

2011 Annual Report

Fiscal Year Ending June 30



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ELECTROMED, INC.
Creating superior care through innovation®

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FINANCIAL HIGHLIGHTS

	2011	2010
<i>For the Year</i>		
Net Sales	\$19,003,507	\$14,303,848
Net Income	\$1,055,577	\$916,338
<i>At Year End</i>		
Total Assets	\$20,868,932	\$14,143,237
Long-term Debt	\$1,582,102	\$2,033,325
Long-term Debt to Equity	10.8%	27.2%
Equity	\$14,706,323	\$7,462,614

For complete financial information, please see Part I, Item 8 of our Form 10-K for the year ended June 30, 2011, filed with the Securities and Exchange Commission on September 14, 2011.

**Electromed, Inc. has demonstrated a
Compound Annual SALES GROWTH RATE of**

27.9%
from 2007-2011

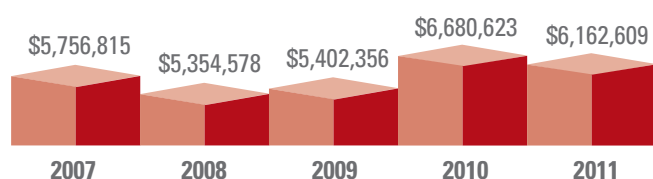
TOTAL ASSETS

Fiscal Year Ending June 30



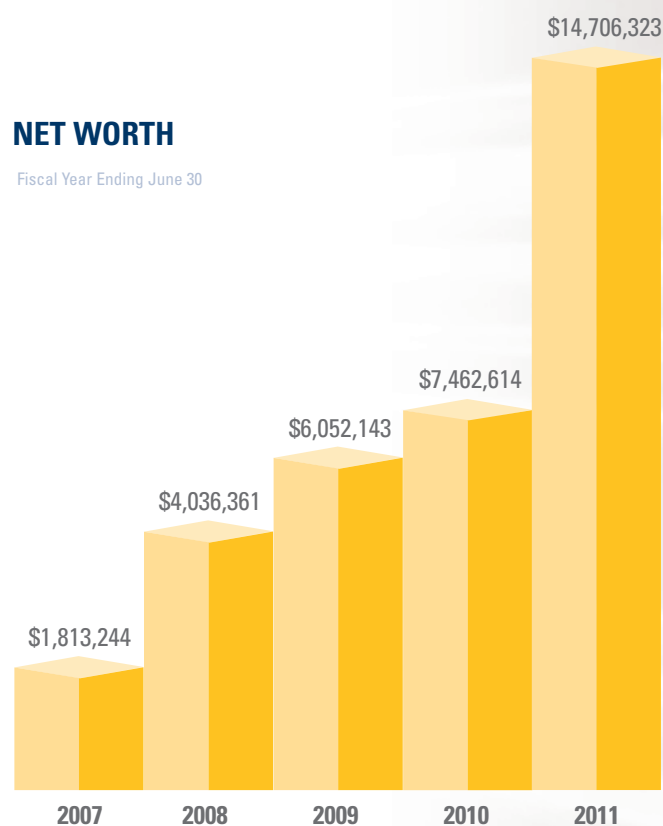
TOTAL LIABILITIES

Fiscal Year Ending June 30



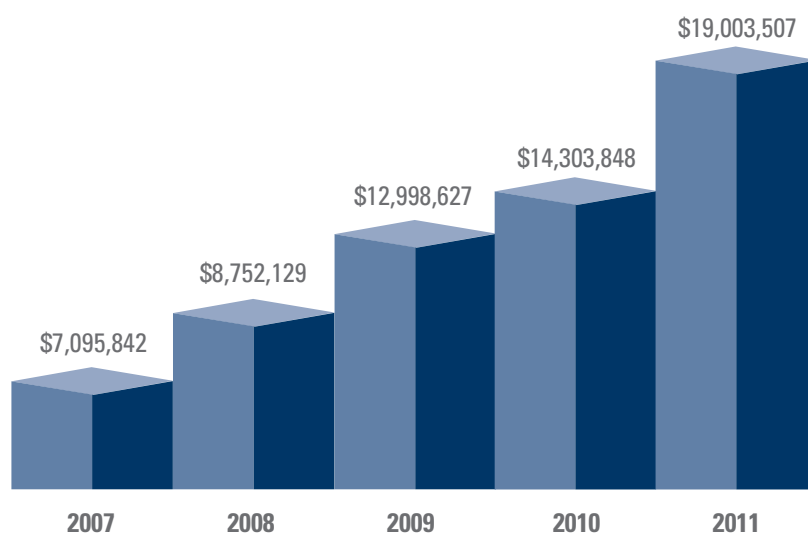
NET WORTH

Fiscal Year Ending June 30



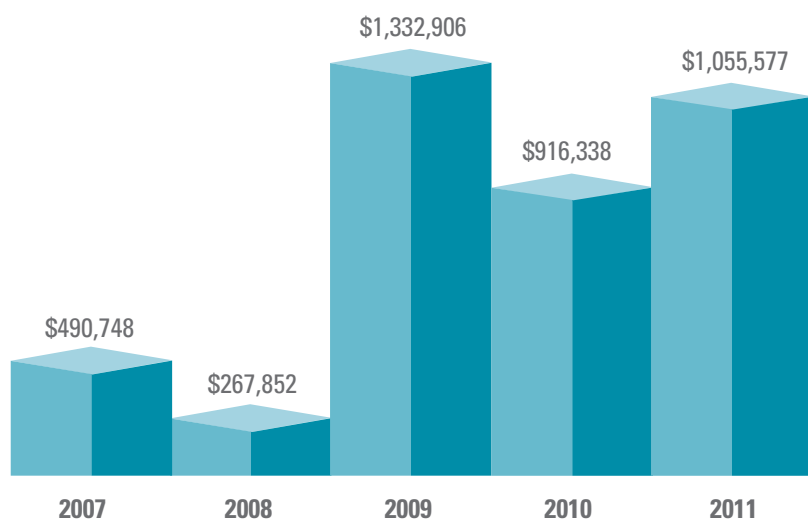
NET SALES

Fiscal Year Ending June 30



NET INCOME

Fiscal Year Ending June 30



COMPANY PROFILE

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

The **SmartVest®** Airway Clearance System has been cleared by the FDA to treat the condition of excess lung secretions by promoting airway clearance and improving bronchial drainage. Consequently, it may be prescribed by physicians to patients suffering from cystic fibrosis, chronic obstructive pulmonary disease (COPD), muscular dystrophy, post-surgical airway complications, and a wide variety of other diseases and conditions associated with impaired lung and airway capacity. By clearing airways, patients using HFCWO techniques are able to rid their lungs of retained secretions and are, therefore, less likely to develop lung infections such as pneumonia.

