adverse cardiac conditions.

According to Science Daily (2008 --<http://www.sciencedaily.com/releases/2008/07/080703203243.htm>), one young competitive athlete dies every three days from an unrecognized cardiovascular disorder in the US. In the majority of cases, the athletes appear healthy and there is no previous clinical sign of heart problems. The clinical usefulness of pre-screening programs to identify people at high risk has been hotly debated but consensus appears to be emerging that there should be some kind of pre-screening program involving electrocardiogram (ECG). We have begun entering into relationships with educational healthcare providers to begin running this type of screening as a natural extension of our pediatric program for some of their student population for which screening is medically indicated. It is too early, however, to predict how many patients and ultimately what the volume of new tests these relationships will generate for the Company.

While the markets for our products appear to be extensive, there can be no guarantees that the strategy of expanding our historical correctional and institutional markets to these broader markets will be successful, or that the Company will succeed in generating new material revenues or profits from these businesses. Key assumptions relating to these new markets, their willingness to accept our solutions and our ability to scale our offering into these markets are still largely untested. Without additional capital, we may not be able to effectively execute our plans for market expansion.

We are also continuing to be engaged into strategic discussions with possible partners that could accelerate and/or capitalize our new market entry. The process of negotiation is on-going and we remain committed to including such

strategic relationships as part of our market entry in these primary care markets. Specifically we are looking at partnerships that can accelerate our access to acute care nursing homes, rural clinics and other medically underserved primary care settings. This is a key strategy to provide scale to these new services and is the focal point of the Company's strategic effort. Partially to provide capitalization for the activities in support of its eHealth initiatives, and related joint ventures, the Company entered into an agreement to effect the private placement of 1,000,000 shares of the Company's common stock at a price of \$0.12 per share and received net proceeds of \$106,000 during the third quarter of fiscal 2010. The Company expects to seek additional equity funding to finance its market expansion at some point in the future. There are no guarantees that the Company will be successful in raising such funds or that it may raise them at terms that would be attractive. If the Company does not have sufficient capital, it might need to reduce its operations, and it might not have sufficient capital to execute in its expansion plan.

Our correctional customers continued to respond to the fiscal pressures on their budget by eliminating wide screening of patients, and limiting use of our services to at-risk patients. This trend accelerated during the quarter and depressed revenue throughout the quarter, but was partially offset by the increase in overall customers under contracts, principally outside of the correctional market. We have no indication of when, if at all, our correctional customers might relax these reduced usage patterns, and restore historical usage patterns. At this time our planning is focusing on new customers that might not be affected as much but State and other government budget cycles.

We are currently providing ECG services to 946 sites, nationwide and perform tests on an average of 75,000 patients totaling an average of over 90,000 tests annually.

Skeletal Health Business

Market acceptance of this product has been limited by the fact that the OsteoGram software is a bolt-on to other Digital Radiology (DR) or equivalent systems. While such systems are normally present in large facilities, many of the smaller physician's practices that appear most interested in providing bone density screening to their patients typically do not own such systems, or in many cases do not even own x-ray equipment. As a result, we have not been able to deploy OsteoGram for the point-of-care opportunity and OsteoGram is principally focused in OEM markets where DR technologies are present such as hospitals, surgery centers, larger orthopedic practices and imaging centers. Recognizing this, the Company has altered its marketing effort of the OsteoGram to focus on larger facilities with existing DR/CT systems, and is looking at its alternate product OsteoCare to address the point-of-care needs of the larger number of smaller physician practices.

OsteoGram continues to have limited acceptance at this time. In the US there is a tendency by the physician community to look at RA, the technology on which OsteoGram is based, as a lesser technology than DXA, the prevalent approach to bone densitometry. While this appears to be a "perception", it has made sales, especially in the US, difficult. In overseas markets, the bias towards DXA is less pronounced and the Company has invested effort towards developing credible international channels and clearing the path towards a greater presence internationally. In order to overcome this perception, and to expand its ability to operate in international markets, the Company has been investigating strategic alliances with one or more large third parties that could add large company resources to our OsteoGram marketing efforts. It is too early to indicate the form and structure of such a relationship and there can be no guarantees that such a relationship can be found or executed. Additionally, the Company with its OEMs has worked aggressively to clear the product for sale in China. This effort resulted in the Chinese State Food & Drug Administration clearing the OsteoGram for sale in China on June 6, 2008.

