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COMPUMED INC
Form 10QSB
May 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
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, 2005

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

COMMISSION FILE NUMBER 0-14210

COMPUMED, INC.

(exact name of small business issuer as specified in its charter)

DELAWARE

95-2860434

(State or Other Jurisdiction of
Incorporation or Organization)

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

5777 WEST CENTURY BLVD., SUITE 1285, LOS ANGELES, CA 90045

(Address of principal executive offices)

(310) 258-5000

(issuer's telephone number)

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

As of April 30, 2005, we had 21,090,044 shares of Common Stock outstanding.

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

COMPUMED, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Item 3. Controls and Procedures.

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PART II. OTHER INFORMATION

-
- Item 1. Legal Proceedings.
 - Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
 - Item 3. Defaults Upon Senior Securities.
 - Item 4. Submission of Matters to a Vote of Security Holders.
 - Item 5. Other Information.
 - Item 6. Exhibits and Reports on Form 8-K.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

INDEX

COMPUMED, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION
BALANCE SHEETS
COMPUMED, INC.

	March 31, 2005

	(UNAUDITED)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 120,000
Marketable securities, at fair market value	145,000
Accounts receivable, less allowance of \$24,000 (March 2005) and \$21,000 (September 2004).	271,000
Inventory.	25,000
Prepaid expenses and other current assets.	23,000

TOTAL CURRENT ASSETS	584,000
PROPERTY AND EQUIPMENT	
Machinery and equipment.	1,243,000
Furniture, fixtures and leasehold improvements	78,000
Equipment under capital leases	178,000

	1,499,000
Accumulated depreciation and amortization.	(1,244,000)

TOTAL PROPERTY AND EQUIPMENT	255,000
OTHER ASSETS	
Patents, net of accumulated amortization of \$5,000 (March 2005) and \$4,000 (September 2004).	71,000
Other assets	11,000

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TOTAL OTHER ASSETS.	82,000
TOTAL ASSETS	\$921,000
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES	
Accounts payable	\$ 216,000
Accrued liabilities.	121,000
Current portion of capital lease obligations	18,000

TOTAL CURRENT LIABILITIES.	355,000
Capital lease obligations, less current portion	79,000
STOCKHOLDERS' EQUITY	
Preferred Stock, \$.10 par value - authorized 1,000,000 shares	
Preferred Stock- Class A \$3.50 cumulative convertible voting - issued and outstanding - 8,400 shares.	1,000
Preferred Stock- Class B \$3.50 cumulative convertible voting - issued and outstanding - 300 shares.	-
Common Stock, \$.01 par value-authorized 50,000,000 shares, issued and outstanding - 20,386,671 shares (March 2005) issued and outstanding - 19,599,812 shares (September 2004)	205,000
Additional paid in capital	32,643,000
Accumulated deficit.	(32,379,000)
Accumulated other comprehensive income	25,000
Deferred stock compensation.	(8,000)

TOTAL STOCKHOLDERS' EQUITY	487,000

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$921,000
=====	
See notes to condensed financial statements.	

STATEMENT OF OPERATIONS (UNAUDITED)
COMPUMED, INC.

	Three Months Ended March 31,		Six Months Ended March 31,	
	-----		-----	
	2005	2004	2005	2004
	-----	-----	-----	-----
REVENUE FROM OPERATIONS				

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ECG services.	451,000	407,000	850,000	791,000
ECG product and supplies sales.	71,000	25,000	341,000	43,000
OsteoGram (R) sales and services.	12,000	29,000	20,000	87,000
	-----	-----	-----	-----
	534,000	461,000	1,211,000	921,000
COSTS AND EXPENSES				
Costs of ECG services	154,000	124,000	292,000	243,000
Cost of goods sold-ECG.	48,000	18,000	269,000	33,000
Cost of goods sold - OsteoGram (R).	2,000	-	3,000	4,000
Selling expenses.	62,000	57,000	130,000	102,000
Research & development.	55,000	55,000	117,000	108,000
General and administrative expenses	226,000	275,000	500,000	516,000
Depreciation and amortization	18,000	43,000	36,000	94,000
	-----	-----	-----	-----
	565,000	572,000	1,347,000	1,100,000
	-----	-----	-----	-----
OPERATING LOSS.	(31,000)	(111,000)	(136,000)	(179,000)
Interest Income and dividends	2,000	4,000	8,000	9,000
Other miscellaneous income.	-	28,000	8,000	28,000
Realized gain on marketable securities.	-	-	-	2,000
Interest expense.	(4,000)	-	(6,000)	-
	-----	-----	-----	-----
NET LOSS.	(33,000)	(79,000)	(126,000)	(140,000)
	-----	-----	-----	-----
NET LOSS PER SHARE (Basic and diluted).	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average number of common shares outstanding.	20,308,016	17,951,034	20,093,325	17,951,034

