

**CompuMed, Inc.**

**March 31, 2016 – Q2 Quarterly Report**

**1) Name of the issuer and its predecessors (if any)**

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

**CompuMed, Inc.**

**2) Address of the issuer's principal executive offices**

**Company Headquarters**

Address 1: **5777 West Century Blvd.**

Address 2: **Suite 360**

Address 3: **Los Angeles, CA, 90045**

Phone: **(310) 258-5000**

Email: [icarroll@compumedinc.com](mailto:icarroll@compumedinc.com)

Website(s): [www.compumedinc.com](http://www.compumedinc.com)

**IR Contact: CompuMed, Inc.**

Address 1: **5777 West Century Blvd.**

Address 2: **Suite 360**

Address 3: **Los Angeles, CA, 90045**

Phone: **(310) 258-5000**

Email: [investorrelations@compumedinc.com](mailto:investorrelations@compumedinc.com)

Website(s): <http://www.compumedinc.com>

**3) Security Information**

**Trading Symbol: CMPD**

Exact title and class of securities outstanding: Common Stock

CUSIP: 204914 40 2

Par or Stated Value: .01

Total shares authorized: **50,000,000** as of: **7/21/1986**

Additional class of securities (if necessary):

Trading Symbol: \_\_\_\_\_

Exact title and class of securities outstanding: \_\_\_\_\_ CUSIP: \_\_\_\_\_

Par or Stated Value: \_\_\_\_\_

Total shares authorized: \_\_\_\_\_ as of: \_\_\_\_\_ Total shares outstanding: \_\_\_\_\_ as of: \_\_\_\_\_

**Transfer Agent Name:** Computershare

**Address 1:** 350 Indiana Street

**Address 2:** Suite 750

**Address 3:** Golden, CO 80401

**Phone:** (303) 262-0678

Is the Transfer Agent registered under the Exchange Act? \* **YES** ☒ **NO** ☐

\*To be included in the OTC Pink Current Information tier, the transfer agent must be registered

under the Exchange Act.

**List any restrictions on the transfer of security:**

Restricted securities may only be sold pursuant to exemptions under the Securities Act of 1933 and accompanying regulation

Describe any trading suspension orders issued by the SEC in the past 12 months.

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

**4) Share Outstanding:**

<b>Common Stock *</b>	
Period End Date	March 31, 2016
Authorized	50,000,000
Issued and Outstanding	31,586,984
<b>Preferred Stock *</b>	
Period End Date	March 31, 2016
Authorized	1,000,000
<b>Class</b>	<b>A</b>
Issued and Outstanding	8,400
<b>Class*</b>	<b>B</b>
Issued and Outstanding	300
<b>Class</b>	<b>D</b>
Issued and Outstanding	4,167

\*See Note B - Stockholder's Equity

## 5) Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

- A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);  
Below
- B. Any jurisdictions where the offering was registered or qualified;  
Below
- C. The number of shares offered;  
Below
- D. The number of shares sold;  
Below
- E. The price at which the shares were offered, and the amount actually paid to the issuer;  
Below
- F. The trading status of the shares;  
Below
- G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act;  
Below

### List of Relevant Transactions for this Section:

#### No relevant transactions in Fiscal 2016.

With respect to private offerings of securities, the list shall also indicate the identity of the persons who purchased securities in such private offering; provided, however, that in the event that any such person is an entity, the list shall also indicate (a) the identity of each natural person beneficially owning, directly or indirectly, more than ten percent (10%) of any class of equity securities of such entity and (b) to the extent not otherwise disclosed, the identity of each natural person who controlled or directed, directly or indirectly, the purchase of such securities for such entity.

The financial statements requested pursuant to this item shall be prepared in accordance with US GAAP by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post

such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. (“Annual Report”, “Quarterly Report” or “Interim Report”)

If you choose to publish the financial reports separately as described in part (ii) above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to otcq.com in the field below.

**N/A**

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

## **6) Describe the Issuer’s Business, Products and Services**

Describe the issuer’s business so a potential investor can clearly understand the company. In answering this item, please include the following:

### **A. Description of the issuer’s business operations;**

CompuMed, Inc. Enterprise Telemedicine Solutions provide patients with the highest level of clinical care at reduced costs. Our telecardiology and teleradiology offerings provide real-time access to U.S. Board-Certified specialists through cloud-based technology and integrated medical devices to medical facilities anywhere in the world. Our solutions primarily support the diagnosis and treatment of several costly, high incidence diseases, particularly cardiovascular disease.

