

# 2010 Annual Report

Fiscal Year Ending June 30



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

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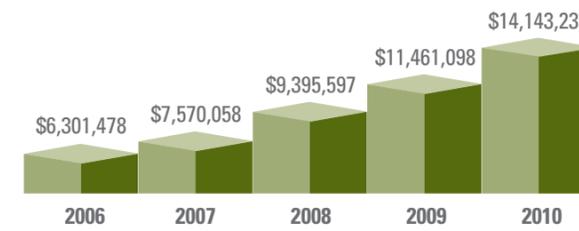
## FINANCIAL HIGHLIGHTS

	2010	2009
<i>For the Year</i>		
Net Sales	\$14,303,848	\$12,998,627
Net Income	\$916,338	\$1,332,906
<i>At Year End</i>		
Total Assets	\$14,143,237	\$11,461,098
Long-term Debt	\$2,033,325	\$3,167,496
Long-term Debt to Equity	27.2%	52.3%
Equity	\$7,462,614	\$6,052,143

For complete financial information, please see Part I, Item 8 of our Form 10-K for the year ended June 30, 2010, filed with the Securities and Exchange Commission on September 28, 2010.

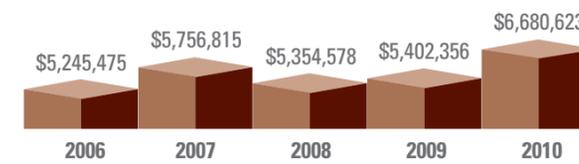
## TOTAL ASSETS

Fiscal Year Ending June 30



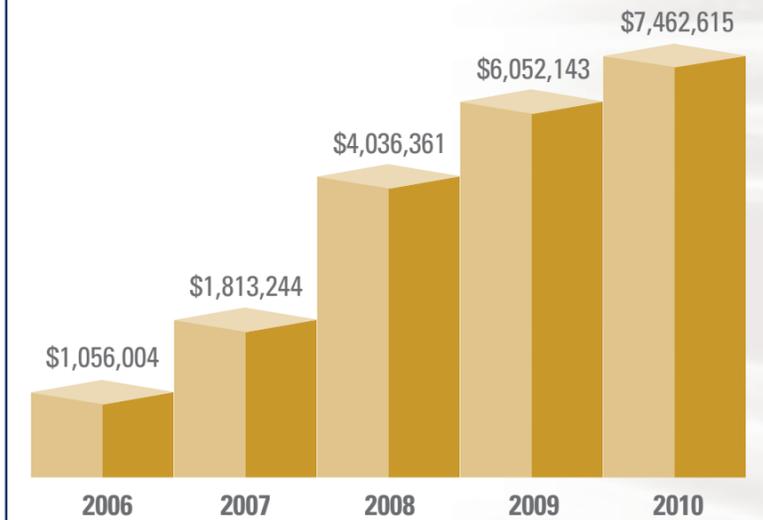
## TOTAL LIABILITIES

Fiscal Year Ending June 30



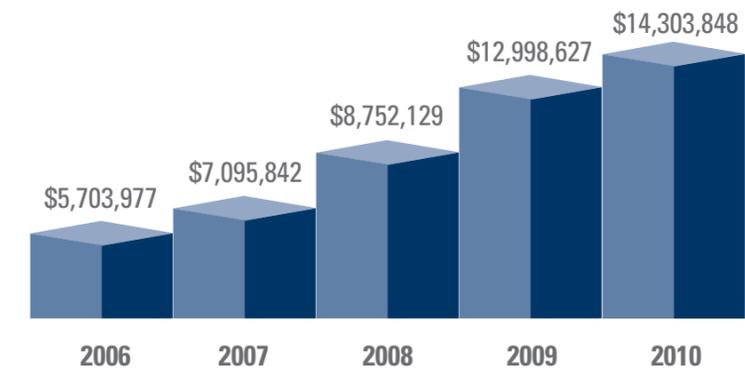
## NET WORTH

Fiscal Year Ending June 30



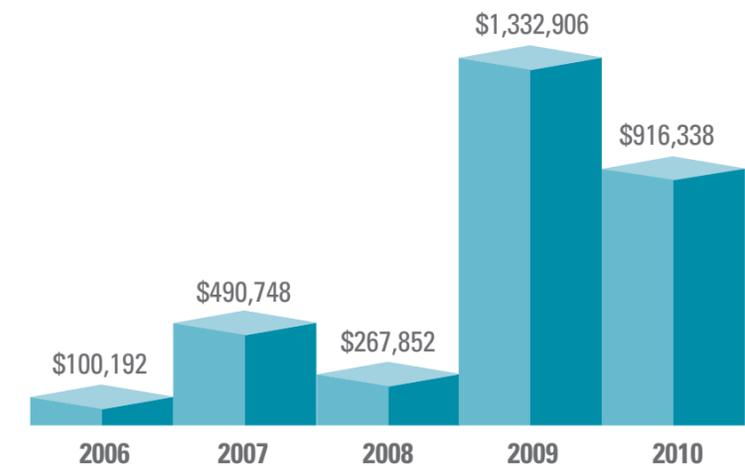
## NET SALES

Fiscal Year Ending June 30



## NET INCOME

Fiscal Year Ending June 30



Electromed, Inc. has demonstrated a compound annual sales growth rate of **25.8%** from 2006-2010

Financial information from fiscal years prior to FY 2008 is unaudited



## COMPANY PROFILE

Electromed, Inc. manufactures, markets, and sells the **SmartVest**<sup>®</sup> Airway Clearance System, a group of products that provides airway clearance therapy to patients with compromised pulmonary function. The **SmartVest**<sup>®</sup> Airway Clearance System generates High Frequency Chest Wall Oscillation (HFCWO), also known as High Frequency Chest Compression (HFCC), a technique to achieve airway clearance therapy reliably, simply, and comfortably.

