

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 March 31, 2024

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**

(I.R.S. Employer Identification No.)

**500 Sixth Avenue NW**

**New Prague, Minnesota**

(Address of principal executive offices)

**56071**

(Zip Code)

**(952) 758-9299**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, \$0.01 par value**

(Title of each class)

**ELMD**

(Trading Symbol(s))

**NYSE American LLC**

(Name of each exchange on which registered)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 8,655,727 shares of Electromed, Inc. common stock, par value \$0.01 per share, outstanding as of the close of business on May 2, 2024.

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

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Electromed, Inc.  
Condensed Balance Sheets**

|  | <b>March 31, 2024</b> | <b>June 30, 2023</b> |
|--|-----------------------|----------------------|
|  | (Unaudited)           |                      |
| <b>Assets</b>  |                       |                      |
| Current Assets   |                       |                      |
| Cash and cash equivalents  | \$ 11,712,000         | \$ 7,372,000         |
| Accounts receivable (net of allowances for credit losses of \$45,000)  | 23,907,000            | 24,130,000           |
| Contract assets  | 642,000               | 487,000              |
| Inventories  | 4,178,000             | 4,221,000            |
| Prepaid expenses and other current assets  | 592,000               | 1,577,000            |
| Income tax receivable  | 291,000               | -                    |
| <b>Total current assets</b>  | <b>41,322,000</b>     | <b>37,787,000</b>    |
| Property and equipment, net  | 5,283,000             | 5,672,000            |
| Finite-life intangible assets, net   | 648,000               | 605,000              |
| Other assets   | 106,000               | 161,000              |
| Deferred income taxes  | 1,542,000             | 1,581,000            |
| <b>Total assets</b>  | <b>\$ 48,901,000</b>  | <b>\$ 45,806,000</b> |
| <b>Liabilities and Shareholders' Equity</b>  |                       |                      |
| Current Liabilities  |                       |                      |
| Accounts payable   | \$ 792,000            | \$ 1,372,000         |
| Accrued compensation   | 2,987,000             | 3,018,000            |
| Income tax payable   | -                     | 336,000              |
| Warranty reserve   | 1,525,000             | 1,378,000            |
| Other accrued liabilities  | 1,022,000             | 1,949,000            |
| <b>Total current liabilities</b>   | <b>6,326,000</b>      | <b>8,053,000</b>     |
| Other long-term liabilities  | 31,000                | 86,000               |
| <b>Total liabilities</b>   | <b>6,357,000</b>      | <b>8,139,000</b>     |
| Commitments and Contingencies  |                       |                      |
| Shareholders' Equity   |                       |                      |
| Common stock, \$0.01 par value per share, 13,000,000 shares authorized; 8,655,727 and 8,555,238 shares issued and outstanding, as of March 31, 2024, and June 30, 2023, respectively | 87,000                | 86,000               |
| Additional paid-in capital   | 20,342,000            | 18,788,000           |
| Retained earnings  | 22,115,000            | 18,793,000           |
| <b>Total shareholders' equity</b>  | <b>42,544,000</b>     | <b>37,667,000</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 48,901,000</b>  | <b>\$ 45,806,000</b> |

See Notes to Condensed Financial Statements (Unaudited).

**Electromed, Inc.**  
**Condensed Statements of Operations (Unaudited)**

|   | Three Months Ended<br>March 31, |                     | Nine Months Ended<br>March 31, |                     |
|---|---------------------------------|---------------------|--------------------------------|---------------------|
|   | 2024                            | 2023                | 2024                           | 2023                |
|   | \$ 13,871,000                   | \$ 12,068,000       | \$ 39,884,000                  | \$ 34,455,000       |
| Net revenues                                |                                 |                     |                                |                     |
| Cost of revenues                            | 3,489,000                       | 3,012,000           | 9,459,000                      | 8,386,000           |
| <b>Gross profit</b>                         | <b>10,382,000</b>               | <b>9,056,000</b>    | <b>30,425,000</b>              | <b>26,069,000</b>   |
| Operating expenses                          |                                 |                     |                                |                     |
| Selling, general and administrative         | 8,374,000                       | 7,694,000           | 25,699,000                     | 22,937,000          |
| Research and development                    | 167,000                         | 166,000             | 480,000                        | 618,000             |
| <b>Total operating expenses</b>             | <b>8,541,000</b>                | <b>7,860,000</b>    | <b>26,179,000</b>              | <b>23,555,000</b>   |
| <b>Operating income</b>                     | <b>1,841,000</b>                | <b>1,196,000</b>    | <b>4,246,000</b>               | <b>2,514,000</b>    |
| Interest income, net                        | 120,000                         | 26,000              | 293,000                        | 37,000              |
| <b>Net income before income taxes</b>       | <b>1,961,000</b>                | <b>1,222,000</b>    | <b>4,539,000</b>               | <b>2,551,000</b>    |
| Income tax expense                          | 468,000                         | 147,000             | 1,217,000                      | 418,000             |
| <b>Net income</b>                           | <b>\$ 1,493,000</b>             | <b>\$ 1,075,000</b> | <b>\$ 3,322,000</b>            | <b>\$ 2,133,000</b> |
| Income per share:                           |                                 |                     |                                |                     |
| Basic                                       | \$ 0.17                         | \$ 0.13             | \$ 0.39                        | \$ 0.25             |
| Diluted                                     | \$ 0.17                         | \$ 0.12             | \$ 0.38                        | \$ 0.25             |
| Weighted-average common shares outstanding: |                                 |                     |                                |                     |
| Basic                                       | 8,565,725                       | 8,461,531           | 8,549,352                      | 8,449,623           |
| Diluted                                     | 8,892,821                       | 8,710,106           | 8,822,938                      | 8,694,407           |

See Notes to Condensed Financial Statements (Unaudited).

**Electromed, Inc.**  
**Condensed Statements of Cash Flows (Unaudited)**

|   | <b>Nine Months Ended March 31,</b> |                     |
|---|------------------------------------|---------------------|
|   | <b>2024</b>                        | <b>2023</b>         |
| <b>Cash Flows From Operating Activities</b>                                       |                                    |                     |
| Net income  | \$ 3,322,000                       | \$ 2,133,000        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                     |
| Depreciation  | 594,000                            | 370,000             |
| Amortization of finite-life intangible assets                                     | 37,000                             | 52,000              |
| Share-based compensation expense  | 1,250,000                          | 506,000             |
| Deferred income taxes   | 39,000                             | 32,000              |
| Changes in operating assets and liabilities:                                      |                                    |                     |
| Accounts receivable   | 223,000                            | (1,293,000)         |
| Contract assets   | (155,000)                          | (284,000)           |
| Inventories   | 78,000                             | (264,000)           |
| Prepaid expenses and other assets   | 1,234,000                          | 105,000             |
| Income tax receivable, net  | (627,000)                          | (270,000)           |
| Accounts payable and accrued liabilities  | (1,386,000)                        | (111,000)           |
| Accrued compensation  | (31,000)                           | (660,000)           |
| <b>Net cash provided by operating activities</b>                                  | <b>4,578,000</b>                   | <b>316,000</b>      |
| <b>Cash Flows From Investing Activities</b>                                       |                                    |                     |
| Expenditures for property and equipment   | (265,000)                          | (1,221,000)         |
| Expenditures for finite-life intangible assets                                    | (84,000)                           | (54,000)            |
| <b>Net cash used in investing activities</b>                                      | <b>(349,000)</b>                   | <b>(1,275,000)</b>  |
| <b>Cash Flows From Financing Activities</b>                                       |                                    |                     |
| Issuance of common stock upon exercise of options                                 | 111,000                            | 40,000              |
| Taxes paid on net share settlement of stock option exercises                      | -                                  | (305,000)           |
| Repurchase of common stock  | -                                  | (153,000)           |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>111,000</b>                     | <b>(418,000)</b>    |
| <b>Net increase (decrease) in cash</b>  | <b>4,340,000</b>                   | <b>(1,377,000)</b>  |
| <b>Cash and cash equivalents</b>  |                                    |                     |
| Beginning of period   | 7,372,000                          | 8,153,000           |
| End of period   | <b>\$ 11,712,000</b>               | <b>\$ 6,776,000</b> |
| <b>Supplemental Disclosures of Cash Flow Information</b>                          |                                    |                     |
| Cash paid for income taxes  | \$ 1,806,000                       | \$ 655,000          |
| <b>Supplemental Disclosures of Noncash Investing and Financing Activities</b>     |                                    |                     |
| Property and equipment acquisitions in accounts payable                           | \$ 35,000                          | \$ 136,000          |
| Intangible asset acquisitions in accounts payable                                 | \$ -                               | \$ 6,000            |
| Option exercise proceeds in other assets  | \$ 194,000                         | \$ -                |
| Demonstration equipment returned to inventory                                     | \$ 35,000                          | \$ 9,000            |