### **B. Date and State (or Jurisdiction) of Incorporation:**

The Company was incorporated in the State of Delaware on July 21, 1986

### **C. The issuer’s primary and secondary SIC Codes: 5045 and 5047**

### **D. The issuer’s fiscal year end date: September 30**

### **E. Principal products or services, and their markets;**

#### **Telemedicine Products**

CompuMed, Inc. Enterprise Telemedicine Solutions provide patients with the highest level of clinical care at reduced costs. Our telecardiology and teleradiology offerings provide direct access to U.S. Board-Certified specialists through cloud-based technology and integrated medical devices. The company services over 1,000 clinical settings. We have established one of the nation's largest networks for remote electronic processing of electrocardiograms (“ECGs”), echocardiograms (“Echos”), ultrasound studies and X-rays. We provide ECG equipment and cardiology services to our clients and perform tens of thousands of ECG interpretations/overreads

annually. CompuMed has created an electronic telemedicine infrastructure to link clinical diagnostic equipment data collected at the patient's point of care with top specialists through our call center. We also provide real-time access to specialists for consultations. The equipment that we rent and sell consists primarily of 12-lead ECG device. CompuMed also provides mobile imaging services, including the administration of radiology and cardiology diagnostic exams. We are providing single lead ECG interpretations for the consumer market through a handheld device. One of our innovations is the workflow technology being used to manage the inflow of data to our servers, and the routing of that data to specialists through technology such as Picture Archiving and Communication Systems (PACS).

Our services are available twenty-four hours a day, seven days per week. We have expertise in electronic workflow, telemonitoring, imaging and analysis. Additionally, we contract with certain partners to develop diagnostic systems, which support our telemedicine workflow. We provide these solutions to our customers either through sale, rental and lease to own arrangements. The value proposition for our clients is top clinical care at a lower cost, while minimizing risk.

CompuMed continues to actively develop international telemedicine prospects within developing foreign countries. It is our belief that there is demand in certain developing world markets for expert health care provisioned from the U.S. via telemedicine. It is too early to predict the exact size and scope of the Company's international opportunities.

CompuMed is seeking to expand its telemedicine offerings beyond telecardiology and teleradiology in order to better serve our customer's needs.

During the quarter CompuMed wrote-off the assets held on the balance sheet related to the OsteoGram. CompuMed believes it is uncertain and unlikely that this patented product will generate any revenue for the company in the future.

## **F. Describe the Issuer's Facilities**

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases. The Company has capital leases for machinery and equipment that expires between now and 2018. On January 1, 2016, the Company entered into a new lease in the existing office location expiring on February 28, 2017. Under the new lease, the Company occupies 2,318 square feet of space at \$4,358 per month.

## **G. Officers, Directors, and Control Persons**

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

**A. Names of Officers, Directors, and Control Persons.** In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

<b>NAME</b>	<b>DIRECTORS AND OFFICERS as of 3/31/2016</b>
David W. Pointer	Chairman of the Board
Lee Keddie	CEO and Director
Benjamin Large	Director
Laura Carroll	Chief Financial Officer and Corporate Secretary

### **CONTROL PERSONS**

**David W. Pointer**

VI Capital Management, LLC

PO Box 402, Newman Lake, Washington 99025

4,167 Series D Preferred shares (convertible to 8,334,000 common shares) and 2,161,065 common shares

**B. Legal/Disciplinary History.** Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

**C. Beneficial Shareholders.** Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

**VI Capital Management, LLC**

PO Box 402. Newman Lake, Washington 99025  
4,167 Series D Preferred shares (convertible to 8,334,000 common shares) and 2,161,065 common shares

David W. Pointer, as the sole manager VI Capital Management LLC (VI Capital” may be deemed to be an indirect beneficial owner of the shares of Common Stock held directly by VI Capital. Mr. Pointer does not own any shares of Common Stock directly and disclaims beneficial ownership of the shares of Common Stock beneficially owned by VI Capital.

#### **D. Third Party Providers**

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

##### **Legal Counsel**

**Name:** John Myer

**Firm:** Myer Law PLLC

**Address 1:** 2101 Fourth Avenue Suite 1900

**Address 2:** Seattle, Washington 98121

**Phone:** 206-651-5563

**Email:** [john@myercorplaw.com](mailto:john@myercorplaw.com)

##### **Accountants**

**Name:** Alan Kazden, CPA

**Firm:** Rose, Snyder & Jacobs

**Address 1:** 15821 Ventura Blvd., Suite 490

**Address 2:** Encino, CA 91436

**Phone:** (818) 461-0600

**Email:** [akazden@rsjcpa.com](mailto:akazden@rsjcpa.com)

##### **Investor Relations**

**Name:** CompuMed, Inc.

**Firm:** CompuMed, Inc.

**Address 1:** 5777 W. Century Blvd., Suite 360

**Address 2:** Los Angeles, CA 90045

**Phone:** (310) 258-5000 x117**Email:** [investorrelations@compumedinc.com](mailto:investorrelations@compumedinc.com)

**Other Advisor:** Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.

**Name:** N/A

#### **E. Issuer Certification**

The issuer shall include certifications by the chief executive officer and chief financial officer of the

issuer (or any other persons with different titles, but having the same responsibilities). The certifications shall follow the format below:

**I, Lee Keddie, CEO certify that:**

1. I have reviewed this quarterly report of CompuMed, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

**March 31, 2016**



**/s/ Lee Keddie [Signature]**  
**Chief Executive Officer**

**I, Laura Carroll, Chief Financial Officer certify that:**

1. I have reviewed this quarterly report of CompuMed, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

**March 31, 2016**



**/s/ Laura Carroll [Signature]**  
**Chief Financial Officer**



## Quarterly update and letter from CompuMed, Inc. leadership team:

Dear CompuMed Shareholders,

Over the past several months we have enjoyed many opportunities to interact with CompuMed shareholders. We have heard quite often that shareholders can get frustrated with a lack of updated information from the leadership team of the Company.

Beginning this quarter we will insert a brief letter from the leadership team in this report. We anticipate that quite often we will have 'nothing to report' beyond the following financial statements which demonstrate the progress of the Company in financial terms. This quarter, however, we have a two items to disclose:

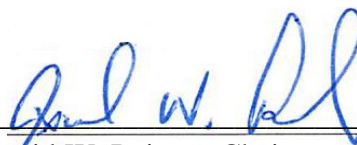
1. During the quarter CompuMed is proud to announce that the Company has a new banking relationship including a line-of-credit with \$200,000 in availability. We anticipate that this LOC will renew annually. At March 31, 2016 there was a \$30,000 balance on this LOC.
2. VI Capital Fund's Note Payable of \$100,000 plus an additional \$6,000 in accrued interest was converted to common equity during the quarter. This conversion took place at \$0.095 per share for a total of 1,115,790 additional common shares outstanding.

Thank you for your continued support of the Company.



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Lee D. Keddie, CEO



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David W. Pointer, Chairman

**COMPUMED, INC.**  
**FINANCIAL STATEMENTS**

### Item 3. Interim Financial Statements

#### CONDENSED BALANCE SHEETS COMPUMED, INC.

	March 31, 2016	September 30, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	64,468	117,782
Accounts receivable, net of allowance of \$22,874 (March 2016) and \$32,364 (September 2015)	276,564	307,043
Inventory	15,725	62,064
Prepaid expenses and other current assets	32,917	24,235
<b>TOTAL CURRENT ASSETS</b>	<b>389,674</b>	<b>511,124</b>
<b>PROPERTY AND EQUIPMENT, AT COST</b>		
Machinery and equipment	317,457	1,809,255
Furniture, fixtures and leasehold improvements	16,835	56,532
Equipment under capital leases	371,332	371,332
	705,624	2,237,119
Accumulated depreciation and amortization	(478,951)	(1,953,720)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>226,673</b>	<b>283,399</b>
<b>OTHER ASSETS</b>		
Patents, net of accumulated amortization of \$0 (March 2016) and \$107,727 (September 2015)	-	90,181
Other assets	10,506	25,488
<b>TOTAL OTHER ASSETS</b>	<b>10,506</b>	<b>115,669</b>
<b>TOTAL ASSETS</b>	<b>626,853</b>	<b>910,192</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	140,109	223,811
Notes Payable	0	-
Accrued Liabilities	56,899	126,758
Current portion of capital lease obligations	70,604	115,302
<b>TOTAL CURRENT LIABILITIES</b>	<b>267,612</b>	<b>465,871</b>
Capital lease obligations	20,038	38,192
Revolving line of credit - non current	30,000	100,000
<b>TOTAL LIABILITIES</b>	<b>317,650</b>	<b>604,063</b>
<b>STOCKHOLDERS' EQUITY</b>		
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	1,287	1,287

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 – 29,971,195, 471,195 and 29,971,195 (March 2016 and September 2015)	315,870	304, 712
Additional paid-in capital	37,165,822	37,065,831
Accumulated deficit	(37,173,776)	(37,065,701)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>309,203</b>	<b>306,129</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>626,853</b>	<b>910,192</b>