The **SmartVest**<sup>®</sup> Airway Clearance System has been cleared by the FDA to treat the condition of excess lung secretions by promoting airway clearance and improving bronchial drainage. Consequently, it may be prescribed by physicians to patients suffering from cystic fibrosis, chronic obstructive pulmonary disease, muscular dystrophy, post-surgical airway complications, and a wide variety of other diseases and conditions associated with impaired lung and airway capacity. By clearing airways, patients using HFCWO techniques are able to rid their lungs of retained secretions and are therefore less likely to develop lung infections such as pneumonia. The **SmartVest**<sup>®</sup> Airway Clearance System is a physician-prescribed therapy and, depending on the circumstances of the patient, its cost to an individual is generally reimbursable by Medicare, Medicaid, and private insurance or a combination of the three.

## MISSION STATEMENT

*To improve the health of patients with airway clearance needs by making available innovative Airway Clearance products on a "best value" basis.*

## Dear Shareholders

Each year my travel and meeting schedules take me into the real world of employee, patient, and caregiver needs. I am always impressed by the compassion and dedication that each of our employees brings to his or her assignments. Lung infections are a serious and life-threatening disorder, and most of the patients we serve are encircled by a chronic disorder. The **SmartVest**<sup>®</sup> Airway Clearance System, which we at Electromed, Inc. have developed, manufactured, and provided to patients, goes a very long way in easing their affliction and suffering. The **SmartVest**<sup>®</sup> makes a difference wherever it is introduced.

During FY 2010 ending June 30, 2010, the employees, vendors, and board members have worked closely to meet extraordinary challenges. Despite many adverse economic conditions in the U.S. and overseas markets, Electromed, Inc. has remained profitable. Sales rose by 10%, advancing to another record year. Net worth has grown to approximately \$7,400,000 from slightly more than \$6,000,000 in the prior year. The number of employees has climbed from 57 in FY 2009 to 70 in FY 2010.

