

CompuMed, Inc.

September 30, 2017 – Annual 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

Website(s): 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

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:

Common Stock *	
Period End Date	September 30, 2017
Authorized	50,000,000
Issued and Outstanding	31,586,984
Preferred Stock *	
Period End Date	September 30, 2017
Authorized	1,000,000
Class	A
Issued and Outstanding	8,400
Class*	B
Issued and Outstanding	300
Class	D
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 as of September 30, 2017.

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. Diagnostic Telemedicine Solutions provide patients with the highest level of clinical care at reduced costs. Our solutions 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, including 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. Diagnostic Telemedicine Solutions provide patients with the highest level of clinical care at reduced costs. Our telecardiology and teleradiology solutions 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 a large network for remote electronic processing of electrocardiograms (“ECGs”), echocardiograms (“Echos”), ultrasound studies and X-rays. CompuMed has created an electronic telemedicine infrastructure to link clinical diagnostic equipment data collected at the patient’s point of care with top specialists. We also provide real-time access to specialists for consultations. The equipment that we rent and sell consist primarily of 12-lead ECG and ultrasound devices. 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, diagnostic 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.

F. Describe the Issuer’s Facilities

The Company has capital leases for machinery and equipment that expires between now and 2020. On January 1, 2017, the Company entered into a new lease in the existing office location expiring on February 28, 2018. Under the new lease, the Company occupies 2,318 square feet of space at \$3,462 per month.

G. Officers, Directors, and Control Persons

A. Names of Officers, Directors, and Control Persons. 9/30/17

David W. Pointer	Chairman of the Board
Lee Keddie	Chief Executive Officer, President and Director
Loren Den Herder	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 2,301,065 common shares

B. Legal/Disciplinary History. None.

C. Beneficial 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 2,301,065 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

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

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

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

E. Issuer Certification

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.

September 30, 2017



/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.

September 30, 2017



/s/ Laura Carroll [Signature]

Chief Financial Officer

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

Dear CompuMed Shareholders,

As we close out FY2017, we would like to thank our shareholders for their continued interest in CompuMed. Some of you have been investors in CompuMed for many years and over that time, there have been many transitions in the Company. It is satisfying to be able to report this year is beginning to show the impact of improving our internal systems, reinvesting in R&D, and focusing on the customer, especially in the meaningful parameter of positive cashflow.

CompuMed has invested significant effort in re-tooling our strategy and our brand more detail of which can be found at our redesigned website (www.compumedinc.com). We are now much more focused on delivering specialty diagnostic telemedicine solutions to B2B customers where we can leverage our technology and systems to make significant improvements to their workflow.

CompuMed's customer-centric process starts with an in-depth understanding of their workflow and challenges. We have developed a toolbox of solution modules that we can then utilize to provide "custom solutions" with standard building blocks. This often results in us being able to offer solutions the customer never even knew they could ask for.

The telemedicine market continues to expand and we are committed to ensuring CompuMed builds on its strength of customized niche-market diagnostic services.

Key items during the year:

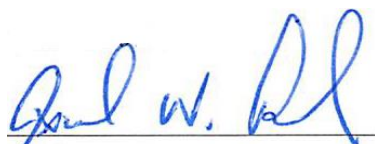
1. As seen in our financial statements and accompanying footnote disclosures, revenue in the year grew by 9.6% while free-cash generated by the Company increased 49.2%. Fourth quarter revenue grew by 24.6% compared to last year.
2. The year was marked by a continued commitment at CompuMed to enhancing our technological capabilities. Working collaboratively with our customers, outside IT consultants, equipment providers, and the entire team at CompuMed; we believe we are greatly improving the value of our services.
3. In considering the results of the Company for the year, we have included the following non – GAAP adjustments for our shareholders. We have added the table from last year's letter for your comparison purposes.

Important Financial Metrics:

	2017	2016
Reported Net Income	\$ 84,947	\$ (134,428)
+ Depreciation	75,115	238,767
- Cap Ex	(57,172)	(76,029)
Unadjusted Free-Cash-Flow	102,890	28,310
Adjustments		
+ Contractual prior CEO Bonus		51,407
+ Expenses moving and Misc. one time		11,000
+ One time legal costs	25,000	
Adjusted Free-Cash Flow	\$ 127,890	\$ 90,717
Book value	\$ 431,158	\$ 317,953
Working capital	\$ 257,089	\$ 107,873

4. The above table illustrates that last year over 100% of CompuMed's free-cash-flow was derived from the addback of the depreciation arising from the write-off of \$116,000 in assets. Comparatively, this year 66% of CompuMed's free-cash-flow was derived from net income.
5. CompuMed's leadership team is committed to increasing the value of CompuMed. As resources and opportunities for growth are available we will invest. When we make investments in the business the resulting financial metrics of our Company will likely continue to be volatile. Growth initiatives require resources/costs up front while the benefits take time to materialize and may result in future losses. We will always consider the needs of the business, the resources we have available either through free-cash-flow or access to outside capital, and the potential to add value through returning capital to our shareholders through dividends or share re-purchase.
6. On this note, CompuMed would also like to announce the Board's decision to re-purchase up to \$100,000 in CompuMed equity in FY2018 (see subsequent events page 24). While we may not re-purchase any shares during the year, having the flexibility to do so gives us increased flexibility to add value for shareholders.

