

embracing  
progress

2012 ANNUAL REPORT



**ELECTROMED, INC.**  
Creating superior care through innovation®

# embracing opportunity



Compromised airway clearance. The inability to effectively clear mucus from the lungs is a chronic, and increasingly prevalent, medical condition, one for which contributing diseases and environmental factors are on the rise. The potential adverse health and economic effects on patients, their caregivers, and for healthcare systems are beyond significant.

Fortunately, high frequency chest wall oscillation (HFCWO), administered via a wearable inflatable vest, is a highly effective and widely prescribed treatment option. HFCWO has eliminated the need for more expensive, less standardized physical therapy administered by healthcare personnel or caregivers. It allows patients to perform self-therapy in the comfort of their homes, within the rhythm of an active lifestyle, and is reported in the medical literature to reduce hospital admissions. Reducing hospital admissions not only lowers costs, but may decrease reliance on long-term antibiotic regimens. Clinicians know that enhancing airway clearance can reduce the likelihood of pneumonia or other serious, even life-threatening infections and complications.

Today, with the incidence of compromised pulmonary function growing, HFCWO therapy represents a clear opportunity to provide patients and healthcare systems around the world a simultaneously effective, economical, and life-enhancing treatment. Today one company, Electromed, Inc., consistently pioneers the technology innovations, patient-centric design features and clinician support services that promote high degrees of practitioner satisfaction and patient compliance with HFCWO therapy.

Cystic Fibrosis Cerebral Palsy  
 Bronchiectasis Multiple Sclerosis  
 Primary Ciliary Dyskinesia Spinal  
 Cord Injury Muscular Dystrophies Atypical  
 Mycobacterium Infection Spinal  
 Muscular Atrophy Asthma Amyotrophic  
 Lateral Sclerosis (Lou Gehrig's disease)  
 Non-Tuberculous Mycobacterium Infection  
 Mycobacterium Avium Complex  
 Quadriplegia

HFCWO therapy has been prescribed as a treatment for a wide range of medical conditions, including many of the most common genetic, neuromuscular and immunological diseases and disorders.

## in-home advantages

90%  
in-home therapy

10%  
institutional

Intensive market focus on healthcare quality *and* cost containment favors self-treatment options — provided safe, clinically effective in-home treatment alternatives are available. In the U.S. market, home care now accounts for an estimated 90 percent of all HFCWO prescriptions.

## treatment for life



From full-term newborns to senior citizens near the end of life, HFCWO therapy is prescribed to help people of all ages breathe easier and better. Once patients with compromised airway clearance are prescribed the therapy, they typically take advantage of its benefits for life.

## upward pressures



Obesity. Smoking. Pollution. A growing and aging population. Increasing rates of asthma, emphysema, lung cancer and chronic bronchitis. Higher survival rates for a range of common diseases that can leave patients with chronically compromised pulmonary function. All these factors and more pose greater challenges to overall lung health, which in turn point toward increasing need for HFCWO therapy.

## dynamic market



Current U.S. demand for HFCWO therapy totals \$120 million in annual sales. Applying a commonly accepted multiplier for medical device market size puts the global market at approximately \$250 million. With trends pointing toward the eventual extension of HFCWO to treat emphysema, chronic bronchitis and other conditions grouped under chronic obstructive pulmonary disease (COPD), some estimates put the potential global market for HFCWO therapy at \$2 billion.

## reimbursement

Recognizing the potential downward health spiral associated with impaired airway clearance, along with the cost-effectiveness of HFCWO therapy, more than 200 federal and state payers, including Medicare, and several hundred private payers now cover HFCWO systems as durable medical equipment.



# to our shareholders:



It is my pleasure to write this shareholder letter after being appointed interim Chief Executive Officer of Electromed, Inc. by the Board of Directors in May 2012. Though I have not been in this position long, I believe my experience as Chief Operating Officer for the past year combined with 14 years of interaction with the

Company as a consultant, allows me to combine my knowledge of our Company with the fresh leadership perspective that is necessary to move Electromed into the future. I look forward to working with our strong management team and employees to take advantage of the growth opportunities that lie ahead of us and further establish our company as an industry leader. We are guided by our commitment to developing innovative products for patients requiring airway clearance therapy and the knowledge that providing the SmartVest® Airway Clearance System to more patients is very important work.

Fiscal 2012 was a year of transition for Electromed. We enter fiscal 2013 focused on embracing progress to restore profitable revenue growth and increase shareholder value. In 2012 we continued to fight the headwinds of a slow economic recovery and the uncertainty surrounding healthcare reform. On a year-over-year basis our revenues increased slightly, but not as much as projected in our business plan. While we ended the year with modest net income, we were not satisfied with the results. Nevertheless, we firmly believe there is a clear opportunity to do better.