The Company continues to address a worldwide market for its skeletal health products, we focused marketing effort in China where demand has been the strongest. The Company believes that Osteoporosis affects more than 200 million people worldwide and is especially prevalent in China, where the traditional diet lacks calcium. According to China's most recent national census, about 100 million Chinese citizens suffer from the disease in various stages. A large scale study led and presented by renowned osteoporosis researcher Dr. Jianhua Wang at the recent 6th International Conference on Bone and Mineral Research in Hohhot, China specifically affirmed the precision and accuracy of CompuMed's OsteoGram system for low cost osteoporosis screening. Dr. Wang's presentation titled "Study on Measurement of Phalangeal Bone Density by Radiographic Absorptiometry" presented extremely precise results when performing short-term repeated tests with CompuMed's OsteoGram system. In addition, the study outcome was highly correlated to China's popular osteoporosis normal database, confirming the high accuracy of OsteoGram. Radiographic absorptiometry (RA) is a technique for bone mass measurement from radiographs of peripheral sites, most commonly the hand or heel. This was one of the largest and most thorough studies ever performed to study the value of RA in measuring bone mineral density. We believe that the results further confirmed that the OsteoGram is an effective and efficient alternative to costly DXA systems.

In July 2008, CompuMed announced that the Company had received approval from China's State Food and Drug Administration (SFDA) to sell the OsteoGram system and therefore work with Chinese OEMs to penetrate the Chinese market for osteoporosis screening.

The Company has continued to grow the number of units placed in China, principally through its distribution partners in China. While encouraging as a trend, the volume of units is small in comparison to the total market potentials. Recognizing the potential importance of certain overseas markets such as China, and the fact that the Company might need to expand its marketing and R&D effort in those markets beyond what it has the resources to accomplish alone, the Company is negotiating a joint venture or other strategic relationship with potential strategic partners to expand its international market reach. Currently the products are marketed in China through its master distributor, Rayco, a unit of Carestream Health.

RESULTS OF OPERATIONS FOR THE QUARTER AND THE NINE MONTHS ENDED JUNE 30, 2010
COMPARED TO THE SAME PERIOD OF FISCAL 2009.

Total revenues for the third quarter decreased by 5.7% to \$448,000 from \$475,000 for the same quarter of 2009, and for the nine months ended June 30, 2010, decreased by 14.6% to \$1,346,000 from \$1,576,000 for the same period in 2009 principally due to reduced usage of our services in the Correctional marketplace, partially offset by an increase of non-correctional customers.

ECG services revenue, which consists of ECG processing, equipment rental, over-reads and maintenance, during the third quarter of fiscal 2010, decreased by 11.4% to \$395,000 from \$446,000 for the same quarter of fiscal 2009, and for the nine months ended June 30, 2010, decreased by 11.5% to \$1,183,000 from \$1,336,000 for the same period in 2009. The decrease was due to continued expense cutting by certain State Department of Corrections, which resulted in more restrictive usage of our systems, partially offset by continued growth of total number of sites under contract. It is unclear how long this pattern of budget driven diminished utilization might endure, but the Company is adapting by adjusting its cost basis to this new reality.

ECG product and supplies sales revenue for the third quarter of fiscal 2010 increased by 66.7% to \$35,000 from \$21,000 for the same quarter of fiscal 2009, due to the one-time purchases by new customers installing our systems, and for the nine months ended June 30, 2010, decreased by 27.4% to \$69,000 from \$95,000 for the same period in 2009 due to the cyclical nature of equipment purchases and capital budget associated with new contracts from State Department of Corrections that occurred last year but did not occur this year.

Skeletal Health products and services revenue consist of OsteoGram and OsteoMeter sales and services. During the third quarter of fiscal 2010, it increased by 125.0% to \$18,000 from \$8,000 for the same quarter of 2009 due to China executing their order pursuant to the new agreement. For the nine months ended June 30, 2010, it decreased by 35.2% to \$94,000 from \$145,000 for the same period in 2009. The decrease was related to OsteoGram sales mostly due to the timing of certain budget cycles in China. Historically sales of these products have tended to be lumpy, and quarter-to-quarter comparisons have not necessarily indicated trends for the remaining fiscal year.

Cost of ECG services during the third quarter of fiscal 2010 increased by 1.3% to \$159,000 from \$157,000 for the same quarter of 2009, due to cost of software maintenance on certain ECG machines. For the nine months ended June 30, 2010, the cost of services decreased by 2.0% to \$499,000 from \$509,000 for the same period of 2009, due to the continued cost cutting measures implemented by the Company since 2008.

Cost of goods sold of ECG during the third quarter increased by 40.0% to \$21,000 from \$15,000 for the same quarter of 2009, and for the nine months ended June 30, 2010, decreased by 27.4% to \$45,000 from \$62,000 for the same period in 2009. This cost was related to purchase of ECG equipment and its components therefore varied accordingly to the ECG product and supplies sales mentioned above.

