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COMPUMED INC
Form 10-Q
February 14, 2007

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 DECEMBER 31, 2006

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

COMMISSION FILE NUMBER 0-14210

COMPUMED, INC.

(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 No

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

As of January 31, 2007, we had 24,543,041 shares of Common Stock outstanding.

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

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COMPUMED, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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COMPUMED, INC. AND SUBSIDIARIES

FINANCIAL INFORMATION COMPUMED, INC. BALANCE SHEETS

	December 31, 2006 (Unaudited)	September 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	63,000	193,000
Marketable securities, at fair market value	369,000	385,000
Accounts receivable, less allowance of \$28,000 (December 2006) and \$26,000 (September 2006)	319,000	246,000

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Other receivables	7,000	7,000
Inventory	18,000	22,000
Prepaid expenses and other current assets	26,000	16,000
	-----	-----
TOTAL CURRENT ASSETS	802,000	869,000
PROPERTY AND EQUIPMENT		
Machinery and equipment	1,191,000	1,189,000
Furniture, fixtures and leasehold improvements	76,000	76,000
Equipment under capital leases	262,000	221,000
	-----	-----
	1,529,000	1,486,000
Accumulated depreciation and amortization	(1,295,000)	(1,278,000)
TOTAL PROPERTY AND EQUIPMENT	234,000	208,000
OTHER ASSETS		
Patents, net of accumulated amortization of \$7,000 (September and December 2006)	114,000	114,000
Other assets	13,000	13,000
	-----	-----
TOTAL OTHER ASSETS	127,000	127,000
	-----	-----
TOTAL ASSETS	1,163,000	1,204,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	82,000	64,000
Accrued liabilities	150,000	151,000
Current portion of capital lease obligations	58,000	45,000
	-----	-----
TOTAL CURRENT LIABILITIES	290,000	260,000
Capital lease obligations, less current portion	148,000	116,000
Commitments and Contingencies, Note E		
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	-	-
Common Stock, \$0.01 par value - authorized 50,000,000 shares, issued and outstanding - 24,275,166 shares (December 2006) and 24,171,467 shares (September 2006)	244,000	243,000
Additional paid in capital	33,678,000	33,618,000
Accumulated deficit	(33,233,000)	(33,013,000)
Accumulated other comprehensive income	35,000	2,000
Deferred stock compensation	-	(23,000)
	-----	-----

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TOTAL STOCKHOLDERS' EQUITY	725,000	828,000
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,163,000	1,204,000
	=====	=====

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STATEMENTS OF OPERATIONS (UNAUDITED)
COMPUMED, INC.

	Three Months Ended December 31,	
	2006	2005
	-----	-----
REVENUE FROM OPERATIONS		
ECG services	418,000	433,000
ECG product and supplies sales	17,000	61,000
OsteoGram (R) sales and services	104,000	157,000
	-----	-----
	539,000	651,000
COSTS AND EXPENSES		
Costs of ECG services	137,000	144,000
Cost of goods sold-ECG	11,000	42,000
Cost of goods sold - OsteoGram (R)	-	3,000
Selling expenses	127,000	105,000
Research & development	76,000	98,000
General and administrative expenses	370,000	307,000
Stock based compensation	38,000	-
Depreciation and amortization	19,000	18,000
	-----	-----
	778,000	717,000
	-----	-----
OPERATING LOSS	(239,000)	(66,000)
Interest Income and dividends	13,000	30,000
Other miscellaneous income	12,000	-
Realized gain on marketable securities	-	-
Interest expense	(6,000)	(5,000)
	-----	-----
NET LOSS	(220,000)	(41,000)
	=====	=====
NET LOSS PER SHARE (Basic and diluted)	(0.01)	(0.00)
Weighted average number of common shares outstanding	24,197,790	23,095,602

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STATEMENTS OF CASH FLOWS (UNAUDITED)
COMPUMED, INC.