See Notes to Condensed Financial Statements (Unaudited).

**Electromed, Inc.**  
**Condensed Statements of Shareholders' Equity (Unaudited)**

|  | <b>Common Stock</b> |               | <b>Additional Paid-in Capital</b> |   | <b>Retained Earnings</b> |  | <b>Total Shareholders' Equity</b> |
|--|---------------------|---------------|-----------------------------------|---|--------------------------|--|-----------------------------------|
|  | <b>Shares</b>       | <b>Amount</b> |                                   |   |                          |  |                                   |
| Balance on June 30, 2022                             | 8,475,438           | \$ 85,000     | \$ 18,308,000                     |   | \$ 15,780,000            |  | \$ 34,173,000                     |
| Net income   | —                   | —             |                                   |   | 81,000                   |  | 81,000                            |
| Issuance of restricted stock                         | 27,400              | —             |                                   |   | —                        |  | —                                 |
| Forfeiture of restricted stock                       | (14,166)            | —             |                                   |   | —                        |  | —                                 |
| Issuance of common stock upon exercise of options    | 11,760              | —             |                                   |   | —                        |  | —                                 |
| Taxes paid on stock options exercised on a net basis | —                   | —             | (60,000)                          |   | —                        |  | (60,000)                          |
| Share-based compensation expense                     | —                   | —             | 95,000                            |   | —                        |  | 95,000                            |
| Repurchase of common stock                           | (14,568)            | —             |                                   | — | (145,000)                |  | (145,000)                         |
| Balance on September 30, 2022                        | 8,485,864           | \$ 85,000     | 18,343,000                        |   | 15,716,000               |  | 34,144,000                        |
| Net income   | —                   | —             |                                   |   | 977,000                  |  | 977,000                           |
| Issuance of restricted stock                         | 26,000              | —             |                                   |   | —                        |  | —                                 |
| Issuance of common stock upon exercise of options    | 3,100               | —             | 16,000                            |   | —                        |  | 16,000                            |
| Share-based compensation expense                     | —                   | —             | 221,000                           |   | —                        |  | 221,000                           |
| Repurchase of common stock                           | (800)               | —             |                                   | — | (8,000)                  |  | (8,000)                           |
| Balance at December 31, 2022                         | 8,514,164           | \$ 85,000     | \$ 18,580,000                     |   | \$ 16,685,000            |  | \$ 35,350,000                     |
| Net income   | —                   | —             |                                   |   | 1,075,000                |  | 1,075,000                         |
| Issuance of common stock upon exercise of options    | 42,436              | 1,000         | 23,000                            |   | —                        |  | 24,000                            |
| Taxes paid on stock options exercised on a net basis | —                   | —             | (245,000)                         |   | —                        |  | (245,000)                         |
| Share-based compensation expense                     | —                   | —             | 190,000                           |   | —                        |  | 190,000                           |
| Balance on March 31, 2023                            | 8,556,600           | \$ 86,000     | \$ 18,548,000                     |   | \$ 17,760,000            |  | \$ 36,394,000                     |
|  | <b>Common Stock</b> |               | <b>Additional Paid-in Capital</b> |   | <b>Retained Earnings</b> |  | <b>Total Shareholders' Equity</b> |
|  | <b>Shares</b>       | <b>Amount</b> |                                   |   |                          |  |                                   |
| Balance on June 30, 2023                             | 8,555,238           | \$ 86,000     | \$ 18,788,000                     |   | \$ 18,793,000            |  | \$ 37,667,000                     |
| Net income   | —                   | —             |                                   |   | 155,000                  |  | 155,000                           |
| Issuance of restricted stock                         | 20,878              | —             |                                   |   | —                        |  | —                                 |
| Issuance of common stock upon exercise of options    | 2,934               | —             | 29,000                            |   | —                        |  | 29,000                            |
| Share-based compensation expense                     | —                   | —             | 371,000                           |   | —                        |  | 371,000                           |
| Balance on September 30, 2023                        | 8,579,050           | \$ 86,000     | \$ 19,188,000                     |   | \$ 18,948,000            |  | \$ 38,222,000                     |
| Net income   | —                   | —             |                                   |   | 1,674,000                |  | 1,674,000                         |
| Issuance of restricted stock                         | 21,000              | —             |                                   |   | —                        |  | —                                 |
| Issuance of common stock upon exercise of options    | 2,627               | —             | 26,000                            |   | —                        |  | 26,000                            |
| Share-based compensation expense                     | —                   | —             | 420,000                           |   | —                        |  | 420,000                           |
| Balance on December 31, 2023                         | 8,602,677           | \$ 86,000     | \$ 19,634,000                     |   | \$ 20,622,000            |  | \$ 40,342,000                     |
| Net income   | —                   | —             |                                   |   | 1,493,000                |  | 1,493,000                         |
| Issuance of restricted stock                         | 2,550               | —             |                                   |   | —                        |  | —                                 |
| Issuance of common stock upon exercise of options    | 50,500              | 1,000         | 249,000                           |   | —                        |  | 250,000                           |
| Share-based compensation expense                     | —                   | —             | 459,000                           |   | —                        |  | 459,000                           |
| Balance on March 31, 2024                            | 8,655,727           | \$ 87,000     | \$ 20,342,000                     |   | \$ 22,115,000            |  | \$ 42,544,000                     |

See Notes to Condensed Financial Statements (Unaudited).

**Electromed, Inc.**  
**Notes to Condensed Financial Statements (Unaudited)**

**Note 1. Interim Financial Reporting**

**Nature of business:** Electromed, Inc. (the "Company") develops, manufactures, and markets innovative airway clearance products that apply High Frequency Chest Wall Oscillation ("HFCWO") therapy for pulmonary care patients. The Company markets its products in the U.S. to the homecare and hospital markets. The Company also sells internationally through distributors.

Since its inception, the Company has operated in a single industry segment: developing, manufacturing, and marketing medical equipment.

**Basis of presentation:** The accompanying unaudited Condensed Financial Statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. In the opinion of management, the accompanying unaudited Condensed 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. 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. GAAP for annual reports. This interim report should be read in conjunction with the financial statements included in the Company's [Annual Report on Form 10-K for the fiscal year ended June 30, 2023](#) ("fiscal 2023").

