CompuMed, Inc

June 30, 2014 – Q3 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: 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	June 30, 2014
Authorized	50,000,000
Issued and Outstanding	29,819,434
Preferred Stock	
Period End Date	June 30, 2014
Authorized	1,000,000
Class	**A**
Issued and Outstanding	8,400
Class	**B**
Issued and Outstanding	300
Class	**D**
Issued and Outstanding	4,167

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:

2/12/13: 1,000,000 common shares sold to W. Scott Rombach, CompuMed's President, CEO and Director, at a market price of $0.09 per share for total proceeds of $90,000. These shares carry restricted legends.

5/13/13: 750,000 common shares sold to W. Scott Rombach, CompuMed's President, CEO and Director, at a market price of $0.08 per share for total proceeds of $60,000. These shares carry restricted legends.

6/25/14: 133,333 common shares sold to Dr. John Romm, a former Director, exercised stock option grants, at a grant price of $0.16 per share for total proceeds of $21,333.28. These shares carry no restrictive legends.

6/26/14: 250,000 common shares sold to Robert Stuckelman, former Director, exercised stock option grants, at a grant price of $0.16 per share for total proceeds of $40,000. These shares carry no restrictive legends.

6/27/14: 200,000 common shares sold to Dr. Stuart Silverman, a former Director, exercised stock option grants, at a grant price of $0.16 per share for total proceeds of $32,000. These shares carry no restrictive legends.

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

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

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

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

N/A

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

6) Describe the Issuer's Business, Products and Services

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

A. Description of the issuer's business operations;

CompuMed, Inc. provides enterprise telemedicine solutions. It specializes in the diagnosis, monitoring and management of several costly, high incidence diseases, particularly cardiovascular disease and osteoporosis. The Company's primary business is the provisioning of specialized cardiology services to medical facilities that do not have access to cardio-vascular disease specialists. We use telemedicine to link specialists to clinical settings that treat primary care patients and provide a number of diagnostic and disease management services, principally relating to certain chronic diseases, including the centralized interpretation of electrocardiograms ("ECGs") and echocardiograms (“Echos”). We have also developed and marketed diagnostic technologies for skeletal health and bone disease, including the diagnoses of osteo-arthritis and osteoporosis, and principally market these technologies in international markets.

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

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

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

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

E. Principal products or services, and their markets;

Telemedicine Products
CompuMed, Inc. Enterprise Telemedicine Solutions provide patients with the highest level of clinical care at reduced costs. Our telecardiology and teleradiology offerings provide direct access to U.S. Board-Certified specialists through cloud-based technology and integrated medical devices. The company has been in business over 26 years and services over 1,000 clinical settings. We have established one of the nation's largest networks for remote electronic processing of electrocardiograms (“ECGs”) and echocardiograms (“Echos”). We provide ECG equipment and cardiology services to our clients and perform tens of thousands of ECG interpretations/overreads annually. CompuMed has created an electronic telemedicine infrastructure to link clinical cardiovascular diagnostic equipment data collected at the patient’s point of care with top cardiologists through our call center. The equipment that we rent and sell consists primarily of 12-lead ECG devices. CompuMed provides computerized interpretation of the data and has the ability to transmit that data to cardiologists for overread interpretations. One of our innovations in this area is the workflow technology being used to manage the inflow of data to our servers, and the routing of that data to a network of cardiologists who provide medical interpretations.

Our services are available 24 hours a day, seven days per week. We have expertise in electronic workflow, telemonitoring, imaging and analysis. Additionally, we contract with certain partners to develop diagnostic systems, such as ECG machines, which support our telemedicine workflow. We provide these solutions to our customers either through sale and lease arrangements. The value proposition for our clients is top clinical care at a lower cost, while minimizing risk.

In Fiscal 2013, we licensed a cloud-based Picture Archiving and Communication System (PACS) from Core Sound Imaging that is now part of our telemedicine technology platform. The Studycast system from Core Sound Imaging provides a scalable platform for the receipt, interpretation, and transmission of Echo and other ultrasound exams. The benefits of the system are increased operational efficiencies for our call center and physicians, as well as an improved customer experience.

CompuMed has expanded its solution suite within the fiscal year. We are providing single lead ECG interpretations for the consumer market through a handheld device. CompuMed also has the ability to deliver end-to-end radiology interpretation services. In addition, our specialists are providing critical care consulting services within the organ procurement market.

