COMPUMED INC
Form 10-Q
August 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2008

or

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

For the transition period from: _____ to _____

COMPUMED, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**000-14210**	**95-2860434**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

5777 WEST CENTURY BLVD. , SUITE 360, LOS ANGELES, CA 90045

(Address of Principal Executive Office) (Zip Code)

(310) 258-5000

(Registrant s telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 X Yes No days.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company X

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

The number of shares outstanding of the registrant s common stock as of July 31, 2008 was 25,665,858.

COMPUMED, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS.

BALANCE SHEETS
COMPUMED, INC.

	June 30, 2008	September 30, 2007
ASSETS	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	242,000	969,000
Investments, at fair market value	388,000	494,000
Accounts receivable, less allowance of $23,000 (June 2008) and $27,000 (September 2007)	257,000	307,000
Other receivables	5,000	5,000
Inventory	158,000	42,000
Prepaid expenses and other current assets	26,000	18,000
TOTAL CURRENT ASSETS	1,076,000	1,835,000
PROPERTY AND EQUIPMENT		
Machinery and equipment	1,285,000	1,235,000
Furniture, fixtures and leasehold improvements	76,000	76,000
Equipment under capital leases	391,000	323,000
	1,752,000	1,634,000
Accumulated depreciation and amortization	(1,430,000)	(1,359,000)
TOTAL PROPERTY AND EQUIPMENT	322,000	275,000
OTHER ASSETS		
Patents, net of accumulated amortization of $12,000 (June 2008) and $9,000 (September 2007)	170,000	138,000

Other assets	19,000	13,000
TOTAL OTHER ASSETS	189,000	151,000
TOTAL ASSETS	1,587,000	2,261,000
LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES		
Accounts payable	326,000	236,000
Accrued liabilities	121,000	177,000
Unearned revenue- ECG processing	2,000	2,000
Current portion of capital lease obligations	85,000	73,000
TOTAL CURRENT LIABILITIES	534,000	488,000
Capital lease obligations, less current portion	70,000	133,000
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.10 par value - authorized 1,000,000 shares		
Preferred Stock- Class A $3.50 cumulative convertible voting - issued and outstanding - 8,400 shares	1,000	1,000
Preferred Stock- Class B $3.50 cumulative convertible voting - issued and outstanding - 300 shares	-	-
Preferred Stock- Class D 2% convertible - issued and outstanding - 4,167 shares		
Common Stock, $0.01 par value - authorized 50,000,000 shares, issued and outstanding - 25,665,868 (June 2008) and 24,939,283 shares (September 2007)	258,000	250,000
Additional paid in capital	36,276,000	35,842,000
Accumulated deficit	(35,545,000)	(34,393,000)
Accumulated other comprehensive income (loss)	(7,000)	(60,000)
TOTAL STOCKHOLDERS' EQUITY	983,000	1,640,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,587,000	2,261,000

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

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STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(UNAUDITED)

COMPUMED, INC.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
REVENUE FROM OPERATIONS				
ECG services	457,000	491,000	1,432,000	1,380,000
ECG product and supplies sales	26,000	18,000	133,000	61,000
OsteoGram (R) sales and services	1,000	81,000	80,000	262,000
	484,000	590,000	1,645,000	1,703,000
COSTS AND EXPENSES				
Costs of ECG services	182,000	162,000	607,000	447,000
Cost of goods sold-ECG	18,000	16,000	83,000	43,000
Cost of goods sold - OsteoGram (R)	-	1,000	4,000	1,000
Selling expenses	104,000	117,000	289,000	361,000
Research & development	76,000	93,000	293,000	257,000
General and administrative expenses	215,000	372,000	1,403,000	1,082,000
Depreciation and amortization	26,000	23,000	75,000	64,000
	621,000	784,000	2,754,000	2,255,000
OPERATING LOSS	(137,000)	(194,000)	(1,109,000)	(552,000)
Interest income and dividends	5,000	24,000	34,000	44,000
Realized gain on marketable securities	(4,000)	-	(56,000)	24,000
Interest expense	(7,000)	(6,000)	(21,000)	(19,000)
NET LOSS	(143,000)	(176,000)	(1,152,000)	(503,000)
OTHER COMPREHENSIVE INCOME				
Unrealized gain/(loss) in marketable securities	1,000	(43,000)	(3,000)	(65,000)
Reclassification adjustment of marketable securities	4,000	-	56,000	-
TOTAL OTHER COMPREHENSIVE INCOME	5,000	(43,000)	53,000	(65,000)

TOTAL COMPREHENSIVE LOSS	(138,000)	(219,000)	(1,099,000)	(568,000)
NET LOSS PER SHARE (Basic and diluted)	(0.01)	(0.01)	(0.05)	(0.02)
Weighted average number of common shares outstanding	25,605,133	24,654,807	25,263,036	24,457,334

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

STATEMENTS OF CASH FLOWS
(UNAUDITED)
COMPUMED, INC.

	Nine Months Ended June 30,	
	2008	2007
OPERATING ACTIVITIES:		
Net loss	(1,152,000)	(503,000)
Net adjustments to reconcile net loss to net cash used in operating activities:		
Realized (gain)/loss on marketable securities	56,000	(23,000)
Stock based compensation	360,000	149,000
Depreciation and amortization	75,000	64,000
(Increase)/Decrease in accounts receivable	50,000	(116,000)
(Increase)/Decrease in inventory and prepaid expenses	(124,000)	(12,000)
Increase/(Decrease) in accounts payable and other liabilities	(34,000)	108,000
NET CASH USED IN OPERATING ACTIVITIES	(769,000)	(333,000)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from selling of marketable securities	709,000	252,000
Investments in purchase of marketable securities	(606,000)	(779,000)
Purchase of other asset	(42,000)	(10,000)
Purchase of property, plant and equipment	(50,000)	(52,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	11,000	(589,000)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	82,000	23,000
Net offering of the investment agreement with Dutchess Private Equities Fund	-	114,000
Net offering of the private placement of Boston Avenue Capital	-	1,867,000
Payments on capital lease obligations	(51,000)	(40,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	31,000	1,964,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(727,000)	1,042,000
CASH AND CASH EQUVALENTS AT BEGINNING OF PERIOD	969,000	193,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	242,000	1,235,000

SUPPLEMENTAL DISCLOSURES:		
Interest paid	21,000	19,000
Equipment acquired under capital lease and financing	68,000	57,000

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

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 nine-month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. For further information, refer to the financial statements for the year ended September 30, 2007 and the notes thereto included in the Company's Annual Report on Form 10-K.

The balance sheet at September 30, 2007 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 of $1,152,000 and $503,000 in the nine-month period ending June 30, 2008 and 2007, respectively. The Company's business strategy includes the launch of its OsteoCare initiative, and an expansion of its telecardiology services business into new markets as well as into the Electronic Medical Records business. The Company intends to finance this business strategy by using its current working capital resources and cash flows from existing operations as well as possible sales of equity and debt securities. There can be no assurance that the business expansion will be sufficient to offset related expenses in which case the Company may have to seek additional sources of capital, which may or may not be available, or significantly reduce or restructure its operations.

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 uses existing cash and readily available marketable securities balances to fund operating losses and capital expenditures. The Company raised these funds in 1997 through 2006 through stock issuances and used proceeds from the exercise of certain stock options and warrants. The Company also raised funds through an Investment Agreement with Dutchess Private Equities Fund. This Investment Agreement expired March 25, 2007, and was not renewed. On February 15, 2008, the Company established a letter of credit with a credit facility, through a Revolving Line of Credit Agreement. 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. At our current rate of cash expenditures needed to fund the Company s current growth business strategy, management of the Company believes that our existing sources of funds will not be sufficient to fund such capital expenditures and working capital and we plan to draw from our existing credit facility to provide liquidity. In the event the Company is not able to draw from the credit facility and is unable to secure alternative financing, the Company will be required to substantially reduce capital expenditures and curtail its current business strategy in order to meet its working capital needs in the short term. Additionally, the Company may need to raise additional capital through debt or equity financing to finance its long-term (more than twelve months) capital needs.