	Three Months Ending December 31,	
	2006	2005
	-----	-----
OPERATING ACTIVITIES:		
Net loss	(220,000)	(41,000)
Net adjustments to reconcile net loss to net cash used in operating activities:		
Realized gain on marketable securities	(12,000)	-
Amortization of stock based compensation	54,000	1,000
Depreciation and amortization	19,000	18,000
Decrease/(Increase) in accounts receivable	(73,000)	(159,000)
Decrease/(Increase) in inventory and prepaid expenses	(6,000)	(3,000)
Decrease in accounts payable and other liabilities	36,000	29,000
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(202,000)	(155,000)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from selling of marketable securities	73,000	-
Investments in purchase of marketable securities	(12,000)	(76,000)
Purchase of other asset	-	(12,000)
Purchase of property, plant and equipment	(4,000)	-
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	57,000	(88,000)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock option	-	4,000
Net offering of the investment agreement with Dutchess Private Equities Fund	28,000	111,000
Payments on capital lease obligations	(13,000)	(8,000)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	15,000	107,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(130,000)	(136,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	193,000	281,000
	=====	=====
CASH AND CASH EQUIVALENTS AT END OF PERIOD	63,000	145,000
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Interest paid	6,000	(5,000)
Disposal of fixed assets	2,000	-
Equipment acquired under capital lease	58,000	-

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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 three-month period ended December 31, 2006 are not necessarily indicative of the results that may be expected for the year ending September 30, 2007. For further information, refer to the financial statements for the year ended September 30, 2006 and the notes thereto included in the Company's Annual Report on Form 10-KSB.

The balance sheet at September 30, 2006 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 generated negative cash flows from operations and had net losses aggregating \$261,000 in the quarters ended December 31, 2006 and 2005. The Company's business strategy includes an increase in OsteoGram (R) sales through domestic and international marketing and distribution efforts. The Company intends to finance this business strategy by using its current working capital resources and cash flows from existing operations. There can be no assurance that the OsteoGram (R) sales will be sufficient to offset related expenses.

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 generate profits and reduce its operating losses and negative cash flows. No assurance can be given that the Company will be able to accomplish these objectives. The Company uses existing cash and readily available marketable securities balances to fund operating losses and capital expenditures. The Company had raised these funds in 1997 through 2006 through stock issuances and proceeds from the exercise of certain stock options and warrants. Currently, the Company raises fund through the Investment Agreement with Dutchess Private Equities Fund, however the Investment Agreement expires in March 2007.

Management believes the Company will be able to generate sufficient revenue, reduce operating expenses or obtain sources of financing in order to fund ongoing operations through at least September 30, 2007. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability or classifications of liabilities that may result from the outcome of this uncertainty.

STOCK-BASED COMPENSATION

Prior to October 1, 2006, the Company accounted for employee stock option grants in accordance with APB No. 25, and adopted the disclosure-only provisions of 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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In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first annual period after June 15, 2005. Subsequent to the effective date, the pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition.

Effective October 1, 2006, the Company adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized during the three-month period ended December 31, 2006, 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 the original provisions of SFAS No. 123 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 the provisions of SFAS No. 123R amortized on a straight-line basis over the options' vesting period.

As a result of adopting SFAS No. 123R on October 1, 2006, the Company's net loss before taxes for the three-month period ended December 31, 2006, was \$220,000, \$38,000 higher than had the Company continued with stock based compensation under APB No. 25, and adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, amended by SFAS No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure.

Basic and diluted net loss per share for the three-month period ended December 31, 2006 would have not changed had the Company not adopted SFAS 123R. The adoption of SFAS No. 123R had no impact on cash flows from operations and financing.

The following table illustrates the effect on net income (loss) and net income (loss) per share had the Company applied the fair value recognition provisions of SFAS No. 123 to account for the Company's employee stock options for the three-month period ended December 31, 2005. For purposes of pro forma disclosure, the estimated fair value of the stock awards, as prescribed by SFAS No. 123, is amortized to expense over the vesting period of such awards.

	Three Months Ended December 31, 2005

Net loss, as reported	\$ (41,000)
Add: Stock-based employee compensation expense included in reported net income	-
Deduct: Total stock-based employee compensation expense determined under fair value method	\$ (26,000)

Proforma net loss	\$ (67,000)
	=====
Basic net loss per share:	
As reported	\$ (0.00)
	=====
Pro forma	\$ (0.00)
	=====
Diluted net loss per share:	
As reported	\$ (0.00)
	=====

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Pro forma \$ (0.00)
 =====

Note that the above pro forma disclosure was not presented for the three-month period ended December 31, 2006 because stock-based employee compensation expense is included in the condensed consolidated statements of operations using the fair value recognition method under SFAS No. 123R for this period.