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

Skeletal Health Products

We have developed certain solutions and related intellectual properties relating to bone density measurement in support of diagnostic applications for diseases such as osteoporosis. Despite significant investments in technology and marketing, these solutions have not been widely commercially accepted or adopted. As a result, we have shifted our focus from skeletal health to our telemedicine business. However, we are pursuing a licensing strategy for these solutions and intellectual properties, which we believe could prove to be valuable to third parties. We continue to support certain distributors of our skeletal health solutions.

The OsteoGram is a non-invasive diagnostic software system that has been shown in clinical studies to provide an effective and accurate bone density measurement in connection with screening for osteoporosis and assessing hip fracture risk from digital X-Rays of the hand and wrist. We have a number of issued patents in this area and OsteoGram is FDA cleared for sale in the US.

OsteoGram's limited acceptance in the market may be partially due to the fact that it is based upon Radiographic Absorptiometry (RA) technology. There is a tendency by the physician community to believe that RA is a lesser technology than duel-energy x-ray absorptiometry (DXA), the prevalent competing approach to bone densitometry. While this appears to be a "perception" which is unsupported by clinical studies, it has presented sales challenges. We have had modest success working with partners in international markets, where this issue appears less pronounced. The Company plans to continue supporting its partners and their marketing activities.

The Company along with its OEMs worked diligently to clear the product for sale in China. This effort resulted in the China Food and Drug Administration (CFDA) clearing the OsteoGram for sale in China on June 6, 2008. The Company is currently in the process of renewing OsteoGram with the CFDA, which is required every four years. As a result of new processes related to China healthcare reform, the OsteoGram renewal is taking much longer than expected. We have been notified by the CFDA that it has received all of the information it requires to complete the renewal. We expect the renewal to be completed within the current fiscal year, but have little control of the renewal process.

F. Describe the Issuer's Facilities

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

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

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases. The Company has capital leases for machinery and equipment that expires in 2017. In February 2013, the Company entered into the First Amendment to extend the lease for an additional three years. Under the new lease, the Company occupies 7,855 square feet of space. This is reduced from 10,949 square feet. The lease extension reduces the monthly rent to $10,644.75 from $15,404.00 for the first year and increases by 3% in the ensuing lease years.

G. Officers, Directors, and Control Persons

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

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

NAME	**DIRECTORS AND OFFICERS**
Mark Stolper	Chairman of the Board
Dan McCarthy	Director
Maurizio Vecchione	Director
David W. Pointer	Director
W. Scott Rombach	President, Chief Executive Officer and Director
Laura Carroll	Chief Financial Officer and Secretary

CONTROL PERSONS

Boston Avenue Capital, LLC
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,401,178 shares

Yorktown Avenue Capital, LLC
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
63,500 shares

Stephen J. Heyman
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,464,678 shares

James F. Adelson
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,464,678 shares

Charles M. Gillman
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,464,678 shares

W. Scott Rombach
5777 W. Century Blvd., Suite 360
Los Angeles, CA 90045
1,750,000 shares

Stephen J. Heyman and James F. Adelson, as the sole managers of Boston Avenue Capital LLC ("Boston") and Yorktown Avenue Capital, LLC ("Yorktown"). Charles M. Gillman advises Messrs. Heyman and Adelson from time to time and each of them may be deemed to be indirect beneficial owners of the shares of Common Stock held directly by Boston and Yorktown. None of Messrs. Heyman, Adelson or Gilman owns any shares of Common Stock directly, and each disclaims beneficial ownership of the shares of Common Stock beneficially owned by Boston and Yorktown.

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

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
<u>None</u>

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
<u>None</u>

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
<u>None</u>

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.
<u>None</u>

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

Boston Avenue Capital, LLC
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,401,178 shares

Yorktown Avenue Capital, LLC
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
63,500 shares

Stephen J. Heyman
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,464,678 shares

James F. Adelson
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,464,678 shares

Charles M. Gillman
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
9,464,678 shares

Stephen J. Heyman and James F. Adelson, as the sole managers of Boston Avenue Capital LLC ("Boston") and Yorktown Avenue Capital, LLC ("Yorktown"), and Charles M. Gillman, as Portfolio Manager of Boston and Yorktown, may each be deemed to be indirect beneficial owners of the shares of Common Stock held directly by Boston and Yorktown. None of Messrs. Heyman, Adelson or Gilman owns any shares of Common Stock directly, and each disclaims beneficial ownership of the shares of Common Stock beneficially owned by Boston and Yorktown.