Thank you for your continued support of the Company.



David W. Pointer, Chairman



Lee D. Keddie, CEO

COMPUMED, INC.
FINANCIAL STATEMENTS

Item 3. Interim Financial Statements

CONDENSED BALANCE SHEETS COMPUMED, INC.

	September 30, 2017	September 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	252,556	125,633
Accounts receivable, net of allowance of \$23,555 (September 2017) and \$16,805 (September 2016)	316,088	250,061
Inventory	48,319	15,719
Prepaid expenses and other current assets	19,081	10,471
TOTAL CURRENT ASSETS	636,044	401,884
PROPERTY AND EQUIPMENT, AT COST		
Machinery and equipment	397,058	359,596
Furniture, fixtures and leasehold improvements	16,836	16,836
Equipment under capital leases	370,882	371,332
	784,776	747,764
Accumulated depreciation and amortization	(585,876)	(530,921)
TOTAL PROPERTY AND EQUIPMENT	198,900	216,843
Other assets	80	3,864
TOTAL OTHER ASSETS	80	3,864
TOTAL ASSETS	835,024	622,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	151,839	133,298
Notes Payable	-	-
Accrued Liabilities	205,172	133,149
Current portion of capital lease obligations	21,944	27,564
TOTAL CURRENT LIABILITIES	378,955	294,011
Capital lease obligations	24,911	10,627
Revolving line of credit - non current	-	-
TOTAL LIABILITIES	403,866	304,638
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	870	870

Preferred Stock- Class B \$3.50 cumulative convertible voting - issued and outstanding - 300 shares	417	417
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 – 31,586,984 and 31,586,984 (September 2017 and September 2016)	315,870	315,870
Additional paid-in capital	37,229,183	37,200,925
Accumulated deficit	(37,115,182)	(37,200,129)
TOTAL STOCKHOLDERS' EQUITY	431,158	317,953
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	835,024	622,591

See notes to financial statements

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Twelve Months Ended September 30,	
	2017	2016	2017	2016
<u>Revenue From Operations</u>				
Total Revenue	593,927	475,750	2,306,157	2,104,945
<u>Cost of Goods Sold</u>	286,778	237,158	1,107,796	1,080,560
Gross Profit	307,149	238,592	1,198,361	1,024,385
Selling, General and Administrative Expenses	237,238	263,292	1,032,047	903,731
Depreciation and Amortization	15,038	25,685	75,115	238,767
OPERATING PROFIT/(LOSS)	54,873	(50,385)	91,199	(118,113)
Other Income	-	-	0	7,365
Taxes	-	-	800	800
Interest Expense	853	2,865	5,452	22,880
NET PROFIT/(LOSS) Before Non-Recurring Event	54,020	(53,250)	84,947	(134,428)
NET PROFIT/(LOSS) Adjusted for Non-recurring event	54,020	(53,250)	84,947	(134,428)
Weighted average number of common shares outstanding	31,586,984	31,586,984	31,586,984	31,586,984

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	
Balances at September 30, 2016	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,200,924.67	(\$37,200,129.13)	\$317,952.52
Shares Issued									
Stock Based compensation							\$7,225.00		\$7,225.00
Net Profit								(\$6,712.20)	(\$6,712.20)
Balances at December 31, 2016	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,208,149.67	(\$37,206,841.33)	\$318,465.32
Shares Issued									
Stock Based compensation							\$6,735.00		\$6,735.00
Net Profit								(\$14,304.41)	(\$14,304.41)
Balances at March 31, 2017	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,214,884.67	(\$37,221,145.74)	\$310,895.91
Shares Issued									
Stock Based compensation							\$6,519.00		\$6,519.00
Net Profit								\$51,943.54	\$51,943.54
Balances at June 30, 2017	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,221,403.67	(\$37,169,202.20)	\$369,358.45
Shares Issued									
Stock Based compensation							\$7,780.00		\$7,780.00
Net Profit								\$54,019.88	\$54,019.88
Balances at September 30, 2017	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,229,183.67	(\$37,151,182.32)	\$431,158.33

A- CONDENSED STATEMENTS OF CASH FLOWS

	Twelve months Ending September 30,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES: Net Profit/(Loss)	84,947	(81,178)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock Based Compensation	28,259	7,239
Depreciation and write-offs	75,115	208,638
(Increase)/Decrease in accounts receivable	(66,026)	68,917
(Increase)/Decrease in inventories, prepaid expenses and other assets	(37,427)	57,392
Increase/(Decrease) in accounts payable and other liabilities	90,563	(143,455)
NET CASH USED IN OPERATING ACTIVITIES	175,431	117,553
(Purchase)/ Sale of Patents		
(Purchase)/ Sale of property and Equipment	(57,172)	(40,335)
NET CASH USED IN INVESTING ACTIVITIES	(57,172)	(40,335)
CASH FLOW FROM FINANCING ACTIVITIES:		
Capital lease Obligation	8,664	(91,369)
Equity proceeds	-	-
Proceeds from Notes Payable	-	-
NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES	8,664	(91,369)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	126,923	(14,151)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	125,633	117,782
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 252,556	\$ 103,631

See notes to financial statements

COMPUMED, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

Note A- Basis of Presentation and Accounting Policies

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 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.