The fair value of the options granted during the three months ended December 31, 2006 and 2005 have been estimated at \$5,000 and \$129,000, at the date of grant, respectively, and are based on the following assumptions on the date of grant using the Black-Scholes valuation model.

The expected stock volatility rates are based on the historical stock volatility of our common stock. The risk free interest rates are based on the U.S. Treasury yield curve in effect at the time of the grant for periods corresponding to the expected life of the option. We have opted to use the simplified method as allowed by Staff Accounting Bulletin SAB 107 for estimating our expected term to arrive at a term in between the vesting period and the contractual term.

	Three Months ended December 31, 2006	Three Months ended December 31, 2005
	-----	-----
Risk free interest rate	4.69%	4.47%
Stock volatility factor	28%	37%
Weighted average expected option life	5 years	5 years
Expected dividend yield	None	None

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

	2006		2005	
	-----	-----	-----	-----
	Shares	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price
	-----	-----	-----	-----
Options outstanding, beginning of period	6,754,828	0.29	6,571,934	0.2
Options exercised	-	-	(40,000)	0.1
Options granted	50,000	0.27	360,000	0.6
Options forfeited/canceled	(63,751)	0.67	-	
	-----	-----	-----	-----
	6,741,077	0.29	6,891,934	0.2
	=====	=====	=====	=====
Options exercisable, end of period	4,496,078	0.27	4,491,944	0.2
	=====	=====	=====	=====

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The following summarizes information concerning stock options outstanding at December 31, 2006:

Range of Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Shares Outstanding	Shares Exercisable	Weighted Average Exercise Price of Shares Exercisable
\$0.000000 - \$0.425000	5,559,642	7.31	\$0.21	3,541,309	
\$0.425100 - \$0.850000	1,171,435	4.24	\$0.66	944,769	
\$0.850100 - \$1.275000	10,000	3.33	\$0.95	10,000	
	6,741,077	6.77	\$0.29	4,496,078	

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PER SHARE DATA

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

NOTE B - OTHER AGREEMENTS

On February 25, 2004, the Company entered into a three-year Investment Agreement with Dutchess Private Equities Fund. That agreement provides that, following

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notice to Dutchess, the Company may sell to Dutchess up to \$5 million in shares of the Company's 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 the Company's Common Stock during the five day period following that notice. The number of shares that the Company is permitted to sell pursuant to the Investment Agreement is either: (A) two hundred percent of the average daily volume of the Company's 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 the Company issues 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 the Company's representations and warranties are true and correct as of the funding date, (ii) that the Company has performed all of its covenants, agreements and conditions required to be performed by it, (iii) that trading of the Company's 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 ECG or electrocardiogram 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. Data is sent over telephones or the Internet to our state-of-the-art analysis center for interpretation.

Although self-interpreting ECG equipment is widely available, many of our customers like the optional feature of automatically sending their ECG results to one of our cardiologists for an overread when the results are abnormal. This

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24/7 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.

Our ECG workflow and analytics capability are scalable, and we believe we can readily add other measurement metrics to our cardiology service offering. The growth of diagnostic imaging coupled with an increasing shortage of clinicians to interpret images presents us with an opportunity to leverage our ECG platform. Our servers can accommodate ECGs plus a wide range of other diagnostic images that can be layered on top of our existing systems.

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

Osteoporosis is a "silent disease" that costs the U.S. healthcare system over \$17 billion annually contrasted to the \$6 billion spent annually on breast cancer. Fifty percent of all women will suffer an osteoporosis-related fracture in their lifetime, and Medicare is currently scrutinizing methods to lower the costs of fighting this largely preventable disease through point-of-care testing of "at risk" patients through an initiative named HEDIS. Contrasting Medicare's stated desire to test more at risk patients, Medicare is slated to significantly lower reimbursement for DXA technology, our competition in bone mineral density testing. Approved reimbursements for the OsteoGram remain unchanged. We believe clinicians will seek more cost-effective means of testing over the next few years. Since our technology uses existing x-ray equipment, we expect to see robust opportunities for growth through workstation consolidation.

