

CompuMed, Inc.

December 31, 2018 – 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

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	December 31, 2018
Authorized	50,000,000
Issued and Outstanding	32,432,070
Preferred Stock *	
Period End Date	December 31, 2018
Authorized	1,000,000
Class	A
Issued and Outstanding	-
Class*	B
Issued and Outstanding	-
Class	D
Issued and Outstanding	4,167

*See Note B - Stockholder's Equity

5) Issuance History

Listed in chronological order below are all events that results in changes to total shares issued by the company in the past two fiscal years.

2017

NONE

2018

- On July 18, 2018, William S. Rombach, Former CEO of the company, exercised his 420,000 stock options granted to him as an accredited executive of the company.
- On Aug 16, 2018, William S. Rombach, Former CEO of the company, exercised 650,000 stock warrants pursuant to the warrant to purchase shares of common stock granted to him by the company on Feb 02, 2012. Pursuant to terms of the agreement he elected to convert warrants into 425,086 shares of the company's common stock.

List of Relevant Transactions for this Section:

On April 12, 2018 CompuMed announced that it is redeeming the 8,400 outstanding shares of its Class A \$3.50 Cumulative Convertible Preferred Stock and the 300 outstanding shares of its Class B \$3.50 Convertible Preferred Stock.

The effective date of redemption was May 15, 2018.

Series A Preferred Shares

The redemption rights of the Company are set forth in the Certificate of Designation of the Class A \$3.50 Cumulative Convertible Preferred Stock dated August 10, 1992. The redemption price, as set forth in the Certificate of Designations, is \$3.85 per share.

CompuMed paid dividends on the Class A shares through 2011. Class A stockholders are entitled to annual dividends of \$0.35 per share thereafter. Since dividends are payable quarterly, dividends for seven and one quarter years have accumulated but not yet been paid. Each Series A share is therefore entitled to a dividend payment of \$2.54, or 7.25 times \$0.35.

Each Class A share is being redeemed for \$6.39, or the sum of the redemption price of \$3.85 and \$2.54 for accumulated but unpaid dividends.

Class A shares are convertible into common stock. The Certificate of Designations provides that each Class A share is convertible into 5 common shares. However, this figure was reduced to 0.50 common shares effective October 7, 1994 as the result of a ten for one reverse stock split. Given the current share price, such a conversion would not make sense and the Company does not anticipate that anyone will ask to convert.

The Company anticipates paying \$53,676 for the 8,400 outstanding shares of Class A \$3.50 Cumulative Convertible Preferred Stock. As September 30, 2018 Company paid part of the amount.

Series B Preferred Shares:

The redemption rights of the Company are set forth in the Certificate of Designation of the Class B \$3.50 Convertible Preferred Stock dated October 17, 1994. The redemption price, as set forth in the Certificate of Designations, is \$3.85 per share.

Class B shares do not accrue cumulative dividends and no dividend payments are in arrears.

Class B shares are convertible into common stock. The Certificate of Designations provides that each Class B share is convertible into 10 common shares. At the current share price of around 11 cents per share, such a conversion would not make sense and the Company does not anticipate that anyone will ask to convert.

The Company anticipates paying \$1,155 for the 300 outstanding shares of Class B \$3.50 Convertible Preferred Stock.

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

On February 10, 2018 the Company entered into a new lease in the existing office location expiring on February 28, 2019. Under the new lease, the Company occupies 2,318 square feet of space at \$3,566 per month. We are currently in the process of renewing the lease.

G. Officers, Directors, and Control Persons

A. Names of Officers, Directors, and Control Persons. 12/31/18

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
In addition, Mr. Pointer owns 420,000 common shares personally.

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 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.

December 31, 2018



/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.

December 31, 2018



/s/ Laura Carroll [Signature]
Chief Financial Officer

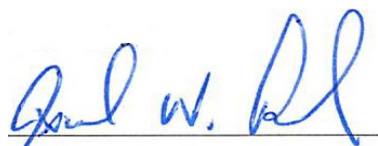
Quarterly update and letter from CompuMed, Inc. leadership team:

Dear CompuMed Shareholders,

The first quarter of fiscal year 2019 started strong for CompuMed. Revenue increased 98.9% compared to the year ago quarter and 24.0% sequentially from the 4th quarter of fiscal 2018. Cash and accounts receivable grew 47.0% and 21.6% respectively. CompuMed's reported net profit of \$270,966 in the quarter was likely the best in the Company's history. We remind investors that it was in the 2nd quarter last year when we began implementing the equipment purchase that contributed much of our growth over the past three quarters. No doubt our compares will be much tougher as we work our way through fiscal 2019 and investors should expect lower growth rates.

