

COMPUMED INC  
Form 10QSB  
May 15, 2003

# SECURITIES AND EXCHANGE COMMISSION

## UNITED STATES

WASHINGTON, D.C. 20549

## FORM 10-QSB

(Mark One)

### QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

or

### TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-14210

## COMPUMED, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or  
Organization)

**95-2860434**

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

**5777 W. Century Blvd., Suite 1285, Los Angeles, CA 90045**

(Address of Principal Executive Officers)

**(310) 258-5000**

(Registrant's telephone number, including area code)

(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 Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing

Edgar Filing: COMPUMED INC - Form 10QSB

requirements in for the past 90 days.

Yes  No

The registrant had 17,869,309 shares of common stock, (\$.01 par value) issued and outstanding as of March 31, 2003.

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

---

INDEX

COMPUMED, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements (unaudited) <u>Balance Sheets – March 31, 2003 (unaudited) and September 30, 2002.</u> <u>Statements of Operations – Three months and six months ended March 31, 2003 and 2002 (unaudited).</u> <u>Statements of Cash Flows – Six months ended March 31, 2003 and 2002 (unaudited).</u> <u>Notes to Financial Statements (unaudited).</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>
<u>Item 3.</u>	<u>Controls and Procedures.</u>

PART II. OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>
<u>Item 2</u>	<u>Changes in Securities</u>
<u>Item 3</u>	<u>Defaults upon Senior Securities</u>
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>Item 5</u>	<u>Other Information</u>
<u>Item 6</u>	<u>Exhibits and Reports on Form 8-K</u>

SIGNATURES

## PART I

## FINANCIAL INFORMATION

## CONDENSED BALANCE SHEETS

## COMPUMED, INC.

	March 31, 2003 (Unaudited)	September 30, 2002 (Note A)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 25,000	\$ 78,000
Marketable securities	185,000	249,000
Accounts receivable, less allowance of \$25,000 (March 2003) and \$41,000 (September 2002)	265,000	227,000
Inventory	39,000	41,000
Prepaid expenses and other current assets	9,000	14,000
<b>TOTAL CURRENT ASSETS</b>	<b>523,000</b>	<b>609,000</b>
<b>PROPERTY AND EQUIPMENT</b>		
Machinery and equipment	1,286,000	1,278,000
Furniture, fixtures and leasehold improvements	42,000	100,000
Equipment under capital leases	35,000	66,000
	1,363,000	1,444,000
Accumulated depreciation and amortization	(1,044,000)	(1,014,000)
	319,000	430,000
Other assets	28,000	28,000
<b>TOTAL ASSETS</b>	<b>\$ 870,000</b>	<b>\$ 1,067,000</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 124,000	\$ 119,000
Accrued liabilities	115,000	116,000
Current portion of capital lease obligations	8,000	8,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>247,000</b>	<b>243,000</b>
Capital lease obligations, less current portion	3,000	7,000
Commitments and Contingencies		
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock, \$.10 par value authorized 1,000,000 shares		

Edgar Filing: COMPUMED INC - Form 10QSB

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		
Common Stock, \$.01 par value-authorized 50,000,000 shares issued and outstanding 17,869,309 shares	179,000	179,000
Additional paid in capital	32,262,000	32,241,000
Accumulated deficit	(31,825,000)	(31,603,000)
Accumulated other comprehensive income	14,000	2,000
Deferred stock compensation	(11,000)	(3,000)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>620,000</b>	<b>817,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 870,000</b>	<b>\$ 1,067,000</b>

See notes to condensed financial statements.

## CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

COMPUMED, INC.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2002	2003	2002
<b>REVENUES FROM OPERATIONS</b>				
ECG services	\$ 401,000	\$ 429,000	\$ 811,000	\$ 844,000
ECG product and supplies sales	29,000	37,000	57,000	74,000
OsteoGram® sales and services	52,000	45,000	66,000	45,000
	482,000	511,000	934,000	963,000
<b>COSTS AND EXPENSES</b>				
Costs of ECG services	119,000	128,000	243,000	252,000
Cost of goods sold-ECG	20,000	25,000	41,000	49,000
Cost of goods sold-OsteoGram®	5,000	7,000	7,000	7,000
Selling expenses	62,000	71,000	144,000	135,000
Research and development	56,000	59,000	107,000	109,000
General and administrative expenses	240,000	247,000	514,000	515,000
Depreciation and amortization	53,000	66,000	108,000	140,000
	555,000	603,000	1,164,000	1,207,000
<b>OPERATING LOSS</b>	(73,000)	(92,000)	(230,000)	(244,000)
Interest income and dividends	6,000	11,000	14,000	20,000
Realized gain on marketable securities	8,000	-0-	10,000	-0-
Interest expense	-0-	2,000	(1,000)	1,000
<b>NET LOSS</b>	\$ (59,000)	\$ (79,000)	\$ (207,000)	\$ (223,000)
<b>NET LOSS PER SHARE (Basic and diluted)</b>	\$ (.00)	\$ (.00)	\$ (.01)	\$ (.01)
<b>Weighted average number of common shares outstanding</b>	17,869,309	17,869,309	17,869,309	17,869,309

See notes to condensed financial statements.

## CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

COMPUMED, INC.

	Six Months Ended	
	March 31, 2003	March 31, 2002
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (207,000)	\$ (223,000)
Net adjustments to reconcile net loss to net cash used in operating activities:		
Realized gain on marketable securities	(10,000)	
Amortization of deferred stock compensation	13,000	10,000
Depreciation and amortization	108,000	140,000
Changes in operating assets and liabilities:		
Accounts receivable	(38,000)	31,000
Inventory, prepaid expenses and other assets	7,000	(7,000)
Accounts payable and other liabilities	(7,000)	(30,000)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(134,000)</b>	<b>(79,000)</b>
<b>INVESTING ACTIVITIES:</b>		
Sales of marketable securities	86,000	
Purchases/Sales/Disposals of property, plant and equipment	(1,000)	(7,000)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>85,000</b>	<b>(7,000)</b>
<b>FINANCING ACTIVITIES:</b>		
Principal payments on capital lease obligations	(4,000)	(37,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(4,000)</b>	<b>(37,000)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(53,000)</b>	<b>(123,000)</b>
Cash and cash equivalents at beginning period	78,000	239,000
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 25,000</b>	<b>\$ 116,000</b>
Cash paid for interest	\$	\$ 2,000

See notes to condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

COMPUMED, INC.

NOTE A BASIS OF PREPARATION

The accompanying interim unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending September 30, 2003. For further information, refer to the financial statements for the year ended September 30, 2002 and the notes thereto included in the Company's Annual Report on Form 10-KSB.

The balance sheet at September 30, 2002 has been derived from the Company's year-end audited financial statements but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

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

The Company's business strategy includes an increase in OsteoGram® sales through domestic and international marketing and distribution efforts. The Company intends to finance this business strategy by using current working capital resources and cash flows from existing operations, including the ECG and OsteoGram® businesses. There can be no assurance that the OsteoGram® sales will be sufficient to offset related expenses.

The Company anticipates that its cash flow from operations, available cash and marketable securities will be sufficient to meet our anticipated financial needs for at least the next 12 months. However, in certain circumstances it may need to raise additional capital in the future, which might not be available on reasonable terms or at all. Failure to raise capital when needed could adversely impact our business, operating results and liquidity. If additional funds are raised through the issuance of equity or convertible securities, the percentage of ownership of existing stockholders would be reduced. Furthermore, these equity and convertible securities might have rights, preferences or privileges senior to our Common Stock. Our Common Stock is currently listed on the over-the-counter (OTC) bulletin board, which will make it more difficult to raise funds through the issuance of equity or convertible securities (prior to December 1, 1999, our Common Stock was listed on NASDAQ). There can be no assurance that such additional sources of financing will be available on acceptable terms, if at all.



NOTE B PER SHARE DATA

Basic loss per share is calculated using the net loss, less preferred stock dividends (\$14,000 and \$0 for the six months ended March 31, 2003 and 2002, respectively), divided by the weighted average common shares outstanding. Shares from the assumed exercise of outstanding warrants, options and effect of the conversion of the Class A Preferred Stock and Class B Preferred Stock are omitted from the computations of diluted loss per share because the effect would be antidilutive.

NOTE C COMMITMENTS AND CONTINGENCIES

On January 26, 1998, the United States District Court for the Central District of California approved the settlement of the class action and derivative lawsuits on the terms agreed to by the parties in the Memorandum of Understanding entered into on August 5, 1996. The final settlement is anticipated to be completed in the current fiscal year and will involve the issuance of 770,000 shares of Common Stock and the issuance of 1,870,000 warrants for the purchase of Common Stock at a price of \$3.00. The effect of these issuances on the Company's statement of operations was recorded during the fiscal year ended September 30, 1997.

NOTE D MARKETABLE SECURITIES

Marketable securities consist of investments in equity and bonds in various publicly traded domestic companies and are stated at market value based on the most recently traded prices of these securities at March 31, 2003. These short-term investments are defined as assets available for sale under the provisions of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities.

