

Electromed, Inc.  
Form 10-Q  
February 10, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File No.: 001-34839

Electromed, Inc.  
(Exact name of Registrant as  
specified in its charter)

Minnesota  
(State or other jurisdiction of  
incorporation or organization)

41-1732920  
(IRS Employer  
Identification No.)

500 Sixth Avenue NW  
New Prague, MN 56071  
(Address of principal executive offices, including zip code)

(952) 758-9299  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

There were 8,133,857 shares of Electromed, Inc. common stock, par value \$0.01, outstanding as of the close of business on February 6, 2015.

Electromed, Inc.  
Index to Quarterly Report on Form 10-Q

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

Electromed, Inc. and Subsidiary  
Condensed Consolidated Balance Sheets

	December 31, 2014 (Unaudited)	June 30, 2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 2,452,361	\$ 1,502,702
Accounts receivable (net of allowances for doubtful accounts of \$45,000)	6,628,860	6,487,267
Inventories	2,234,492	2,235,496
Prepaid expenses and other current assets	372,177	397,853
<b>Total current assets</b>	<b>11,687,890</b>	<b>10,623,318</b>
Property and equipment, net	3,772,457	3,935,802
Finite-life intangible assets, net	868,797	930,451
Other assets	352,097	302,595
<b>Total assets</b>	<b>\$ 16,681,241</b>	<b>\$ 15,792,166</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 47,125	\$ 46,375
Accounts payable	480,989	380,582
Accrued compensation	515,039	391,040
Warranty reserve	700,000	700,000
Other accrued liabilities	151,189	302,482
<b>Total current liabilities</b>	<b>1,894,342</b>	<b>1,820,479</b>
Long-term debt, less current maturities	1,227,653	1,251,192
<b>Total liabilities</b>	<b>3,121,995</b>	<b>3,071,671</b>
<b>Commitments and Contingencies (Note 6)</b>		
<b>Equity</b>		
Common stock, \$0.01 par value; authorized: 13,000,000; shares issued and outstanding: 8,133,857 and 8,114,252 at December 31, and June 30, 2014, respectively	81,339	81,143
Additional paid-in capital	13,255,481	13,217,166
Retained earnings (accumulated deficit)	222,426	(577,814 )
<b>Total equity</b>	<b>13,559,246</b>	<b>12,720,495</b>
<b>Total liabilities and equity</b>	<b>\$ 16,681,241</b>	<b>\$ 15,792,166</b>

See Notes to Condensed Consolidated Financial Statements.



Electromed, Inc. and Subsidiary  
Condensed Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Net revenues	\$4,881,723	\$3,501,075	\$9,652,262	\$6,919,253
Cost of revenues	1,478,290	978,029	2,954,087	2,040,375
Gross profit	3,403,433	2,523,046	6,698,175	4,878,878
Operating expenses				
Selling, general and administrative	2,872,402	2,739,104	5,693,897	5,463,032
Research and development	83,643	92,735	158,909	301,843
Total operating expenses	2,956,045	2,831,839	5,852,806	5,764,875
Operating income (loss)	447,388	(308,793 )	845,369	(885,997 )
Interest expense, net of interest income of \$461, \$3,940 \$1,673 and \$11,338 respectively	24,677	19,469	45,129	34,670
Net income (loss) before income taxes	422,711	(328,262 )	800,240	(920,667 )
Income tax benefit	—	89,000	—	346,000
Net Income (loss)	\$422,711	\$(239,262 )	\$800,240	\$(574,667 )
Income (loss) per share:				
Basic	\$.05	\$(0.03 )	\$.10	\$(0.07 )
Diluted	\$.05	\$(0.03 )	\$.10	\$(0.07 )
Weighted-average common shares outstanding:				
Basic	8,114,252	8,114,252	8,114,252	8,114,252
Diluted	8,130,245	8,114,252	8,119,575	8,114,252

See Notes to Condensed Consolidated Financial Statements.