Of note from the balance sheet, CompuMed increased its capital lease borrowing for the purpose of purchasing equipment. As seen in Note G in the footnotes to our financial statements, the cost of this financing is much more advantageous to CompuMed than leases in the past, and investors should expect us to continue to invest in our equipment portfolio with a combination of financed and cash purchases.

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.

	December 31, 2018	September 30, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	441,415	300,196
Accounts receivable, net of allowance of \$28, 230 (December 2018) and \$25,930 (September 2018)	819,660	674,106
Inventory	86,395	61,898
Prepaid expenses and other current assets	32,420	31,360
TOTAL CURRENT ASSETS	1,379,890	1,067,560
PROPERTY AND EQUIPMENT, Net	426,332	447,945
TOTAL OTHER ASSETS	8,623	4,393
TOTAL ASSETS	1,814,845	1,519,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	247,285	299,938
Notes Payable	-	-
Accrued Liabilities	304,080	358,574
Current portion of capital lease obligations	43,329	20,532
TOTAL CURRENT LIABILITIES	594,694	679,044
Capital lease obligations	119,901	25,523
Revolving line of credit - non current	-	-
TOTAL LIABILITIES	714,595	704,567
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 (December 2018)	-	-
Preferred Stock- Class D 2% convertible - issued and outstanding - 4,167 shares	417	417
Common Stock, \$0.01 par value - authorized 50,000,000 shares, issued and outstanding – 32,432,070 and 32,432,070 (December 2018 and September 2018)	324,321	324,321
Additional paid-in capital	37,421,602	37,407,648
Accumulated deficit	(36,646,090)	(36,917,055)
TOTAL STOCKHOLDERS' EQUITY	1,100,250	815,331
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,814,845	1,519,898

See notes to financial statements

	Three Months Ended December 31,	
	2018	2017
<u>Revenue From Operations</u>		
Total Revenue	1,304,884	655,890
Cost of Goods Sold	604,099	341,716
Gross Profit	700,785	314,174
Selling, General and Administrative Expenses	358,429	258,351
Depreciation and Amortization	67,863	18,875
OPERATING PROFIT/(LOSS)	274,493	36,948
Other Income	-	-
Taxes	-	-
Interest Expense	3,527	1,316
NET PROFIT/(LOSS) Adjusted for Non-recurring event	270,966	35,632
Weighted average number of common shares outstanding	32,432,070	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 December 31, 2017	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,236,537.67	(\$37,079,550.37)	\$474,144.28
Shares Issued									
Stock Based compensation							\$7,008.00		\$7,008.00
Net Profit								\$47,756.30	\$47,756.30
Balances at March 31, 2018	8,400	\$870	4,167	\$416.70	31,586,984	\$315,870.28	\$37,243,545.67	(\$37,031,794.07)	\$528,908.58
Shares Issued	(8,400)	(\$870)					(\$32,625)	(\$21,315.80)	(\$54,810.80)
Stock Based compensation							\$7,008.00		\$7,008.00
Net Profit								\$111,253.70	\$47,756.30
Balances at June 30, 2018	-	-	4,167	\$416.70	31,586,984	\$315,870.28	\$37,217,928.67	(\$36,941,856.17)	\$592,359.48
Stock options exercised					420,000	\$4,200.00	\$16,800.00		\$21,000.00
Stock warrants converted to shares					425,086	\$4,250.86	(\$4,250.94)		(0.08)
Stock Based compensation							\$177,170.00		\$177,170.00
Net Profit								\$24,800.99	\$24,800.99
Balances at September 30, 2018	-	-	4,167	\$416.70	32,432,070	\$324,321.14	\$37,407,647.73	(\$36,917,055.18)	\$815,330.39
Stock Issued									
Stock Based compensation							\$13,954.59		\$13,954.59
Net Profit								\$270,965.46	\$270,965.46
Balances at December 31, 2018	-	-	4,167	\$416.70	32,432,070	\$324,321.14	\$37,421,602.32	(\$36,646,089.72)	\$1,100,250.44