**A summary of the Company's significant accounting policies follows:**

**Use of estimates.** Management uses estimates and assumptions in preparing the unaudited Condensed Financial Statements in accordance with U.S. GAAP. 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 unaudited Condensed Financial Statements include revenue recognition and the related estimation of variable consideration, inventory valuation, share-based compensation and warranty reserve.

**Net income per common share.** Net income is presented on a per share basis for both basic and diluted common shares. Basic net income per common share is computed using the weighted average number of common shares outstanding during the period, excluding any restricted stock awards which have not vested. The diluted net income per common share calculation includes outstanding restricted stock grants and assumes that all stock options 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 because their impact was anti-dilutive were 289,362 and 179,992 for the three months ended March 31, 2024, and 2023, respectively, and were 400,639 and 200,140 for the nine months ended March 31, 2024, and 2023, respectively.

**Recently Issued Accounting Standards**

In June 2016, the Financial Accounting Board issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments -- Credit Losses: Measurement of Credit Losses on Financial Instruments, which was subsequently amended by ASU 2018-19, ASU 2019-04, 2019-05, 2019-10, 2019-11, and 2020-02. The standard introduces new accounting guidance for credit losses on financial instruments within its scope, including trade receivables. This new guidance adds an impairment model that is based on expected losses rather than incurred losses. The company adopted the standard effective July 1, 2023. The Company's adoption of the standard did not have a material impact on the financial statements.

**Note 2. Revenues**

Revenue is measured based on consideration specified in the contract with a customer, adjusted for any applicable estimates of variable consideration and other factors affecting the transaction price, including consideration paid or payable from customers and significant financing components. Revenue from all customers is recognized when a performance obligation is satisfied by transferring control of a distinct good or service to a customer, as further described below under *Performance obligations and transaction price*.

Individual promised goods and services in a contract are considered a performance obligation and accounted for separately if the individual good or service is distinct (i.e., the customer can benefit from the good or service on its own or with other resources that are readily available to the customer and the good or service is separately identifiable from other promises in the arrangement). If an arrangement includes multiple performance obligations, the consideration is allocated between the performance obligations in proportion to their estimated standalone selling price, unless discounts or variable consideration is attributable to one or more but not all the performance obligations. Costs related to products delivered are recognized in the period incurred, unless criteria for capitalization of costs under Accounting Standards Codification ("ASC") 340-40, "Other Assets and Deferred Costs" ("ASC 340"), or other applicable guidance are met.

The Company includes shipping and handling fees in net revenues. Shipping and handling costs associated with the shipment of the Company's SmartVest® Airway Clearance System ("SmartVest System") after control has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues in the Condensed Statements of Operations.

The timing of revenue recognition, billings and cash collections results in accounts receivable on the Condensed Balance Sheets as further described below under *Accounts receivable* and *Contract assets*.

**Disaggregation of revenues.** In the following table, net revenues are disaggregated by market:

|                      | Three Months Ended March 31, |                      | Nine Months Ended March 31, |                      |
|----------------------|------------------------------|----------------------|-----------------------------|----------------------|
|                      | 2024                         | 2023                 | 2024                        | 2023                 |
| Homecare             | \$ 12,287,000                | \$ 10,971,000        | \$ 36,108,000               | \$ 31,335,000        |
| Hospital             | 783,000                      | 440,000              | 1,909,000                   | 1,420,000            |
| Homecare distributor | 524,000                      | 501,000              | 1,377,000                   | 1,391,000            |
| Other                | 277,000                      | 156,000              | 490,000                     | 309,000              |
| <b>Total</b>         | <b>\$ 13,871,000</b>         | <b>\$ 12,068,000</b> | <b>\$ 39,884,000</b>        | <b>\$ 34,455,000</b> |

In the following table, net homecare revenue is disaggregated by payer type:

|                       | Three Months Ended March 31, |                      | Nine Months Ended March 31, |                      |
|-----------------------|------------------------------|----------------------|-----------------------------|----------------------|
|                       | 2024                         | 2023                 | 2024                        | 2023                 |
| Commercial            | \$ 5,974,000                 | \$ 4,787,000         | \$ 17,684,000               | \$ 12,706,000        |
| Medicare              | 4,825,000                    | 4,544,000            | 13,666,000                  | 13,753,000           |
| Medicare Supplemental | 1,177,000                    | 1,278,000            | 3,447,000                   | 3,681,000            |
| Medicaid              | 115,000                      | 128,000              | 722,000                     | 618,000              |
| Other homecare        | 196,000                      | 234,000              | 589,000                     | 577,000              |
| <b>Total</b>          | <b>\$ 12,287,000</b>         | <b>\$ 10,971,000</b> | <b>\$ 36,108,000</b>        | <b>\$ 31,335,000</b> |

Revenues are recognized at a point in time when control passes to the customer upon product shipment or delivery.

**Performance obligations and transaction price.** A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606, "Revenue From Contracts With Customers" ("ASC 606"). A contract's transaction price is allocated to each distinct performance obligation in proportion to the standalone selling price for each and recognized as revenue when, or as, the performance obligation is satisfied. The Company's performance obligations and the timing or method of revenue recognition in each of the Company's markets are discussed below:

**Homecare market.** In the Company's homecare market, its customers are patients who use the SmartVest System. The various models of the SmartVest System are comprised of three main components – a generator, a vest and a connecting hose – that are sold together as an integrated unit. Accordingly, in contracts within the homecare market, the Company regards the SmartVest System to be a single performance obligation.

The Company makes available to its homecare patients limited post-sale services that are not material in the context of the contracts, either individually or taken together, and therefore does not consider them to be performance obligations. The costs associated with the services are accrued and expensed when the related revenues are recognized. As such, transactions in the homecare market consist of a single performance obligation: the SmartVest System.

Homecare patients generally will rely on third-party payers, including commercial payers and governmental payers such as Medicare, Medicaid and the U.S. Department of Veterans Affairs to cover and reimburse all or part of the cost of the SmartVest System. The third-party payers' reimbursement programs fall into three types, distinguished by the differences in the timing of payments from the payer, consisting of either (i) outright sale, in which payment is received from the payer based on standard terms, (ii) capped installment sale, under which the SmartVest System is sold for a series of payments that are capped not to exceed a prescribed or negotiated amount over a period of time or (iii) installment sale, under which the SmartVest System is paid for over a period of several months as long as the patient continues to use the SmartVest System.

Regardless of the type of transaction, provided criteria for an enforceable contract are met, it is the Company's long- standing business practice to regard all homecare agreements as transferring control to the patient upon shipment or delivery, despite possible payment cancellation under government or commercial programs where the payer is controlling the payment over specified time periods. For homecare sales that feature installment payments, the ultimate amount of consideration received from Medicare, Medicaid or commercial payers can be significantly less than expected if the contract is terminated due to changes in the patient's status, including insurance coverage, hospitalization, death or otherwise becoming unable to use the SmartVest System. However, once delivered to a patient who needs the SmartVest System, the patient is under no obligation to return the SmartVest System should payments be terminated because of the described contingencies. As a result, the Company's product sales qualify for point-in-time revenue recognition. Control transfers to the patient, and revenue is recognized, upon shipment of the SmartVest System. At this point, physical possession and the significant risks and rewards of ownership are transferred to the patient and either a current or future right to payment is triggered, as further discussed under *Accounts receivable* and *Contract assets* below.