See notes to financial statements

**CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)**

	<b>Three Months Ended Mar 31,</b>		<b>Six Months Ended Mar 31,</b>	
<b><u>Revenue From Operations</u></b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Telecardiology Services	483,306	470,505	989,372	903,588
Teleradiology Services	13,169	14,375	26,817	26,644
ECG Products and Supplies Sales	19,651	43,101	74,294	109,722
OsteoGram and Osteometer sales and svcs	0	27,000	0	36,000
<b>TOTAL REVENUE</b>	<b>516,126</b>	<b>554,981</b>	<b>1,090,483</b>	<b>1,075,954</b>
<b><u>OPERATING EXPENSES</u></b>				
Costs of ECG Services	258,051	255,254	545,894	473,191
Cost of Goods Sold ECG	3,921	17,311	31,069	55,145
Cost of Goods Sold OsteoGram and OsteoMeter	0	0	0	0
Selling Expenses	32,166	46,245	69,981	83,749
General and Administrative	188,069	192,712	355,468	342,545
Depreciation and amortization	28,884	28,958	186,797	57,614
<b>TOTAL OPERATING EXPENSES</b>	<b>511,091</b>	<b>540,480</b>	<b>1,189,209</b>	<b>1,012,244</b>
<b>OPERATING PROFIT/(LOSS)</b>	<b>5,035</b>	<b>14,501</b>	<b>(98,726)</b>	<b>63,710</b>
<b>Other Income</b>	2,826	0	7,365	0
<b>Taxes</b>	800	0	800	800
<b>Interest Expense</b>	6,076	9,039	15,914	18,378
<b>NET PROFIT/(LOSS)</b>	<b>985</b>	<b>5,462</b>	<b>(108,075)</b>	<b>44,532</b>
Weighted average number of common shares outstanding	31,586,984	29,971,195	31,586,984	29,971,195

**COMPUMED, INC.**  
**STATEMENTS OF STOCKHOLDER'S EQUITY**

	Series A Stock		Series D Stock		Common Stock		Additional Paid In	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	
<b>Balances at March 31, 2015</b>	<b>8,400</b>	<b>\$870</b>	<b>4,167</b>	<b>\$416.70</b>	<b>29,971,195</b>	<b>\$304,032.44</b>	<b>\$37,032,745.51</b>	<b>(\$37,094,996.49)</b>	<b>\$243,068.16</b>
Stock Based compensation							\$16,891.00		\$16,891.00
Net Profit								\$31,048.06	\$31,048.06
<b>Balances at June 30, 2015</b>	<b>8,400</b>	<b>\$870</b>	<b>4,167</b>	<b>\$416.70</b>	<b>29,971,195</b>	<b>\$304,032.44</b>	<b>\$37,049,636.51</b>	<b>(\$37,063,948.43)</b>	<b>\$2,91,007.22</b>
Shares Issued					500,000				
Stock Based compensation							\$16,875.00		\$16,875.00
Net Profit								(\$1,752.94)	(\$1,752.94)
<b>Balances at September 30, 2015</b>	<b>8,400</b>	<b>\$870</b>	<b>4,167</b>	<b>\$416.70</b>	<b>30,471,195</b>	<b>\$304,712.39</b>	<b>\$37,065,831.56</b>	<b>(\$37,065,701.37)</b>	<b>\$306,129.28</b>
Shares Issued									
Stock Based compensation							\$3,057.00		\$3,057.00
Net Profit								(\$109,059.51)	(\$109,059.51)
<b>Balances at December 31, 2015</b>	<b>8,400</b>	<b>\$870</b>	<b>4,167</b>	<b>\$416.70</b>	<b>30,471,195</b>	<b>\$304,712.39</b>	<b>\$37,068,888.56</b>	<b>(\$37,174,760.88)</b>	<b>\$200,126.77</b>
Shares Issued					1,115,789	\$11,157.89	\$94,842.11		\$106,000.00
Stock Based compensation							\$2,091.00		\$2,091.00
Net Profit								\$985.03	\$985.03
<b>Balances at March 31, 2016</b>	<b>8,400</b>	<b>\$870</b>	<b>4,167</b>	<b>\$416.70</b>	<b>31,586,984</b>	<b>\$315,870.28</b>	<b>\$37,165,821.67</b>	<b>(\$37,173,775.85)</b>	<b>\$309,202.80</b>

**A- CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ending March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES: Net Profit/(Loss)</b>	<b>(108,075)</b>	<b>44,532</b>
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock Based Compensation	5,148	21,753
Bad Debts	-	-
Depreciation and write-offs	146,906	57,614
(Increase)/Decrease in accounts receivable	30,479	(6,846)
(Increase)/Decrease in inventories, prepaid expenses and other assets	52,640	(16,976)
Increase/(Decrease) in accounts payable and other liabilities	(147,560)	(1,132)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(20,462)</b>	<b>98,945</b>
(Purchase)/ Sale of Patents		(2,010)
(Purchase)/ Sale of property and Equipment	-	(33,964)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(35,974)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Payment on capital lease obligation	(62,852)	(57,711)
Equity proceeds	-	-
Proceeds from Notes Payable	30,000	-
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>(32,851)</b>	<b>(57,711)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(53,314)</b>	<b>5,260</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>117,782</b>	<b>117,442</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 64,468</b>	<b>\$ 122,702</b>

See notes to financial statements

COMPUMED, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS

*Note A- Basis of Presentation and Accounting Policies*

CompuMed, Inc. Enterprise Telemedicine Solutions provide patients with the highest level of clinical care at reduced costs. Our telecardiology and teleradiology offerings provide real-time access to U.S. Board-Certified specialists through cloud-based technology and integrated medical devices to medical facilities anywhere in the world. Our solutions primarily support the diagnosis and treatment of several costly, high incidence diseases, particularly cardiovascular disease.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. For further information, refer to the financial statements for the year ended September 30, 2013 and the notes thereto included in the Company's Annual Report posted at [www.otcmarkets.com](http://www.otcmarkets.com).