During the quarter ended March 31, 2003, the Company recognized \$12,000 of unrealized gains, which was recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. At March 31, 2003 and September 30, 2002 the Company's investments in marketable securities are as follows:

Investments Types	March 31, 2003		September 30, 2002	
Corporate Bonds	\$	13,000	\$	10,000
Common Stock		172,000		239,000
Total	\$	185,000	\$	249,000

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

**SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS**

We are including the following cautionary statement in this Quarterly Report on Form 10-QSB to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to forward-looking statements made by us, or on our behalf. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical facts. From time to time, we may make written or oral statements that are forward-looking including statements contained in this report and other filings with the Securities and Exchange Commission. These forward-looking statements are principally contained in the section captioned Management's Discussion and Analysis of Operations. In that and other portions of this Form 10-QSB, the words anticipates, believes, estimates, seeks, expects, plans, intends, expressions as they relate to us or our management are intended to identify forward-looking statements. All such forward-looking statements are expressly qualified by these cautionary statements. Forward-looking statements involve risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The forward-looking statements contained herein are based on various assumptions, many of which are based, in turn, upon further assumptions. Our expectations, beliefs and forward-looking statements are expressed in good faith on the basis of management's views and assumptions as of the time the statements are made, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished.

In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements: technological advances by our competitors, the impact of competition, dependence on key employees and the need to attract new management, effectiveness and costs of sales and marketing efforts, acceptance of product offerings, ability to expand into new markets, the risks of patent claims or other third party liability, and the risks of launching a new product or service, such as our OsteoGram® test, changes in health care regulation, including reimbursement programs, capital needs to fund any delays or extensions of research programs and the availability of capital on terms satisfactory us. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

**Overview**

Our core business is providing remote electrocardiograph (ECG) interpretation services to customers who do not have access to self-interpreting ECG systems. Our customers include health care providers in the correctional health system, ambulatory surgery centers and occupational health clinics. A unique feature of our service offering is an automated reflex to a cardiologist for an overread, when a further review of the patient is desirable. The end-user selects the reflex option on their ECG system, and we immediately send the ECG trace to a cardiologist for a thorough workup. We have implemented measures to improve our service, and we are actively exploring new opportunities in the existing market. However, we could lose customers who choose to receive services from a competitor or who purchase a self-interpretive machine and no longer need our ECG interpretations. If we were to lose existing customers, they may be difficult to replace and that could have a material adverse impact on our operations and financial condition.

Ten years ago we acquired the OsteoGram® technology to diagnose osteoporosis from a standard hand x-ray coupled with computer imaging techniques. Osteoporosis is a silent disease that affects over 200 million people worldwide, 80% of which are women. During the interim period we licensed our technology to Merck & Co., as they developed their successful osteoporosis drug- Fosamax. We have since automated the OsteoGram® technology to work with a desktop scanner and computer, and we currently market the OsteoGram® system to hospitals, clinics and physician offices, both in the domestic and international markets. We believe that the future of our company lies in the successful exploitation of our underlying OsteoGram® technology, especially in the field of digital, or filmless, radiological devices. The world of

## Edgar Filing: COMPUMED INC - Form 10QSB

radiography is rapidly moving towards digital platforms, which enable clinicians to transfer images from radiology, orthopedic surgery or the emergency setting to other areas of the hospital or offsite physicians' offices for rapid diagnosis and archiving. Our present OsteoGraft® software application is being converted to the DICOM format, which is the computer protocol used by digital imaging platforms, such as computed radiography (CR), digital radiography (DR) and network servers (PACS systems). This will allow busy clinicians to utilize their state-of-the-art digital platforms to diagnose osteoporosis at a point-of-care without the need for expensive DXA systems and specially trained technicians. As we further expand our OsteoGram® technology to measure, follow and diagnose other diseases, such as arthritis, the applications will become value-added tools that free up clinicians from time-consuming tasks. Our business model has caught the attention of several major imaging manufacturers, and they are evaluating our existing osteoporosis application for placement on the digital platforms. In addition, we are having discussions with these manufacturers to develop other high value applications that will open up new markets where our products will assist their efforts in selling incremental digital units.

For the quarter ended March 31, 2003 we continued to concentrate our business development efforts on distribution for our OsteoGram® product in the domestic and international markets, as well as foster strategic partnerships with major imaging manufacturers. As we strengthened our distribution in the U.S. and China, we also entered the Korean market where our local partner has filed for registration with the Korean FDA. We have identified a number of suitable distribution partners in the Middle East, South Asia and Latin America. Our goal is to sign, train and subsequently support our new partners through the regulatory process in their respective countries in order that we can come to market as soon as possible. Concurrently, our Research and Development focus is to convert the existing OsteoGram® software application to the DICOM format and to complete the development of our second application, which will follow the progression of arthritic disease. Our scientific team has also been generating the required data to submit for a CE Mark, which will enable us to enter the market in the European Union.