Net income receded versus the prior year but still surpassed \$900,000. The decrease in net income resulted from a decision to reinvest cashflow and a portion of cash reserves aggressively during the second half of the year. This action resulted in an expansion of the sales staff, support staff, research and development, and the marketing team. Nearly \$1,000,000 of additional investment in the Company's infrastructure was committed in FY 2010 with the goal of maintaining a strong annual sales growth. Management has established a plan to achieve annual sales of \$20,000,000 within two years. This figure is consistent with our annual rate of sales objectives.

To support these aggressive plans for FY 2011 and 2012, management took important measures during FY 2010 to strengthen the Company's balance sheet. You will note that the Company's cash position nearly doubled versus the prior year. As of June 30, 2010, cash reserves stand at more than \$600,000. Additionally, as the year drew to a close, management and the Company's investment banker, Feltl & Company of Minneapolis, MN, prepared to launch an initial public offering of common stock. The offering was completed in August 2010. We received net proceeds of \$5.99 million. Our common stock is now traded on the Nasdaq Capital Markets under the ticker symbol "ELMD." We intend to use the net proceeds from the offering to fund and execute the Company's growth goals. In addition, I am pleased to report that our Company has

1. Secured a credit facility of up to \$6,000,000 from U.S. Bank.
2. Resolved a trademark litigation that had been initiated by our major competitor in August 2009. The terms of the settlement are confidential. The Company has no plans to change its marks.

We are now well-positioned to accelerate realization of the Company's plans for FY 2011 and FY 2012. Electromed, Inc. possesses the people, capital, and market opportunities to excel. No less important, it has the will and determination to reach and even exceed its goals.

The Company's reputation for achieving growth and product excellence, along with maintaining strong financial performance, has placed it in the Top 25 Medical Technology Companies in the Minneapolis/St. Paul metro area as reported by the Minneapolis/St. Paul Business Journal in July 2010.

As shareholders, especially those who became shareholders during the "pioneering years" you have taken substantial risks. Be confident that your management is dedicated to leveraging these new opportunities and responsibilities. Advancing comparable earnings each quarter and each year remains among your Chairman's highest priorities.

The graphs that appear in this report are included to provide a summary glimpse of the Company's progress to date. I also invite you to peruse the pictures, which introduce our staff and products.

We are confident that medical professionals across the U.S. and internationally will continue to discover the exceptional value High Frequency Chest Wall Oscillation (HFCWO) therapy brings to pulmonary care. Federal statistics reported in 2006 by the U.S. Department of Health and Human Services indicate that approximately \$22,600 is spent on each patient episode of pneumonia requiring hospitalization. Therefore, by avoiding a single exacerbation, a **SmartVest**<sup>®</sup> repays its underlying cost to insurers nearly two times over.

I also wish to acknowledge my appreciation to all of our employees and their families, consultants, vendors, and you, the shareholders of Electromed, Inc. who are the "heroes" behind this exciting company. Expect a profitable, carefully managed, and high growth journey over the years to come.

Sincerely,

Robert D. Hansen  
Chairman and Chief Executive Officer  
October 14, 2010





## PRODUCTS

### SmartVest® Airway Clearance System

Today, High Frequency Chest Wall Oscillation (HFCWO) is commonly prescribed and widely practiced for patients of all ages who are battling the consequences of retained pulmonary secretions. Lung and bronchial mucus clearance through HFCWO has been studied since 1983, and the first human study was published in 1989. Since then, in more than 75 studies, HFCWO has consistently been shown to be a safe, effective, and valuable tool in the treatment of retained pulmonary secretions.

Benefits of an HFCWO treatment such as that delivered by the **SmartVest®** and **SmartVest Wrap®** include reduction in lung infections such as pneumonia, reduction in hospitalizations, and reduction of expensive medications<sup>1</sup>.



### HomeCare

For patients with a chronic pulmonary condition, many hours per day may be dedicated to treatments. Electromed, Inc.'s goal is to make HFCWO airway clearance treatments as comfortable and convenient as possible, allowing patients to tolerate their regimen and perform treatments as consistently and readily as possible.