Our immediate goal for fiscal 2013 is to return Electromed to historical revenue growth and to create a scalable operating platform that will ensure profitable growth in the future. Our focus in the first half of 2013 is to enhance the effectiveness of our sales and marketing efforts for the SmartVest System and to develop the internal resources that will be critical to our success, including strengthening our sales and marketing leadership, providing robust sales training, and introducing high-impact marketing materials. To support these efforts, we plan to increase our sales force to approximately 27–30 clinical area managers in order to reach more physicians. Finally, we are creating efficiencies within our organization to align our expense base with demand and increase margins.

Our management team understands that to be a market leader, Electromed needs to gain market share. Toward that end, we are implementing product enhancements to further differentiate our products and better meet customer needs. We are also conducting clinical studies that will illustrate the cost-saving benefits of the SmartVest System. Look for significant developments in this area as we move forward in fiscal 2013.

All of these initiatives position Electromed to achieve higher profitability levels. However, success will not come without challenges, including:

- Third-party payers who refuse to pay for HFCWO therapy;
- Clinicians and payers who don't understand the benefits of the SmartVest System;
- Continuous downward pressure from government and third-party payers to reduce reimbursement;
- The impending 2.3 percent revenue tax on medical devices; and
- Uncertain future governmental regulation of healthcare.

Along with the issues listed above comes a challenging sales environment. Hospitals and doctors are increasingly pressured to perform and have less time to learn about the benefits of the SmartVest System. Access to physicians continues to be one of our biggest hurdles to organic growth. A larger and clinically trained sales team will better demonstrate their value to clinicians, helping address this issue.

While our ultimate goal is increased sales, our immediate focus needs to be on those areas that create the framework for sustained growth. We are committed to developing an operational platform during fiscal 2013 that will lead to increased profitability and revenue sales gains in the long term.

On a final note, I would like to thank our shareholders, employees, and customers for their continued support and confidence. I look forward to serving you and this Company. Our future is bright and we are embracing progress to achieve our goals and significantly increase shareholder value.

Sincerely,

**James J. Cassidy, Ph.D.**  
Interim Chief Executive Officer

## financial highlights

FISCAL YEAR ENDING JUNE 30

	2012	2011	2010
Total Assets	<b>\$20,921,024</b>	\$20,868,932	\$14,143,237
Total Liabilities	<b>\$5,840,689</b>	\$6,162,609	\$6,680,623
Net Worth	<b>\$15,080,335</b>	\$14,706,323	\$7,462,614
Net Sales	<b>\$19,524,489</b>	\$19,003,507	\$14,303,848
Net Income	<b>\$186,606</b>	\$1,055,577	\$916,338

Electromed's leadership team and capability have evolved considerably since FY2011. Following the retirement of founder Robert D. Hansen, the Company has expanded its management team, filling top leadership and operations positions with professionals experienced in leading medical device companies to growth and profitability.

**James J. Cassidy**  
Interim Chief Executive Officer

- Joined Electromed as Chief Operating Officer
- 20-plus years of executive leadership in the global medical device industry, including research and development, regulatory affairs, and operations
- Ph.D., Biomedical Engineering, Case Western Reserve University; Executive MBA, University of Memphis

**Jeremy Brock, CPA**  
Chief Financial Officer

- Oversees financial reporting; provides financial strategy, planning and forecasting
- Joined Electromed as Financial Controller
- Extensive public accounting, tax and audit experience with a premier accounting firm, consulting with manufacturing, distribution and technology sector clients
- B.A., Accounting and Finance, University of Northern Iowa

**William Kalb**  
Director of Sales

- Leads national sales team and international distributor network
- 20-plus years in medical sales management and business development with start-up, emerging and growing medical device companies
- B.S., Chemistry, St. John's University (Collegeville, Minn.)

**Gary Sullivan**  
Director of Marketing

- Oversees product management and marketing functions
- 20-plus years in marketing and sales management for medical device, pharmaceutical and diagnostics companies
- Specialized in identifying and capitalizing on untapped market opportunities, expanding existing markets, increasing revenues and improving the bottom line
- MBA, Finance and Marketing, Emory University

# embracing leadership

Electromed strives to be the technology and service leader in HFCWO therapy. Twenty patents and counting. A stream of product innovations to deliver a lighter, quieter, more convenient SmartVest Airway Clearance System. Plus, unmatched focus on patient-friendly product features and value-adding support services. On behalf of all stakeholders — patients, caregivers, clinicians, payers, and our shareholders — Electromed embraces the challenge, and the opportunity, to continually improve the ultimate measure of therapeutic effectiveness: patient compliance.

## patient convenience & comfort

While all HFCWO systems perform a similar function, distinctions between competing devices are often dramatic when it comes to enabling patients to integrate therapy consistently into their lives.