The **SmartVest®** Airway Clearance System is a physician-prescribed therapy, and depending on the circumstances of the patient, is generally reimbursable by Medicare, Medicaid, or private insurance or a combination of the three within the United States.

MISSION STATEMENT

Electromed, Inc. is dedicated to serving the needs of people with impaired lung conditions on a global basis. We deliver innovative airway clearance products of world-class quality supported by exceptional customer service, while providing superior shareholder return and operating in a fair and ethical manner.

Dear Shareholders,

Fiscal Year 2011 will be remembered as another record breaking period for Electromed, Inc. Your Board and Management met the Company's performance goals. Fiscal year results included the following:

	2010	2011	% Change
Net Sales	\$14,303,848	\$19,003,507	+ 32.9%
Net Income	\$916,338	\$1,055,577	+ 15.2%
Total Assets	\$14,143,237	\$20,868,932	+ 47.6%
Net Worth	\$7,462,614	\$14,706,323	+ 97.1%

These results were achieved in a highly challenging economy. Our nation has been battling economic woes and financial turbulence for the last three years. These results demonstrate that Management's commitments to cost saving medical technology and superior patient service have been well received.

My letter to shareholders last year stated, "Expect a profitable, carefully managed, and high growth journey over the years to come." That commitment stands as we enter FY2012 and beyond. High growth rates result from achieving a position of industry leadership. Your Company has achieved significant earnings while continuing to make major investments in Sales staff expansion, as well as Research and Development (R&D), all directed toward accelerating future growth. Electromed, Inc. is making money and remains on a solid financial footing.

Electromed, Inc. is a technology leader in airway clearance. Its increasing investment in R&D evidences that commitment. The Company's R&D allies are dedicated to protecting that reputation, and this spirit of cooperation is building new and exciting opportunities.