STATEMENT OF CASH FLOWS (UNAUDITED)
COMPUMED, INC.

OPERATING ACTIVITIES:

Net loss.	
Net adjustments to reconcile net loss to net cash used in operating activities:	
Realized gain/loss on marketable securities	
Amortization of deferred stock compensation	
Depreciation and amortization	
Decrease (Increase) in accounts receivable.	
Decrease (Increase) in inventory and prepaid expenses	
Decrease in accounts payable and other liabilities.	
NET CASH USED IN OPERATING ACTIVITIES	

CASH FLOW FROM INVESTING ACTIVITIES:.	
Proceeds from selling of marketable securities.	
Investments in purchase of marketable securities	
Purchase of other asset	
Purchase of property, plant and equipment	

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NET CASH USED IN INVESTING ACTIVITIES

CASH FLOW FROM FINANCING ACTIVITIES:
Proceeds from exercise of stock option.
Net offering of the investment agreement with Dutchess Private Equities Fund.
Payments on capital lease obligations

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

NET [INCREASE] DECREASE IN CASH AND CASH EQUIVALENTS.

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS AT END OF PERIOD.

SUPPLEMENTAL DISCLOSURES:
Interest paid
Disposal of fixed assets.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
COMPUMED, INC.

NOTE A - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying interim unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2005. For further information, refer to the financial statements for the year ended September 30, 2004 and the notes thereto included in the Company's Annual Report on Form 10-KSB.

The balance sheet at September 30, 2004 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 has historically used existing cash and readily available marketable securities balances to fund operating losses and capital expenditures. The Company raised these funds in 1997 through 2000 through the sale of Preferred Stock issuances and proceeds from the exercise of certain stock options and warrants.

STOCK-BASED COMPENSATION

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

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

The options were valued in accordance with SFAS 123 totaling \$68,000 and \$65,000 for the six months ended March 31, 2005 and 2004, respectively, and the fair values were estimated using Black-Scholes option pricing method with the following assumptions:

	For The Six Months Ended	
	March 31, 2005	March 31, 2004
	-----	-----
Risk free interest rate	4.23%	4.28%
Stock volatility factor	33%	54%
Weighted average expected option life	10 years	10 years
Expected dividend yield	None	None

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

	Three Months Ended March 31,		Six Mon
	2005	2004	-----
	-----	-----	-----
Net loss as reported.	(33,000)	(79,000)	(1
Basic and diluted loss per share as reported	(0.00)	(0.00)	
Add: stock based employee compensation cost included in determination of net loss reported	-	-	
Deduct: stock-based employee compensation cost. . . that would have been included in the determination of net loss if the fair value method had been applied to all awards	(20,000)	(5,000)	(
Pro forma net loss if the fair value based method. . . had been applied to all awards	(53,000)	(84,000)	(1
Basic and diluted pro forma loss per share if the fair value based method had been applied for all awards	(0.00)	(0.00)	
	20,308,016	17,951,034	20,0

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A summary of the stock options activity and related information for the six months ended March 31 follows:

	2005		2004	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of period	6,437,217	0.22	5,027,025	0.22
Options exercised	525,869	0.09	-	-
Options granted	270,000	0.32	261,087	0.34
Options forfeited/canceled	(10,879)	0.71	(1,104)	0.96
Options outstanding, end of period	6,170,469	0.24	5,287,008	0.23
Options exercisable, end of period	4,093,809	0.25	4,495,347	0.22

