CompuMed, Inc.

September 30, 2016 – 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: lcarroll@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, 2016
Authorized	50,000,000
Issued and Outstanding	31,586,984
Preferred Stock *	
Period End Date	September 30, 2016
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 30,2016.

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 one of the nation's largest networks 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 through our call center. We also provide real-time access to specialists for consultations. The equipment that we rent and sell consist primarily of 12-lead ECG 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, diagonistic 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 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

A. Names of Officers, Directors, and Control Persons.

NAME	DIRECTORS AND OFFICERS as of 9/30/2016
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, 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.

September 30, 2016

/s/ Laura Carroll [Signature]
Chief Financial Officer

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

Dear CompuMed Shareholders,

Fiscal 2016 was a year of many changes for our company. A new CEO, a significant focus on enhancing the technology operating behind the scenes in the services we offer to our customers as well as the technology we utilize in operating our business, continued broadening out of our service offering and multiple interactions with customers and shareholders. With these changes in place we are excited to welcome in FY 2017.

A few comments regarding our Q4 and full year results:

1. As we promised in our Q3 2016 letter our income statement now reflects a single line item for revenue, cost of goods and SG&A. Please see the Management Discussion and Analysis disclosure in our footnotes for additional comments.
2. Loren Den Herder joined the CompuMed Board of Directors on November 2nd, 2016.
3. In considering the results of the Company for the year, we believe the following non – GAAP adjustments reflect our free-cash flow for FY 2016:

	FY 2016
Reported net income	($134,428)
+ Depreciation	238,767
- Capex	(76,029)
Unadjusted free-cash flow	$23,310
+ Contractual prior CEO bonus (Q1)	51,407
+ Expenses moving and misc. items	11,000
Adjusted FCF FY 2016 (our estimate)	$85,717

4. Please note that the depreciation shown on our financial statements this year includes approximately $116,000 from one-time write-offs taken during the year. Additionally, we believe that the cash payment made in 2016 for FY 2015 bonus to the previous CEO as well as the items expensed in connection with the build out and consolidating of the Company’s offices are one-time in nature.

Thank you for your continued support of the Company.

Lee D. Keddie, CEO

David W. Pointer, Chairman

COMPUMED, INC.

FINANCIAL STATEMENTS

Item 3. Interim Financial Statements

CONDENSED BALANCE SHEETS
COMPUMED, INC.

	September 30, 2016	September 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	125,633	117,782
Accounts receivable, net of allowance of $16,805 (September 2016) and $32,364 (September 2015)	250,061	307,043
Inventory	15,719	62,064
Prepaid expenses and other current assets	10,471	24,235
TOTAL CURRENT ASSETS	**401,884**	**511,124**
PROPERTY AND EQUIPMENT, AT COST		
Machinery and equipment	359,596	1,809,255
Furniture, fixtures and leasehold improvements	16,836	56,532
Equipment under capital leases	371,332	371,332
	747,764	2,237,119
Accumulated depreciation and amortization	(530,921)	(1,953,720)
TOTAL PROPERTY AND EQUIPMENT	**216,843**	**283,399**
OTHER ASSETS		
Patents, net of accumulated amortization of $0 (June 2016) and $107,727 (September 2015)	-	90,181
Other assets	3,864	25,488
TOTAL OTHER ASSETS	**3,864**	**115,669**
TOTAL ASSETS	**622,591**	**910,192**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	133,298	223,811
Notes Payable	-	-
Accrued Liabilities	133,149	126,758
Current portion of capital lease obligations	27,564	115,302
TOTAL CURRENT LIABILITIES	**294,011**	**465,871**
Capital lease obligations	10,627	38,192
Revolving line of credit - non current	-	100,000
TOTAL LIABILITIES	**304,638**	**604,063**
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 30,471,195 (September 2016 and September 2015)	315,870	304, 712
Additional paid-in capital	37,200,925	37,065,831
Accumulated deficit	(37,200,129)	(37,065,701)
TOTAL STOCKHOLDERS' EQUITY	**317,953**	**306,129**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**622,591**	**910,192**