On March 14, 2007, the Company closed a private placement of its securities to an institutional investor pursuant to the Securities Purchase Agreement. The Company sold to the investor 4,167 Units at a price of $480 per Unit resulting in total proceeds of $2,000,000. Each Unit consisted of 1 share of the Company s Class D Preferred Stock as well as 1,000 Common Stock Purchase Warrants at an exercise price of $0.30 per share. Pursuant to the Agreement, the Company issued all 4,167 shares of the authorized Class D Preferred Stock. Each share of Class D Preferred Stock is convertible at any time into 2,000 shares of the Company s common stock. The holder of each issued and outstanding share of Class D Preferred Stock will be entitled to receive a dividend in respect of each such share at the rate per share of $9.60 per annum, payable on each of the first, second, third, and fourth anniversaries of March 12, 2007, commencing March 12, 2008. Dividend payments to each holder will be made in shares of the Company s common stock valued at the average Market Price over 20 trading days, as defined in the Certificate of Designation. In the event the dividends may not lawfully be paid by the issuance of the Company s common stock and may be lawfully paid in cash, the dividends will be paid in cash. The Company accrued the March 2008 dividend on the Class D Preferred Stock and paid in shares of its common stock in August 2008. The Company will not have sufficient authorized shares to continue to pay dividends in shares of common stock in the future unless and until the stockholders authorize additional shares. In the event of any liquidation, dissolution or winding-up, either voluntarily or involuntarily, the holders of shares of the Class D Preferred Stock then issued and outstanding will be entitled to be paid out of the Company s assets available for distribution to its stockholders, whether from capital, surplus or earnings and before any payment shall be made to the holders of shares of the Company s common stock or upon any other series of the Company s

Preferred Stock with a liquidation preference subordinate to the liquidation preference of Class D Preferred Stock, an amount per share equal to $480 plus the dollar amount equal to all unpaid and accrued dividends and interest thereon. In addition, a merger or consolidation with or into any other corporation, or a sale, lease, exchange, or transfer of all or any part of the Company s assets will be deemed a liquidation event unless no assets are distributed in respect of any class of the Company s capital stock in connection with, or as a result of, such merger or consolidation. The Class D Preferred Stock has the same voting rights as the Company s common stock except that each share of Class D Preferred Stock is entitled to 2,000 votes for each vote allowed a share of the Company s common stock, however such amount will be proportionally adjusted in the event of a reverse or forward split of the Company s common stock.

On February 15, 2008, CompuMed, Inc., a Delaware corporation (the "Company"), entered into a revolving line of credit agreement (the "Credit Agreement") between the Company, as Borrower, and Boston Avenue Capital, LLC, an Oklahoma limited liability company, as Lender (the "Lender" or "BAC"). The Credit Agreement provides for a new revolving line of credit facility in an aggregate principal amount of up to $4 million. The revolving line of credit matures on December 31, 2017. Advances under the revolving line of credit shall bear interest at the current three-month London Interbank Offered Rate (LIBOR), payable quarterly in arrears for the prior fiscal quarter on the fifth business day of each January, April, July and October, commencing on April 7, 2008. The Credit Agreement also provides that unused amounts up to the total commitment shall bear interest at a rate of one percent (1%) per annum, compounded annually on the first business day of each calendar year. Under the Credit Agreement, the Lender provided the Company a letter of credit issued by JP Morgan Chase NA in an amount at all times equal to the amount of (i) $4,000,000 less (ii) the aggregate amount of advances then outstanding under the revolving line of credit. Advances under the revolving line of credit will be unsecured senior obligations of the Company.

The Company expects to use proceeds under the new revolving line of credit for general corporate purposes, including working capital and to fund new product joint ventures or potential acquisitions consistent with its business strategy.

The Credit Agreement contains customary representations and warranties of the Company. Availability under the new revolving line of credit is subject to certain conditions, including (i) certain covenants relating to the composition of the Board of Directors of the Company, (ii) that the members of the Board of Directors of the Company unanimously approve any advance, (iii) that there not be any undisclosed material liabilities at the time of an advance, and (iv) that the Lender shall have consented (in its sole discretion) in the event that an advance is requested and, at the time of the request for the advance, the Company or any of its officers, directors, employees, shareholders or affiliates is a party to any pending legal proceedings related to the Company or its affiliates.

The new revolving line of credit facility may be prepaid at any time in whole or in part without premium or penalty, other than payment of the 1% commitment interest on unused advances if the commitment is not terminated.

The Credit Agreement also includes certain customary events of default including, but not limited to: failure to pay principal or interest when due (subject to grace period); any representation or warranty proving to have been materially incorrect when made or confirmed; failure to perform or observe covenants set forth in the Credit Agreement; and bankruptcy and insolvency defaults.

Common Stock Purchase Warrant

On February 15, 2008, the Company issued a Common Stock Purchase Warrant (the "Warrant") for the purchase of up to 16,000,000 shares of the Company's common stock to BAC for a purchase price of $5,000 (the "Warrant Purchase Price") in connection with the Credit Agreement. Pursuant to the terms of the Warrant and subject to its conditions, BAC may purchase from time to time up to 16,000,000 shares of the Company's common stock at a price per share equal to the average of the daily volume weighted average price of the Company's common stock as reported by the OTC Bulletin Board on each trading day during the period commencing on the date of issuance of the Warrant and ending one hundred eighty (180) trading days immediately following but not including the date of issuance of the Warrant, calculated as of the close of trading on such one hundred eightieth trading day. The Warrant is exercisable if and only if the Company's stockholders approve an increase in the Company's authorized shares of common stock sufficient to permit that number of shares to be reserved for issuance and issued upon exercise of the Warrant. The Warrant terminates upon the earlier of (i) the twentieth (20th) anniversary of the date of issuance and (ii) the tenth (10th) anniversary of the date the Company shall have irrevocably reserved a sufficient number of duly authorized shares of common stock for issuance upon full exercise of the Warrant. If duly authorized and reserved shares of common stock are not available for issuance upon exercise of the Warrant by the fifth (5th) anniversary of the date of issuance, the holder of the Warrant may put the Warrant to the Company, in whole but not in part, for a price equal to the sum of (x) the Warrant Purchase Price and (y) 8% per annum multiplied by the Warrant Purchase Price, compounded annually from the issue date. The Warrant contains customary adjustments for stock splits, dividends, reclassifications and certain mergers and consolidations, and is transferable by BAC to certain affiliated entities.

Board Agreement

On February 15, 2008, the Company entered into an Agreement (the "Board Agreement") among the Company, BAC and Robert Stuckelman, John Minnick, John Romm, M.D., and Stuart Silverman, M.D., each a member of the board of directors of the Company (each of Messrs. Stuckelman, Minnick, Romm and Silverman being collectively referred to as the "Resigning Board Members"). Pursuant to the terms of the Board Agreement, BAC and the Company terminated certain agreements dated May 17, 2007 relating to the rights and obligations of BAC and the Company regarding voting and otherwise supporting the nominations of members of the Board of Directors of the Company. In addition, the Board Agreement required that each of the Resigning Board Members submit his resignation as a board member of the Company concurrently with the execution thereof, and each of BAC and the Resigning Board Members executed and delivered a mutual general release of claims against each other. The Board Agreement was a condition of BAC's willingness to enter into the Credit Agreement.

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.

Effective October 1, 2006, the Company adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2006, based on the grant-date fair value estimated in accordance with 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.

During the nine months ended June 30, 2008, there were no grants issued. For the same period in 2007, the Company granted to directors, officers and employees options to purchase 5,295,000 shares, the fair value of the options have been estimated at $530,381, at the date of grant, respectively, and is 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 the Company s 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. The Company has 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.

	Nine months Ended
	June 30, 2007
Risk free interest rate	4.69% to 4.75%
Stock volatility factor	24% to 28%
Weighted average expected option life	5-6 years
Expected dividend yield	None

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

	2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of period	11,237,414	0.29	6,754,828	0.29
Options exercised	(690,767)	0.12	(302,896)	0.11
Options granted	-	-	5,295,000	0.29
Options forfeited/canceled	(1,175,233)	0.29	(216,185)	0.66
Options outstanding, end of period	9,371,414	0.30	11,530,747	0.29
Options exercisable, end of period	7,978,090	0.30	4,632,415	0.26

The following summarizes information concerning stock options outstanding at June 30, 2008:

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
$0.0000 - $0.4250	8,339,314	6.65	$0.26	7,029,324	$0.25
$0.4251 - $0.8500	1,022,100	2.76	$0.66	938,766	$0.66
$0.8501 - $1.2750	10,000	1.83	$0.95	10,000	$0.95
	9,371,414	6.22	$0.30	7,978,090	$0.30

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" ("SFAS 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.