On March 25, 2011, the Company filed a Form-15 with the SEC to deregister its common stock and suspend its reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company believes that the deregistering its common stock will reduce significant expenses associated with regulatory compliance and that will be able to reallocate our resources towards improving growth and profitability. Our stock is currently traded on the OTC Pink operated by OTCMarkets.

*Note B: Stockholder's Equity*

**CLASS A \$3.50 CUMULATIVE CONVERTIBLE VOTING PREFERRED STOCK:**

The holders of Class A Preferred Stock are entitled to receive, when and as declared by the Board of Directors, dividends at an annual rate of \$0.35 per share, payable quarterly. Dividends are cumulative from the date of issuance. Every two (2) shares of the Class A Preferred Stock are presently convertible, subject to adjustment, into one (1) share of Common Stock. In the event of any liquidation, the holders of the Class A Preferred Stock are entitled to receive \$2.00 in cash per share plus accumulated and unpaid dividends out of assets available for distribution to stockholders, prior to any distribution to holders of Common Stock or any other stock ranking junior to the Class A Preferred Stock. The Class A Preferred Stock may be redeemed by the Company, upon 30-days' written notice, at a redemption price of \$3.85 per share. Class A Preferred Stock stockholders have the right to convert their shares into Common Stock during such 30-day period. Shares of Class A Preferred Stock have one vote each. Shares of Class A Preferred Stock vote along with shares of Common Stock and shares of Class B Preferred Stock as a single class on all matters presented to the stockholders for action except as follows: Without the affirmative vote of the holder of a majority of the Class A Preferred Stock then outstanding, voting as a separate class, the Company may not (i) amend, alter or repeal any of the preferences or rights of the Class A Preferred Stock, (ii)



authorize any reclassification of the Class A Preferred Stock, (iii) increase the authorized number of shares of Class A Preferred Stock or (iv) create any class or series of shares ranking prior to the Class A Preferred Stock as to dividends or upon liquidation. A total of 4,200 shares of Common Stock are currently issuable upon conversion of the remaining 8,400 shares of the Class A Preferred Stock.

**CLASS B \$3.50 CONVERTIBLE VOTING PREFERRED STOCK:**

In August 1994, the Company issued 52,333 shares of Class B \$3.50 Convertible Preferred Stock ("Class B Preferred Stock") in connection with the acquisition of certain property. The holders of Class B Preferred Stock are entitled to receive dividends only, when and as declared by the Board of Directors. Each share of Class B Preferred Stock is convertible, subject to adjustment, into ten (10) shares of Common Stock. In the event of any liquidation, the holders of the Class B Preferred Stock are entitled to receive \$3.50 in cash per share plus accumulated and unpaid dividends out of assets available for distribution to stockholders, prior to any distribution to holders of Common Stock or any other stock ranking junior to the Class B Preferred Stock. Each share of Class B Preferred Stock may be redeemed by the Company, upon 30-days' written notice, at a redemption price of \$3.85 per share. Class B Preferred Stock stockholders have the right to convert their shares into Common Stock during this 30-day period.

Shares of Class B Preferred Stock are entitled to one vote each. Shares of Class B Preferred Stock vote as a single class on all matters presented to the stockholders for action except as follows: Without the affirmative vote of the holder of a majority of the Class B Preferred Stock then outstanding, voting as a separate class, the Company may not (i) amend, alter or repeal any of the preferences or rights of the Class B Preferred Stock, (ii) authorize any reclassification of the Class B Preferred Stock, (iii) increase the authorized number of shares of Class B Preferred Stock or (iv) create any class or series of shares ranking prior to the Class B Preferred Stock as to dividends or upon liquidation. A total of 3,000 shares of Common Stock are currently issuable upon conversion of the remaining 300 shares of Class B Preferred Stock.

**CLASS D VOTING PREFERRED STOCK:**

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 one (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. 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 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 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.

*Note C- Stock-Based Compensation*

The Company accounts for stock options in accordance with FASB ASC Topic 718 using the modified prospective method. Under this method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2006, based on the grant-date fair value estimated in accordance with guidance issued by the FASB amortized over the options' vesting period, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2006, based on the grant-date fair value estimated in accordance with guidance issued by the FASB amortized over the options' vesting period.