A- CONDENSED STATEMENTS OF CASH FLOWS

	Three months Ending December 31,	
	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES: Net Profit/(Loss)	270,965	35,632
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock Based Compensation	13,955	7,354
Depreciation and write-offs	67,863	18,876
(Increase)/Decrease in accounts receivable	(145,555)	(124,950)
(Increase)/Decrease in inventories, prepaid expenses and other assets	(29,785)	30,202
Increase/(Decrease) in accounts payable and other liabilities	(107,147)	90,864
NET CASH USED IN OPERATING ACTIVITIES	70,296	57,978
(Purchase)/ Sale of Patents		
(Purchase)/ Sale of property and Equipment	(46,251)	(36,194)
NET CASH USED IN INVESTING ACTIVITIES	(46,251)	(36,194)
CASH FLOW FROM FINANCING ACTIVITIES:		
Capital lease Obligation	117,174	(6,939)
Redemption of Class A&B Preferred stock	-	-
Proceeds from stock option exercise	-	-
NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES	117,174	(6,939)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	141,219	14,845
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	300,196	252,556
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 441,415	\$ 267,401

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:

On April 12, 2018 Company announced the plan for redemption of shares with effective date of May 15, 2018. As of September 30, 2018, there are no outstanding Class A \$3.50 Cumulative Convertible voting Preferred Stock.

CLASS B \$3.50 CONVERTIBLE VOTING PREFERRED STOCK:

On April 12, 2018 Company announced the plan for redemption of shares with effective date of May 15, 2018. As of September 30, 2018, there are no outstanding Class B \$3.50 Convertible voting 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.

December 31, 2018		
	Shares	Weighted- Average Exercise Price
Options outstanding, beginning of period	6,075,000	0.10
Options exercised	-	-
Options granted	-	-
Options forfeited/canceled	-	-
Options outstanding, end of period	6,075,000	0.10
Options exercisable, end of period	4,248,333	0.09

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.

Three months ended December 31, 2018

Net Profit/(Loss)	\$ 270,966
Less: preferred stock dividends	
Net Profit/(Loss) available to common stockholders	\$ 270,966

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, 2018 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash equivalents	\$441,415	\$ -	\$ -	\$441,415
Total assets	\$441,415	\$ -	\$ -	\$441,415

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 2023. 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. On March 01, 2018, Company renewed the office space rental agreement through February 28, 2019 for a slight increase of the current monthly amount.

<u>Fiscal Year Ending</u>	<u>Capital Lease</u>	<u>Operating Leases</u>
2019	41,994	19,734
2020	54,716	-
2021	33,847	-
2022	30,436	
2022	31,452	-
	<u>192,445</u>	<u>19,734</u>
Less amount representing interest	<u>29,215</u>	
Net minimum lease payment	<u>163,230</u>	
Less current portion	<u>43,329</u>	
Present value of net minimum payment, less current portion	<u>119,901</u>	

The interest rate on the capital leases outstanding as of December 31, 2018 range from 7.26% to 14.55%

Rental expenses under operating leases for the Three Months ended December 31, 2018 and 2017 were \$11,462 and \$11,815 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 December 31, 2018 Compared To Quarter Ended December 31, 2017

CompuMed finished the first quarter FY 2019 with \$270,966 in net profit compared to a net profit of \$35,632 in the same quarter a year ago. The Company had an operating profit of \$274,493 for the first quarter 2019 compared to an operating profit of \$36,948 for the same quarter of 2018.

Total Revenue for the first quarter of 2019 increased by 99% to \$1,304,884 from \$655,890 for the same quarter of fiscal 2018. The increase in revenue for the current quarter compared to the same period of 2018 is primarily due to the increase in new corrections customers resulting from our equipment purchase began in our 2nd fiscal quarter of fiscal 2018, new customers and increase in certain diagnostic study interpretation services.

Cost of Goods for the first quarter ended 2019 increased by 77% to \$604,099 from \$341,716 for the same quarter of fiscal 2018. The increase for the current quarter compared to same period of 2018 is primarily related to the increase in physician interpretation variable costs directly related to the diagnostic study interpretations revenue.

Selling, General and Administrative Expenses for the first quarter ended 2019 increased by 39% to \$358,429 from \$258,351 for the same quarter of fiscal 2018. The increase for the current quarter is due to additional personnel, software development costs and other costs associated with investment in technology added to the increase.

Financial Condition, Liquidity and Capital Resources

Operations

At December 31, 2018, we had \$441,415 in cash compared to a balance of \$300,196 at September 30, 2018.

Cash used in investing activities was \$46,251 for the three months ended December 31, 2018. This was primarily due to EKG device purchases made to both update the current fleet and add new locations.

Net cash raised through financing activities was \$117,174 for the three months ended December 31, 2018; mainly from additional capital leases entered during the quarter.

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 December 31, 2018 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

None.