The Company's contractually stated transaction prices in the homecare market are generally set by the terms of the contracts negotiated with insurance companies or by government programs. The transaction price for the Company's products may be further impacted by variable consideration. ASC 606 requires the Company to adjust the transaction price at contract inception and throughout the contract duration for the estimated value of payments to be received from insurance payers based on historical experience and other available information, subject to the constraint on estimates of variable consideration. Transactions requiring estimates of variable consideration primarily include (i) capped installment payments, which are subject to the third-party payer's termination due to changes in insurance coverage, death or the patient's discontinued use of the SmartVest System, (ii) contracts under appeal and (iii) patient responsibility amounts for deductibles, coinsurance, copays and other similar payments.

Although estimates may be made on a contract-by-contract basis, whenever possible, the Company uses all available information, including historical collection patterns, to estimate variable consideration for portfolios of contracts. The Company's estimates of variable consideration consist of amounts it may receive from insurance providers in excess of its initial revenue estimate due to patients meeting deductibles or coinsurance during the payment duration, changes to a patient's insurance status, changes in an insurance allowable, claims in appeals with Medicare and amounts received directly from patients for their allowable or coinsurance. The Company believes it has representative historical information to estimate the amount of variable consideration in relevant portfolios considering the significant experience it has with each portfolio and the similarity of patient accounts within a portfolio. The analysis includes steps to ensure that revenue recognized on a portfolio basis does not result in a material difference when compared with an individual contract approach. The Company also leverages its historical experience and all available relevant information for each portfolio of contracts to minimize the risk its estimates used to arrive at the transaction price will result in a significant reversal in the amount of cumulative revenue recognized when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.

For example, for contracts in which the Company believes the criteria for reimbursement under government or commercial payer contracts have been met but for which coverage is unconfirmed or payments are under appeal, the Company has significant observable evidence of relatively consistent claims recovery experience over the prior three to five years. The Company believes the low volatility in historical claims approval rates for populations of patients whose demographics are similar to those of current patients provides reliable predictive value in arriving at estimates of variable consideration in such contracts. Similarly, historical payment trends for recovery of claims subject to payer installments and payments from patients have remained relatively consistent over the past five years. No significant changes in patient demographics or other relevant factors have occurred that would limit the predictive value of such payment trends in estimating variable consideration for current contracts. As a result, the Company believes its estimates of variable consideration are generally not subject to the risk of significant revenue reversal.

For each type of variable consideration discussed above, there are many contracts with similar characteristics with a wide range of possible transaction prices. For that reason, the Company uses the probability-weighted expected value method provided under ASC 606 to estimate variable consideration.

The Company often receives payment from third-party payers for SmartVest System sales over a period of time that may exceed one year. Despite these extended payment terms, no significant financing component is deemed to exist because the purpose of such terms is not to provide financing to the patient, the payer or the Company. Rather, the extended payment terms are mandated by the government or commercial insurance programs; the fundamental purpose of which is to avoid paying the full purchase price of equipment that may potentially be used by the patient for only a short period of time.

**Homecare distributors.** Sales to distributors, who sell direct to patients, are made at fixed contract prices and may include tiered pricing structures or volume-based rebates which offer more favorable pricing once certain volumes are achieved per the negotiated contract. The distributor's purchases accumulate to give the distributor the right to a higher discount on purchases more than the specified level within the contract period. As a result, to the extent the Company expects the distributor to exceed the specified volume of purchases in the annual period, it recognizes revenue at a blended rate based on estimated total annual volume and sales revenue. This effectively defers a portion of the transaction price on initial purchases below the specified volumes for recognition when the higher discount is earned on purchases in excess of specified volumes. Transfer of control of the products occurs upon shipment or delivery to the distributor, as applicable.

**Hospital market.** The Company's hospital sales are made to hospitals and other clinics. Sales to these hospitals are negotiated with the individual hospital or with group purchasing organizations, with payments received directly from the hospital. No insurance reimbursement is involved. Generators are either sold or leased to the hospitals and associated hoses and wraps (used in hospital settings rather than vests) are sold separately. Accordingly, each product is distinct and considered a separate performance obligation in sales to hospital customers. The agreements with hospitals fall into two main types, distinguished by differences in the timing of transfer of control and timing of payments:

- **Outright sale** – Under these transactions, the Company sells its products for a prescribed or negotiated price. Transfer of control of the product, and associated revenue recognition, occurs at the time of shipment and payment is made within normal credit terms, usually within thirty days.
- **Wrap usage agreements** – Under these transactions, the Company provides a generator device at no cost to the hospital in return for a fixed annual commitment to purchase consumable wraps. These agreements are cancellable upon at least sixty days prior written notice by either party. If cancelled, the generator is returned to the Company, where it can be refurbished and used again later. Revenue for the consumable wraps is recognized when control transfers to the customer.

**Other.** Other revenue consists of international sales which are made directly to several independent distributors at fixed contract prices that are not subject to further adjustments for variable consideration or sales to other customers that do not fall into the markets described above. Transfer of control of the products occurs upon shipment or delivery to the distributor or customer, as applicable.

**Product warranty.** The Company offers warranties on its products. These warranties are assurance-type warranties not sold on a standalone basis or are otherwise considered immaterial in the context of the contract, and therefore are not considered distinct performance obligations under ASC 606. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold.

**Accounts receivable.** The Company's accounts receivable balance is comprised of amounts due from individuals, -hospitals, and distributors. Balances due from individuals are typically remitted to the Company by third-party reimbursement agencies such as Medicare, Medicaid, and private insurance companies. Accounts receivables are carried at amounts estimated to be received from patients under reimbursement arrangements with third-party payers. Accounts receivable is also net of an allowance for credit losses. Management determines the allowance for credit losses by regularly evaluating individual customer accounts and determining expected losses.

**Contract assets.** Contract assets include amounts recognized as revenue that are estimates of variable consideration for Medicare appeals where the final determination of the insurance coverage amount is dependent on future approval of an appeal, or when the consideration due to the Company is dependent on a future event such as the patient meeting a deductible prior to the Company's claim being processed by the payer. Contract assets are classified as current as amounts will turn into accounts receivable and be collected during the Company's normal business operating cycle. Contract assets are reclassified to accounts receivable when the right to receive payment is unconditional.

**Contract balances.** The following table provides information about contract assets from contracts with customers:

|  | <b>Nine Months<br/>Ended March 31,<br/>2024</b> | <b>Fiscal Year Ended<br/>June 30, 2023</b> |
|--|---|--|
|  | <b>Increase<br/>(decrease)</b>                  | <b>Increase<br/>(decrease)</b>             |
| Contract assets, beginning   | \$ 487,000                                      | \$ 286,000                                 |
| Reclassification of contract assets to accounts receivable   | (1,453,000)                                     | (1,220,000)                                |
| Contract assets recognized   | 1,829,000                                       | 1,351,000                                  |
| Increase (decrease) as a result of changes in the estimate of amounts to be realized from payers, excluding amounts transferred to receivables during the period | (221,000)                                       | 70,000                                     |
| Contract assets, ending  | <u><u>\$ 642,000</u></u>                        | <u><u>\$ 487,000</u></u>                   |

**Incremental costs to obtain a contract.** Sales incentives paid to sales representatives are eligible for capitalization as they are incremental costs that would not have been incurred without entering into a specific sales arrangement and are recoverable through the expected margin on the transaction. However, the recovery period is less than one year as the performance obligation is satisfied upon shipment or delivery. Consequently, the Company applies the practical expedient provided by ASC 340 and expenses sales incentives as incurred. These costs are included in selling, general and administrative expenses in the Condensed Statements of Operations.