March 31, 2016		
	Shares	Weighted- Average Exercise Price
<b>Options outstanding, beginning of period</b>	<b>6,285,000</b>	<b>0.24</b>
Options exercised	-	-
Options granted	-	-
Options forfeited/canceled	-	-
Options outstanding, end of period	6,285,000	0.24
<b>Options exercisable, end of period</b>	<b>6,285,000</b>	<b>0.24</b>

*Note D- Earnings Per Share*

The Company reports its earnings (loss) per share in accordance with FASB ASC Topic 260. Basic loss per share is calculated using the net loss divided by the weighted average common shares outstanding. Shares from the assumed conversion of outstanding warrants, options and the effect of the conversion of the Class A Preferred Stock and Class B Preferred Stock are omitted from the computations of diluted loss per share because the effect would be anti-dilutive.

**Six months ended March 31, 2016**

Net Profit/(Loss)	<b>\$ (108,075)</b>
Less: preferred stock dividends	

**Net Profit/(Loss) available to common stockholders**

**\$ (108,075)**

*Note E- Fair Value*

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

<b>Level Input</b>	<b>Input Definition:</b>
Level I	Inputs are adjusted, quoted prices for identical assets or liabilities in active markets at the measurement date
Level II	Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability through collaboration with market data or measurement
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at March 31, 2016 for assets and liabilities measured at fair value on a recurring basis:

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
Cash and cash equivalents	\$64,468	\$ -	\$ -	\$64,468
Total assets	\$64,468	\$ -	\$ -	\$64,468

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

*Note G- Commitments and Contingencies*

The Company has various capital leases for equipment with the final one expiring in 2018.

In February 2013, the Company entered into the First Amendment to extend the lease facility for an additional three years. Under the new lease, the Company occupies 7,855 square foot of a reduction from 10,949 square foot, which reduce the monthly rent to \$10,644.75 from \$15,404.00 for the first year and increase by 3% in the ensuing lease years.

<b><u>Fiscal Year Ending</u></b>	<b><u>Capital Lease</u></b>	<b><u>Operating Leases</u></b>
2016	59,365	38,989
2017	32,884	25,413
2018	11,402	-
2019	-	-
	<u>103,651</u>	<u>64,402</u>
Less amount representing interest	<u>13,009</u>	
Net minimum lease payment	<u>96,642</u>	
Less current portion	<u>70,604</u>	
Present value of net minimum payment, less current portion	<u>20,038</u>	

The range of interest rates on capital lease outstanding as of March 31, 2016 was 11.91% to 24.57%.

Rental expenses under operating leases for the three months ended March 31, 2016 and 2015 were \$17,229 and \$37,609 respectively.

## **Management's Discussion and Analysis or Plan of Operation**

### **Safe Harbor for Forward -Looking Statements**

This report 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 files with the OTC Pink operated by OTCMarkets. 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 report, such as statements about revenue, operations, and earnings growth and other financial results are forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements including statements concerning the Company's plans, objectives, expectations and intentions are based largely on management's expectations and are subject to and qualified by risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These statements are subject to uncertainties and risks including, without limitation, product and service demand and acceptance, changes in technology, ability to raise capital, the availability of appropriate acquisition candidates and/or business partnerships, economic conditions, the impact of competition and pricing, capacity and supply constraints or difficulties, government regulation and other risks identified in the Company's filings with the Securities and Exchange Commission and OTCPink operated by OTCMarkets. These cautionary statements expressly qualify all such forward-looking 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.

### **Results of Operations For The Quarter Ended March 31, 2016 Compared To Quarter Ended March 31, 2015**

CompuMed finished the second quarter 2016 with \$985 in net profit compared to a net profit of

\$5,462 in the same quarter a year ago. The Company had an operating profit of \$5,035 for the second quarter 2016 compared to an operating profit of \$14,501 for the same quarter of 2015. The Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) for the second quarter of 2016 was \$33,918 compared to \$43,460 for the same quarter in 2015. For the six months ended March 31, 2016, EBTIDA was \$88,071 compared to \$121,323 for the six months ended March 31, 2015.

**Total Revenue** for the second quarter of 2016 decreased by 7% to \$516,126 from \$554,981 for the same quarter of fiscal 2015 and for the six months ended March 31, 2016 it increased by 1% to \$1,090,483 from \$1,075,954 for the same period of 2015. The decrease in revenue for the current quarter compared to same quarter a year ago is primarily due to decreased OsteoGram revenue and lower equipment revenue. The timing of sales for both OsteoGram and equipment historically has not been predictable. This is offset with increased revenue in Telecardiology revenue for both the current quarter and six months ended compared to respective prior year.