D. Third Party Providers

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

Legal Counsel
Name: Tamara Wagman
Firm: Frederic Dorwart, Lawyers
Address 1: 124 E. 4th Street
Address 2: Tulsa, Oklahoma 74103
Phone: 918-583-9958
Email: twagman@fdlaw.com

Accountant or Auditor
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

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

Name: N/A

E. Issuer Certification

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities). The certifications shall follow the format below:

I, W. Scott Rombach, President and Chief Executive 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.

June 30, 2014

/s/ W. Scott Rombach [Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

President and Chief Executive Officer [Title]

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.

June 30, 2014

/s/ Laura Carroll [Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

COMPUMED, INC.

FINANCIAL STATEMENTS

Item 3. Interim Financial Statements

CONDENSED BALANCE SHEETS
COMPUMED, INC.

	June 30, 2014	September 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	110,000	121,000
Accounts receivable, less allowance of $26,000 (June 2014) and $23,000 (September 2013)	267,000	253,000
Inventory	64,000	33,000
Prepaid expenses and other current assets	23,000	15,000
TOTAL CURRENT ASSETS	464,000	423,000
PROPERTY AND EQUIPMENT, AT COST		
Machinery and equipment	1,639,000	1,625,000
Furniture, fixtures and leasehold improvements	44,000	44,000
Equipment under capital leases	372,000	357,000
	2,055,000	2,025,000
Accumulated depreciation and amortization	(1,816,000)	(1,745,000)
TOTAL PROPERTY AND EQUIPMENT	239,000	280,000
OTHER ASSETS		
Patents, net of accumulated amortization of $90,000 (June 2014) and $80,000 (September 2013)	103,000	104,000
Other assets	19,000	19,000
TOTAL OTHER ASSETS	122,000	123,000
TOTAL ASSETS	825,000	826,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	257,000	280,000
Notes Payable	-	-
Accrued Liabilities	113,000	75,000
Current portion of capital lease obligations	101,000	83,000
TOTAL CURRENT LIABILITIES	471,000	438,000
Capital lease obligations	117,000	173,000
Revolving line of credit - non current	100,000	100,000
TOTAL LIABILITIES	688,000	711,000
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.10 par value - authorized 1,000,000 shares		
Preferred Stock- Class A $3.50 cumulative convertible voting - issued and outstanding - 8,400 shares	1,000	1,000

Preferred Stock- Class B $3.50 cumulative convertible voting - issued and outstanding - 300 shares	-	-
Preferred Stock- Class D 2% convertible - issued and outstanding - 4,167 shares	-	-
Common Stock, $0.01 par value - authorized 50,000,000 shares, issued and outstanding – 29,819,434 and 29,236,101 (June 2014 and September 2013)	303,000	297,000
Additional paid-in capital	36,986,000	36,885,000
Accumulated deficit	(37,152,000)	(37,068,000)
TOTAL STOCKHOLDERS' EQUITY	137,000	115,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	825,000	826,000

See notes to financial statements

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

COMPUMED, INC.

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Revenue From Operations				
Telecardiology Services	$ 389,000	$ 338,000	$ 1,081,000	$ 1,052,000
Teleradiology Services	10,000	-	16,000	-
ECG Products and Supplies Sales	54,000	200,000	199,000	265,000
OsteoGram and Osteometer sales and services	6,000	14,000	28,000	74,000
TOTAL REVENUE	$ 459,000	$ 552,000	$ 1,324,000	$ 1,391,000
OPERATING EXPENSES				
Costs of Services	199,000	167,000	547,000	545,000
Cost of Goods Sold ECG Products	18,000	123,000	74,000	167,000
Cost of Goods Sold OsteoGram and OsteoMeter	-	-	-	-
Selling Expenses	65,000	54,000	225,000	195,000
General and Administrative	161,000	153,000	445,000	502,000
Depreciation and amortization	26,000	30,000	82,000	73,000
TOTAL OPERATING EXPENSES	469,000	527,000	1,373,000	1,482,000
OPERATING PROFIT/(LOSS)	$ (10,000)	$ 25,000	$ (49,000)	$ (91,000)
Other Income	-	-	-	13,000
Taxes	-	-	2,000	-
Interest Expense	11,000	14,000	34,000	38,000
NET PROFIT/(LOSS)	(21,000)	11,000	(85,000)	(116,000)
NET LOSS PER SHARE (Basic and diluted)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding	29,819,434	28,563,337	29,819,434	28,168,059