### Note 3. Inventories

The components of inventory were as follows:

|                                    | <b>March 31, 2024</b>      | <b>June 30, 2023</b>       |
|------------------------------------|----------------------------|----------------------------|
| Parts inventory                    | \$ 3,016,000               | \$ 3,420,000               |
| Work in process                    | 449,000                    | 470,000                    |
| Finished goods                     | 856,000                    | 323,000                    |
| Estimated inventory to be returned | 260,000                    | 265,000                    |
| Less: Reserve for obsolescence     | (403,000)                  | (257,000)                  |
| Total                              | <u><u>\$ 4,178,000</u></u> | <u><u>\$ 4,221,000</u></u> |

### Note 4. Warranty Reserve

The Company provides a lifetime warranty on its products to the prescribed patient for sales within the U.S. and a three-year warranty for all hospital sales and sales to individuals outside the U.S. 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 reserve include the number of units shipped, historical and anticipated rates of warranty claims, the product's useful life and cost per claim. The Company periodically assesses the adequacy of its recorded warranty reserve and adjusts the amounts as necessary.

Changes in the Company's warranty reserve were as follows:

|   | <b>Nine Months<br/>Ended March 31,<br/>2024</b> | <b>Fiscal Year Ended<br/>June 30, 2023</b> |
|---|---|--|
| Warranty reserve, beginning                         | \$ 1,378,000                                    | \$ 1,256,000                               |
| Accrual for products sold                           | 426,000   | 416,000                                    |
| Expenditures and costs incurred for warranty claims | (279,000)                                       | (294,000)                                  |
| Warranty reserve, ending                            | <u><u>\$ 1,525,000</u></u>                      | <u><u>\$ 1,378,000</u></u>                 |

## Note 5. Income Taxes

Income tax expense was estimated at \$468,000 and \$1,217,000, and the effective tax rate was 23.9% and 26.8% for the three and nine months ended March 31, 2024, respectively. Estimated income tax expense for the three and nine months ended March 31, 2024, includes a discrete current tax benefit of \$99,000 and \$95,000, respectively, primarily related to the exercise of stock options.

Income tax expense was estimated at \$147,000 and \$418,000, and the effective tax rate was 12.0% and 16.4% for the three and nine months ended March 31, 2023, respectively. Estimated income tax expense for the three and nine months ended March 31, 2023, includes a discrete current tax benefit of \$176,000 and \$219,000, respectively, related to the exercise of stock options.

The Company is subject to U.S. federal and state income tax in multiple jurisdictions. With limited exceptions, years prior to the Company's fiscal year ended June 30, 2020, are no longer open to U.S. federal, state or local examinations by taxing authorities. The Company is not under any current income tax examinations by any federal, state or local taxing authority. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

## Note 6. Financing Arrangements

The Company has a credit facility that provides for a \$ 2,500,000 revolving line of credit through December 18, 2025, if not renewed before such date. There was no outstanding principal balance on the line of credit as of March 31, 2024, or June 30, 2023. Interest on borrowings under the line of credit, if any, accrues at the prime rate (8.50% on March 31, 2024) less 1.00% and is payable monthly. The amount eligible for borrowing on the line of credit is limited to the lesser of \$2,500,000 or 57.00% of eligible accounts receivable. On March 31, 2024, the maximum \$ 2,500,000 was eligible for borrowing. Payment obligations under the line of credit, if any, are secured by a security interest in substantially all the tangible and intangible assets of the Company.

The documents governing the line of credit contain certain financial and non-financial covenants that include a minimum tangible net worth covenant of not less than \$10,125,000 and restrictions on the Company's ability to incur certain additional indebtedness or pay dividends.

## Note 7. Common Stock

**Authorized shares:** The Company's Articles of Incorporation, as amended, have established 15,000,000 authorized shares of capital stock consisting of 13,000,000 shares of common stock, par value \$ 0.01 per share, and 2,000,000 shares of undesignated stock.

On May 26, 2021, the Company's Board of Directors (the "Board") approved a stock repurchase authorization. Under the authorization, the Company was originally able to repurchase up to \$3.0 million of shares of common stock through May 26, 2022. On May 26, 2022, the Board removed the date limitation. As of March 31, 2024, a total of 239,995 shares have been repurchased and retired under this authorization for a total cost of \$ 2,725,000, or \$11.36 per share. Repurchased shares have been retired and constitute authorized but unissued shares. There were no share repurchases for the three and nine months ended March 31, 2024.

## Note 8. Share-Based Compensation

The Company's share-based compensation plans are described in Note 8 to the financial statements included in the Company's Annual Report on Form 10-K for fiscal 2023. Share-based compensation expense was \$1,250,000 and \$506,000 for the nine months ended March 31, 2024, and 2023, respectively. This expense is included in selling, general and administrative expense in the Condensed Statements of Operations.

### Stock Options

Stock option transactions during the nine months ended March 31, 2024, are summarized as follows:

|                               | Number of Shares | Weighted-Average Exercise Price per Share |
|-------------------------------|------------------|---|
| Outstanding on June 30, 2023  | 451,570          | \$ 6.93                                   |
| Granted                       | 263,162          | \$ 10.70                                  |
| Exercised                     | (56,063)         | \$ 5.45                                   |
| Cancelled or Forfeited        | (21,079)         | \$ 10.46                                  |
| Outstanding on March 31, 2024 | <u>637,590</u>   | <u>\$ 8.50</u>                            |

The following assumptions were used to estimate the fair value of stock options granted:

|                         | <b>Nine Months<br/>Ended<br/>March 31, 2024</b> | <b>Fiscal Year Ended<br/>June 30, 2023</b> |
|-------------------------|---|--|
| Risk-free interest rate | 3.85 – 4.64%                                    | 2.88 - 4.23%                               |
| Expected term (years)   | 6   | 6  |
| Expected volatility     | 51 - 53%  | 53% - 54%                                  |

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. On March 31, 2024, the weighted average remaining contractual term for all outstanding stock options was 6.7 years and the aggregate intrinsic value of the options was \$ 4,878,000. Outstanding on March 31, 2024, were 637,590 stock options issued to employees, of which 319,088 were vested and exercisable and had an aggregate intrinsic value of \$3,118,000. As of March 31, 2024, \$ 925,000 of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of approximately 2.8 years.

#### **Restricted Stock**

During the nine months ended March 31, 2024, the Company issued restricted stock awards to employees totaling 23,428 shares of common stock, with a weighted average vesting term of 3.0 years and a weighted average fair value of \$ 10.74 per share, and to directors totaling 21,000 shares of common stock, with a vesting term of six months and a weighted average fair value of \$10.44 per share. There were 57,661 shares of unvested restricted stock with a weighted average fair value of \$10.53 per share outstanding as of March 31, 2024. As of March 31, 2024, \$ 253,000 of total unrecognized compensation expense related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.6 years.

#### **Performance-Based Restricted Stock Units**

The Company granted 175,000 performance-based restricted stock units ("PSUs") to our CEO in connection with his appointment as CEO on July 1, 2023. The PSUs are to be earned based on the extent to which performance goals tied to Total Shareholder Return ("TSR") are achieved. The performance-based restricted stock units will be eligible to vest and settle into shares of common stock on a 1-for-1 basis with respect to one-half of the shares upon achieving a total shareholder return of 50% and the remaining shares upon a total shareholder return of 100%, in each case within four years of the date of grant. The grant date fair value of the awards was determined using a Monte Carlo valuation model with an expected term of four years.