The following summarizes information concerning stock options outstanding at March 31, 2005:

	Weighted Average Number Outstanding	Weighted Remaining Contractual Life	Number Average Exercise Price	Weighted Subject to Exercise
Range of exercise prices				
0.0000 - \$0.4250	5,306,234	8.3	0.1653	3,229,574
0.4251 - \$0.8500	832,985	4.2	0.6734	832,985
0.8501 - \$1.2750	31,250	2.6	1.1540	31,250
	6,170,469	7.7	0.2389	4,093,809

PER SHARE DATA

The Company reports its earnings (loss) per share in accordance with Statement of Financial Accounting Standards No.128, "Accounting for Earnings Per Share" ("FAS 128"). Basic loss per share is calculated using the net loss divided by the weighted average common shares outstanding. Shares from the assumed conversion of outstanding warrants, options and the effect of the conversion of

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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.

NOTE B - OTHER AGREEMENTS

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

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

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

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

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

OVERVIEW

Our traditional core business is providing remote electrocardiogram or ECG interpretation services to medical facilities that may not have access either to trained physicians that can interpret ECG results or to self-interpreting ECG equipment. Our customers are typically correctional facilities, ambulatory surgery centers, occupational health clinics, and physician offices. Although self-interpreting ECG equipment is widely available, many of our customers like

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the optional feature of automatically sending their ECG results to one of our cardiologists for an overread when the results are abnormal. This overread feature is a key advantage that enables us to market our services in segments of the market where physicians may not be available on a routine basis. We are evaluating new opportunities for our ECG business; however, we could lose customers who choose to receive services from a competitor or who purchase a self-interpretive machine and no longer need our ECG interpretations. If we were to lose existing customers, they may be difficult to replace, and that could have a material adverse impact on our operations and financial condition.

Our other business is the development and marketing of medical imaging software tools that automatically make accurate and precise measurements to diagnose bone disease. Our target markets for these products are hospitals, imaging centers and orthopedic office practices. Our initial product, the OsteoGram(R), is an automated system for the rapid screening, diagnosis and monitoring of osteoporosis, a disease that effects more than 200 million people worldwide.

Osteoporosis is a "silent disease" that costs the U.S. healthcare system over \$17 billion annually. Medicare is currently scrutinizing methods to lower the costs of fighting this largely preventable disease through point-of-care testing of "at risk" patients with fragility fractures. We believe that convenient, low-cost methods of screening and diagnosing will become increasingly desirable as hospitals comply with recent initiatives directing them to test for and treat this insidious disease. Recent guidelines in the United Kingdom favor the use of peripheral devices, such as ours, as front-line screening tools, since expensive DXA equipment is not readily available. DXA technology is considered the "Gold Standard" for the diagnosis of osteoporosis, and DXA platforms typically cost from \$80-150,000.

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

In addition, we have a new product the OsteoGram CADK which is an application workstation that can be readily plugged into a digital x-ray platform in the after-sale market. We expect that distributors will adapt the CADKit approach to selling our OsteoGram product in the growing market for digital imaging platforms.

Our development team concluded a small study late last year for "proof-of-principal" that the OsteoGram functions on full field digital mammography equipment. The global market for digital mammography is rapidly expanding and by combining the OsteoGram with mammography equipment, women can be conveniently tested for osteoporosis at the same time and on the same equipment as their routine mammogram. We believe this strategy is sound and we have undertaken a clinical trial at a major teaching hospital to validate the application on digital mammography platforms. A provisional patent application was filed in November 2004 to protect our intellectual property rights in this area.

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RESULTS OF OPERATIONS FOR THE QUARTER AND SIX MONTHS ENDED MARCH 31, 2005

COMPARED TO THE SAME PERIOD IN FISCAL 2004.

Revenues from ECG operations increased by 21% for the second quarter of fiscal 2005 to \$522,000 from \$432,000 in fiscal 2004, and during the six months ended March 31, 2005 increased by 43% to \$1,191,000 from \$834,000 for the same period in fiscal 2004, due to increased shipments of new ECG equipment and increased transmissions from new and existing accounts. Revenues from the OsteoGram(R) sales and services for the second quarter of fiscal 2005 decreased by 59% to \$12,000 from \$29,000 in fiscal 2004, and for the six months ended March 31, 2005 decreased by 77% to \$20,000 from \$87,000 for the same period in fiscal 2004, due to slower than expected ramp up of licensing partnerships and reimbursement issues in the Chinese market.