FISCAL YEAR 2011 HIGHLIGHTS

Of course, all great companies, whether small or large, are anchored in the dedication, ability, and determination of their employees. Growing companies add and train people rapidly and on a deliberate and disciplined basis. Dr. James J. Cassidy became the Chief Operating Officer (COO) effective June 1, 2011. He has earned both a PhD in Bioengineering and an MBA. No less significant, his more than twenty years of experience in the medical device field has positioned him for immediate and progressive responsibilities. We are also proud of the other new employees who have joined our ranks in Sales, Patient Services, Manufacturing, Reimbursement, and Administration.

Developing infrastructure to support sustained growth is expensive. Rewards must first be preceded by investment, sacrifice, and risk. A substantial portion of the Company's Gross Margin continues to be reinvested in Sales and R&D infrastructure.

Despite these carefully chosen investment decisions, a picture of growth and profitability continues to emerge. I am confident that FY2012 will produce solid results which can translate into increased interest and participation by individual and institutional investors.

Expect management and your Board to be aggressive, purposeful, and imaginative in serving as stewards of your capital and your confidence. Exceeding the expectations of our customers, shareholders, and employees remains one of the Company's primary goals.



Sincerely,

A handwritten signature in black ink, appearing to read "Robert D. Hansen".

Robert D. Hansen
Chairman and Chief
Executive Officer
October 11, 2011

AUGUST 13, 2010

Electromed, Inc. Completes a Successful Initial Public Offering

DECEMBER 15, 2010

Electromed, Inc. CEO Rings the NASDAQ Closing Bell

MARCH 11, 2011

**Electromed, Inc. Releases S-Small Long-Term Use
SmartVest Wrap®**

APRIL 1, 2011

**Electromed, Inc. Ranked Among Top 100 Public Companies
in Minnesota by the Minneapolis/St. Paul Business Journal**

APRIL 15, 2011

**Electromed, Inc. Named One of the Top 25 Medical Technology
Companies in the Minneapolis/St. Paul Metro Area by the
Minneapolis/St. Paul Business Journal**

APRIL 24, 2011

**Electromed, Inc. Makes the Star Tribune's Top 100 Public
Companies in Minnesota List**

APRIL 29, 2011

**CEO of Electromed, Inc. Named Finalist for 2011 Ernst & Young
Entrepreneur of the Year**



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Driving PRODUCT INNOVATION

*Electromed, Inc.
worked with physicians
to develop the S-Small
SmartVest Wrap®*

"To go from concept to finished product in nine months with an effective product that helps solve a common problem in infants and toddlers with lung diseases earns my highest accolades for Electromed, Inc. My patients and I thank Electromed for demonstrating how working with physicians and patients to resolve clinical problems can be done expediently and effectively. Great work Electromed!"

Paul K. Nolan, MD, FCCP, FAAP

Pediatric Pulmonologist, Driscoll Children's Hospital and Amarillo Children's Clinic

HIGH FREQUENCY CHEST WALL OSCILLATION (HFCWO)

HFCWO has consistently been shown to be a safe, effective, and valuable tool in the clearance of retained pulmonary secretions.

Benefits of an HFCWO treatment such as that delivered by the **SmartVest®** and **SmartVest Wrap®** include reduction in lung infections such as pneumonia, reduction in hospitalizations, and reduction of expensive medications¹.



HOMECARE

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

INSTITUTIONAL

As patient care teams, respiratory therapists, nurses, and physicians strive to speed patients to recovery, ridding lungs of retained secretions is a critical factor in attaining long-term health. The **SmartVest®** Airway Clearance System provides effective HFCWO therapy to achieve airway clearance for a wide variety of medical conditions.





INTERNATIONAL PRESENCE

Electromed, Inc. believes the global HFCWO market represents a significant growth opportunity and intends to continue to expand its international presence. New international distributorship agreements were signed in five countries in FY2011. In order to sell the **SmartVest®** Airway Clearance System in a new country, regulatory clearance needs to be obtained, a process that can take from six to 18 months. Additionally, Electromed, Inc. requires that distributors are trained in sales of the device and quality processes are implemented before product shipping can begin. In FY2011, international sales of \$608,000 in 15 different countries comprised approximately 3.2% of Net Sales. International sales have dropped in some markets as a result of the European economic crisis, yet Electromed, Inc. is busy building new markets for future sales growth, with the **SmartVest®** being displayed in tradeshow across the world with distributors from Japan to Dubai.