Stock based compensation expense recognized for PSUs was \$217,000 and \$0 for the nine months ended March 31, 2024, and 2023, respectively. The weighted average grant date fair value per unit was \$6.58 and as of March 31, 2024, there are 175,000 PSUs outstanding. On March 31, 2024, there was approximately \$935,000 of total unrecognized compensation expense related to outstanding PSUs that is expected to be recognized over a period of 3.25 years.

#### **Note 9. Commitments and Contingencies**

The Company is occasionally involved in claims and disputes arising in the ordinary course of business. The Company insures certain business risks where possible to mitigate the financial impact of individual claims and establishes reserves for an estimate of any probable cost of settlement or other disposition.

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited Condensed Financial Statements and related notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and our audited financial statements and related notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 ("fiscal 2023").

## Overview

Electromed, Inc. ("we," "our," "us," "Electromed" or the "Company") develops and provides innovative airway clearance products applying High Frequency Chest Wall Oscillation ("HFCWO") technologies in pulmonary care for patients.

We manufacture, market, and sell products that provide HFCWO, including the SmartVest® Airway Clearance System ("SmartVest System") that includes our newest generation SmartVest Clearway® Airway Clearance System ("Clearway"), previous generation SmartVest SQL®, and related garments and accessories to patients with compromised pulmonary function. The SmartVest Clearway, which received 510(k) clearance from the U.S. Food and Drug Administration in December 2022, provides patients with proven quality of life outcomes while offering a state-of-the-art patient experience with a simple touch screen user interface, small footprint and lightest HFCWO generator on the market.

Our products are sold in both the homecare market and the hospital market for inpatient use, which we refer to as "hospital sales." Since 2000, we have marketed the SmartVest System and its predecessor products to patients suffering from bronchiectasis, cystic fibrosis, and other chronic pulmonary conditions which require external chest manipulation to enhance mucus transport. Additionally, we offer our products to a patient population that includes neuromuscular disorders such as cerebral palsy, muscular dystrophies, amyotrophic lateral sclerosis ("ALS"), patients with post-surgical complications or who are ventilator dependent and patients who have other conditions involving excess secretion and impaired mucus transport.

The SmartVest System is often eligible for reimbursement from major private insurance providers, health maintenance organizations ("HMOs"), state Medicaid systems, and the federal Medicare system, which we believe is an important consideration for patients considering an HFCWO course of therapy. For domestic sales, the SmartVest System may be reimbursed under the Medicare-assigned billing code (E0483) for HFCWO devices if the patient has cystic fibrosis, bronchiectasis (including chronic bronchitis or COPD that has resulted in a diagnosis of bronchiectasis), or any one of certain enumerated neuromuscular diseases and myopathies and can demonstrate that another less expensive physical or mechanical treatment did not adequately mobilize retained secretions. Private payers consider a variety of sources, including Medicare, as guidelines in setting their coverage policies and payment amounts.

## Critical Accounting Estimates

For a description of our critical accounting estimates and assumptions used in the preparation of our financial statements, including the unaudited Condensed Financial Statements in this Quarterly Report on Form 10-Q, see Note 1 and Note 2 to our unaudited Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and Part II, Item 7, and Note 1 to our audited financial statements included in Part II, Item 8, of our [Annual Report on Form 10-K for fiscal 2023](#).

There were no material changes in our critical accounting estimates and assumptions since the filing of our Annual Report on Form 10-K for fiscal 2023.

## Change Healthcare Update

In late February 2024, UnitedHealth Group's Change Healthcare was impacted by a cybersecurity incident, negatively impacting financial operations for hospitals, insurers, pharmacies, and medical groups nationwide. Change Healthcare is a financial clearinghouse that works across the health system to make clinical, administrative and financial processes simpler and more efficient for payers, providers and consumers.

Electromed had historically filed all non-Medicare claims through Change Healthcare's clearinghouse. However, we resolved nearly 75% of our delayed claims by the end of the quarter with successful submissions through an alternate clearinghouse. Although we experienced an approximately three-week delay in non-Medicare claims submissions, our impact to cashflow was less than \$1,000,000 for the quarter ended March 31, 2024, and is expected to fully resolve by the end of the current fiscal year, June 30, 2024. In spite of this headwind, we finished the quarter ended March 31, 2024 with \$11,712,000 of cash, a \$1,278,000 improvement from our prior quarter (\$10,434,000 for the quarter ended December 31, 2023).

Although we were able to adapt quickly to mitigate the direct impacts of the Change Healthcare cyberattack on our business and operations future disruptions through Change Healthcare or any other financial clearinghouse could have a material adverse impact on our cash flow and ultimate ability to receive payment on our claims.

## Results of Operations

### Net Revenues

Net revenues for the three and nine months ended March 31, 2024, and 2023 are summarized in the table below.

|                      | Three Months Ended<br>March 31, |                     |                     | Increase     | Nine Months Ended<br>March 31, |                     |                     | Increase (Decrease) |
|----------------------|---------------------------------|---------------------|---------------------|--------------|--------------------------------|---------------------|---------------------|---------------------|
|                      | 2024                            | 2023                |                     |              | 2024                           | 2023                |                     |                     |
| Homecare             | \$12,287,000                    | \$10,971,000        | \$ 1,316,000        | 12.0%        | \$36,108,000                   | \$31,335,000        | \$ 4,773,000        | 15.2%               |
| Hospital             | 783,000                         | 440,000             | 343,000             | 78.0%        | 1,909,000                      | 1,420,000           | 489,000             | 34.4%               |
| Homecare distributor | 524,000                         | 501,000             | 23,000              | 4.6%         | 1,377,000                      | 1,391,000           | (14,000)            | (1.0%)              |
| Other                | 277,000                         | 156,000             | 121,000             | 77.6%        | 490,000                        | 309,000             | 181,000             | 58.6%               |
| Total                | <u>\$13,871,000</u>             | <u>\$12,068,000</u> | <u>\$ 1,803,000</u> | <u>14.9%</u> | <u>\$39,884,000</u>            | <u>\$34,455,000</u> | <u>\$ 5,429,000</u> | <u>15.8%</u>        |

**Homecare revenue.** Homecare revenue increased by \$1,316,000, or 12.0%, for the three months ended March 31, 2024, compared to the same period in the prior year. For the nine months ended March 31, 2024, homecare revenue was \$36,108,000, representing an increase of \$4,773,000, or 15.2%, compared to the same period in the prior year. The increase in revenue was due to an increase in direct sales representatives, and efficiencies recognized within our reimbursement department as a result of recent investments made to streamline the claims process in the nine months ended March 31, 2024.

**Hospital revenue.** Hospital revenue was \$783,000, an increase of \$343,000, or 78.0%, for the three months ended March 31, 2024, compared to the same period in the prior year. For the nine months ended March 31, 2024, hospital revenue was \$1,909,000, an increase of \$489,000, or 34.4%, compared to the same period in the prior year. The increases were primarily due to an increase in sales representatives focused on the hospital market as well as increased capital and disposable demand.

**Homecare distributor revenue.** Homecare distributor revenue increased by \$23,000, or 4.6%, for the three months ended March 31, 2024, compared to the same period in the prior year. For the nine months ended March 31, 2024, homecare distributor revenue was \$1,377,000, a decrease of \$14,000, or 1.0%, compared to the same period in the prior year. The change in Homecare distributor sales were primarily a result of the timing of distributor purchases that can cause significant fluctuations in reported revenue on a quarterly basis.