NEW ACCOUNTING PRONOUNCEMENT

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"). This interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. The Company adopted this accounting pronouncement effective October 1, 2007 and the adoption has not had a material effect on its financial statements.

NOTE B - OTHER AGREEMENTS

On March 14, 2007, the Company closed a private placement of its securities to an institutional investor pursuant to the Securities Purchase Agreement. The Company sold to the investor 4,167 Units at a price of $480 per Unit resulting in total proceeds of $2,000,000. Each Unit consisted of 1 share of the Company s Class D Preferred Stock as well as 1,000 Common Stock Purchase Warrants with an exercise price of $0.30 per share. Pursuant to the Agreement, the Company issued all 4,167 shares of the authorized Class D Preferred Stock. Each share of Class D Preferred Stock is convertible at any time into 2,000 shares of the Company s common stock. The holder of each issued and outstanding share of Class D Preferred Stock will be entitled to receive a dividend in

respect of each such share at the rate per share of $9.60 per annum**,** payable on each of the first, second, third, and fourth anniversaries of March 12, 2007, commencing March 12, 2008. Dividend payments to each holder will be made in shares of the Company s common stock valued at the average Market Price over 20 trading days, as defined in the Certificate of Designation. In the event the dividends may not lawfully be paid by the issuance of the Company s common stock and may be lawfully paid in cash, the dividends will be paid in cash. The Company accrued the March 2008 dividend on the Class D Preferred Stock and paid in shares of its common stock in August 2008. While the Company expects that it will have sufficient shares of common stock authorized to pay the next scheduled dividend on the Class D Preferred Stock in shares of its common stock, the Company currently will not have sufficient authorized shares to continue to pay dividends in shares of common stock in the future unless and until the stockholders authorize additional shares. In the event of any liquidation, dissolution or winding-up, either voluntarily or involuntarily, the holders of shares of the Class D Preferred Stock then issued and outstanding will be entitled to be paid out of the Company s assets available for distribution to its stockholders, whether from capital, surplus or earnings, before any payment shall be made to the holders of shares of the Company s common stock or upon any other series of the Company s Preferred Stock with a liquidation preference subordinate to the liquidation preference of Class D Preferred Stock, an amount per share equal to $480 plus the dollar amount equal to all unpaid and accrued dividends and interest thereon. In addition, a merger or consolidation with or into any other corporation, or a sale, lease, exchange, or transfer of all or any part of the Company s assets will deemed a liquidation event unless no assets are distributed in respect of any class of the Company s capital stock in connection with, or as a result of, such merger or consolidation. The Class D Preferred Stock has the same voting rights as the Company s common stock except that each share of Class D Preferred Stock is entitled to 2,000 votes for vote allowed a share of the Company s common stock, however such amount will be proportionally adjusted in the event of a reverse or forward split of the Company s common stock.

On June 7, 2007 we amended the contract with Synthetica (America), Ltd. to retain Mr. Maurizio Vecchione for the position of Interim Chief Executive Officer. Under the terms of this Amendment, Mr. Vecchione, while part-time, will spend sufficient time at the Company to discharge the duties needed of the CEO. Maurizio Vecchione is a Managing Partner of Synthetica Holdings, LLC, a private equity and venture fund, and the Chairman of Synthetica (America), Ltd., a management consultant previously retained to provide strategic advice to CompuMed. Mr. Vecchione co-founded and joined Synthetica in September 2001. He also serves as Chairman of The IDEAS Studio, a multimedia content company in the educational field and Interim CEO of Mobile Video Development Corporation, an early stage company in wireless video technology. As part of his duties at Synthetica he has held various executive positions with Synthetica client companies including from July 2004 to September 2006 Mr. Vecchione served as CEO of Trestle Holdings, Inc., a medical imaging company for digital pathology and a company for which he orchestrated a restructuring and the sale of its operating assets. From April 2003 to July 2004, Mr. Vecchione was President and CEO of Microwave Photonics, Inc., a wireless technology company based on technology acquired from British Telecommunications Plc. Prior to joining Synthetica he was the founder and co-CEO of imaging rendering company ModaCAD Inc. (later Styleclick, Inc.) and lead the company from 1983 through 2001, when he orchestrated its sale to USA Networks (now InterActiveCorp.).

On February 15, 2008, CompuMed, Inc., a Delaware corporation (the "Company"), entered into a revolving line of credit agreement (the "Credit Agreement") between the Company, as Borrower, and Boston Avenue Capital, LLC, an Oklahoma limited liability company, as Lender (the "Lender" or "BAC"). The Credit Agreement provides for a new revolving line of credit facility in an aggregate principal amount of up to $4 million. The revolving line of credit

matures on December 31, 2017. Advances under the revolving line of credit shall bear interest at the current three-month London Interbank Offered Rate (LIBOR), payable quarterly in arrears for the prior fiscal quarter on the fifth business day of each January, April, July and October, commencing on April 7, 2008. The Credit Agreement also provides that unused amounts up to the total commitment shall bear interest at a rate of one percent (1%) per annum, compounded annually on the first business day of each calendar year. Under the Credit Agreement the Lender provided the Company a letter of credit issued by JP Morgan Chase NA in an amount at all times equal to the amount of (i) $4,000,000 less (ii) the aggregate amount of advances then outstanding under the revolving line of credit. Advances under the revolving line of credit will be unsecured senior obligations of the Company. The Company expects to use proceeds under the new revolving line of credit for general corporate purposes, including working capital and to fund new product joint ventures or potential acquisitions consistent with its business strategy.

The Credit Agreement contains customary representations and warranties of the Company. Availability under the new revolving line of credit is subject to certain conditions, including (i) certain covenants relating to the composition of the Board of Directors of the Company, (ii) that the members of the Board of Directors of the Company unanimously approve any advance, (iii) that there not be any undisclosed material liabilities at the time of an advance, and (iv) that the Lender shall have consented (in its sole discretion) in the event that an advance is requested and, at the time of the request for the advance, the Company or any of its officers, directors, employees, shareholders or affiliates is a party to any pending legal proceedings related to the Company or its affiliates.

The new revolving line of credit facility may be prepaid at any time in whole or in part without premium or penalty, other than payment of the 1% commitment interest on unused advances if the commitment is not terminated.

The Credit Agreement also includes certain customary events of default including, but not limited to: failure to pay principal or interest when due (subject to grace period); any representation or warranty proving to have been materially incorrect when made or confirmed; failure to perform or observe covenants set forth in the Credit Agreement; and bankruptcy and insolvency defaults.

Common Stock Purchase Warrant

On February 15, 2008, the Company issued a Common Stock Purchase Warrant (the "Warrant") for the purchase of up to 16,000,000 shares of the Company's common stock to BAC for a purchase price of $5,000 (the "Warrant Purchase Price") in connection with the Credit Agreement. Pursuant to the terms of the Warrant and subject to its conditions, BAC may purchase from time to time up to 16,000,000 shares of the Company's common stock at a price per share equal to the average of the daily volume weighted average price of the Company's common stock as reported by the OTC Bulletin Board on each trading day during the period commencing on the date of issuance of the Warrant and ending one hundred eighty (180) trading days immediately following but not including the date of issuance of the Warrant, calculated as of the close of trading on such one hundred eightieth trading day. The Warrant is exercisable if and only if the Company's stockholders approve an increase in the Company's authorized shares of common stock sufficient to permit that number of shares to be reserved for issuance and issued upon exercise of the Warrant. The Warrant terminates upon the earlier of (i) the twentieth (20th) anniversary of the date of issuance and (ii) the tenth (10th) anniversary of the date the Company shall have irrevocably reserved a sufficient number of duly authorized shares of common stock for issuance upon full exercise of the Warrant. If duly authorized and reserved shares of common stock are not available for issuance upon exercise of the Warrant by the fifth (5th) anniversary of the date of issuance, the holder of the Warrant may put the Warrant to the Company, in whole but not in part, for a price equal to the sum of (x) the Warrant Purchase Price and (y) 8% per annum multiplied by the Warrant Purchase Price, compounded annually from the issue date. The Warrant contains customary adjustments for stock splits, dividends, reclassifications and certain mergers and consolidations, and is transferable by BAC to certain affiliated entities.