Cost of services and goods sold consists of the costs of ECG services provided, supplies, electrocardiograph equipment sold and OsteoGram(R) systems sold. Costs of services of ECG for the second quarter of fiscal 2005 increased by 24% to \$154,000 from \$124,000 in fiscal 2004, and for the six months ended March 31, 2005 increased by 20% to \$292,000 from \$243,000 for the same period in fiscal 2004, mostly due to increases in overread service revenue and some overhead expenses related to the acquisition and renewal of certain contracted ECG accounts. Cost of goods sold of ECG for the second quarter of fiscal 2005 increased by 167% to \$48,000 from \$18,000 for the same period of fiscal 2004, and during the six months ended March 31, 2005 increased by 715% to \$269,000 to \$33,000 for the same period in fiscal 2004, primarily due to increased ECG equipment sales. The cost of goods sold for OsteoGram(R) for the second quarter of fiscal 2005 was \$2,000 and \$0 in fiscal 2004, and for the six months ended March 31, 2005 decreased by 25% to \$3,000 from \$4,000 for the same period in fiscal 2004, mostly due to lower sales.

Selling expenses for the second quarter 2005 increased by 9% to \$62,000 from \$57,000 in fiscal 2004, and for the six months ended March 31, 2005 increased by 27% to \$130,000 from \$102,000 for the same period in fiscal 2004, mostly due to increased travel expenses relating to trade shows and training.

General and administrative expenses for the second quarter of fiscal 2005 decreased by 18% to \$226,000 from \$275,000 in fiscal 2004, and for the six months ended March 31, 2005 decreased by 3% to \$500,000 from \$516,000 for the same period in fiscal 2004, primarily due to reduction of legal expenses.

Research and development costs for the second quarter of fiscal 2005 and fiscal 2004 remained the same as \$55,000, and during the six months ended March 31, 2005 increased by 8% to \$117,000 from \$108,000 for the same period of fiscal 2004, due to contracted services and salary adjustments.

Depreciation expenses for the second quarter of fiscal 2005 decreased by 58% to \$18,000 from \$43,000 in fiscal 2004, and for the six months ended March 31, 2005 decreased by 62% to \$36,000 from \$94,000 for the same period in fiscal 2004, due to a large portion of fixed assets that was fully amortized.

Interest income and dividends for the second quarter of fiscal 2005 decreased by 50% to \$2,000 from \$4,000 in fiscal 2004, and for the six months ended March 31, 2005 decreased by 11% to \$8,000 from \$9,000 for the same period in fiscal 2004, mostly due to changing investments in marketable securities.

Other miscellaneous income for the second quarter of fiscal 2005 was \$0 and \$28,000 in fiscal 2004, and for the six months ended March 31, 2005 and 2004 was \$8,000 and \$28,000, respectively, due to a reversal of a reserve related to operating business expenses.

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Net loss for the second quarter of fiscal 2005 decreased by 58% to \$33,000 from \$79,000 in fiscal 2004, and for the six months ended March 31, 2005 decreased by 10% to \$126,000 from \$140,000 for the same period in fiscal 2004, due to higher sales in the ECG business and reduction of some overhead expenses.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, we had approximately \$265,000 in cash and marketable securities, as compared to a balance of \$227,000 at September 30, 2004, a net increase of \$38,000 primarily due to increased sales in ECG. Purchases of property, plant, and equipment used \$5,000 in the second quarter ended March 31, 2005.

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

CAPITAL COMMITMENTS

We lease our corporate offices at a monthly rental of \$11,478 per month with 3% annual increase.

We entered into a long-term agreement with John McLaughlin effective November 2, 2002 through September 30, 2004. This agreement provides a base salary of \$150,000 per year and a bonus up to \$150,000 based on performance factors including revenue, profit and the accomplishment of certain key milestones. In addition, Mr. McLaughlin received standard employee options to purchase 50,000 shares of Common Stock at an exercise price of \$0.20 per share upon acceptance of the agreement. On September 2004, the Board passed a resolution to extend this contract for an additional year to 2005.