Electromed, Inc. offers both the Long-Term Use (LTU) **SmartVest®** and **SmartVest Wrap®** for use in the home. The **SmartVest®** features a washable shell available in multiple colors. The **SmartVest®** Airway Clearance System for HomeCare includes a wheeled carrier for travel ease.

### Institutional

As patient care teams, respiratory therapists, nurses, and physicians strive to speed patients to recovery and safe discharge, ridding lungs of retained secretions is a critical factor in attaining long-term lung health.

The **SmartVest®** Airway Clearance System provides effective HFCWO to achieve airway clearance treatment for a wide variety of medical conditions, from prevention of post-surgical atelectasis to chronic neuromuscular diseases.

Our Institutional products include the Single Patient Use (SPU) **SmartVest®** and **SmartVest Wrap®**, Single Patient Use Hose, and mobile pedestal for stability, ease of transport, and space management.



CEO Robert D. Hansen presents a photo of the Electromed, Inc. offices in New Prague, MN to the Deputy Mayor of Prague, Czech Republic

## RESEARCH AND DEVELOPMENT

Electromed, Inc. has demonstrated its commitment to product development by introducing several new products and product enhancements since we first entered the market in 2000. Our intellectual property represents one of our most significant business strengths. It allowed us to pioneer an HFCWO device with a single-hose and flow-through system design, leading to competitive advantages in the market. In addition to the 20 U.S. patents and 5 foreign patents that we currently hold, we have 33 additional pending patent applications domestically and internationally.

Our team has a demonstrated record of developing new products that receive the appropriate product approvals and regulatory clearances, with our products having been approved or cleared in the U.S., Canada, the member countries of the European Union, Japan, Taiwan, and Korea.



## INTERNATIONAL PRESENCE

The international market for HFCWO therapy devices is emerging, representing a major growth opportunity for Electromed, Inc. In FY 2010, our international sales of \$646,846 comprised approximately 4.5% of net revenue. Internationally, Electromed, Inc. has made sales in more than 10 countries. In addition to Canada, we have principal distributors in Italy, Spain, and Japan.

We are actively identifying distributors and other sales opportunities in additional international locations. We believe that expanding our distributor relationships in Europe and Asia will generate revenue growth, as it will allow us to establish our **SmartVest®** Airway Clearance System as the preferred airway clearance therapy product in regions where HFCWO therapy is not yet widely used.

Our historical practice and continued intent is to develop long-term relationships with distributors who have knowledge and experience in serving respiratory physicians and patients in the host country. Our company is ISO 13485/9001 certified, and we have received the European Union CE mark for medical device sales.

Electromed, Inc. has made sales in more than **10 countries** and has principal distributors in Italy, Spain, and Japan

<sup>1</sup>Sources: Pliopllys AV, Lewis S, Kasnicke I. Pulmonary Vest Therapy in Pediatric Long-term Care. Journal of the American Medical Association 2002 Sep-Oct; 288(8):1018-1021.  
Ohnsorg F. Cost Analysis of High Frequency Chest Wall Oscillation in Cystic Fibrosis. AM J Respir and Crit Care Med 1994; 149(4): A669.  
Chahal K, Austin G, Chakravorty I. High Frequency Chest Wall Oscillation (HFCWO) in Patients with Chronic Obstructive Pulmonary Disease (COPD) and Mucus Hypersecretion. Proceedings of the American Thoracic Society May 2008.



## COMMITMENT TO QUALITY

We are one of the very few medical device manufacturers to have earned the Joint Commission's Gold Seal of Approval for Home Care. Additionally, Electromed, Inc. is ISO 13485 and ISO 9001 certified and has been certified to apply the CE mark for sales in the European Union. We are proud to "Say what we do and do what we say."