**Other revenue.** Other revenue was \$277,000, an increase of \$121,000, or 77.6%, for the three months ended March 31, 2024, compared to the same period in the prior year. For the nine months ended March 31, 2024, other revenue was \$490,000, an increase of \$181,000, or 58.6%, compared to the same period in the prior year. The increase in other revenue was primarily due to the timing of international distributor purchases and purchases by customers that do not fall within the other markets described above, which caused significant fluctuations in reported revenue on a quarterly basis.

### Gross profit

Gross profit increased to \$10,382,000, or 74.8% of net revenues, for the three months ended March 31, 2024, from \$9,056,000, or 75.0% of net revenues, in the same period in the prior year. Gross profit increased to \$30,425,000, or 76.3% of net revenues, for the nine months ended March 31, 2024, from \$26,069,000, or 75.7% of net revenues, in the same period in the prior year. The decrease in gross profit as a percentage of net revenues compared to the same three-month period in the prior year was primarily due to costs associated with the wind down of our previous generator models. The increase in gross profit as a percentage of net revenues compared to the same nine-month period in the prior year was primarily due to decreased shipping expenses and increased material costs in the prior year to expedite inventory purchases which did not recur in the current year.

### Operating expenses

**Selling, general and administrative expenses.** Selling, general and administrative ("SG&A") expenses were \$8,374,000 and \$25,699,000 for the three and nine months ended March 31, 2024, respectively, representing increases of \$680,000 and \$2,762,000, or 8.8% and 12.0%, respectively, compared to the same periods in the prior year.

Payroll and compensation-related expenses were \$5,721,000 and \$17,111,000 for the three and nine months ended March 31, 2024, respectively, representing increases of \$684,000 and \$2,191,000, or 13.6% and 14.7%, respectively, compared to the same periods in the prior year. The increase in the current year periods were primarily due to increases in share-based compensation, salaries, and incentive compensation related to the higher average number of sales, sales support, marketing, and reimbursement personnel to process higher patient referrals. We have also continued to provide regular merit-based increases for our employees and are regularly benchmarking our compensation ranges including share-based compensation for new and existing employees to ensure we can hire and retain the talent needed to drive growth in our business. Field sales employees totaled 59 as of March 31, 2024, 51 of which were direct sales representatives, compared to 57 field sales employees and 48 direct sales representatives as of March 31, 2023.

Travel, meals and entertainment expenses were \$760,000 and \$2,453,000 for the three and nine months ended March 31, 2024, respectively, representing increases of \$102,000 and \$163,000, or 15.5% and 7.1%, respectively, compared to the same periods in the prior year. The increase in the current year periods were due to a higher average number of direct sales representatives, higher travel costs, an increased number of sales territories, and a mid-year sales meeting held in Q3 FY 2024.

Total discretionary marketing expenses were \$304,000 and \$1,095,000 for the three and nine months ended March 31, 2024, respectively, representing increases of \$92,000 and \$514,000, or 43.4% and 88.5%, respectively, compared to the same periods in the prior year. The increases were primarily due to an investment in market research, direct-to-consumer and direct-to-physician marketing.

Professional fees were \$978,000 and \$3,222,000 for the three and nine months ended March 31, 2024, respectively, representing decreases of \$410,000 and \$628,000, or 29.5% and 16.3%, respectively, compared to the same periods in the prior year. Professional fees are primarily for services related to legal costs, shareowner services and reporting requirements, information technology technical support and consulting fees. The decrease in the three months ended March 31, 2024, were primarily related to legal and consulting costs associated with the termination of the Public Health Emergency for COVID-19 and recruiting costs for multiple senior leadership positions that has not recurred in the fiscal year ending June 30, 2024 ("fiscal 2024"). In addition to those fees that did not recur in the third quarter, the decreases in the nine months ended March 31, 2024, were due to legal fees in fiscal 2023 related to a reimbursement project that has not recurred in fiscal 2024.

*Research and development expenses.* Research and development ("R&D") expenses were \$167,000 and \$480,000 for the three and nine months ended March 31, 2024, respectively, representing an increase of \$1,000, or 0.6%, and a decrease of \$138,000, or 22.3%, respectively, compared to the same periods in the prior year. The decrease in the nine months ended March 31, 2024, were primarily due to reduced costs associated with our SmartVest Clearway platform development in the prior year which has now been launched into the Homecare and Hospital markets.

#### ***Interest income, net***

Net interest income for the three and nine months ended March 31, 2024, was \$120,000 and \$293,000, respectively, compared to \$26,000 and \$37,000, respectively, for the same periods in the prior year. These increases were due to increased savings rates on higher cash balances.

#### ***Income tax expense***

Income tax expense was estimated at \$468,000 and \$1,217,000, and the effective tax rate was 23.9% and 26.8%, for the three and nine months ended March 31, 2024, respectively. Estimated income tax expense for the three and nine months ended March 31, 2024, includes a discrete tax benefit of \$99,000 and \$95,000, respectively, primarily related to the exercise of stock options.

Income tax expense was estimated at \$147,000 and \$418,000, and the effective tax rate was 12.0% and 16.4%, for the three and nine months ended March 31, 2023, respectively. Estimated income tax expense for the three and nine months ended March 31, 2023, includes a discrete tax benefit of \$176,000 and \$219,000, respectively, related to the exercise of stock options.

#### ***Net income***

Net income for the three and nine months ended March 31, 2024, was \$1,493,000 and \$3,322,000, respectively, compared to \$1,075,000 and \$2,133,000 for the same periods in the prior year. The increases in net income were driven primarily by net revenues growth and an increase in interest income.

## **Liquidity and Capital Resources**

### ***Cash Flows and Sources of Liquidity***

#### *Cash Flows provided by Operating Activities*

For the nine months ended March 31, 2024, net cash provided by operating activities was \$4,578,000. Cash flows provided by operating activities consisted of net income of \$3,322,000, non-cash expenses of \$1,920,000, a decrease in prepaid expenses and other assets of \$1,234,000, an increase in income tax receivable, net, of \$627,000, a decrease in accounts receivable of \$223,000, and a decrease in inventory of \$78,000. These cash flows from operating activities were offset by a decrease in accounts payable and accrued liabilities of \$1,386,000, an increase in contract assets of \$155,000, and a decrease in accrued compensation of \$31,000.

The decrease in prepaid expenses and other assets, as well as the decrease in accounts payable and other accrued liabilities are primarily due to a litigation settlement payment related to our previously disclosed cyber security breach. The payment to the settlement fund during the first quarter of fiscal 2024 for the settlement amount of \$825,000 was covered by insurance resulting in a reduction in other current assets and other accrued liabilities.

#### *Cash Flows used in Investing Activities*

For the nine months ended March 31, 2024, cash used in investing activities was \$349,000. Cash used in investing activities consisted of \$265,000 in expenditures for property and equipment and \$84,000 in expenditures for intangible asset costs.

#### *Cash Flows provided by Financing Activities*

For the nine months ended March 31, 2024, cash provided by financing activities was \$111,000, consisting of cash received for stock option exercises.

### ***Adequacy of Capital Resources***

Our primary working capital requirements relate to adding employees to our sales force and support functions, continuing infrastructure investments, and supporting general corporate needs, including financing equipment purchases and other capital expenditures incurred in the ordinary course of business. Based on our current operational performance, we believe our working capital of \$34,996,000 and available borrowings under our existing credit facility will provide sufficient liquidity to meet our anticipated working capital and other liquidity needs for the next twelve months from the date of this report.