Board Agreement

On February 15, 2008, the Company entered into an Agreement (the "Board Agreement") among the Company, BAC and Robert Stuckelman, John Minnick, John Romm, M.D., and Stuart Silverman, M.D., each a member of the board of directors of the Company (each of Messrs. Stuckelman, Minnick, Romm and Silverman being collectively referred to as the "Resigning Board Members"). Pursuant to the terms of the Board Agreement, BAC and the Company terminated certain agreements dated May 17, 2007 relating to the rights and obligations of BAC and the Company regarding voting and otherwise supporting the nominations of members of the Board of Directors of the Company. In addition, the Board Agreement required that each of the Resigning Board Members submit his resignation as a board member of the Company concurrently with the execution thereof, and each of BAC and the Resigning Board Members executed and delivered a mutual general release of claims against each other. The Board Agreement was a

condition of BAC's willingness to enter into the Credit Agreement.

The Company s employment agreement with John McLaughlin who served as our President and Chief Executive Officer from May 20, 2002 was terminated on June 1, 2007. On June 4, 2007, we entered a contract to retain Mr. McLaughlin as a Consultant from June 1, 2007 through December 31, 2007 for a monthly fee of $14,500. That contract expired on December 31, 2007 and was not renewed.

Agreement with OSI Optoelectronic Systems

On May 14, 20008 the Company entered into an agreement with OSI Optoelectonic Systems, a unit of OSI Systems Inc. (OSI) whereby the Company would market a bone densitometer manufactured by OSI and based on a peripheral dual energy absorption technology (pDXA). Under the agreement the Company purchases the pDXA products at an agreed transfer price based on forecasted quantities and is free to set a retail price of the units to achieve a target margin. The agreement covers US, Canada and other NAFTA countries. The Company announced the availability of this pDXA bone densitometer under its Osteocare product brand. This product was introduced on May 29, 2008 to provide a point-of-care targeted bone densitometer.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

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

Statements contained in this 10-Q, such as statements about revenue, operations, revenue and earnings growth and other financial results are forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements including statements concerning the Company's plans, objectives, expectations and intentions are based largely on management s expectations and are subject to and qualified by risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These statements are subject to uncertainties and risks including, without limitation, product and service demand and acceptance, changes in technology, ability to raise capital, the availability of appropriate acquisition candidates and/or business partnerships, economic conditions, the impact of competition and pricing, capacity and supply constraints or difficulties, government regulation and other risks identified in the Company's filings with the Securities and Exchange Commission. All such forward-looking statements are expressly qualified by these cautionary statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect events, conditions or circumstances on which any such statement is based after the date hereof, except as required by law.

OVERVIEW

We develop and market products and services that use advanced imaging and medical informatics to provide analysis and remote monitoring in connection with cardiovascular and musculoskeletal diseases. We have specialized expertise and intellectual properties useful in telemonitoring imaging and analysis designed to improve healthcare provider workflow and patient care, while reducing costs. Our core products, the OsteoGram® and CardioGram™, are cleared by the FDA and reimbursable by Medicare and many private insurers.

Telecardiology Services

CardioGram is a telemedicine application focused on tele-cardiology. We have been a supplier of telemedicine services for more than twenty years and have established one of the nation's largest telecommunications networks for processing electrocardiograms on a real time basis, providing ECG equipment and services to more than 1,000 locations throughout the U.S .. and performing nearly 400,000 trans-telephonic ECG interpretations annually. Using our customized electrocardiogram terminals, an electrocardiogram is acquired from a patient, transmitted to our central computers, electronically analyzed and received back on the electrocardiogram terminal where the electrocardiogram trace and computer interpretation are printed- all within a few minutes. If necessary, we can provide an "over-read" by a cardiologist and return the results within a short time-frame. We bill for this service on a per-use basis, and we sell a full range of electrocardiogram supplies including electrodes, recording paper, gel, and patient cables.

During the second quarter of 2008, we completed certain investments in expanding our tele-cardiology and telemedicine platform supporting our CardioGram product which had begun the prior quarter. This expansion focused on continued upgrade of the quality of service associated with our response time and network capacity. We have upgraded many key software components in our servers to improve transmission times and quality of service.

The upgrades completed during the second quarter of 2008 were also designed to support the expansion of our ECG services beyond the traditional markets of correctional facilities into broader tele-medicine and electronic medical records (EMR) markets. During the third quarter, we continue to take steps to prepare the launch of an EMR solution applied to telecardiology. We believe that adding such a solution could allow the Company to expand its telecardiology business to new customers. We are currently engaging in discussions about possible joint ventures or other similar relationships with leaders in the EMR space to synergyse our telecardiology offering with their integrated EMR systems. We are also exploring wether such EMR offerings could be used by clinical research organizations in support of new drugs development as well as drug safety studies. While we believe that the Company could benefit from such an offering and are actively engaged in planning for such an EMR offering there are no guarantees that the Company will be able to launch such a product or that it will be succesfull in growing its business with it.

We continue to target an expansion of our offering into new markets, including the Federal Government, branches of the U.S. Military, the Veteran s Administration, surgical centers, occupational and rural health centers, mental health centers, as well as additional correctional facilities. All of these sites potentially experience the situation of having to provide time-critical medical response to patients in the midst of a cardiac event without having access to trained cardiologists. We believe, based on market data, that our CardioGram could provide a solution that can elevate the quality of patient care at these institutions and reduce liabilities at these locations.

During the third quarter, the Company continued to ship units to surgical groups as well as clinical research organizations. This has resulted in an increase of ECG equipment sold during the quarter. Additionally we continued to fulfill orders in connection with our approval by the Federal Aviation Administration (FAA) to supply our ECG machines to Senior Aviation Medical Examiners.

In March of 2008, we received a two- year extension for CardioGram and services from the Nevada Department of Corrections. Under the terms of the agreement, CompuMed's CardioGram system will be used to provide remote cardiac screening for selected detention facilities in the NDOC system, which houses more than 13,000 inmates. The NDOC will rent CardioGram terminals and utilize the ongoing ECG remote interpretation services from CompuMed.

On July 2nd , the Company announced a contract extension with the Department of Corrections of the State of Iowa. Under the terms of the Iowa Department of Corrections (IADOC) agreement, CompuMed will provide remote cardiac screening on an as needed basis for more than 8,700 detainees at the Department's nine main correctional facilities.

On July 2nd , the Company also announced a contract extension with Prison Health Services, (PHS) relating to the Wyoming Department of Corrections. The contract extension with the Wyoming Department of Corrections is

through Prison Health Services (PHS), for which CompuMed will continue to serve as a value-added partner providing remote cardiac screening for detainees at Wyoming correctional facilities.

On July 10th , the State of Arizona Department of Corrections, (ADC), announced a new contract for our ECG Services. Under the terms of the ADC's agreement, CompuMed will provide remote cardiac screening on an as needed basis for more than 30,000 detainees at the Department's correctional facilities statewide. CompuMed now has 44 CardioGram systems at correctional sites throughout Arizona. The ADC agreement contains options for multiple renewals/extensions.

Our transmission revenue with correctional facilities is subject to volume ups and down due to State budget cycles and other usage factors. During the third quarter the State of Florida reduced somewhat its transmission volume in response to its state budget cuts and new state budget approval cycle. The Company derives significant revenues from the State of Florida, State of New York and State of California and changes or cuts in state budgets or in usage patterns by any one of those customers could have a negative effect on the revenues in the future. At this time, the Company believes that the lower usage experienced during the end of the quarter from the State of Florida is temporary in nature and is not a permanent shift in usage patterns or budgets on the part of the State of Florida.

We cannot offer assurance that any of these expansions will be successful in increasing our revenues or producing profits, or that our products will ultimately prove to be effective in these new markets. There can be no assurances that the Company will succeed in keeping or expanding its contracts with its customers and that those customers will not reduce their use of the Company s services in the future.