Electromed, Inc. and Subsidiary  
Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended December 31,	
	2014	2013
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$800,240	\$(574,667 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	308,525	259,074
Amortization of finite-life intangible assets	61,654	63,235
Amortization of debt issuance costs	9,883	8,136
Share-based compensation expense	38,511	65,414
Loss on disposal of property and equipment	139,732	28,178
Changes in operating assets and liabilities:		
Accounts receivable	(141,593 )	1,973,108
Inventories	1,004	(887,140 )
Prepaid expenses and other assets	(18,912 )	(210,972 )
Accounts payable and accrued liabilities	73,961	407,275
Net cash provided by operating activities	1,273,005	1,131,641
<b>Cash Flows From Investing Activities</b>		
Expenditures for property and equipment	(285,760 )	(291,044 )
Expenditures for finite-life intangible assets	—	(2,225 )
Net cash used in investing activities	(285,760 )	(293,269 )
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt including capital lease obligations	(22,789 )	(70,064 )
Payments of deferred financing fees	(14,797 )	(35,296 )
Net cash used in financing activities	(37,586 )	(105,360 )
Net increase in cash and cash equivalents	949,659	733,012
Cash and cash equivalents		
Beginning of period	1,502,702	503,564
End of period	\$2,452,361	\$1,236,576

See Notes to Condensed Consolidated Financial Statements.

Electromed, Inc. and Subsidiary  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

Note 1. Interim Financial Reporting

Basis of presentation: Electromed, Inc. (the “Company”) develops, manufactures and markets innovative airway clearance products which apply High Frequency Chest Wall Oscillation (“HFCWO”) therapy in pulmonary care for patients of all ages. The Company markets its products in the United States to the home health care and institutional markets for use by patients in personal residences, hospitals and clinics. The Company also sells internationally both directly and through distributors. International sales were approximately \$439,000 and \$296,000 for the six months ended December 31, 2014 and 2013, respectively. Since its inception, the Company has operated in a single industry segment: developing, manufacturing and marketing medical equipment.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the Company’s financial position and results of operations as required by Regulation S-X, Rule 10-01. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by U.S. generally accepted accounting principles for annual reports. This interim report should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2014.

Principles of consolidation: The accompanying condensed consolidated financial statements include the accounts of Electromed, Inc. and its subsidiary, Electromed Financial, LLC. Operating activities and net assets in Electromed Financial, LLC were insignificant as of and for the three and six months ended December 31, 2014 and the year ended June 30, 2014. As of December 31, 2014, Electromed Financial, LLC was dissolved.

A summary of the Company’s significant accounting policies follows:

Use of estimates: Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. The Company believes the critical accounting policies that require the most significant assumptions and judgments in the preparation of its consolidated financial statements include revenue recognition and the related estimation of selling price adjustments, allowance for doubtful accounts, inventory obsolescence, share-based compensation, income taxes and the warranty reserve.

Net income (loss) per common share: Net income (loss) is presented on a per share basis for both basic and diluted common shares. Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. The diluted net income (loss) per common share calculation assumes that all stock warrants were exercised and converted into common stock at the beginning of the period, unless their effect would be anti-dilutive. Common stock equivalents excluded from the calculation of diluted earnings per share



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as their impact was anti-dilutive was 539,900 and 559,900 for the three and six months ended December 31, 2014, respectively. Common stock equivalents excluded from the calculation was 614,000 for the three and six months ended December 31, 2013.

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## Note 2. Inventories

The components of inventory were approximately as follows:

	December 31, 2014	June 30, 2014
Parts inventory	\$1,577,000	1,491,000
Work in process	154,000	264,000
Finished goods	533,000	510,000
Less: Reserve for obsolescence	(30,000 )	(30,000 )
Total	\$2,234,000	2,235,000

## Note 3. Warranty Liability

The Company provides a lifetime warranty on its products to the prescribed patient for sales within the United States and a three-year warranty for all institutional sales and sales to individuals outside the United States. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time the product is shipped. Factors that affect the Company's warranty liability include the number of units shipped, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

Changes in the Company's warranty liability were approximately as follows:

	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Beginning warranty reserve	\$700,000	\$680,000
Accrual for products sold	91,000	196,000
Expenditures and costs incurred for warranty claims	(91,000 )	(176,000 )