We originally marketed the OsteoGram(R) as a film-based product that utilized a standard hand x-ray film that is digitized on a desktop scanner. The image was then analyzed on a personal computer by means of the patented OsteoGram(R) software. In June of 2004, we began marketing a DICOM or Digital Imaging and Communications in Medicine version of the OsteoGram(R) 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 and diagnostic information 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(R) software to manufacturers of digital x-ray and network equipment, such as Kodak, Fuji and Swissray International, to place at the point-of-sale.

We believe significant new market demand is coming from digital mammography providers interested in adding the OsteoGram as a value-added enhancement, and we are accelerating plans to work with them to integrate our product into their market leading mammography platforms. This is truly a "no-brainer" since the public health problem of osteoporosis centers around the fact that most women wait to get tested until it is too late. However, women tend to reliably schedule an annual mammogram. We believe combining the two tests on the same machine is an obvious win-win for women's health. Additionally, we believe that integrating the OsteoGram into mammography platforms could provide imaging

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centers with additional revenue to help offset shrinking mammogram reimbursements.

We view the OsteoGram as a foundation for a teleradiology platform. Coupled with our existing ECG platform and the Internet, we have the underpinning for a service business that provides remote analysis and overreads with a recurring revenue model. Similar to our ECG business, the OsteoGram is amenable to an application service provider, or ASP model in which we analyze images remotely on a "per click" basis. Expanding the underlying OsteoGram technology to additional tests, such as following the progression of arthritic disease, affords us a means to further automate existing, tedious procedures and free up busy clinicians for more important tasks.

Throughout our first fiscal quarter we invested heavily in our OsteoGram business in anticipation of accelerated growth. Our effort was validated primarily by the fact that many of the market leaders in the digital X-Ray equipment business have adopted our technology as a value-added offering. Our network of digital equipment partners, which now includes Kodak China, OREX, Swissray International and FujiMed USA, is a critical asset that we have built over the past two years. Although the cost and time of integrating our product with these partners has been significant, we now have a platform for growth in the domestic and international arenas. At the same time, we have also created a growth plan that we expect to energize and expand our existing ECG business.

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

Sales progress, particularly from leveraging our new OEM channels, is gaining momentum with the addition of our new sales director. In addition, we are now receiving reorders from our OsteoGram licensing partners, and expect this trend to accelerate in the future. We are planning to expand our relationships with select licensing partners that share our image of the future.

OsteoGram(R)-enhanced Fuji CR mammography systems were showcased at the 92nd Scientific Assembly and Annual Meeting of the Radiological Society of North America in Chicago held November 26-30. In addition, the OsteoGram(R) was featured in the exhibits of Swissray International and the Kodak Health Group, division of the Eastman Kodak Company.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED DECEMBER 31, 2006 COMPARED TO THE ----- QUARTER ENDED DECEMBER 2005. -----

ECG services revenue consists of ECG processing, equipment rental, overread and maintenance, during the first quarter of fiscal 2007, decreased by 3.5% to \$418,000 from \$433,000 in the first quarter of fiscal 2006, due to the contract expirations of two correctional healthcare providers.

ECG product and supplies sales revenue for the first quarter of fiscal 2007 decreased by 72.1% to \$17,000 from \$61,000 in the first quarter of fiscal 2006, due to one-time sale of ECG terminals to Tennessee Department of Corrections in fiscal 2006.

OsteoGram (R) revenue for the first quarter of fiscal 2007 decreased by 33.8% to \$104,000 from \$157,000 in the first quarter of fiscal 2006, due to an initial

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contractual order from one of our OEM partners in fiscal 2006.

Costs of services of ECG for the first quarter of fiscal 2007 decreased by 4.9% to \$137,000 from \$144,000 in the first quarter of fiscal 2006, due to decreased staffing in the ECG processing department.

Cost of goods sold of ECG for the first quarter of fiscal 2007 decreased by 73.8% to \$11,000 from \$42,000 in the first quarter of fiscal 2006, in proportion with the decrease in product sales mentioned above.

Cost of goods sold for OsteoGram(R) for the first quarter of fiscal 2007 decreased by 100% to none from \$3,000 in the first quarter of fiscal 2006, due to decreased purchase of security keys.