*An independent, not-for-profit organization, "The Joint Commission," accredits and certifies more than 15,000 health care organizations and programs in the United States. "Joint Commission" accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards.*



Electromed, Inc.'s Clinical Area Managers  
U.S. Sales Staff

## TOTAL EMPLOYEES

Fiscal Year Ending June 30



## GROWING SALES

We believe we are poised for significant sales and earnings growth, which we intend to achieve through expanding and repositioning our domestic sales staff, focusing on continuing education opportunities and industry relationships, building distributor relationships in Europe and Asia, and maintaining leadership in product innovation. We have pursued our goal of continuous improvement through an active research and product development program and plan to develop and introduce future advancements in HFCWO products for patient use.

## SALES GROW WITH INCREASED NUMBER OF CAMS

Fiscal Year Ending June 30

Clinical Area Managers (CAMs) serve as our Domestic Sales Staff



## GROWING EMPLOYMENT AND QUALITY OF EMPLOYEES

At the conclusion of FY 2010, we employed 70 total employees, 68 of which are full-time employees. Of our 70 employees, more than 30% are respiratory therapists who are licensed by the appropriate state professional organization, including all of the employees in our Patient Services Department and nearly all of our sales representatives. In addition, we retain as independent contractors several expert consultants who assist with product development, marketing, and international opportunities.

We also retain over 300 contracted respiratory therapists and health care professionals who provide training to our customers/patients in the U.S. as required. Approximately 75% of these trainers are credentialed by the National Board for Respiratory Care as either Certified Respiratory Therapists or Registered Respiratory Therapists. The remainder of these respiratory therapists are licensed at the state level in fields such as respiratory care, nursing, physical therapy, and occupational therapy.

We believe that providing our customers/patients with the opportunity to obtain support and training from health care professionals underscores our commitment to professional service and high quality.

## OFFICERS



**Robert D. Hansen**  
Chairman and  
Chief Executive Officer



**Terry M. Belford, CPA, CMA**  
Chief Financial Officer

## OPERATING MANAGEMENT TEAM



**Brad R. Blaszczek**  
Manufacturing Manager



**Clara M. Buri, CRT-NPS, RCP**  
Patient Services Manager



**Martin J. Davig, RRT**  
National Sales Manager



**William R. Grimm, RRT**  
Regional Manager (Western U.S.)



**Lonnie J. Helgeson**  
Product Operations Manager



**Rick A. Leonard, RRT**  
Regional Manager (Eastern U.S.)



**Eileen M. Manning**  
Director of Marketing,  
International Sales, and Training



**Pankti S. Shah**  
Marketing Manager



**Chet E. Sievert, Jr.**  
Director of Regulatory  
and Clinical Affairs



**Gregory A. Spurlock**  
Quality Assurance Manager



**Sherie A. Wheeler, RCP**  
Regional Manager (Central U.S.)

## ANNUAL MEETING

The annual meeting of Electromed, Inc. will be held at its corporate headquarters on November 5, 2010 at 10:00 a.m. CST

## TRANSFER AGENT AND REGISTRAR

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

## CORPORATE HEADQUARTERS

500 Sixth Avenue NW  
New Prague, MN 56071  
Phone: 952-758-9299  
Fax: 952-758-5077

## INVESTOR CONTACT

Robert D. Hansen  
Chairman and Chief Executive Officer  
Electromed, Inc.  
Phone: 952-334-4400  
Email: bhansen@electromed.com

## WEBSITE

[www.Electromed.com](http://www.Electromed.com)

## BOARD OF DIRECTORS

### Robert D. Hansen - Chairman

Chairman and Chief Executive Officer  
Electromed, Inc.

### Craig N. Hansen

Vice President of Research and Development  
Hansen Engine Corporation

### Noel D. Collis, MD

Practices Internal Medicine, Little Falls, MN  
Served as Faculty Member  
University of South Dakota School of Medicine

### Thomas M. Hagedorn

Former Four-Term Member of U.S. Congress  
President  
Premium Financial Services

### George H. Winn, DDS

Practices Oral Surgery and Orthodontics, New Prague, MN  
Served as Adjunct Professor of Medical Ethics  
University of Minnesota School of Dentistry

## OFFICERS

### Robert D. Hansen

Chairman and Chief Executive Officer  
Electromed, Inc.