See notes to financial statements

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

Revenue From Operations	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Twelve Months Ended September 30, 2016	Twelve Months Ended September 30, 2015
Total Revenue	**475,750**	**575,845**	**2,104,945**	**2,264,082**
Cost of Goods Sold	**237,158**	**291,810**	**1,080,560**	**1,138,405**
Gross Profit	**238,592**	**284,045**	**1,024,385**	**1,125,677**
Selling, General and Administrative Expenses	263,292	245,186	903,731	897,654
Depreciation and Amortization	25,685	37,562	238,767	127,721
OPERATING PROFIT/(LOSS)	**(50,385)**	**1,287**	**(118,113)**	**100,302**
Other Income	**-**	4,047	7,365	8,470
Taxes	**-**	**-**	800	800
Interest Expense	2,865	7,087	22,880	34,145
NET PROFIT/(LOSS)	**(53,250)**	**(1,753)**	**(134,428)**	**(73,827)**
Weighted average number of common shares outstanding	31,586,984	30,471,195	31,586,984	30,471,195

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COMPUMED, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY

	Series A Stock		Series D Stock		Common Stock		Additional Paid In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balances at September 30, 2015	**8,400**	**$870**	**4,167**	**$416.70**	**30,471,195**	**$304,712.39**	**$37,065,831.56**	**($37,065,701.37)**	**$306,129.28**
Shares Issued									
Stock Based compensation							$3,057.00		$3,057.00
Net Profit								($109,059.51)	($109,059.51)
Balances at December 31, 2015	**8,400**	**$870**	**4,167**	**$416.70**	**30,471,195**	**$304,712.39**	**$37,068,888.56**	**($37,174,760.88)**	**$200,126.77**
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
Balances at March 31, 2016	**8,400**	**$870**	**4,167**	**$416.70**	**31,586,984**	**$315,870.28**	**$37,165,821.67**	**($37,173,775.85)**	**$309,202.80**
Shares Issued									
Stock Based compensation							$2,091.00		$2,091.00
Net Profit								$26,896.80	$26,896.80
Balances at June 30, 2016	**8,400**	**$870**	**4,167**	**$416.70**	**31,586,984**	**$315,870.28**	**$37,167,912.67**	**($37,146,879.05)**	**$338,190.60**
Shares Issued									
Stock Based compensation							$33,012.00		$33,012.00
Net Profit								($53,250.08)	($53,250.08)
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**

A- CONDENSED STATEMENTS OF CASH FLOWS

	Twelve Months Ending September 30, 2016	2015
CASH FLOW FROM OPERATING ACTIVITIES: Net Profit/(Loss)	**(134,428)**	**(73,827)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock Based Compensation	40,251	55,519
Bad Debts	-	-
Depreciation and write-offs	238,767	127,721
(Increase)/Decrease in accounts receivable	56,982	(42,305)
(Increase)/Decrease in inventories, prepaid expenses and other assets	81,733	(49,391)
Increase/(Decrease) in accounts payable and other liabilities	(84,122)	59,315
NET CASH USED IN OPERATING ACTIVITIES	**199,183**	**224,686**
(Purchase)/ Sale of Patents		(3,277)
(Purchase)/ Sale of property and Equipment	(76,029)	(143,868)
NET CASH USED IN INVESTING ACTIVITIES	**(76,029)**	**(147,145)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Payment on capital lease obligation	(115,303)	(77,201)
Equity proceeds	-	-
Proceeds from Notes Payable	-	-
NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES	**(115,303)**	**(77,201)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7,851	340
CASH AND CASH EQUVALENTS AT BEGINNING OF PERIOD	**117,782**	**117,442**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 125,633**	**$ 117,782**

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 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.

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.

	Sep 30, 2016	
	Shares	**Weighted- Average Exercise Price**
Options outstanding, beginning of period	**6,370,000**	**0.24**
Options exercised	-	-
Options granted	-	-
Options forfeited/canceled	795,000	0.39
Options outstanding, end of period	5,575,000	0.22
Options exercisable, end of period	**5,575,000**	**0.22**

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.