Selling expenses for the first quarter of fiscal 2007 increased by 21.0% to \$127,000 from \$105,000 in the first quarter of fiscal 2006, due to the hiring of the Director of Sales for the OsteoGram business.

General and administrative expenses for the first quarter of fiscal 2007 increased by 20.5% to \$370,000 from \$307,000 in the first quarter of fiscal 2006, due to a \$64,000 increase in consulting services and \$36,000 in corporate taxation expenses.

Research and development costs for the first quarter of fiscal 2007 decreased by 22.4% to \$76,000 from \$98,000 in the first quarter of fiscal 2006, due to the resignation of the Vice President of Engineering in early fiscal 2006.

Due to the effect of expensing employee stock options under SFAS123R, during the first quarter of fiscal 2007, the stock-based compensation was \$38,000 compared to none in fiscal 2006.

Interest income and dividends for the first quarter of fiscal 2007 decreased by 56.7% to \$13,000 from \$30,000 in the first quarter of fiscal 2006, due to decreased investments in marketable securities.

Interest expense for the first quarter of fiscal 2007 increased by 20.0% to \$6,000 from \$5,000, due to increased financing of ECG equipment.

Net loss for the first quarter of fiscal 2007 increased by 436.6% to \$220,000 from \$41,000 in the first quarter of fiscal 2006, mainly due to increased expenses related to General and Administrative and the expensing of employee stock options under SFAS123R.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, we had \$432,000 in cash and marketable securities, as compared to a balance of \$578,000 at September 30, 2006, a net decrease of \$146,000 due to cash used in operating activities..

The purchase of property, plant, and equipment paid in cash during the first quarter of 2007 was \$4,000 and none for the same period in fiscal 2006.

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

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proceeds from the exercise of stock options and warrants.

We intend to pursue additional research and/or sub-contractor agreements relating to our development projects. Additionally, we may seek partners and acquisition candidates of businesses that are complementary to our own. These investments would be subject to our obtaining financing through issuance of debt or other securities. An acquisition may be dilutive to stockholders.

CAPITAL COMMITMENTS

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

We 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 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 24, 2004, the Board passed a resolution to extend this contract for an additional year to 2005. On September 9, 2005 the Board passed a resolution to continue Mr. McLaughlin at a monthly salary of \$14,500 starting October 1, 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 and 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 February 25, 2004, we entered into a three-year 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 we 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 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 Securities and Exchange Commission has declared effective a registration statement covering the shares to be purchased by Dutchess.

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During the three months ended December 31, 2006, we sold 88,400 shares of Common Stock to Dutchess Private Equities Fund at an average of \$0.33 per share. The gross proceeds were \$28,000.

PLAN OF OPERATIONS

Our business strategy includes an increase in OsteoGram(R) revenue through sales to manufactures of digital x-ray equipment and through 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 may utilize a portion of the funding available through the Investment Agreement with Dutchess Private Equities Fund until March 31, 2007 or seek alternative financial instruments. 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. Acquisitions could be dilutive to stockholders.

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MATERIAL TRENDS AND UNCERTAINTIES

The rate of progress in commercializing the DICOM (digital) OsteoGram accelerated at the end of the first quarter of fiscal 2006, mainly due to an order from Orex Computed Radiography. We expect this trend to pick-up as additional OEM partners launch their field sales efforts.

We have partially relied on an Investment Agreement with Dutchess Private Equities Fund to raise capital. The Investment Agreement terminates in March 2007. At that time, we may need to seek other methods of raising capital including issuing equity or debt. If we cannot raise sufficient capital to meet our obligations timely, we may have to curtail operations. Management believes we will be able to either renew the Investment Agreement with Dutchess on the same or similar terms or locate other means of raising capital sufficient to meet our obligations and invest in the Company's future.

CRITICAL ACCOUNTING POLICIES

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

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectibility of our trade accounts receivable balances. If we determine that the financial conditions of any of our customers deteriorated, whether due to customer specific or general economic issues, increases in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

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

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

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

ECG product and supplies sales revenue is recognized upon shipment of the products and passage of title to the customer.