Our credit facility provides us with a revolving line of credit. Interest on borrowings on the line of credit accrues at the prime rate (8.50% on March 31, 2024) less 1.00% and is payable monthly. There was no outstanding principal balance on the line of credit as of March 31, 2024, or June 30, 2023. The amount eligible for borrowing on the line of credit is limited to the lesser of \$2,500,000 or 57.00% of eligible accounts receivable, and the line of credit expires on December 17, 2025, if not renewed. As of March 31, 2024, the maximum \$2,500,000 was available under the line of credit. Payment obligations under the line of credit are secured by a security interest in substantially all of our tangible and intangible assets.

The documents governing our line of credit contain certain financial and nonfinancial covenants that include a minimum tangible net worth of not less than \$10,125,000 and restrictions on our ability to incur certain additional indebtedness or pay dividends.

Any failure to comply with these covenants in the future may result in an event of default, which if not cured or waived, could result in the lender accelerating the maturity of our indebtedness, preventing access to additional funds under the line of credit, requiring prepayment of outstanding indebtedness, or refusing to renew the line of credit. If the maturity of the indebtedness is accelerated or the line of credit is not renewed, sufficient cash resources to satisfy the debt obligations may not be available and we may not be able to continue operations as planned. If we are unable to repay such indebtedness, the lender could foreclose on these assets.

For the nine months ended March 31, 2024, and 2023, we spent \$265,000 and \$1,221,000, respectively, on property and equipment. We currently expect to finance planned equipment purchases with cash flows from operations or borrowings under our credit facility. We may need to incur additional debt if we have an unforeseen need for additional capital equipment or if our operating performance does not generate adequate cash flows.

While the impact of macroeconomic factors such as inflation are difficult to predict, we believe our cash, cash equivalents and cash flows from operations will be sufficient to meet our working capital, capital expenditure, operational cash requirements for fiscal 2024 and the foreseeable future. We will continue to evaluate our projected expenditures relative to our available cash and evaluate financing alternatives to satisfy our working capital and other cash requirements.

#### **Information Regarding Forward-Looking Statements**

Statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact should be considered forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include, but are not limited to, statements regarding: our business strategy, including our intended level of investment in R&D and marketing activities; our expectations with respect to earnings, gross margins and sales growth, industry relationships, marketing strategies and international sales; estimated sizes of markets into which our products are or may be sold; our business strengths and competitive advantages; our ability to grow additional sales distribution channels; our intent to retain any earnings for use in operations rather than paying dividends; our expectation that our products will continue to qualify for reimbursement and payment under government and private insurance programs; our intellectual property plans and practices; the expected impact of applicable regulations on our business; our beliefs about our manufacturing processes; our expectations and beliefs with respect to our employees and our relationships with them; our belief that our current facilities are adequate to support our growth plans; our expectations with respect to ongoing compliance with the terms of our credit facility; our expectations regarding the ongoing availability of credit and our ability to renew our line of credit; enhancements to our products and services; expected excise tax exemption for the SmartVest System; and our anticipated revenues, expenses, capital requirements and liquidity. Words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "project," "goal," "target," "should," "will," "would," and similar expressions, including the negative of these terms, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Although we believe these forward-looking statements are reasonable, they involve risks and uncertainties that may cause actual results to differ materially from those projected by such statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or our industry's actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements.

Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, the following:

- ability to obtain reimbursement from Medicare, Medicaid, or private insurance payers for our products including potential adverse impact with an expiration of the Centers for Medicare and Medicaid Services waiver for certain respiratory diseases;
- component or raw material shortages, changes to lead times or significant price increases;
- adverse changes to state and federal health care regulations;
- our ability to maintain regulatory compliance and to gain future regulatory approvals and clearances;
- entry of new competitors including new drug or pharmaceutical discoveries;
- adverse economic and business conditions or intense competition;
- the risks associated with our planned salesforce expansion;
- wage and component price inflation;
- technical problems with our research and products;
- the risks associated with cyberattacks, data breaches, computer viruses and other similar security threats;
- changes affecting the medical device industry;
- our ability to develop new sales channels for our products such as the homecare distributor channel;
- adverse international health care regulation impacting current international business;
- our ability to renew our line of credit or obtain additional credit as necessary; and
- our ability to protect and expand our intellectual property portfolio.

This list of factors is not exhaustive, however, and these or other factors, many of which are outside of our control, could have a material adverse effect on us and our results of operations. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Forward-looking statements speak only as of the date on which the statements are made, and we undertake no obligation, and expressly disclaim any such obligation, to update any forward-looking statement for any reason other than as required by law, even if new information becomes available or other events occur in the future. You should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for fiscal 2023. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth herein.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a smaller reporting company, we are not required to provide disclosure pursuant to this Item.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period subject to this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

**Changes to Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Occasionally, we may be party to legal actions, proceedings, or claims in the ordinary course of business, including claims based on assertions of patent and trademark infringement. We are not party to any material pending legal proceedings.

**Item 1A. Risk Factors.**

As a smaller reporting company, we are not required to provide disclosure pursuant to this Item.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On May 26, 2021, our Board of Directors (the "Board") approved the repurchase of up to \$3.0 million of outstanding shares of our common stock. The shares of our common stock may be repurchased under the authorization on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. The current repurchase authorization does not expire and the approximate dollar value of shares that may yet be purchased under the plan as of March 31, 2024, was approximately \$275,000. There were no share repurchases for the period covered by this Quarterly Report on Form 10-Q.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

During the three months ended March 31, 2024, no director or officer of the Company adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

**Item 6. Exhibits.**

| <b>Exhibit Number</b> | <b>Description</b>   | <b>Method of Filing</b>   |
|-----------------------|--|---------------------------|
| <u>3.1</u>            | <u>Composite Articles of Incorporation, as amended through November 8, 2010</u> (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K for the fiscal year ended June 30, 2015)   | Incorporated by Reference |
| <u>3.2</u>            | <u>Amended and Restated Bylaws, effective September 29, 2020</u> (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed September 29, 2020)   | Incorporated by Reference |
| <u>31.1</u>           | <u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   | Filed Electronically      |
| <u>31.2</u>           | <u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   | Filed Electronically      |
| <u>32.1</u>           | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   | Furnished Electronically  |
| <u>32.2</u>           | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   | Furnished Electronically  |
| 101                   | Financial statements from the Quarterly Report on Form 10-Q for the period ended March 31, 2024, formatted in inline XBRL: (i) Condensed Balance Sheets, (ii) Condensed Statements of Operations, (iii) Condensed Statements of Cash Flows, (iv) Condensed Statements of Shareholders' Equity, and (v) Notes to Condensed Financial Statements | Filed Electronically      |
| 104                   | Cover Page Interactive Data File (embedded within the inline XBRL Document)  | Filed Electronically      |

\* Management compensatory contract or arrangement

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTROMED, INC.

Date: May 7, 2024

/s/ James L. Cunniff

James L. Cunniff, President and Chief Executive Officer (duly authorized officer)

Date: May 7, 2024

/s/ Bradley M. Nagel

Bradley M. Nagel, Chief Financial Officer

(principal financial officer and principal accounting officer)

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**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James L. Cunniff, certify that:

1. I have reviewed this report on Form 10-Q of Electromed, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2024

/s/ James L. Cunniff

James L. Cunniff  
President and Chief Executive Officer

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**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bradley M. Nagel, certify that:

1. I have reviewed this report on Form 10-Q of Electromed, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2024

/s/ Bradley M. Nagel

Bradley M. Nagel  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Electromed, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, James L. Cunniff, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2024

/s/ James L. Cunniff

James L. Cunniff

President and Chief Executive Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Electromed, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Bradley M. Nagel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2024

/s/ Bradley M. Nagel  
Bradley M. Nagel  
Chief Financial Officer

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