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.

	September 30, 2017	
	Shares	Weighted- Average Exercise Price
Options outstanding, beginning of period	2,130,000	0.11
Options exercised	-	-
Options granted	150,000	0.08
Options forfeited/canceled		
Options outstanding, end of period	2,280,000	0.11
Options exercisable, end of period	1,917,700	0.11

Note D- Earnings Per Share

The Company reports its earnings (loss) per share in accordance with FASB ASC Topic 260. Basic earnings per share is calculated using the net earnings 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.

Twelve months ended September 30, 2017

Net Profit/(Loss)	\$ 84,947
Less: preferred stock dividends	
Net Profit/(Loss) available to common stockholders	\$ 84,947

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:

Level Input	Input Definition:
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 September 30, 2017 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash equivalents	\$252,556	\$ -	\$ -	\$252,556
Total assets	\$252,556	\$ -	\$ -	\$252,556

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 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 \$3,462 per month. Although not yet completed, we anticipate renewing the office space rental agreement through February 2019 for approximately a slight increase of the current monthly amount.

<u>Fiscal Year Ending</u>	<u>Capital Lease</u>	<u>Operating Leases</u>
2018	26,726	21,932
2019	15,324	-
2020	12,769	-
2021	-	-
	<u>54,819</u>	<u>21,932</u>
Less amount representing interest	<u>7,964</u>	
Net minimum lease payment	<u>46,855</u>	
Less current portion	<u>21,944</u>	
Present value of net minimum payment, less current portion	<u>24,911</u>	

The interest rate on the capital leases outstanding as of September 30, 2017 range from 12.86% to 24.5%

Rental expenses under operating leases for the Twelve Months ended September 30, 2017 and 2016 were \$45,021 and \$72,371 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 September 30, 2017 Compared To Quarter Ended September 30, 2016

CompuMed finished the Fourth quarter FY 2017 with \$54,020 in net profit compared to a net loss of \$53,230 in the same quarter a year ago. The Company had an operating profit of \$54,873 for the Fourth Quarter 2017 compared to an operating loss of \$50,385 for the same quarter of 2016.

Total Revenue for the fourth quarter of 2017 increased by 25% to \$593,927 from \$475,750 for the same quarter of fiscal 2016 and for the Twelve months ended September 30, 2017 revenue increased by 10% to \$2,306,157 from \$2,104,945 for the same period of 2016. The increase in revenue for the current quarter and twelve month period compared to the same period of 2016 is primarily due to increase in diagnostic study interpretation services.. These increases are offset by a decrease in ECG processing due to non-renewal of a state department of corrections contract. The timing of sales for both OsteoGram and equipment is unpredictable.

Cost of Goods for the fourth quarter ended 2017 increased by 21% to \$286,778 from \$237,158 for the same quarter of 2016 and for the Twelve months ended September 30, 2017 it increased by 3% to \$1,107,796 from \$1,080,560 for the same period of 2016. The increase for the current quarter and twelve-month period compared to same period of 2016 is primarily related to the increase in revenue in physician interpretation variable costs directly related to the diagnostic study interpretations revenue.

Selling, General and Administrative Expenses for the fourth quarter ended 2017 decreased by 10% to \$237,238 from \$263,292 for the same period of 2016 and for the twelve months ended September 30, 2017 it increased by 14% to \$1,032,047 from \$903,731 for the same period of 2016. The increase for the twelve months is primarily related to software development costs and other costs associated with investment in technology and marketing such as trade shows, conferences and website development.

Interest Expense for the third quarter ended 2017 decreased by 70% to \$853 from \$2,865 for the same period of 2016 and for the Twelve months ended September 30, 2017 it decreased by 76% to \$5,452 from \$22,880 for the same period 2016. The decrease is primarily related to decrease in capital lease payments and are weighted to mostly principle versus interest.

Financial Condition, Liquidity and Capital Resources

Operations

At September 30, 2017, we had \$252,556 in cash compared to a balance of \$125,633 at September 30, 2016, a net increase of \$ 126,923.

The Company's cash generated in operating activities for the Twelve months ended September 30, 2017 was \$175,431.

Cash used in investing activities was \$57,172 for the Twelve months ended September 30, 2017.

Net cash raised through financing activities was \$8,664 for the Twelve months ended September 30, 2017. This was related to a new financing agreement for EKG devices, offset by payments towards capital lease obligations.

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 September 30, 2017 consist of capital and operating lease commitments, primarily for ECG equipment and our corporate office facility.

Financing Activities

None.

Material Trends and Uncertainties

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.

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 services and diagnostic interpretations 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.

Medical device 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.

Other Information

None

Subsequent Events

During a meeting held on December 8, 2017, the Company's Board of Directors unanimously approved re-purchasing up to \$100,000 in CompuMed equity in FY2018.