COMPUMED, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY

	Series A Stock		Series D Stock		Common Stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid In Capital	Deficit	Total
Balances at June 30, 2013	8,400	$1,000	4,167		29,236,111	$296,500	$36,884,500	($37,072,000)	$111,000
Net Profit								$4,000	4,000
Balances at September 30, 2013	8,400	$1,000	4,167		29,236,111	$296,500	$36,884,500	($37,068,000)	$115,000
Stock Based compensation							$9,000		$9,000
Net Loss								($41,000)	($41,000)
Balances at December 31, 2013	8, 400	$1,000	4,167		29,236,111	$296,500	$36,893,500	($37,109,000)	$83,000
Stock Based compensation							$2,000		$2,000
Net Loss								($22,000)	($22,000)
Balances at March 31, 2014	8, 400	$1,000	4,167		29,236,111	$296,500	$36,895,500	($37,131,000)	$63,000
Shares Issued					583,323	$5,500	$87,500		$93,000
Stock Based compensation							$3,000		$3,000
Net Loss								($21,000)	($21,000)
Balances at June 30, 2014	8, 400	$1,000	4,167		29,819,434	$302,500	$36,986,000	($37,152,000)	$137,000

A- CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ending June 30, 2014	2013
CASH FLOW FROM OPERATING ACTIVITIES: Net gain/(loss)	(85,000)	(117,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock Based Compensation	14,000	6,000
Bad Debts	-	2,000
Depreciation and amortization	82,000	74,000
(Increase)/Decrease in accounts receivable	(13,000)	(116,000)
(Increase)/Decrease in inventories, patents, prepaid expenses and other assets	(49,000)	75,000
Increase/(Decrease) in accounts payable and other liabilities	16,000	55,000
NET CASH USED IN OPERATING ACTIVITIES	(35,000)	(21,000)
(Purchase)/ Sale of Patents	-	-
(Purchase)/ Sale of property and Equipment	(30,000)	(2,000)
NET CASH USED IN INVESTING ACTIVITIES	(30,000)	(2,000)
CASH FLOW FROM FINANCING ACTIVITIES:		
Payment on capital lease obligation	(39,000)	(82,000)
Equity proceeds	93,000	90,000
Notes payable from Rombach Capital	-	(60,000)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	54,000	68,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(11,000)	45,000
CASH AND CASH EQUVALENTS AT BEGINNING OF PERIOD	121,000	5,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 110,000	$ 50,000

See notes to financial statements

COMPUMED, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

Note A- Basis of Presentation and Accounting Policies

CompuMed, Inc. provides enterprise telemedicine solutions. It specializes in the diagnosis, monitoring and management of several costly, high incidence diseases, particularly cardiovascular disease and osteoporosis. The Company's primary business is the provisioning of specialized Cardiology services to medical facilities that do not have access to cardio-vascular disease specialists. We use telemedicine to link specialists to clinical settings that treat patients and provide a number of diagnostic and disease management services. These services include the centralized interpretation of electrocardiograms ("ECGs") and echocardiograms (“Echos”). We have also developed and marketed diagnostic technologies for skeletal health and bone disease, including the diagnoses of osteo-arthritis and osteoporosis, and principally market these technologies in international markets.

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- 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.

	June 30, 2014	
	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of period	**8,236,666**	**0.24**
Options exercised	735,094	0.16
Options granted	-	-
Options forfeited/canceled	48,239	-
Options outstanding, end of period	7,453,333	0.25
Options exercisable, end of period	**7,453,333**	**0.25**

Note C- 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.

Nine Months Ended June 30, 2014	
Net loss	$ (85,000)
Less: preferred stock dividends	
Net loss available to common stockholders	$ (85,000)

Note D- 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, 2014 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash	$110,000	$ -	$ -	$110,000
Total assets	$110,000 ==========	$ - ==========	$ - ==========	$110,000

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 E- Recently Issued Accounting Standards

In June 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition.* This ASU codifies the consensus reached in EITF Issue No. 08-9, "Milestone Method of Revenue Recognition." The amendments to the Codification provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and non-substantive milestones, and each milestone should be evaluated individually to determine if it is substantive. This guidance was adopted effective October 1, 2010. The adoption of this guidance did not have a material impact on our financial statements.