**Telecardiology Services Revenue** consists of ECG processing/overreads, equipment rentals, and ultrasound interpretations. During the second quarter of 2016 telecardiology services increased by 3% to \$483,306 from \$470,505 for the same quarter of fiscal 2015 and for the six months ended March 31, 2016 it increased by 1% to \$989,372 from \$903,588 for the same period of 2015. The slight increases are due to addition of new customers and some higher usage of various services with some new customers. These increase are offset with decreases in ECG processing as more self-interpreting ECG machines are utilized. Although revenue increased from prior quarter and prior six month, overall gross margin decreased primarily due to new lower pricing with a high volume customer. Without this customer, gross margin increased over the prior quarter

**Teleradiology Revenue** for the second quarter of 2016 decreased by 8% to \$13,169 from \$14,375 for the same period in 2015 and for the six months ended March 31, 2016 it increased by 1% to \$26,817 from \$26,644 for the same period of 2015.

**ECG Product and Supplies Revenue** for the second quarter of 2016 decreased by 54% to \$19,651 from \$43,101 for the same period of 2015 and for the six months ended March 31, 2016 it decreased by 32% to \$74,294 from \$109,722 for the same period of 2015. The decrease is due to in the prior year a higher number of ECG units sold. Sales of ECG machines historically is not predictable.

**OsteoGram Products & Services Revenue** consists primarily of OsteoGram software sales. During the second quarter of 2016 revenue there was no revenue from Osteogram compared with \$27,000 for the same period of 2015 and for the six months ended March 31, 2016 there was no revenue compared with \$36,000 for the same period in 2015. Sales of OsteoGram software historically is not predictable.

**Cost of Telecardiology Services** for the second quarter ended 2016 increased by 1% to \$258,051 from \$255,254 for the same quarter of 2015 and for the six months ended March 31, 2016 it increased by 15% to \$545,894 from \$473,191 for the same period in 2015. The increase

is primarily related to the increase in physician interpretation variable costs, directly related to the increase in ECG services and ultrasound diagnostic study interpretations revenue.

**Cost of Goods Sold of ECG Product & Supplies** for the second quarter of 2016 decreased by 77% to \$3,921 from \$17,311 for the same period of 2015 and for the six months ended March 31, 2016 it decreased by 44% to \$31,069 from \$55,145 for the same period in 2015. The decrease is directly related to the fewer ECG machines sold as compared to prior year.

**Selling Expenses** for the second quarter ended 2016 decreased by 30% to \$32,166 from \$46,245 for the same period of 2015 and for the six months ended March 31, 2016 it decreased by 16% to \$69,981 from \$83,749 for the same period in 2015. The decrease is directly related to higher commissions in prior year for OsteoGram sales in prior year. The commission expense related to Osteogram sales is directly proportionate with the revenue for the respective period's revenue.

**General & Administrative Expenses** for the second quarter ended 2016 decreased by 2% to \$188,069 from \$192,712 for the same period of 2015 and for the six months ended March 31, 2016 it increased by 4% to \$355,468 from \$342,545 for the same period in 2015. The decrease for the current quarter compared to prior year quarter is primarily related to decrease in the office space lease cost and offset by onetime expenses related to office space improvements and furniture. The increase for the six months ended 2016 compared to prior year reflects the cost associated with additional executive compensation during the transition period of CEO's and travel related expenses for the new CEO. All other ongoing operating expenses are relatively stable or decreased from prior periods.

**Interest Expense** for the second quarter ended 2016 decreased by 33% to \$6,076 from \$9,039 for the same period of 2015 and for the six months ended March 31, 2016 it decreased by 13% to \$15,914 from \$18,378 for the same period in 2015. The decrease is primarily related to capital leases nearing the end of life where the payment is primarily principle; in addition, two leases were retired. The medical device rental business provides an ongoing revenue stream that improves free cash flow, especially as the leases are retired.

## **Financial Condition, Liquidity and Capital Resources**

### **Operations**

At March 31, 2016, we had \$64,468 in cash compared to a balance of \$117,782 at September 30, 2015, a net decrease of \$53,314.

Cash used by operating activities was \$20,462 for the six months ended March 31, 2016. This is primarily attributed to decrease in accounts payable due to paying current item timely and paying older amounts from prior years.

Cash used in financing activities was \$32,851 for the six months ended March 31, 2016. This

was related to payments towards capital lease obligations and funds (\$30,000) withdrawn from new line of credit.

The Company anticipates that its cash flow from operations and available cash will be sufficient to meet its anticipated financial needs for at least the next 12 months assuming that no significant downturn in its business occurs. There can be no guarantee that the Company will achieve this result, however, resulting in the Company needing to raise additional capital in the future or draw down on its available credit line. Such sources of financing might not be available on reasonable terms or at all. Failure to raise capital when needed could adversely impact the Company's business, operating results and liquidity. Additionally, the Company may find it desirable to raise additional equity capital to accelerate its strategic objectives. However there can be no guarantees that the Company will be able to do so or that such capital will be available. If additional funds were raised through the issuance of equity securities, the percentage of ownership of existing stockholders would be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to the Company's Common Stock. The Company's Common stock is currently quoted on OTC Pink operated by OTC Markets, which may make it more difficult to raise funds through the issuance of equity securities. These additional sources of financing may not be available on acceptable terms, if at all. Additionally we are exploring joint ventures, acquisitions and other forms of strategic transactions, which might cause us to require additional capital. The Company plans to make use of its existing credit facility for such transactions. However there is no guarantee that the Company will be able to enter in such a transaction or that it would be at terms consistent with the available credit facility.