We compete with multiple companies in the ECG services markets, some of whom have considerably more experience and financial resources. We also compete with the suppliers of self-interpreting ECG equipment. Although self-interpreting ECG equipment is widely available, our customers have historically preferred the optional feature of automatically sending their ECG results to one of our cardiologists for an over-read when the results are abnormal and when emergencies arise. We believe that this 24/7 over-read feature is a key advantage that enables us to market our services in segments of the market where physicians or specialists may not be

available on a routine basis. 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.

Skeletal Health Products

During the quarter, the Company announced the OsteoCare initiatives designed to address the need for a new point-of-care device that could be marketed directly to those physician s practices that may be interested in screening for patients at risk for bone disease.

According to the Bone Health and Osteoporosis report from the U.S. Surgeon General, (Department of Health and Human Services, Bone Health and Osteoporosis, A report of the Surgeon General, 2004), fractures due to bone disease are common, costly and often become a chronic burden on individuals and society. An estimated 1.5 million individuals suffer a bone disease-related fracture annually (Roggs and Melton 1995, Chrischilles 1991). A white woman over the age of 50 has more than a 40 percent chance of suffering a fracture sometime during the rest of her life (Cummings and Melton 2002). Fractures can have devastating consequences for both the individuals who suffer them and their family members. Hip fractures are associated with increased risk of mortality; the risk of mortality is 2.8 to 4 times greater among hip fracture patients during the first 3 months after the fracture than comparable risk among individuals of similar age who live in the community and do not suffer a fracture.

Despite the devastating impact of bone disease, and Medicare's stated desire to test more at-risk patients, the Centers for Medicare and Medicaid services recently enacted significant cuts in the reimbursement for central DXA, or dual energy X-ray absorptiometry, a technology which widely used in the United States to perform bone mineral density testing. As a result there have been trends in the marketplace of significant slowing of sales of central DXA systems and the number of centers offering central DXA services appears to be shrinking. Approved reimbursement for alternative screening technologies such as the Company s OsteoGram product was left unchanged. However there is no guarantee that reimbursements for alternative procedures will remain unchanged in the future.

In part because of the changing Medicare reimbursement posture is making the economics of owning and operating a DXA facility less attractive, our market research suggests that there may be a new and growing demand for peripheral bone density measurement machines that can perform the test at point-of-care, in a small physician practice and on an inexpensive desktop device. As a result, we have engaged during the quarter in an aggressive test marketing effort to validate the notion that a point-of-care unit that could enhance our product offering and receive favorable market acceptance.

On May 14, 2008, the Company entered into an agreement with OSI Optoelectonic Systems, a unit of OSI Systems Inc. (OSI) whereby the Company would market a bone densitometer manufactured by OSI and based on a peripheral dual energy absorption technology (pDXA). Under the agreement the Company purchases the pDXA products at an agreed transfer price based on forecasted quantities and is free to set a retail price of the units to achieve a target margin. The agreement covers US, Canada and other NAFTA countries. The Company announced the availability of this pDXA bone densitometer under its OsteoCare product brand. This product was introduced on May 29, 2008 to provide a point-of-care targeted bone densitometer.

Market research done by the Company suggests that a product such as OsteoCare would complement our existing OsteoGram product in primary care settings because it: 1) provides a self-contained source of x-rays and, unlike OsteoGram, does not require any kind of bolt-on external x-ray source, 2) is based on DXA technology whichat this time, enjoys greater acceptance in the primary care field 3) is fully automated and can provide results with minimal physician training or supervision 4) enjoys wide reimbursement from both private insurers and Medicare 5) has a small physical footprint and good ergonomics and 6) can be placed on the market for a total price point well under $15,000, which according to our market research is a key ceiling in order to enable return on investment for an average physician practice. Based on this agreement the Company has launched a broad initiative under the brand OsteoCare targeting primary care physicians in the US.

Currently, the marketing plan for OsteoCare involves a physician education campaign which includes a briefing on the importance of screening patients with certain risk factors for Osteoporosis, available treatments courses, a specialist referral network for diagnosed at-risk patients, and a reimbursement guide for the doctor s billing office to follow. During the launch of the new education campaign, OsteoCare has been made available to qualified physician s offices on a free 45-day trial program. Under the trial the physician agrees to take in the unit for the trial period, establish a screening program for its at-risk patient population, bill patients and reimbursers according to our guidelines, and tabulate the results. At the end of the trial the doctor has the option to either buy the machine, lease or rent the machine or return it. To date this program has focused initially on California. The Company has reached out to the primary care community in California through a combination of efforts, including 1) direct sales 2) trade shows and physician s meetings and, 3) telemarketing-. At this time the Company has assembled a list of more than 1,000 interested physicians. The Company is ranking these practices according to various criteria and placing trial units at their locations. The trial program has shown early evidence of

success but it is too early to date to determine with certainty the ultimate success of the program. We have created a significant pipeline of physician practices interested in participating in the trial program. We have also begun converting some of the early trial participants into customers, either on a lease, rental or sale basis. However, the Company has a limited pool of units it can offer for trial due to the cost of building such an inventory. As a result the Company is constantly re-evaluating its success metrics for this trial program and plans on reviewing its target inventory levels on a quarter to quarter basis. It is currently too early to tell how successful OsteoCare will be in the marketplace and the Company is taking a conservative approach to building its inventory to maximize its cash flow.

One of the key business goals of the OsteoCare product is to build recurring revenue for the Company. As a result the Company is promoting a rental program. Under the rental program the physician rents the unit with a certain contractual term and pays a monthly rate. In turns the Company finances the equipment with a commercial leasing company and keeps the spread between its leasing cost and the rental fee as its margin. This is similar to the arrangements the Company enters into with its telecardiology customers. With this approach, the Company hopes to create a more predictable revenue stream not subject to the one-time revenues that is traditionally associated with medical device sales. Additionally, the on-going relationship with these doctors allows the Company to manage these physicians as a clinical network and to offer to its network, in the future, other new or expanded products or services in the OsteoCare platform.

While there is evidence that this rental strategy is being accepted in the marketplace, it is too early to validate. Also, because the revenue recognition on these sales will be based on monthly rental amounts, it will take some time before the volume of rental adds up to material amounts. There can be no guarantee that these strategies will develop into a meaningful business or that the Company will ultimately be successful in this program. Also there can be no guarantees that the Company will be able, in the future, to offer additional products to its clinical network.

The availability of OsteoCare allows the Company to position its other product in skeletal health, OsteoGram®, is a high-end bone densitometer principally for OEM use. The OsteoGram is a non-invasive diagnostic system that has been shown in clinical studies to provide an effective and accurate bone density measurement in connection with screening for osteoporosis and assessing hip fracture risk. Our target markets for these products are hospitals, radiology practices, imaging centers, and general OB/GYN and orthopedic office practices. We are now supplying the third generation OsteoGram product. The OsteoGram product is marketed and distributed directly by the Company, and through approved distributors and Original Equipment Manufacturers (OEMs).

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

OsteoGram continues to have limited acceptance at this time. In the US there is a tendency by the physician community to look at RA, the technology on which OsteoGram is based, as a lesser technology than DXA, the prevalent approach to bone densitometry. While this appears to be a perception , it has made sales, especially in the US, difficult. In overseas markets the bias towards DXA is less pronounced and the Company has invested effort towards developing credible international channels and clearing the path towards a greater presence internationally. In order to overcome this perception, and to expand its ability to operate in international markets, the Company has begun investigating strategic alliances with one or more large third parties that could add large company resources to our OsteoGram marketing efforts. It is too early to indicate the form and structure of such a relationship and there can be no guarantees that such a relationship can be found or executed. Additionally, the Company with its OEMs has worked aggressively to clear the product for sale in China. This effort resulted in the Chinese State Food & Drug Administration clearing the OsteoGram for sale in China on June 6, 2008, paving the way for an expanded China sales effort in the coming quarters. According to China s most recent national census, about 100 million Chinese citizens suffer from the disease in various stages. Osteoporosis affects more than 200 million people worldwide and is especially prevalent in China, where the traditional diet lacks calcium.