OsteoGram software revenue is recognized in accordance to paragraph 8 of SOP 97-2 as the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) the software has been delivered, (3) the fee is fixed or determinable, and (4) collectibility of the fee is probable. OsteoGram PCS revenue is recognized in accordance to paragraph 59 of SOP 97-2 as we met the following criteria: (1) the PCS is part of the initial license (software) fee, (2) the PCS period is for one year, (3) the estimated cost of providing the PCS is immaterial, (4) we do not offer upgrades and enhancements during the PCS arrangement. Our policy is to accrue all estimated costs of providing the PCS services.

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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.

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ITEM 3. 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 our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on this evaluation, our Chief Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance that the control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during our first quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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

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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 three months ended December 31, 2006, we sold 88,400 shares of Common Stock to Dutchess Private Equities Fund, an accredited investor, at an average of \$0.33 per share. The gross proceeds were \$28,000.

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 our 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

-
- 3.1 Certificate of Incorporation (filed as Exhibit 3.1 to the Form S-1 effective May 7, 1992, and incorporated herein by reference).
 - 3.2 Certificate of Amendment of Certificate of Incorporation (included as 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).

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- 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 Form 8-K filed January 9, 1998, and incorporated herein by reference).
- 4.5 Rights Agreement between the Company and U.S. Stock Transfer Corporation dated October 28, 2005 (filed as Exhibit 4.1 to the Company's Form 8-A filed on November 2, 2005 and incorporated herein by reference).
- 10.1 Form of Non-Qualified Stock Option Agreement (included as Exhibit 10 to the Form S-8 filed October 14, 1995 and incorporated herein by reference).
- 10.2 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).
- 10.3 Form of Stock Option Agreement (included as Exhibit 10.5 to the Form 10-QSB filed August 14, 2002, and incorporated herein by reference).
- 10.4 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).
- 10.5 2003 Stock Incentive Plan (included as Exhibit 99.2 to the Form S-8 filed June 2, 2003 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 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).
- 10.8 Placement Agent Agreement between the Company, Charleston Capital Securities, and Dutchess Private Equities Fund, L.P., dated February 25, 2004 (included as Exhibit 10.11 to the Form SB-2 filed February 27, 2004, and incorporated herein by reference).
- 10.9 Amendment to Commercial Office Lease between the Company and L.A.T. Investment Corporation, dated July 13, 2004 (included as Exhibit 10.6 to the Form 10-KSB filed December 29, 2004, and incorporated herein by reference).
- 10.10 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).
- 10.11 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).

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reference).

10.12 Amendment to Commercial Office Lease between the Company and L.A.T. Investment Corporation, dated August 12, 2005 (included as Exhibit 10.6 to the Form 10-KSB filed December 27, 2005, and incorporated herein by reference).

10.13 2006 Stock Incentive Plan (included as Exhibit 10.1 to the Form S-8 filed August 23, 2006, and incorporated herein by reference).

10.14 Third Amendment to Commercial Office Lease between the Company and L.A.T. Investment Corporation, dated August 10, 2006 (included as Exhibit 10.14 to the Form 10-KSB filed December 29, 2006, 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 February 14, 2007 By: /s/ John G. McLaughlin

John G. McLaughlin
President and Chief Executive Officer

Date February 14, 2007 By: /s/ Phuong Dang

Phuong Dang
Secretary, Controller
and Principal Financial Officer

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John G. McLaughlin, certify that:

1. I have reviewed this quarterly report of CompuMed, Inc.;

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2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 14, 2007 /s/ JOHN G. MCLAUGHLIN

JOHN G. MCLAUGHLIN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Phuong Dang, certify that:

1. I have reviewed this quarterly report of CompuMed, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business

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issuer's internal control over financial reporting.

Date: February 14, 2007 /s/ PHUONG DANG

PHUONG DANG
SECRETARY, CONTROLLER
and PRINCIPAL FINANCIAL OFFICER

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of CompuMed, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report for the quarter ended December 31, 2006 (the "Form 10-QSB") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John G. McLaughlin

John G. McLaughlin
President and Chief Executive Officer
February 14, 2007

/s/ Phuong Dang

Phuong Dang
Secretary, Controller
and Principal Financial Officer
February 14, 2007

END OF FILING