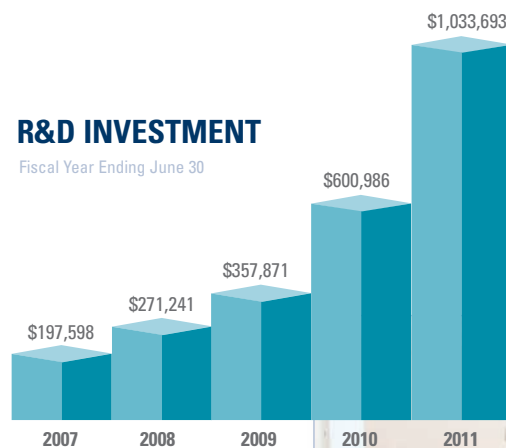
RESEARCH AND DEVELOPMENT

Electromed, Inc. has demonstrated its commitment to product development by introducing several new products and product enhancements since it first entered the market in 2000. Electromed, Inc.'s intellectual property represents one of its most significant strengths. It allowed the Company to pioneer an HFCWO device with a single-hose and flow-through design, leading to competitive advantages in the market. In addition to the 21 U.S. patents and seven foreign patents that Electromed, Inc. currently holds, it has 32 additional pending patent applications domestically and internationally.

The Electromed, Inc. team has established a record of developing new products that receive appropriate product approvals and regulatory clearances. Some of the countries where its products have been approved or cleared for sale include: the U.S., Canada, Member Countries of the European Union, Japan, Taiwan, and Korea.

R&D INVESTMENT

Fiscal Year Ending June 30



GROWTH PROFITABILITY LEADERSHIP

a winning combination

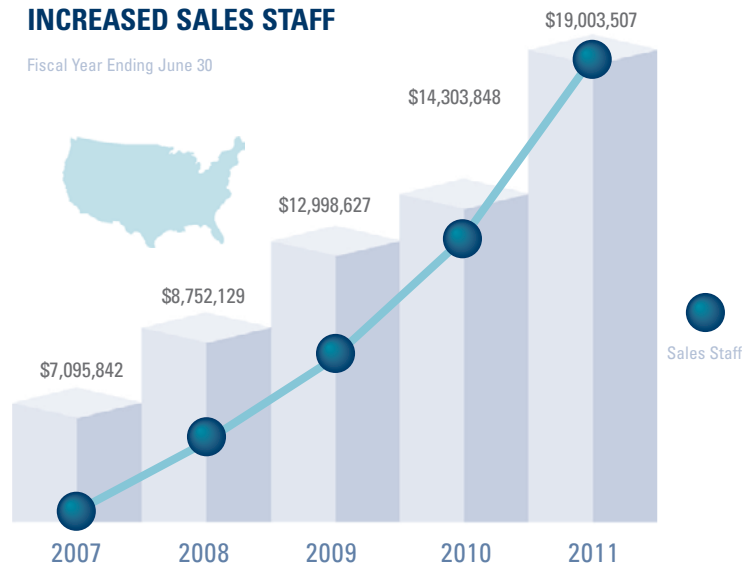
GROWING SALES

Electromed, Inc. anchors its sales growth in the careful selection and training of sales representatives which are identified as Clinical Area Managers (CAMs). During FY2011, the number of CAMs increased from 16 to 24. Three full-time Regional Sales Managers (RSMs) were established beginning July 1, 2011. Each RSM is now supervising one of three distinct regions - Eastern, Central, or Western United States. During FY2011, the RSMs also served as full-time CAMs.

The Company believes that an Average Annual Sales Rate of \$1,000,000 or greater can be attained by each CAM once 18 months of sales training and experience has been achieved. Electromed, Inc. is both growing its sales force and the tools it supports them with, enabling the Company to be as successful as possible.

NET SALES GROW WITH INCREASED SALES STAFF

Fiscal Year Ending June 30



Electromed, Inc.'s Clinical Area Managers – Domestic Sales Staff



GROWING EMPLOYMENT

At the conclusion of FY2011, Electromed, Inc. employed 92 people, 85 of whom are full-time. Additionally, Electromed, Inc.'s total sales staff has grown from 20 to 28 in the past year. Electromed, Inc. also retains several expert consultants as independent contractors who assist with product development, marketing, and international sales opportunities.

TOTAL EMPLOYEES

Fiscal Year Ending June 30



Commitment to **PATIENT SERVICE** and **QUALITY**

PATIENT SERVICE

Electromed, Inc. is committed to providing exceptional service to its patients. A licensed Respiratory Therapist answers each phone call to the Patient Services Department. Furthermore, greater than half of the CAMs are also licensed Respiratory Therapists.