Cost of goods sold of OsteoGram and Osteometer for the third quarter increased slightly. For the nine months ended June 30, 2010, it increased by 1,600.0% to \$17,000 from \$1,000 for the same period in fiscal 2009. This cost was related to Osteometer and was consistent with the increases in Osteometer revenue mentioned above.

Selling expenses for the third quarter of fiscal 2010 increased by 11.6% to \$77,000 from \$69,000 for the same quarter of fiscal 2009, due to the launching of series of initiatives to target potential new markets such as pediatric, geriatric and rural. For the nine months ended June 30, 2010, it decreased by 11.5% to \$239,000 from \$270,000 for the same period in fiscal 2009. The decrease was related to commission expenses associated with lower OsteoGram sales mentioned above.

General and administrative expenses for the third quarter of fiscal 2010 increased by 5.2% to \$242,000 from \$230,000 for the same quarter of fiscal 2009 and for the nine months ended June 30, 2010, increased by 0.5% to \$734,000 from \$730,000 for the same period in fiscal 2009, due to increase in investor relations expenses.

Research and development costs for the third quarter of fiscal 2010 decreased by 75.0% to \$1,000 from \$4,000 for the same quarter of fiscal 2009, and for the nine months ended June 30, 2010, decreased by 87.5% to \$5,000 from \$40,000 for the same period in fiscal 2009. The reduction was partially a result of the re-alignment of priorities relating to product development and partially due to stock-based compensation approaching its full amortization.

During the third quarter of fiscal 2010 and 2009, the non-cash stock-based compensation charges included in the expenses above were \$23,000 and \$12,000, respectively. For the nine months ended June 30, 2010 and 2009, they were \$45,000 and \$78,000, respectively.

There were no interest and dividend income during the nine months ended June 30, 2010 and \$1,000 for the same period in 2009.

Interest expense for the third quarter of fiscal 2010 decreased by 22.2% to \$7,000 from \$9,000 for the same period of fiscal 2009, and for the nine months ended June 30, 2010, decreased by 43.9% to \$23,000 from \$41,000, due to the elimination of the 1% interest related to the \$4 million Credit Line pursuant the Amended Credit Agreement entered on December 16, 2008 between the Company and Boston Avenue Capital, LLC.

Net loss for the third quarter of fiscal 2010 increased by 81.6% to \$89,000 from \$49,000 for the same period of fiscal 2009, and for the nine months ended June 30, 2010, increased by 63.4% to \$312,000 from 191,000 for the same period in 2009. The Company suffered the greater loss of revenue during the second and third quarter because of the global economic downturn.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

OPERATIONS

At June 30, 2010, we had \$112,000 in cash and investments compared to a balance of \$208,000 at September 30, 2009, a net decrease of \$96,000. Commencing with the third quarter of fiscal 2008, the Company implemented a significant campaign of cost reductions and was able to reduce the cash burn rate by the first fiscal quarter of 2009. The Company launched the initiatives to target potential new markets in the pediatric, geriatric and rural settings resulted in increase of certain expenses in the third quarter of fiscal 2010. The Company will continue to assess the performance of its product lines and business units and may engage in further cost-cutting measures as well as other possible strategic transactions involving third parties for any non-performing product line, with a goal to achieve cash flow positive status as soon as possible.

Our net cash used in operating activities was \$135,000 in the nine months ended June 30, 2010 compared to \$55,000 for the same period in 2009, an increase of \$80,000. Significant components of net cash used in operating activities for the nine months ended June 30, 2010 included a \$3,000 decrease in prepaid expenses was due to deferred rent of the building and \$20,000 decrease in accounts payable was due to paying off some vendors that had a large balance in 2009.

The Company anticipates that its cash flow from operations and available cash will be sufficient to meet its anticipated financial needs for at least the next 12 months assuming that no significant downturn in its business occurs. There can be no guarantee that the Company will achieve this result, however, resulting in the Company needing to raise additional capital in the future or draw down on its available credit line. Such sources of financing might not be available on reasonable terms or at all. Failure to raise capital when needed could adversely impact the Company's business, operating results and liquidity. Additionally, the Company may find it desirable to raise additional equity capital to accelerate its strategic objectives. However there can be no guarantees that the Company will be able to do so or that such capital will be available. 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 the Company's common stock. The Company's Common stock is currently quoted on the over-the-counter bulletin board, which may 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. Additionally we are exploring joint ventures, acquisitions and other forms of strategic transactions, which might cause us to require additional capital. The Company plans to make use of its existing credit facility for such transactions. However there is no guarantee that the Company will be able to enter in such a transaction or that it would be at terms consistent with the available credit facility.