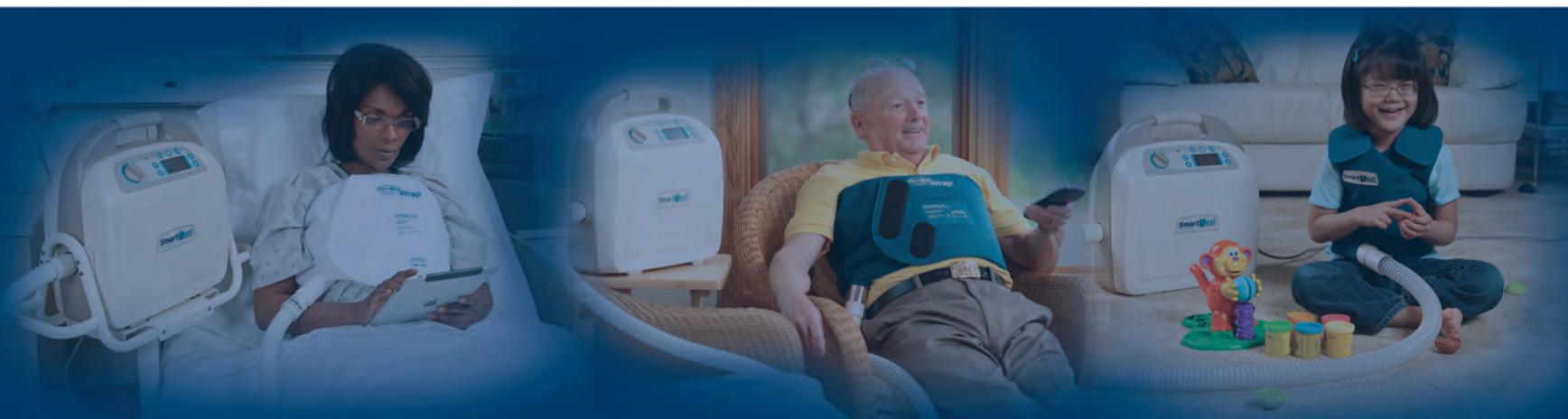
### Terry M. Belford, CPA, CMA

Chief Financial Officer  
Electromed, Inc.

Certain statements found in this annual report may constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect our current views with respect to future events and financial performance and include any statement that does not directly relate to a current or historical fact. Our forward-looking statements in this annual report generally relate to the following: (i) our intent to invest in growing our sales, support, research and development and marketing staff; (ii) our expectations for future growth in sales, income, market share and earnings per share; (iii) our intent to pursue international relationships and the anticipated benefits that will result from expanding international distributor relationships; and (iv) our strategies for growth.

Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements. Examples of risks and uncertainties for Electromed include: (i) the competitive nature of our market; (ii) the risks associated with expansion into international markets; (iii) changes to Medicare, Medicaid or private insurance reimbursement policies; (iv) changes to health care laws; (v) our ability to protect our intellectual property; and (vi) other factors described from time to time in our reports to the Securities and Exchange Commission (including our Annual Report on Form 10-K).

Shareholders should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties or potentially inaccurate assumptions investors should take into account when making investment decisions. Shareholders and other readers should not place undue reliance on "forward-looking statements," as such statements speak only as of the date of this annual report.



## ***ELECTROMED, INC.***

*Creating superior care through innovation®*

Corporate Headquarters

500 Sixth Avenue NW

New Prague, MN 56071

Phone: 952-758-9299

Website: [www.Electromed.com](http://www.Electromed.com)

Nasdaq: ELMD

This annual report was prepared on October 14, 2010