In January 2010, the FASB issued Accounting Standards Update ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements”. This guidance requires new disclosures related to recurring and nonrecurring fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers and information on purchases, sales, issuance, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value measurement hierarchy. The adoption of this guidance is effective for interim and annual reporting periods beginning after December 15, 2009. We have adopted this guidance in the financial statements presented herein, which did not have a material impact on our financial position or results of operations.

In October 2009, the FASB issued ASU 2009-13, which amends ASC Topic 605, *Revenue Recognition.* This new accounting guidance relates to the revenue recognition of multiple element arrangements. The new guidance states that, if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price for separate deliverables and allocate arrangement consideration using the relative selling price method. We adopted this guidance as of January 1, 2010 on a prospective basis. The adoption of this guidance did not have a material impact on our financial statements.

In October 2009, the FASB issued authoritative guidance on multiple-deliverable revenue arrangements, ASC 605-25.This guidance amends the existing criteria for separating consideration received in multiple-deliverable arrangements and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables based on their relative selling price. The guidance establishes a hierarchy for determining the selling price of a deliverable which is based on vendor-specific objective evidence, third-party evidence, or management estimates. Expanded disclosures related to multiple-deliverable revenue arrangements are also required. This guidance is effective for the Company beginning fiscal year 2013. We have adopted this guidance in the financial statements presented herein, which did not impact our financial position or results of operations.

Note F- Commitments and Contingencies

The Company has capital leases for machinery and equipment that expires in 2017.

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

Fiscal Year Ending	**Capital Lease**	**Operating Leases**
2015	127,000	134,000
2016	106,000	82,000
2017	21,000	4,000
2018		0
	254,000	220,000
Less amount representing interest	36,000	
Net minimum lease payment	218,000	
Less current portion	101,000	
Present value of net minimum payment, less current portion	117,000	

The range of interest rates on capital lease outstanding as of June 30, 2014 was 2.25% to 22.92%

Rental expenses under operating leases for the nine months ended June 30, 2014 and 2013 were $104,000 and $117,000, 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. All such forward-looking statements are expressly qualified by these cautionary statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect events, conditions or circumstances on which any such statement is based after the date hereof, except as required by law.

Results of Operations For The Quarter Ended June 30, 2014 Compared To The Quarter Ended June 30, 2013

Total Revenue for the third quarter of fiscal 2014 decreased by 17% to $459,000 from $552,000 for the same quarter of fiscal 2013 and for the nine months ended June 30, 2014 decreased by 5% to $1,324,000 from $1,391,000 for the same period of 2013. The decrease is due to a decrease in machine sales during the quarter. Our ECG equipment sales vary greatly quarter to quarter due to the timing of various state departments of corrections bids. In Q3 of Fiscal 2013, we won a large state contract through a managed care partner that required new machines to be purchased at all of its locations. CompuMed services revenue, consisting of telecardiology and teleradiology services increased by 18% over the same quarter in the previous year. The services revenue stream is especially strategic to the Company because it is residual in nature. Teleradiology sales were a small part of the company's revenue for the quarter, but this is an entirely new revenue stream within the company. With the exception of Q2 in Fiscal 2013, during which we received a large one-time ECG overread contract, our services revenue this quarter hit its highest mark in the last 11 quarters.

The Company had an operating loss of $(10,000) for the third quarter of 2014 compared to an operating profit of $25,000 for the same quarter of 2013. The Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) for the third quarter of 2014 was $16,000 compared to $55,000 for the same quarter in 2013. For the nine months ended June 30, 2014, EBITDA was $31,000 compared to $(5,000) for the same period 2013.

CompuMed signed 9 deals during the quarter. One transaction was a multi-year renewal contract for an existing state correctional customer. Two deals were add-on services for an existing primary care physician group. The services included new offerings of ultrasound sonographer training that is delivered through one of our partners as well as abdominal ultrasound interpretations. We also did two transactions that included the delivery of mobile ultrasound sonographer services that are delivered through a local contracted partner. Our mobile ultrasound solution provides our customers will the ability to contract both the exams and interpretations, through CompuMed. In addition, we signed a deal with a rural hospital to provide STAT and regular echo interpretations during afterhours and on weekends. The ability to offer STAT echo interpretations provides our customers with additional value and offers the company higher margins. Three of our deals during the quarter were distribution channel transactions. One deal resulted in CompuMed distributing a consumer ECG device. The other two channel deals consisted of the Company providing reading services for a partner as well as CompuMed signing-up a channel partner to distribute our equipment.