The OsteoGram product is a medical image processing software system that enables healthcare providers to screen, diagnose and monitor osteoporosis using digital hand images from filmless x-ray equipment or conventional, film-based x-rays. Osteoporosis is diagnosed by measuring bone mineral density. A low bone mineral density is indicative of the disease. The OsteoGram is based on a bone mass measurement technique called radiographic absorptiometry. Radiographic absorptiometry uses a conventional x-ray of the hand, scanned at high resolution, to measure bone density. The radiographic absorptiometry technique not only measures bone mass, but also the cortical thickness of bones. Recent studies affirm the importance of cortical thickness as an additional measure of bone strength and overall fracture risk. Several prominent pharmaceutical manufacturers are developing products that will strengthen

cortical bone. Cortical bone is the outer shell that gives bone strength, much like the hollow tubes from which bicycles are constructed. Our technology has the capability to measure bone mineral density in both cortical and trabecular bone. Dual energy x-ray absorptiometry, or DXA, is considered the "Gold Standard" of bone mineral density measurement, but it cannot differentiate between cortical and trabecular bone.

In May 1999, we received clearance from the United States Food and Drug Administration, or FDA, to market an automated version of the OsteoGram software for use as a stand-alone product by physicians. In 2004, we launched the Digital Imaging and Communications in Medicine, or DICOM, a digital version of the OsteoGram product. Using digital or film-based x-ray equipment, two posterior-anterior views of the left-hand fingers are taken with an aluminum alloy reference wedge in each exposure. The calibration wedge is used to adjust for any differences among x-ray equipment, exposures and other variables. In the case of the film-based version of the OsteoGram, the developed film is scanned with a high-resolution desktop scanner, and the OsteoGram software analysis program rapidly produces an accurate and precise bone mineral density report. With a filmless x-ray system the digital image is captured on a workstation for analysis. We developed the DICOM-compliant version of the OsteoGram for use on filmless systems, which we believe may be a high growth segment in the medical imaging market. DICOM (Digital Imaging and Communications in Medicine) is the industry-consortium established information standard that allows the new generation of digital medical imaging equipment to interconnect.

We continue to believe a new market demand may also be developing from certain digital mammography providers interested in adding the OsteoGram as a complementary screening test on their own full field digital mammography equipments.We are pursuing strategies to align with a market-leading partner and integrate our product into its digital mammography platform or mammography management/networking software. To date these discussions have not resulted in new OEM relationships or materials sales. We are considering aligning with key players in this area as a strategy to energize sales of the OsteoGram product. There can be no guarantees we will succeed in establishing such relationships or sales.

We have to date performed integration tests that have proven the technical feasibility of using the full field digital mammography machine as input to OsteoGram. Such tests have been successful and provide the basis for continued discussions with various prospective partners. In November 2007, our OEM partner FujiMedical showed such a networked integrated system at the Radiologic Society of North America annual meeting in Chicago. The timing and completion of such negotiations are subject to many factors, including the timing of introduction by those vendors of various models of Full Field Digital Mammography systems and the evolution of the regulatory and reimbursement landscape for such devices. There can be no assurances, however, that we will be successful in accomplishing such a linkage or in building such a business relationship with any such partners and that this strategy will be successful in the marketplace. Commercially launching such an integrated product may also involve obtaining further regulatory approvals, including possibly receiving an FDA 510(k) clearance, which we may not be able to obtain.

In October 2007 the Company was issued US Patent 7280683 for a Method, Code, and System for Assaying Joint Deformity. We believe that the claims underlying this patent has implication in the quantification and measurement of joint disease such as Arthritis. We have been approached by parties associated with pharmaceutical drug discovery and are exploring options to leverage our software and our intellectual properties in this area for a possible joint venture or other business relationship designed to couple our technology with new drugs being introduced in the arthritis area. This could lead to new products as well as new distribution channels and revenue streams. However, there can be no guarantee at this time that such a relationship can be made or that it would be successful.

RESULTS OF OPERATIONS FOR THE QUARTER AND THE NINE MONTHS ENDED JUNE 30, 2008 COMPARED TO THE SAME PERIOD OF FISCAL 2007.

ECG product and supplies sales revenue for the third quarter of fiscal 2008 increased by 44.4% to $26,000 from $18,000 for the same period in fiscal 2007, and for the nine months ended June 30, 2008, increased by 118.0% to $133,000 from $61,000 for the same period in fiscal 2007, due to the new acquired contracts in connection with servicing Federal Aviation Administration, Sr. Aviation Medical Examiners as well as certain new county correctional facilities and clinical research facilities.

ECG services revenue, which consists of ECG processing, equipment rental, over-reads and maintenance, during the third quarter of fiscal 2008, decreased by 6.9% to $457,000 from $491,000 for the same period in fiscal 2007 due to lower ECG processing of certain Department of Corrections due to their current state budget cycles, and for the nine months ended June 30, 2008, increased by 3.8% to $1,432,000 from $1,380,000 for the same period of fiscal 2007, due to new contracts principally with state correctional facilities, clinical research facilities and surgical centers.

OsteoGram revenue for the third quarter of fiscal 2008 decreased by 98.8% to $1,000 from $81,000 for the same period in fiscal 2007, and for the nine months ended June 30, 2008 decreased by 69.5% to $80,000 from $262,000 for the same period in fiscal 2007, due to the cessation of certain minimum guaranteed orders in the CareStream Health contract that existed in 2007 but not in 2008, as well as due to the pending renewal of regulatory clearances in China. CareStream Health continues to be a significant distributor for the OsteoGram and is placing orders for actual end-user sales rather than pursuant to contractual minimums. The Company received clearance to sell OsteoGram in China by the Chinese State Food and Drug Administration subsequent to the close of the quarter.

Costs of services of ECG for the third quarter of fiscal 2008 increased by 12.3% to $182,000 from $162,000 for the same period in fiscal 2007, and for the nine months ended June 30, 2008 increased by 35.8% to $607,000 from $447,000 for the same period in fiscal 2007, due to increased purchase of parts to refurbish equipment to provide to new customers , increased staffing in the ECG laboratory and the effect of expensing employee stock options under SFAS123R . These increases are pursuant to the Company s planned expansion strategy in those respective areas.

Cost of goods sold of ECG for the third quarter of fiscal 2008 increased by 12.5% to $18,000 from $16,000 for the same period in fiscal 2007, and for the nine months ended June 30, 2008 increased by 93.0% to $83,000 from $43,000 for the same period in fiscal 2007 in proportion with the increase in ECG product sales mentioned above.

Cost of goods sold for OsteoGram for the third quarter of fiscal 2008 decreased by 100% to $0 from $1,000 for the same period in fiscal 2007, and for the nine months ended June 30, 2008 increased by 300% to $4,000 from $1,000 for the same period in fiscal 2007. The increase was due to a purchase of special packing labels that were required by our OEM partners for regulatory purposes.

Selling expenses for the third quarter of fiscal 2008 decreased by 11.1% to $104,000 from $117,000 for the same period in fiscal 2007, and for the nine months ended June 30, 2008 decreased by 19.9% to $289,000 from $361,000 for the same period in fiscal 2007, due to the re-alignment and cost reductions associated with certain non performing products, specifically in connection with the OsteoGram.

General and administrative expenses for the third quarter of fiscal 2008 decreased by 42.2% to $215,000 from $372,000 for the same period in fiscal 2007 pursuant to continued cost cutting initiatives, including the discontinued board fees of four members who resigned pursuant to the terms of the Board Agreement and Boston Avenue Capital, LLC on February 15, 2008, and for the nine months ended June 30, 2008 Increased by 29.7% to $1,403,000 from

$1,082,000 for the same period in fiscal 2007, due to the effect of expensing the stock options under SFAS 123R as well as certain one-time increased in professional fees in connection with the pursuit of certain transactions such as the negotiation of financings and possible acquisition activities.

Research and development costs for the third quarter of fiscal 2008 decreased by 18.3% to $76,000 from $93,000 for the same period in fiscal 2007 due to the effect of re-alignment of R&D priorities around non-performing product lines, including the OsteoGram, and for the nine months increased by 14.0% to $293,000 from $257,000 due to increased in outsourced services in China relating to seeking the regulatory renewals in China.