### **Critical Accounting Policies**

Due to the nature of the business, few critical accounting policies are applicable and no subjective, complex judgments have been made by the Company with respect to accounting estimates. The critical accounting policies of the Company are disclosed in Note A to the Financial Statements included in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2002.

### **Recent Accounting Pronouncements**

-

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation: Transition and Disclosure", which amends SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires more prominent and more frequent disclosures in the financial statements of the effects of stock-based compensation. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and the interim disclosure provisions are effective for the current period.

Pro forma information regarding net loss and loss per share has not been presented because the effect of the employee stock option grants is immaterial.

### **Results of Operations**

Revenues from ECG operations decreased by 8% for the Second Quarter 2003 to \$430,000 from \$466,000 for the same period in fiscal 2002, and during the six months ended March 31, 2003 decreased by 5% to \$868,000 from \$918,000 for the same period in fiscal 2002. The decrease is mostly due to lower sales of equipment. Revenues from the Company's OsteoGraft® sales and services for the Second Quarter ended March 31, 2003 increased by 16% to \$52,000 from \$45,000 for the same period in fiscal 2002, and during the six months ended March 31, 2003

## Edgar Filing: COMPUMED INC - Form 10QSB

increased by 47% to \$66,000 from \$45,000 for the same period in fiscal 2002. The increase is mostly due to OsteoGram® sales generated in Asia.

Cost of services and goods sold consists of the costs of ECG services provided, supplies, sales of electrocardiograph equipment and OsteoGram® systems and certain overhead expenses. During the Second Quarter 2003, costs of services and goods sold decreased by 10% to \$144,000 from \$160,000 for the same period in fiscal 2002, and during the six months ended March 31, 2003 decreased by 6% to \$291,000 from \$308,000 for the same period in fiscal 2002. The decrease in cost of services is generally due to lower sales of equipment and reduction of certain overhead expenses.

General and administrative expenses decreased by 3% during the Second Quarter 2003 to \$240,000, as compared to \$247,000 for the same period in fiscal 2002, and during the six months ended March 31, 2003 decreased slightly to \$514,000 as compared to \$515,000 for the same period in fiscal 2002, mostly due to incremental cost-cutting measures offset by certain stock compensation cost.

Research and development costs, generally for the OsteoGram® product, decreased by 5% during the Second Quarter 2003 to \$56,000 as compared to \$59,000 for the same period in fiscal 2002, and during the six months ended March 31, 2003 decreased by 2% to \$107,000 as compared to \$109,000 for the same period of fiscal 2002, due to decreased clinical trials expenses.

Selling expenses decreased by 13% during the Second Quarter ended March 31, 2003 to \$62,000 as compared to \$71,000 for the same period in fiscal 2002, due to reduction of trade show related expenses, and increased by 7% during the six months ended March 31, 2003 to \$144,000 as compared to \$135,000 for the same period in fiscal 2002, primarily due to increased marketing activities and consulting services associated with the OsteoGram®.

We recorded interest and dividend income during the Second Quarter ended March 31, 2003 of \$6,000 as compared to \$11,000 for the same period in fiscal 2002, and during the six months ended March 31, 2003, we recorded \$14,000 as compared to \$20,000 for the same period in fiscal 2002. The decrease was generally due to a decrease in the marketable securities balance from 2003 to 2002.

Net loss for the Second Quarter ended March 31, 2003 decreased 25% to \$59,000 compared to a loss of \$79,000 for the same period in fiscal 2002. Net loss for the six months ended March 31, 2003 was \$207,000 as compared to \$223,000 for the same period in fiscal 2002. The decreased loss is due to the factors described above.

#### **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2003, we had approximately \$210,000 in cash and marketable securities, as compared to a balance of \$327,000 at September 30, 2002. The net decrease of \$117,000 in cash and marketable securities is primarily due to cash used in operations. The decrease of working capital to \$276,000 at March 31, 2003 from \$366,000 at September 30, 2002 is primarily a result of losses from operations. Purchases of property, plant and equipment were \$9,000 in the quarter ended March 31, 2003 offset by proceeds of certain office equipment sales.