#### Capital Commitments

Our primary capital resource commitments at March 31, 2016 consist of capital and operating lease commitments, primarily for ECG equipment and our corporate office facility.

#### Financing Activities

On January 14, 2011, the Company entered into an amended revolving line of credit agreement (the "Second Amended Credit Agreement") with Boston Avenue Capital, LLC. The Second Amended Credit Agreement amends the original credit agreement entered into between Borrower and Lender dated February 15, 2008 and amended December 16, 2008 (the "Original Credit Agreement").

The Second Amended Credit Agreement provides a credit facility in an aggregate principal amount of up to \$300,000. Advances under the revolving line of credit shall bear interest at four percent (4%) payable quarterly in arrears for the prior fiscal quarter on the fifth business day of each January, April, July and October commencing after the first advance. The Second Amended Credit Agreement matured on December 31, 2012.

On February 8, 2013, the Company entered into an amended revolving line of credit agreement (the "Third Amended Credit Agreement") with Boston Avenue Capital, LLC. The Third Amended Credit Agreement amends the original credit agreement entered into between Borrower and Lender dated February 15, 2008, which was amended December 16, 2008 (the "Original Credit Agreement"), and January 14, 2011 (the "Second Amendment"). The Third Amended Credit Agreement matured in December 31, 2014.



December 20, 2014 the VI Capital Fund, LP purchased all of the CompuMed, Inc. shareholdings of Boston Avenue Capital and Yorktown Avenue Capital. In addition to purchasing the common stock owned by Yorktown Avenue Capital and Boston Avenue Capital, VI Capital Fund, LP purchased the Series D Preferred shares formerly held by Boston Avenue Capital as well as the line-of-credit held by Boston Avenue Capital.

A total of \$100,000 of the line of credit was drawn down during the first quarter of fiscal 2011. No additional amounts have been drawn down. The term of this note with VI Capital Fund, LP has been extended through March 31, 2016.

On January 17, 2016, the Company entered into a line of credit agreement (the “Business Loan Agreement” and the “Promissory Note”) with Idaho Independent Bank. The note matures on February 5, 2017. The line of credit is fully guaranteed by VI Capital, Fund, LP. Advances under the line of credit shall bear interest at a variable rate of 2.5% over the published Prime Lending Rate Index. A total of \$30,000 of the line of credit was drawn down during the second quarter of fiscal 2016. No additional amounts have been drawn.

On March 31, 2016, the Company agreed to convert the \$100,000 loan plus accrued interest due of \$6,000 through the Line of Credit Agreement with VI Capital, LP to Company shares. In this transaction, VI Capital purchased 1,115,789 shares of Company Common Stock at a price \$0.095 per share.

On March 31, 2016, the term note of \$100,000 with VI Capital Fund, LP was cancelled and all amounts due were satisfied as part of the conversion to the Company’s Common Stock.

#### Material Trends and Uncertainties

The marketplace acceptance of peripheral densitometry equipment is still limited, and subject to complex scientific, clinical, reimbursement and policy-making factors which are constantly evolving. It is difficult to predict if any of these factors will create material barriers to our ability to expand the Skeletal Health 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 have invested 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 be successful.

The telemedicine business is very competitive and we rely significantly on certain contracts with individual state governments. While we have a good track record of renewing contracts, many customers reserve the rights to cancel such contracts under a broad base of options. We experience some declines of customer usage of our services at various times for a variety of reasons. A loss of some of these contracts could be material for the Company. Additionally, it is possible that competitive pressures may force us to lower our prices, which could adversely affect our overall revenues as well as our gross profits.

We are also vulnerable to potential state government budget constraints. The Company receives

significant revenues from state correctional contracts and any significant decreases in the amounts allocated to the annual healthcare budgets in various state governments could adversely affect us.

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

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

Off-Balance Sheet Arrangements

None.

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 collectability 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 review our long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of long-lived and amortizable intangible assets to be held and used is measured by a comparison of the carrying amount of an asset to the future operating cash flows expected to be generated by the asset. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the

carrying value of the assets exceeds their fair value.

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

Cardiology Services are comprised of primarily ECG processing/overreads, Echo/ultrasound interpretations, and rental fees. ECG processing and overread revenue is recognized monthly on a per-usage basis after the services are performed. Equipment rental 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.

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.

#### Subsequent Events

None