Each of our Directors receives an annual Board of Directors fee of \$12,000, which is paid to each Director in equal monthly installments. The Chairman receives an additional \$4,800. In addition to the Board of Directors fee, Directors receive an additional \$1,000 per meeting when they serve as a member of the Executive, Audit or Compensation Committee. Such amount is reduced to \$350 if the committee meeting is held by teleconference or on the same day as a board meeting.

FINANCING ACTIVITIES

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

Dutchess' obligation to purchase our Common Stock is contingent upon certain closing conditions. Such conditions relate to the Investment Agreement and include: (i) that our representations and warranties are true and correct as of the funding date, (ii) that we have performed all of our covenants, agreements and conditions required to be performed us, (iii) that trading of our Common Stock has not been suspended, (iv) that no statute, rule, regulation, executive

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order, decree, ruling or injunction is in force against the transactions contemplated in the Investment Agreement, (v) that no pending or threatened litigation exists, and (vi) that the SEC has declared effective a registration statement covering the shares to be purchased by Dutchess.

During the second quarter and the six months ended March 31, 2005, we sold 139,433 and 260,990 shares of Common Stock to Dutchess Private Equities Fund, respectively, at an average of \$0.29 per share. The gross proceeds were \$42,000 and \$75,000 respectively.

PLAN OF OPERATIONS

Our business strategy includes an increase in OsteoGram(R) revenue through sales to manufactures of medical digital x-ray equipment and through direct sales via domestic and international distributors. We intend to finance this business strategy by using our current working capital resources and cash flows from existing operations, including the ECG and OsteoGram(R) businesses. There can be no assurance that the ECG and OsteoGram(R) sales will be sufficient to offset related expenses. We anticipate that our cash flow from operations, available cash, and marketable securities will be sufficient to meet our anticipated cash requirements for at least the next 12 months. However, in certain circumstances we may need to raise additional capital in the future, which might not be available on reasonable terms or at all. If we raise additional capital, we will likely utilize our \$5,000,000 available through the Investment Agreement with Dutchess Private Equities Fund. Failure to raise capital when needed could adversely impact our business, operating results, and liquidity. If additional funds are raised through the issuance of equity or convertible securities, the percentage of ownership of existing stockholders will be reduced. Furthermore, some equity and convertible securities might have rights, preferences or privileges senior to our Common Stock. Our Common Stock is currently traded on the over-the-counter bulletin board, which makes it more difficult to raise funds through the issuance of equity or convertible securities because our Common Stock is thinly traded and those who wish to sell shares of our Common Stock may have difficulty locating buyers. Additional sources of financing may not be available on acceptable terms, if at all.

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. Acquisition could be dilutive to stockholders.

MATERIAL TRENDS AND UNCERTAINTIES

We are disappointed by the rate of progress in commercializing the Digital Communications and Imaging in Medicine or DICOM OsteoGram, and we expect that our distribution partners will accelerate their efforts to incorporate our product into their sales training schedules in the near future. The Chinese market continues to be a disappointment, mainly due to reimbursement issues and delays in a government sponsored program to bring osteoporosis testing to rural areas.

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

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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, revenue recognition and deferred tax assets. 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 uncollectability of our trade accounts receivable balances. If we determine that the financial conditions of any of our customers deteriorated, whether due to customer specific or general economic issues, increases in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

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

We follow the provisions of Staff Accounting Bulletin, or SAB 101, "Revenue Recognition in Financial Statements", for revenue recognition. Under SAB 101, four conditions must be met before revenue can be recognized: (i) there is persuasive evidence that an arrangement exists, (ii) delivery has occurred or service has been rendered, (iii) the price is fixed or determinable and (iv) collection is reasonably assured. In December 2003, the SEC issued Staff Accounting Bulletin SAB No. 104, "Revenue Recognition", which revises and rescinds certain sections of SAB No. 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on our results of operations, financial position or cash flows.