Twelve months ended September 30, 2016	
Net Profit/(Loss)	$ **(134,428)**
Less: preferred stock dividends	
Net Profit/(Loss) available to common stockholders	**$ (134,428)**

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 June 30, 2016 for assets and liabilities measured at fair value on a recurring basis:

	Level I	**Level II**	**Level III**	**Total**
Cash and cash equivalents	$125,633	$ -	$ -	$125,633
Total assets	$125,633	$ -	$ -	$125,633

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 $4,358 per month.

Fiscal Year Ending	**Capital Lease**	**Operating Leases**
2017	32,884	41,680
2018	11,401	42,088
2019	-	-
2020	-	-
	44,285	83,768
Less amount representing interest	6,094	
Net minimum lease payment	38,191	
Less current portion	27,564	
Present value of net minimum payment, less current portion	10,627	

The range of interest rates on capital lease outstanding as of September 30, 2016 was 14.13% to 22.71%.

Rental expenses under operating leases for the twelve months ended September 30, 2016 and 2015 were $72,371 and $75,035 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, 2016 Compared To Quarter Ended September 30, 2015

CompuMed finished the fourth quarter FY 2016 with $53,250 in net loss compared to a net loss of $1,753 in the same quarter a year ago. The Company had an operating loss of $50,385 for the fourth quarter 2016 compared to an operating profit of $1,287 for the same quarter of 2015.

Total Revenue for the fourth quarter of 2016 decreased by 17% to $475,750 from $575,845 for the same quarter of fiscal 2015 and for the twelve months ended September 30, 2016 it decreased by 7% to $2,104,945 from $2,264,082 for the same period of 2015. The decrease in revenue for the current quarter compared to the same quarter a year ago is primarily due to three factors: the end of certain contracts for managed care department of corrections which were not renewed, the loss of a key customer in mobile ultrasound, and lower equipment revenue as compared to the prior year. This is offset by increase in revenue from newer products and customers as well as a small one-time order for OsteoGram. The timing of sales for both OsteoGram and equipment is unpredictable.

Cost of Goods for the Fourth quarter ended 2016 decreased by 19% to $237,158 from $291,810 for the same quarter of 2015 and for the Twelve months ended September 30, 2016 it dncreased by 5% to $1,080,560 from $1,138,405 for the same period in 2015. The decrease is primarily related to the decrease in physician interpretation variable costs directly related to the decrease in ECG services and ultrasound diagnostic study interpretations revenue.

Selling, General and Administrative Expenses for the fourth quarter ended 2016 increased by 7% to $263,292 from $245,186 for the same period of 2015 and for the twelve months ended September 30, 2016 it increased by 1% to $903,731 from $897,654 for the same period in 2015. The full year increase is related to costs associated with investment in technology and infrastructure; onetime costs for office build out and reconfiguration offset by decrease in office lease and CEO bonus

Interest Expense for the fourth quarter ended 2016 decreased by 60% to $2,865 from $7,087 for the same period of 2015 and for the twelve months ended September 30, 2016 it decreased by 33% to $22,880 from $34,145 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.

Financial Condition, Liquidity and Capital Resources

Operations

At September 30, 2016, we had $125,633 in cash compared to a balance of $117,782 at September 30, 2015, a net increase of $7,851.

The Company's cash generated in operating activities for the twelve months ended September 30,2016 was $199,183. This was primarily the result of a net loss of $134,428 which, when adjusted for non-cash expense items, such as depreciation and amortization and stock-based compensation expense, resulted in the of cash of approximately $54,593. The cash flows from operating activities were increased from the prior period mainly due to improvement in accounts receivable collections, inventory and offset by decrease in accounts payable due to paying current items timely and paying older amounts from prior years.

Cash used in investing activities was $76,029 for the twelve months ended September 30, 2016. Approximately $30,000 of this amount related to the technology investments internally while the remaining $47,000 reflected equipment purchases for rental.

Cash used in financing activities was $115,303 for the twelve months ended September 30, 2016. This was related to 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, 2016 consist of capital and operating lease commitments, primarily for ECG equipment and our corporate office facility.

Financing Activities
None.

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.

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

On November 02 2016, the Company announced that Loren Den Herder joined the CompuMed Board of Directors. Additionally, Benjamin Large resigned from the Board of Directors.