**Comfort.** The SmartVest garment is extremely lightweight, designed to resemble an article of clothing. Hook-and-loop closure allows for a secure, comfortable fit without bulky straps and buckles. Patients choose from an array of vest colors and styles, in soft, breathable, washable fabric. A quiet compressor won't interfere with TV, conversation, even sleep. And our Soft Start® technology applies therapy gently, without the jolting initial squeeze of other systems.

**Convenience.** Patented single-hose design affords freedom of movement during treatment, whether standing, sitting or lying down. Streamlined for travel, the wheeled carrier qualifies as airline carry-on baggage.

**Simplicity.** The SmartVest System is easily programmable and shuts off automatically when treatment is complete. It's so simple to use, young patients need minimal adult supervision.

Medical industry research finds that compliance with medications can be as low as 25 percent. A recent survey of one hospital system found compliance of 97 percent among patients using the SmartVest System.

## clinician partnering & support

Electromed seeks to be a productivity resource for time-crunched, resource-constrained clinicians.

**Patient Focus.** We essentially implement the doctor's prescription. Our Patient Services team, staffed by licensed respiratory therapists, interviews the patient or caregiver and arranges delivery. A network of more than 300 certified trainers provides in-home education. Our lifetime home care warranty ensures that each patient, always, can rely on a functioning system.

**Reimbursement Coordination.** Electromed streamlines insurance paperwork and communication for physicians. Our Reimbursement Team, acting as patient advocates, works directly with insurance providers to secure coverage and answer questions.

**Versatility.** We designed our SmartVest Wrap® to meet the ergonomic needs of hospital staff. Reversible single-hose design allows access from either side of the bed. Multiple sizes fit full-term newborns to large adults.

**Responsiveness.** About 28 percent of Electromed employees are licensed respiratory therapists, including two-thirds of our sales professionals. The other third, all with medical device or pharmaceutical backgrounds, understand real-life clinical needs.

## Caleb F., Coatsville, Pa.



Diagnosed with cystic fibrosis as a newborn, Caleb's passions at age 24 span work, motorcycles, wake boarding — and plans to launch his own technology and software business.

“I've got a busy life. If my lungs aren't cooperating, I'm not able to do the things I need to do. As soon as I started using the SmartVest, I fell in love with it. It's small enough that it fits under my bed. I can be lying in bed while doing therapy. The machine itself is very light, so when I do need to move it, it's extremely easy. It absolutely helps me stay on my regimen.”

## Carla Roterig, M.D.



Director of Respiratory and Pulmonary Rehabilitation Banner Thunderbird Medical Center, Phoenix, Ariz., White Mountains Regional Medical Center, Springerville, Ariz.

Introduced to HFCWO therapy after contracting pneumonia several years ago, Dr. Roterig and her teams now recommend the SmartVest System.

“I like knowing that, when I'm way up in the hills, I can get the same great service for my patients that I get in a large metropolitan area. Based on my experience, patient feedback and the company's philosophy of service, my favorite choice is the SmartVest.”

## payer alignment

The financial concerns of government and private insurers are business-critical factors in delivering cost-effective HFCWO therapy.

**Efficiency.** Electromed designed its Certificate of Medical Necessity with a check-off format plus physician notes, allowing for quick review of diagnosis and prescription details to satisfy the documentation needs of most health plans.

**Cost-Effectiveness.** High patient compliance with an effective, largely in-home therapy is an ideal solution for payers focused on balancing quality and cost containment.

### Unmatched Accreditation.

Electromed is the only HFCWO therapy company to receive Home Care Accreditation from The Joint Commission. It's a symbol of our quality and commitment to meeting performance standards. Accreditation gives us an advantage in gaining eligibility for insurance reimbursement and for participation in managed care plans.



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### Annual Meeting

The annual meeting will be held at 10 a.m. CST Friday, Nov. 16, 2012, at Electromed corporate headquarters in building 628 (Sixth St. NW), New Prague, MN 56071.

### Investor Relations

investorrelations@electromed.com

### Website

www.electromed.com

### Transfer Agent and Registrar

Wells Fargo Shareowner Services<sup>SM</sup>

### Ticker Symbol

ELMD on the NYSE MKT

### BOARD OF DIRECTORS

#### Chairman

Stephen H. Craney  
President and Founder  
RiverSide Electronics, Ltd., RiverBend Electronics, Ltd., RiverStar, Inc., and JMW Enterprises, Inc.

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Vice President of Research and Development  
Hansen Engine Corporation

Darrel Kloeckner, CPA  
Business Consultant

### OFFICERS

James J. Cassidy, Ph.D., MBA  
Interim Chief Executive Officer

Jeremy T. Brock, CPA  
Chief Financial Officer

William J. George, J.D.  
Secretary

# ***ELECTROMED, INC.***

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## **Corporate Headquarters**

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**TICKER:** ELMD

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