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

Our business strategy includes an increase in OsteoGram® sales through domestic and international marketing and distribution efforts. We intend to finance this business strategy by using our current working capital resources and cash flows from existing operations, including the ECG and OsteoGram® businesses. There can be no assurance that the OsteoGram® sales will be sufficient to offset related expenses.

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

## Edgar Filing: COMPUMED INC - Form 10QSB

funds through the issuance of equity or convertible securities (prior to December 1, 1999, our Common Stock was listed on NASDAQ). We cannot assure you that such additional sources of financing will be available on acceptable terms, if at all.

Our primary capital resource commitments at March 31, 2003 consist of capital and operating lease commitments, primarily for computer equipment and for our corporate office facility as mentioned in the Company's Annual Report Form 10-KSB for the year ended September 30, 2002.

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

### **Item 3. Control and Procedures**

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Principal Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer and Principal Accounting Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Our CEO and CFO do not expect that our disclosure controls or our 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 system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

**PART II**

**OTHER INFORMATION**

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITIES

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Number	Description of Exhibit
3.1	Certificate of Incorporation [Incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1 (File No. 33-46061), effective May 7, 1992]
3.2	Certificate of Amendment of Certificate of Incorporation [Incorporated by reference to Exhibit 3.1a to Amendment No. 1 to Post-Effective Amendment No. 1 to our Registration Statement on Form S-2 (File No. 33-48437), filed June 28, 1994]
3.3	Certificate of Amendment of Certificate of Incorporation [Incorporated by reference to Exhibit 3.1b to Amendment No. 2 to Post-Effective Amendment No. 1 to our Registration Statement on Form S-2 (File No. 33-48437), filed November 7, 1994]
3.4	Certificate of Correction of Certificate of Amendment [Incorporated by reference to Exhibit 3.1c to Amendment No. 2 to Post-Effective Amendment No. 1 to our Registration Statement on Form S-2 (File No. 33-48437), filed November 7, 1995]
3.5	By-Laws, as currently in effect [Incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-1 (File No. 33-46061), effective May 7, 1992]
4.1	Form of Preferred Stock Certificate [Incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-1 (File No. 33-46061), effective May 7, 1992]
4.2	Certificate of Designation of Class A Preferred Stock [Incorporated by reference to Exhibit 4.5 to our Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995 (File No. 0-14210)]
4.3	Certificate of Designation of Class B Preferred Stock [Incorporated by reference to Exhibit 4.6 to our Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995 (File No. 0-14210)]
10.1	1992 Stock Option Plan [Incorporated by reference to Exhibit 10.12 to our Registration Statement on Form S-1 (File No 33-46061), effective May 7, 1992]
10.2	Form of Non-Qualified Stock Option Agreement [Incorporated by reference to Exhibit 10 to our Registration Statement on Form S-8 (File No. 33-63435), filed October 14, 1995]



## Edgar Filing: COMPUMED INC - Form 10QSB

10.3	Commercial Office Lease dated August 16, 1999 between us and L.A.T. Investment Corporation, a California corporation [Incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-KSB for the fiscal year ended September 30, 1999]
10.4	2002 Stock Option Plan [Incorporated by reference to Appendix B to our Definitive Proxy Statement on Schedule 14A (File No. 0-14210), filed on May 3, 2002]
10.5	Form of Stock Option Agreement [Incorporated by reference to Exhibit 10.5 to the Company's Form 10QSB for the quarter ended June 30, 2002 (File No. 0-14210), filed August 14, 2002]
10.6	Employment Agreement entered on November 2, 2002 between CompuMed, Inc. and Mr. McLaughlin
11	Statement re: computation of per share earnings*
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

---

\* Data required is provided in note B to the consolidated financial statements in this report.

\*\* Included herein

(b) Form 8-K During the fiscal quarter ended March 31, 2003, we did not file any reports on Form 8-K.

SIGNATURES

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

COMPUMED, INC.  
(Registrant)

Date May 12, 2003

By: /s/ John G. McLaughlin  
John G. McLaughlin  
President and Chief Executive Officer

Date May 12, 2003

By: /s/ Phuong Dang  
Phuong Dang  
Controller (Principal Financial and Accounting Officer)

**Certification**

I, John G. McLaughlin, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CompuMed, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

## Edgar Filing: COMPUMED INC - Form 10QSB

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ JOHN G. MCLAUGHLIN

**JOHN G. MCLAUGHLIN**  
**President and Chief Executive**  
**Officer**

**Certification**

I, Phuong Dang, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CompuMed, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

Edgar Filing: COMPUMED INC - Form 10QSB

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ PHUONG DANG

**PHUONG DANG**  
**Secretary and Controller (Principal**  
**Financial and Accounting Officer)**