The Company contracts with over 300 respiratory therapists and health care professionals to provide product training to customers and patients in the U.S. Approximately 85% of these trainers are credentialed by the National Board for Respiratory Care as either Certified Respiratory Therapists or Registered Respiratory Therapists. The remainder of these health care professionals are licensed in fields such as respiratory care, nursing, or physical therapy. Electromed, Inc. believes that providing its customers with the opportunity to obtain product support and training directly from health care professionals confirms its commitment to service and quality.

Of Electromed, Inc.'s 92 employees, 28% are respiratory therapists licensed by appropriate state professional organizations. This contributes to Electromed, Inc.'s commitment to providing a continuum of product service from hospital to home. When surveyed following receipt and use of the **SmartVest**[®], over 90% of respondents stated that they would recommend the **SmartVest**[®] Airway Clearance System and Electromed, Inc. to other family and friends.

William H. is able to do things that were never possible before using the **SmartVest**[®]. His wife Vonnell stated, "The **SmartVest**[®] did for him what he wasn't able to do himself. It was the answer to our prayers for us to know that he doesn't have to struggle with coughing day and night. The **SmartVest**[®] has been a lifesaver." Upon receiving the product, an Electromed, Inc. product training representative from the area came to his home and taught him how to use the **SmartVest**[®]. William reported, "The training was straightforward, and the **SmartVest**[®] is comfortable and very easy to use."



Ilana B. experienced Electromed, Inc.'s commitment to patient service when the Company replaced her **SmartVest**[®] generator following an electrical converter problem during a school sponsored trip to Italy. "I love the **SmartVest**[®]! It makes it so much easier for me to travel." Her father praised the Company, the product, and the Electromed, Inc. team, who delivered exceptional customer service halfway around the globe.



COMMITMENT TO QUALITY

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

An independent, not-for-profit organization, The Joint Commission accredits and certifies more than 19,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards.

ANNUAL MEETING

The Annual Meeting of Electromed, Inc. shareholders will be held at its Corporate Headquarters on November 11, 2011 at 10:00 a.m. CST

TRANSFER AGENT AND REGISTRAR

Wells Fargo Shareowner ServicesSM

CORPORATE HEADQUARTERS

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New Prague, MN 56071
Phone: 952-758-9299
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INVESTOR RELATIONS

investorrelations@electromed.com

WEBSITE

www.Electromed.com

BOARD OF DIRECTORS

Robert D. Hansen

Chairman and Chief Executive Officer
Electromed, Inc.

Stephen Craney

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

Craig N. Hansen

Vice President of Research and Development
Hansen Engine Corporation

Thomas M. Hagedorn

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

Darrel Kloeckner, CPA

Business Consultant

George H. Winn, DDS

Practices Dentistry and Orthodontics, New Prague, MN
Former Associate Clinical Professor
University of Minnesota School of Dentistry

OFFICERS

Robert D. Hansen, MA, M.Div.

Chairman and Chief Executive Officer
Electromed, Inc.

James J. Cassidy, PhD, MBA

Chief Operating Officer
Electromed, Inc.

Terry M. Belford, CPA, CMA

Chief Financial Officer
Electromed, Inc.

Certain statements found in this annual report may constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views with respect to future events and financial performance and include any statement that does not directly relate to a current or historical fact. Electromed, Inc.'s forward-looking statements in this annual report generally relate to the following: (i) its strategies for growth; (ii) its intent to continue investing in sales and research and development efforts; (iii) its expectations relating to the international market for HFCWO; (iv) its belief that it is poised for significant sales and earnings growth; and (v) its expectations with respect to profitability and investor participation.

Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements. Examples of risks and uncertainties for Electromed, Inc. include (i) the competitive nature of the HFCWO market; (ii) the continued eligibility of its products for reimbursement; (iii) changes to health care laws and regulations; (iv) the success of its research and development efforts; (v) its ability to protect its intellectual property; (vi) market and general economic conditions; and (vii) other factors described from time to time in its reports to the Securities and Exchange Commission (including its Annual Report on Form 10-K).

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



ELECTROMED, INC.

Creating superior care through innovation®

Corporate Headquarters

500 Sixth Avenue NW

New Prague, MN 56071

Phone: 952-758-9299

Website: www.Electromed.com

Ticker Symbol: ELMD

This annual report was prepared on October 11, 2011