Due to the effect of expensing employee stock options under SFAS 123R starting in October 2006, during the three months ended June 30, 2008 and 2007, the non-cash stock-based compensation charge included in the expenses above was $40,000 and $54,000, respectively, and during the nine months ended June 30, 2008 and 2007, was $360,000 and $126,000, respectively. The significant increase in recognized stock option expense was due to the resignation of certain Board of Directors in connection with the previously discussed Boston Avenue Capital Credit Line and related Board Agreements, which included the acceleration of the vesting of resigning directors options, and resulted in a one-time non-cash compensation charge recognized in the second quarter.

Interest and dividend income for the third quarter of fiscal 2008 decreased by 79.2% to $5,000 from $24,000 for the same period in fiscal 2007, and for the nine months decreased by 22.7% to $34,000 from $44,000 for the same period in fiscal 2007, due to sales of certain marketable securities that earned interest and dividends but may be subject to volatility. The Company invested the proceeds of these marketable securities in mutual funds in accordance to its investment policy.

Interest expense for the third quarter of fiscal 2008 increased by 16.7% to $7,000 from $6,000 for the same period in fiscal 2007, and for the nine months increased by 10.5% to $21,000 from $19,000 for the same period in fiscal 2007, due to increased in financing related to the purchase of ECG equipment.

Net loss for the third quarter of fiscal 2008 decreased by 18.8% to $143,000 from $176,000 for the same period in fiscal 2007 due to reduction in staff in Research and Development and certain general and administrative expenses, and for the nine months ended June

30, 2008 increased by 129.0% to $1,152,000 from $503,000 for the same period in fiscal 2007, principally due to the pursuit of financings and potential acquisition and due to the expensing of the Board of Directors stock options under SFAS 123R. The recognized stock option expense was due to the resignation of certain Board of Directors in connection with the previously discussed Boston Avenue Capital Credit Line and related Board Agreements, which included the acceleration of the vesting of resigning directors options, and resulted in a one-time non-cash compensation charge recognized in the second quarter.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2008, we had $630,000 in cash and marketable securities, as compared to a balance of $1,463,000 at September 30, 2007, a net decrease of $833,000. This decrease was due to loss in operations.

The purchase of property, plant, and equipment paid in cash for the nine months ended June 30, 2008 was $50,000 and $52,000 for the same period in fiscal 2007.

Even though we experienced greater loss during 2008 than 2007 due in part to a significant amount of non-cash charges, the Company has made significant progress towards reducing its cash burn during the third quarter of 2008 where we used $74,000 of cash for operating activities compared to $266,000 during the second quarter of 2008, and $429,000 during the first quarter of 2008. This was accomplished by eliminating the board fees, reducing certain professional fees and balancing the investment into new initiatives such as the expansion in telecardiology and the launch of OsteoCare with the re-alignment and downsizing of certain non-performing products and business units including OsteoGram. The Company is continually assessing the performance of its product lines and business units and may engage in further cost-cutting measures as well as other possible strategic transactions involving third parties for any non-performing product line, with a goal to achieve cash flow positive status as soon as possible.

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 and use proceeds from the exercise of stock options and warrants. Additionally we have put in place a credit facility usable for additional liquidity. At this time we have drawn no funds against the credit facility.

A portion of our available capital is currently invested in other securities. These investments may include significant and highly concentrated direct investments with respect to the equity securities of publicly-traded companies. Any of these investments will involve risk, and stockholders should recognize that our balance sheet may change depending on the timing, magnitude and performance of these investments. Furthermore, these investments may be subject to volatility that may affect both the recorded value of such investments as well as our periodic earnings. See Quantitative and Qualitative Disclosures about Market Risk .

At our current rate of cash expenditures needed to fund the Company s current growth business strategy, management of the Company believes that our existing sources of funds will not be sufficient to fund such capital expenditures and working capital and we plan to draw from our existing credit facility to provide liquidity. In the event the Company is not able to draw from the credit facility and is unable to secure alternative financing, the Company will be required to substantially reduce capital expenditures and curtail its current business strategy in order to meet its working capital needs in the short term. Additionally, the Company may need to raise additional capital through debt or equity financing to finance its long-term (more than twelve months) capital needs.

CAPITAL COMMITMENTS

Our primary capital resource commitments at June 30, 2008 consist of capital and operating lease commitments, primarily for computer equipment, electrocardiogram terminals and for our corporate office facility. On March 1, 2008, the Company entered into in the Agreement with L.A.T. Investment Corporation for the lease of the corporate office. Under the new lease, the Company moved the corporate offices, computer center and warehouse facilities from its prior 9,496 square feet in the building's 12th floor to new space consisting of 10,949 square feet on the building's third floor. The lease term is five years, with an option for the Company to renew for an additional five-year term. Monthly rent under the new lease is $13,686 during the first year, with 3% annual increases, plus certain operating expenses.

We entered into a long-term agreement with John McLaughlin effective November 2, 2002 through September 30, 2004. This agreement provided 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 our 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. On June 1, 2007, we received a letter

of resignation from Mr. McLaughlin. The notice was accepted by the Chairman of the Board, Robert Stuckelman, on June 4th, 2007. We retained Mr. McLaughlin as a consultant from June 1, 2007 to December 31, 2007 for a monthly fee of $14,500 without additional benefits. The contract expired on December 31, 2007 and was not renewed.

Effective June 1, 2007, we appointed Maurizio Vecchione to the position of Interim Chief Executive Officer. We amended our Consulting Agreement with Synthetica (America), Ltd. to provide the services of Mr. Vecchione in this capacity for consideration of $15,000 per month and 170,000 warrants at $0.29 per share. One third of the warrants vested on June 7, 2007, one third will vest at June 7, 2008 and one third will vest on June 7, 2009. These warrants will expire in June 7, 2017. Under the terms of the Amendment, Mr. Vecchione, while part-time, will spend sufficient time at the Company to discharge the duties needed of the CEO.

FINANCING ACTIVITIES

On March 14, 2007, we closed a private placement of our securities to an institutional investor pursuant to the Securities Purchase Agreement. We sold to the investor 4,167 Units at a price of $480 per Unit resulting in total proceeds of $2,000,000. Each Unit consisted of 1 share of our Class D Preferred Stock as well as 1,000 Common Stock Purchase Warrants with an exercise price of $0.30 per share. Pursuant to the Agreement, we issued all 4,167 shares of the authorized Class D Preferred Stock. Each share of Class D Preferred Stock is convertible at any time into 2,000 shares of common stock. The holder of each issued and outstanding share of Class D Preferred Stock will be entitled to receive a dividend in respect of each such share at the rate per share of $9.60 per annum, payable on each of the first, second, third, and fourth anniversaries of March 12, 2007, commencing March 12, 2008. Dividend payments to each holder will be made in shares of our common stock valued at the average Market Price over 20 trading days, as defined in the Certificate of Designation. In the event the dividends may not lawfully be paid by the issuance of our common stock and may be lawfully paid in cash, the dividends will be paid in cash. The Company accrued the March 2008 dividend on the Class D Preferred Stock and paid in shares of its common stock in August 2008. While the Company expects that it will have sufficient shares of common stock authorized to pay the next scheduled dividend on the Class D Preferred Stock in shares of its common stock, the Company currently will not have sufficient authorized shares to continue to pay dividends in shares of common stock in the future unless and until the stockholders authorize additional shares. In the event of any liquidation, dissolution or winding-up, either voluntarily or involuntarily, the holders of shares of the Class D Preferred Stock then issued and outstanding will be entitled to be paid out of our assets available for distribution to its stockholders, whether from capital, surplus or earnings, before any payment shall be made to the holders of shares of our common stock or upon any other series of our Preferred Stock with a liquidation preference subordinate to the liquidation preference of Class D Preferred Stock, an amount per share equal to $480 plus the dollar amount equal to all unpaid and accrued dividends and interest thereon. In addition, a merger or consolidation with or into any other corporation, or a sale, lease, exchange, or transfer of all or any part of our assets will be deemed a liquidation event unless no assets are distributed in respect of any class of our capital stock in connection with, or as a result of, such merger or consolidation.

The Class D Preferred Stock has the same voting rights as our common stock except that each share of Class D Preferred Stock is entitled to 2,000 votes for vote allowed a share of common stock, however such amount will be proportionally adjusted in the event of a reverse or forward split of our common stock.