In December, CompuMed began distributing GE Healthcare's Vscan, a pocket-size ultrasound device. By selling Vscan as part of its Enterprise Telemedicine Solution, CompuMed has the potential for two new additional revenue streams. These revenue streams include sales from the Vscan device as well as the fees associated with having our specialists interpret ultrasound exams. To date we have not sold any Vscan units, but are currently engaged in multiple sales cycles.

Telecardiology Services revenue consists of ECG processing/overreads, equipment rentals, and Echo interpretations. During the third quarter of 2014, Cardiology Services increased by 15% to $389,000 from $338,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 increased by 3% to $1,081,000 from $1,052,000 for the same period of 2013. As discussed, there was a large, one-time overread contract delivered in Q2 2013. While ECG overread revenue increased net of the onetime contact, this was more than offset by the decline in ECG processing revenue. The decline in ECG processing revenue is primarily due to improvements in the ability of newer ECG machine models to provide self-interpretations through more advanced algorithms as well as prison closures that have negatively impacted this revenue stream within our state corrections contracts.

The Echo interpretation services business has seen material growth in the last couple of quarters. During the third quarter ended June 30, 2014, Echo revenue increased by 951% to $81,000 from $8,000 for the same quarter in 2013 and for the nine months ended June 30, 2014 increased by

1560% to $166,000 from $10,000 for the same period of 2013. The increase is due to adding new customers, existing customers increased volumes and the new revenue stream from Organ Procurement Organizations (OPO). CompuMed attended the national OPO conference in June. The OPO market continues to be a strategic vertical for the Company. For the OPOs we are providing STAT diagnostic exam interpretations and critical care consulting services.

Teleradiology Services revenue during the third quarter of 2014 was $10,000 compared to no revenue for the same period in 2013. During the nine months ended June 30, 2014, the company's Radiology revenue was $16,000. We currently have two radiology customers, only one of which is live. Our second radiology customer is expected to begin transmitting studies to us in Q4.

ECG product and supplies sales revenue for the third quarter ended June 30, 2014 decreased by 73% to $54,000 from $200,000 for the same quarter in 2013 and for the nine months ended June 30, 2014 decreased by 25% to $199,000 from $265,000 for the same period of 2013. The decrease in revenue was due to both new and existing customer one-time equipment purchases in Q3 2013, including a large state corrections customer purchasing new machines for all of its locations.

Skeletal Health products and services revenue consists primarily of OsteoGram software sales. During the third quarter ending 2014, Skeletal Health products and services decreased by 57% to $6,000 from $14,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 decreased by 62% to $28,000 from $74,000 for the same period of 2013. The decrease in Skeletal Health purchases are due to a decrease in sales to the Company's Chinese distributor and the timing of these sales vary significantly throughout the year. We expect slightly greater strength in our OsteoGram business following the completion of the CFDA renewal.

The cost of Cardiology Services for third quarter ended 2014 increased by 19% to $199,000 from $167,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 there was no significant change. These costs were $547,000 as of June 30, 2014 compared to $545,000 for the same period of 2013. The increase for the 3 months ended June is primarily related to the increase in physician interpretation variable costs, directly related to the increase in ECHO revenue. This was slightly offset by a decrease in salaries as a result of cost cutting initiatives.

Cost of goods sold of ECG product and supplies for third quarter ended 2014 decreased by 85% to $18,000 from $123,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 decreased by 56% to $74,000 from $167,000 for the same period of 2013. The decrease in costs is directly related to the decrease in equipment sales and slightly offset with increased costs for supplies to fulfill a one-time requirement for a state corrections contract that required supply kits.

Selling expenses for the third quarter ending in 2014 increased by 20% to $65,000 from $54,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 increased by 15% to $225,000 from $195,000 for the same period of 2013. The increase for both the quarter ended and nine months ended June 30, 2014 was related to the compensation for new people hired in a sales capacity during Q1 2014. For the nine months ended the increase was also due to expenditures related to tradeshows not previously attended. This was partially offset in a decrease in commissions related to lower OsteoGram revenue and decreased allocated facility rental costs.