CAPITAL COMMITMENTS

Our primary capital resource commitments at June 30, 2010 consist of capital and operating lease commitments, primarily for computer equipment, electrocardiogram terminals, OsteoMeter machines and for our corporate office facility. During the nine months ended June 30, 2010, the Company entered into a capital lease obligation for equipment at the cost of \$27,500. This obligation bears an interest rate of 19.65%, is payable at \$800 per month, and matures on August 2013.

FINANCING ACTIVITIES

In December 2009, the Company entered into an agreement to effect the private placement of 1,000,000 shares of the Company's common stock at a price of \$0.12 per share. During the nine months ended June 30, 2010, the Company received net proceeds of \$106,000.

MATERIAL TRENDS AND UNCERTAINTIES

The marketplace acceptance of peripheral densitometry equipment is still limited, and subject to complex scientific, clinical, reimbursement and policy-making factors which are constantly evolving. It is difficult to predict if any of these factors will create material barriers to our ability to expand the OsteoGram or OsteoCare business. Additionally, these factors are different in various foreign markets. The overall business is also competitive and a number of competitive technologies are emerging that may hinder the acceptance of our product in the marketplace. We are investing heavily to help our channel partners develop the expertise to position and sell our products effectively, however, we have not yet seen material results from that effort and there are no guarantees that we will.

The ECG and telemedicine business is very competitive and we rely significantly on certain contracts with individual state governments. While we have a good track record of renewal of contracts that came due for expiration, many customers reserve the rights to cancel such contract under a broad base of options and we experience some churn of customers for a variety of reasons. A loss of some of these contracts could be material for the Company. Additionally, it is possible that competitive pressures may force us to lower our prices, which could adversely effect our overall revenues as well as our gross profits. Additionally many of our customers have responded to the current financial and economic crisis by reducing their volume of use to high-risk patients. If this trend should continue we might experience a downturn of our volume of business, which might not be offset by an increase of revenue from other sources.

We are also potentially vulnerable by fiscal and budget crisis on the part of the States that are our principal customers. The Company receives significant revenues from the States of California, Illinois, New York and Florida and any significant budget problems in those states could adversely affect us.

Our services are regulated by both Federal and State regulators. Many policies relating to telemedicine regulatory and licensing oversight are evolving often on a state- by- state basis. We might be forced to change or cease offering certain services if some of the regulatory or licensing landscape changes. This could have a material effect on our business.

If our revenues should be impacted materially by some of these negative trends, we might have to draw on our credit line or seek equity capital to meet short-term liquidity needs. Both of those events might be dilutive to our shareholders. Additionally we might not meet all the conditions and criteria to effect a drawdown on the credit facility or to be able to secure suitable equity funding from an investor. In such an event, the Company might be forced to significantly reduce its operations or abandon some or all of its activities.

OFF-BALANCE SHEET ARRANGEMENTS

None.

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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. 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 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) collectability of the fee is reasonably assured.

ECG services are comprised of ECG processing, overread, rental and maintenance. ECG processing and over-read 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 as the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) the software has been delivered, (3) the fee is fixed or determinable, and (4) collectability of the fee is probable. OsteoGram PCS revenue is recognized as the following criteria have been met: (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.

OsteoMeter rental is recognized monthly over the terms of the customer rental agreement, as the following criteria has 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) collectability of the fee is reasonably assured.

Osteometer sales revenue is recognized upon shipment of the products and passage of title to the customer.

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.

ITEM 4T. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and our Principal Financial Officer, the effectiveness of design and operation of our disclosure controls and procedures, as defined by Rule 13a-15 (e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Principal Financial Officer have concluded that the design and operation of 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 (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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during the fiscal quarter ended June 30, 2010 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. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (RESERVED)

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

NUMBER DESCRIPTION OF EXHIBITS

3.7 Amendment to Bylaws dated February 15, 2008 (filed as Exhibit 3.7 to the Company's Current Report on Form 8-K, filed on February 19, 2008 and incorporated herein by reference).

4.7 Amendment No. 2 to Rights Agreement, dated as of February 15, 2008, between the Company and Computershare as successor Rights Agent to U.S. Stock Transfer Corporation (filed as Exhibit 4.7 to the Company's Current Report on Form 8-K, filed on February 19, 2008 and incorporated herein by reference).

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUMED, INC.

Date: August 16, 2010

By: /s/ Maurizio Vecchione
Maurizio Vecchione
Interim Chief Executive Officer

Date: August 16, 2010

By: /s/ Phuong Dang
Phuong Dang
Secretary, Controller and
Principal Financial Officer