On February 15, 2008, CompuMed, Inc., a Delaware corporation (the "Company"), entered into a revolving line of credit agreement (the "Credit Agreement") between the Company, as Borrower, and Boston Avenue Capital, LLC, an Oklahoma limited liability company, as Lender (the "Lender" or "BAC"). The Credit Agreement provides for a new revolving line of credit facility in an aggregate principal amount of up to $4 million. The revolving line of credit matures on December 31, 2017. Advances under the revolving line of credit shall bear interest at the current three-month London Interbank Offered Rate (LIBOR), payable quarterly in arrears for the prior fiscal quarter on the fifth business day of each January, April, July and October, commencing on April 7, 2008. The Credit Agreement also provides that unused amounts up to the total commitment shall bear interest at a rate of one percent (1%) per annum, compounded annually on the first business day of each calendar year. Under the Credit Agreement, the Lender provided the Company a letter of credit issued by JP Morgan Chase NA in an amount at all times equal to the amount of (i) $4,000,000 less (ii) the aggregate amount of advances then outstanding under the revolving line of credit. Advances under the revolving line of credit will be unsecured senior obligations of the Company. The Company expects to use proceeds under the new revolving line of credit for general corporate purposes, including working capital and to fund new product joint ventures or potential acquisitions consistent with its business strategy.

The Credit Agreement contains customary representations and warranties of the Company. Availability under the new revolving line of credit is subject to certain conditions, including (i) certain covenants relating to the composition of the Board of Directors of the Company, (ii) that the members of the Board of Directors of the Company unanimously approve any advance, (iii) that there not be any undisclosed material liabilities at the time of an advance, and (iv) that the Lender shall have consented (in its sole discretion) in

the event that an advance is requested and, at the time of the request for the advance, the Company or any of its officers, directors, employees, shareholders or affiliates is a party to any pending legal proceedings related to the Company or its affiliates.

The new revolving line of credit facility may be prepaid at any time in whole or in part without premium or penalty, other than payment of the 1% commitment interest on unused advances if the commitment is not terminated.

The Credit Agreement also includes certain customary events of default including, but not limited to: failure to pay principal or interest when due (subject to grace period); any representation or warranty proving to have been materially incorrect when made or confirmed; failure to perform or observe covenants set forth in the Credit Agreement; and bankruptcy and insolvency defaults.

Common Stock Purchase Warrant

On February 15, 2008, the Company issued a Common Stock Purchase Warrant (the "Warrant") for the purchase of up to 16,000,000 shares of the Company's common stock to BAC for a purchase price of $5,000 (the "Warrant Purchase Price") in connection with the Credit Agreement. Pursuant to the terms of the Warrant and subject to its conditions, BAC may purchase from time to time up to 16,000,000 shares of the Company's common stock at a price per share equal to the average of the daily volume weighted average price of the Company's common stock as reported by the OTC Bulletin Board on each trading day during the period commencing on the date of issuance of the Warrant and ending one hundred eighty (180) trading days immediately following but not including the date of issuance of the Warrant, calculated as of the close of trading on such one hundred eightieth trading day. The Warrant is exercisable if and only if the Company's stockholders approve an increase in the Company's authorized shares of common stock sufficient to permit that number of shares to be reserved for issuance and issued upon exercise of the Warrant. The Warrant terminates upon the earlier of (i) the twentieth (20th) anniversary of the date of issuance and (ii) the tenth (10th) anniversary of the date the Company shall have irrevocably reserved a sufficient number of duly authorized shares of common stock for issuance upon full exercise of the Warrant. If duly authorized and reserved shares of common stock are not available for issuance upon exercise of the Warrant by the fifth (5th) anniversary of the date of issuance, the holder of the Warrant may put the Warrant to the Company, in whole but not in part, for a price equal to the sum of (x) the Warrant Purchase Price and (y) 8% per annum multiplied by the Warrant Purchase Price, compounded annually from the issue date. The Warrant contains customary adjustments for stock splits, dividends, reclassifications and certain mergers and consolidations, and is transferable by BAC to certain affiliated entities.

Board Agreement

On February 15, 2008, the Company entered into an Agreement (the "Board Agreement") among the Company, Boston Avenue Capital, LLC ("BAC") and Robert Stuckelman, John Minnick, John Romm, M.D., and Stuart Silverman, M.D., each a member of the board of directors of the Company (each of Messrs. Stuckelman, Minnick, Romm and Silverman being collectively referred to as the "Resigning Board Members"). Pursuant to the terms of the Board Agreement, BAC and the Company terminated certain agreements dated May 17, 2007 relating to the rights and obligations of BAC and the Company regarding voting and otherwise supporting the nominations of members of the Board of Directors of the Company. In addition, the Board Agreement required that each of the Resigning Board Members submit his resignation as a board member of the Company concurrently with the execution thereof, and each of BAC and the Resigning Board Members executed and delivered a mutual general release of claims against each other. The Board Agreement was a condition of BAC's willingness to enter into the Credit Agreement.

MATERIAL TRENDS AND UNCERTAINTIES

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

Our ECG business is very competitive and we rely significantly on certain contracts with individual state governments. A number of such contracts are coming due for renewals and we are engaged in a competitive bidding process to win further contracts with those state governments. The loss of any one of these contracts could have a material adverse effect on our revenue. Additionally, it is possible that competitive pressures may force us to lower our pricing, which could adversely affect our overall revenues as well as our gross profits.

OFF-BALANCE SHEET ARRANGEMENTS

None.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2008, our financial instruments are not exposed to significant market risk due to foreign currency exchange risk or commodity price risk. However, we are exposed to market risk related to changes in market prices of our marketable securities. The carrying values of our marketable securities are based on quoted market prices. Market prices are subject to fluctuation and, consequently, the amount realized on a subsequent sale may differ significantly from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the issuer, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

As of June 30, 2008, we had approximately $388,000 of marketable securities, cash and cash equivalents, of which $83,000 was invested in publicly traded securities and $305,000 in mutual funds.

In response to the market volatility, on August 17, 2007, we implemented a new investment policy which provides that our cash and marketable securities will, to the extent practicable, be invested in U.S. treasury securities or mutual funds consisting solely of U.S. treasury securities. In addition, at meetings held on August 17, 2007, our Board of Directors, on recommendation of the Audit Committee and Executive Committee, adopted a resolution to terminate the relationship with our previous investment manager and to transfer our investment portfolio to a new investment manager. This new investment manager will be advising us on the handling of our marketable securities that have unrealized losses in order to minimize further losses and transition to compliance with our new investment policy.

As of September 30, 2007, the Company evaluated its investments in marketable securities available for sale and concluded that certain securities were impaired, as the Company did not expect full recovery of its investment. In making this determination, the Company recorded $379,000 in other-than-temporary impairment losses that reflect the recovery value of the Company s investment in such marketable securities.

CRITICAL ACCOUNTING POLICIES

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

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

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

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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 over-read revenue is recognized monthly on a per-usage basis after the services are performed. Equipment rental and maintenance revenue is recognized monthly over the terms of the customer's agreement.

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

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

Income taxes are accounted for under the asset and liability method. Under this method, to the extent that we believe that the deferred tax asset is not likely to be recovered, a valuation allowance is provided. In making this determination, we consider estimated future taxable income and taxable timing differences expected to reverse in the future. Actual results may differ from those estimates.

ITEM 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-Q. 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 third quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

LIMITATION ON THE EFFECTIVENESS OF CONTROLS

Our management, including our Chief Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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PART II - OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS.

None.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4.

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**
3.7	Amendment to Bylaws dated February 15, 2008 (filed as Exhibit 3.7 to the Company s Current Report on Form 8-K, filed on February 19, 2008 and incorporated herein by reference).
4.7	Amendment No. 2 to Rights Agreement, dated as of February 15, 2008, between the Company and Computershare as successor Rights Agent to U.S. Stock Transfer Corporation (filed as Exhibit 4.7 to the Company s Current Report on Form 8-K, filed on February 19, 2008 and incorporated herein by reference).
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

COMPUMED, INC.

Date: August 14, 2008

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

Date: August 14, 2008

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