ITEM 3. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during our second quarter of fiscal 2005 that has materially affected, or is reasonably

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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.

During the second quarter and the six months ended March 31, 2005, we sold 139,433 and 260,990 shares of Common Stock to Dutchess Private Equities Fund at an average of \$0.29 per share. The gross proceeds were \$42,000 and \$75,000 respectively.

All sales were made pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated hereunder. All proceeds received were added to the Company's working capital.

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.

Number	Description of Exhibit
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3.1	Certificate of Incorporation (filed as Exhibit 3.1 to the Form S-1 effective May 7, 1992, and incorporated herein by reference).
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3.2	Certificate of Amendment of Certificate of Incorporation (included as
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Exhibit 3.1a to the Form S-2/A filed June 28, 1994, and incorporated herein by reference).

3.3 Certificate of Amendment of Certificate of Incorporation (included as Exhibit 3.1b to the Form S-2/A filed November 7, 1994, and incorporated herein by reference).

3.4 Certificate of Correction of Certificate of Amendment (included as Exhibit 3.1c to the Form S-2/A filed November 7, 1995, and incorporated herein by reference).

3.5 By-Laws (included as Exhibit 3.5 to the Form 10-QSB filed February 13, 2004, and incorporated herein by reference).

3.6 Amendment to By-laws (included as Exhibit 3.6 to the Form 10-QSB filed February 13, 2004, and incorporated herein by reference).

4.1 Certificate of Designation of Class A Preferred Stock (included as Exhibit 4.5 to the Form 10-KSB filed December 29, 1995, and incorporated herein by reference).

4.2 Certificate of Designation of Class B Preferred Stock (included as Exhibit 4.6 to the Form 10-KSB filed December 29, 1995, and incorporated herein by reference).

4.3 Certificate of Designation of Class C Preferred Stock (included as Exhibit 3.1 to the Form 8-K filed January 9, 1998, and incorporated herein by reference).

4.4 Certificate of Correction for Class C Preferred Stock (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on January 9, 1998 and incorporated herein by reference).

4.5 Registration Rights Agreement between the Company and Dutchess Private Equities Fund, L.P., dated February 25, 2004 (included as Exhibit 10.10 to the Form SB-2 filed February 27, 2004, and incorporated herein by reference).

10.1 Commercial Office Lease between the Company and L.A.T. Investment Corporation, dated August 16, 1999 (included as Exhibit 10.24 to the Form 10-KSB filed December 29, 1999, and incorporated herein by reference).

10.2 Form of Stock Option Agreement (included as Exhibit 10.5 to the Form 10-QSB filed August 14, 2002, and incorporated herein by reference).

10.3 Employment Agreement between the Company and John McLaughlin, dated November 2, 2002 (included as Exhibit 10.6 to the Form 10-QSB filed February 14, 2003, and incorporated herein by reference).

10.4 Amendment to Employment Agreement between the Company and John McLaughlin (included as Exhibit 10.5 to the Form 10-KSB filed December 29, 2004, and incorporated herein by reference).

10.5 Amendment to Commercial Office Lease between the Company and L.A.T. Investment Corporation (included as Exhibit 10.6 to the Form 10-KSB filed December 29, 2004, and incorporated herein by reference).

10.6 Investment Agreement between the Company and Dutchess Private Equities Fund, L.P., dated February 25, 2004 (included as Exhibit 10.9 to the Form SB-2 filed February 27, 2004, and incorporated herein by reference).

10.7 Placement Agent Agreement between the Company, Charleston Capital Securities, and Dutchess Private Equities Fund, L.P., dated February 25, 2004

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(included as Exhibit 10.11 to the Form SB-2 filed February 27, 2004, and incorporated herein by reference).

10.8 Amended and Restated 2003 Stock Incentive Plan (included as Exhibit 10.1 to the Form S-8 filed April 13, 2005, and incorporated herein by reference).

31.1 Certification Pursuant to 18 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to 18 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification 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 May 16, 2005 By: /s/ John G. McLaughlin

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

Date May 16, 2005 By: /s/ Phuong Dang

Phuong Dang
Controller (Principal Financial and
Accounting Officer)