General and administrative expenses for the third quarter ending in 2014 increased by 5% to $161,000 from $153,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 decreased by 11% to $445,000 from $502,000 for the same period of 2013. For the quarter ending in June, the increase was due to one-time repair costs of $11,425 to refurbish existing ECG machines, which were then used as rental devices. The majority of these machines were provisioned as part of a state corrections contract. The decrease in the nine months ending in June was due to various Company cost saving initiatives being realized. The consultants and contractors line item was decreased due to changes in the consultants being utilized, including the utilization of offshore resources for some of the routine transaction processing activities. Cost savings were also achieved by a decrease in the rent associated with the renewed office space lease and a decrease in various operating expenses. Certain insurance premiums were decreased as the policies were aligned with the needs of the business.

As outlined above, the Company continuously looks for ways to cut costs without sacrificing our core competencies. One of our core competencies is the ability to delivery world-class telemedicine solutions and technology. During the quarter, we upgraded two of our major ECG hardware platforms to virtual servers in order to improve the delivery of our ECG services. These system upgrades required incremental investments in both hardware and consulting services. We believe these types of investments are essential for the scalability of our solutions and essential for the Company to maintain its competitive advantage.

Interest expense for the third quarter ended 2014 decreased by 21% to $11,000 from $14,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 decreased by 11% to $34,000 from $38,000 for the same period of 2013. The decrease in interest expense is due to leases with higher interest rates ending and eliminating other fees due to improved payments. This rental business provides an ongoing revenue stream that improves free cash flow, especially as the leases are retired.

The company attained a net loss of $(21,000) for the third quarter ending in 2014 compared to a net profit of $11,000 for the same quarter of 2013 and for the nine months ended June 30, 2014 the net loss was $(85,000) compared to a net loss of $(116,000) for the same period of 2013.

Financial Condition, Liquidity and Capital Resources

Operations

At June 30, 2014, we had $110,000 in cash compared to a balance of $121,000 at September 30, 2013, a net decrease of $11,000.

The Company has a $300,000 credit facility available through Boston Avenue Capital, LLC of which $100,000 was drawn down during February 2011 at the interest rate of 4% annually, with the balance remaining as reserve.

Cash used by operating activities was $35,000 for the nine months ended June 30, 2014. This amount was attributable in part to a decrease in accounts payable of $34,000. And an increase in Accounts Receivable due to increased Echo revenue during the period and one higher volume customer paying based on terms of contract versus paying early in prior periods.

Cash used in investing activities was $30,000 for the nine months ended June 30, 2014. The Company has started purchasing more equipment used for rentals and purchased VScan demo units. The company had one new lease related to equipment purchases to fulfill for a customer rental agreement.

Cash used in financing activities was $54,000 for the nine months ended June 30, 2014. This was primarily related to payments on 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 June 30, 2014 consist of capital and operating lease commitments, primarily for ECG equipment, our corporate office facility, and for computer equipment.

Financing Activities

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

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

On February 8, 2013, the Company entered into an amended revolving line of credit agreement (the "Third Amended Credit Agreement") with Boston Avenue Capital, LLC. The Third

Amended Credit Agreement amends the original credit agreement entered into between Borrower and Lender dated February 15, 2008 which was amended December 16, 2008 (the “Original Credit Agreement”), and January 14, 2011 (the “Second Amendment”). The Third Amended Credit Agreement will mature December 31, 2014.

A total of $100,000 of the line of credit was drawn down during the first quarter of fiscal 2011.

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 ECG, Echocardiogram and 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 fiscal and budget crises on the part of the States that are our principal customers. The Company receives significant revenues from the States of California, Illinois, New York and Florida and any significant budget problems in those states could adversely affect us.

Our services are regulated by both Federal and State regulators. 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 have a significant amount of property, equipment and intangible assets, including patents. We review our long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of long-lived and amortizable intangible assets to be held and used is measured by a comparison of the carrying amount of an asset to the future operating cash flows expected to be generated by the asset. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds their fair value.

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

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

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

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

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

Subsequent Events

On June 27, 2014, John Minnick, a former Director, exercised 151,761 of stock option grants at a grant price of $0.16 per share for total proceeds of $24,281.76. The resulting shares from this transaction were issued on July 03, 2014.