

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2010

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

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

Commission File No.: 001-34839

**Electromed, Inc.**

(Exact name of Registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of  
incorporation or organization)

**41-1732920**  
(IRS Employer  
Identification No.)

500 Sixth Avenue NW, New Prague, MN  
(Address of principal executive offices)

**(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)

Nasdaq Capital Market  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: None

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

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

Large accelerated filer [ ]  
Non-accelerated filer [ ]

Accelerated filer [ ]  
Smaller Reporting Company [X]

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

There were 8,099,885 shares of Electromed, Inc. common stock, par value \$0.01, outstanding as of the close of business on February 11, 2011.

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

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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

#### Electromed, Inc. and Subsidiary Condensed Consolidated Balance Sheets

	December 31 2010 (Unaudited)	June 30 2010
<b>Assets</b>		
Current Assets		
Cash and cash equivalents.....	\$ 5,161,270	\$ 610,727
Accounts receivable (net of allowances for doubtful accounts of \$45,000).....	7,848,776	6,577,002
Inventories .....	1,535,204	1,470,775
Prepaid expenses and other current assets .....	218,197	269,193
Deferred income taxes .....	514,000	514,000
<b>Total current assets</b> .....	15,277,447	9,441,697
Property and equipment, net .....	2,758,014	2,688,941
Finite-life intangible assets, net.....	1,284,299	1,055,776
Deferred common stock offering costs .....	-	828,034
Other assets .....	152,081	128,789
<b>Total assets</b> .....	\$ 19,471,841	\$ 14,143,237
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities		
Revolving line of credit .....	\$ 1,268,128	\$ 1,768,128
Current maturities of long-term debt .....	408,206	397,886
Accounts payable .....	622,909	1,239,827
Accrued compensation .....	727,932	665,083
Warranty reserve .....	424,455	363,277
Other accrued liabilities .....	44,216	60,308
Income tax payable .....	99,592	7,789
<b>Total current liabilities</b> .....	3,595,438	4,502,298
Long-term debt, less current maturities .....	1,832,423	2,033,325
Deferred income taxes .....	145,000	145,000
<b>Total liabilities</b> .....	5,572,861	6,680,623
Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Electromed, Inc. stockholders' equity:		
Common stock, \$0.01 par value; authorized: 15,000,000 shares; issued and outstanding: 8,087,885 and 6,187,885 shares, respectively .....	80,879	61,879
Additional paid-in capital .....	12,698,785	6,685,362
Retained earnings .....	1,201,816	797,873
Common stock subscriptions receivable for shares outstanding of 48,500 .....	(82,500)	(82,500)
<b>Total stockholders' equity</b> .....	13,898,980	7,462,614
<b>Total liabilities and stockholders' equity</b> .....	\$ 19,471,841	\$ 14,143,237

See Notes to Condensed Consolidated Financial Statements.

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2010	2009	2010	2009
Net revenues.....	\$ 4,685,546	\$ 3,222,994	\$ 8,850,975	\$ 6,451,134
Cost of revenues.....	<u>1,145,391</u>	<u>983,998</u>	<u>2,377,092</u>	<u>1,753,265</u>
<b>Gross profit.....</b>	<u>3,540,155</u>	<u>2,238,996</u>	<u>6,473,883</u>	<u>4,697,869</u>
Operating expenses				
Selling, general and administrative.....	2,778,415	1,932,791	5,265,999	3,655,518
Research and development.....	<u>218,703</u>	<u>135,577</u>	<u>417,089</u>	<u>251,043</u>
<b>Total operating expenses.....</b>	<u>2,997,118</u>	<u>2,068,368</u>	<u>5,683,088</u>	<u>3,906,561</u>
<b>Operating income.....</b>	<u>543,037</u>	<u>170,628</u>	<u>790,795</u>	<u>791,308</u>
Interest expense, net of interest income of \$4,017, \$3,021, \$5,988, and \$4,217 respectively	<u>53,165</u>	<u>80,100</u>	<u>112,852</u>	<u>147,540</u>
<b>Net income (loss) before income taxes</b>	<u>489,872</u>	<u>90,528</u>	<u>677,943</u>	<u>643,768</u>
Income tax expense .....	<u>(198,000)</u>	<u>(49,000)</u>	<u>(274,000)</u>	<u>(260,000)</u>
<b>Net income .....</b>	<u>291,872</u>	<u>41,528</u>	<u>403,943</u>	<u>383,768</u>
Less: Net income attributable to non-controlling interest .....	<u>-</u>	<u>(6,234)</u>	<u>-</u>	<u>(12,739)</u>
<b>Net income attributable to Electromed, Inc.</b>	<u>\$ 291,872</u>	<u>\$ 35,294</u>	<u>\$ 403,943</u>	<u>\$ 371,029</u>
Earnings per share attributable to Electromed, Inc. common shareholders:				
Basic .....	<u>\$ 0.04</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>
Diluted .....	<u>\$ 0.04</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>
Weighted-average Electromed, Inc. common shares outstanding:				
Basic .....	<u>8,087,885</u>	<u>6,076,233</u>	<u>7,537,342</u>	<u>6,059,158</u>
Diluted .....	<u>8,115,621</u>	<u>6,139,895</u>	<u>7,573,453</u>	<u>6,123,234</u>

See Notes to Condensed Consolidated Financial Statements.

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

	For the Six Months Ended December 31,	
	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Operating Activities</b>		
Net income .....	\$ 403,943	\$ 383,768
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation .....	162,010	150,361
Amortization of finite-life intangible assets .....	54,784	17,673
Amortization of debt issuance costs .....	27,593	25,703
Share-based compensation expense .....	86,260	77,926
Deferred income taxes .....	-	(55,000)
Loss on disposal of property and equipment .....	5,653	3,728
Issuance of common stock for payment of services .....	-	22,500
Changes in operating assets and liabilities:		
Accounts receivable .....	(1,271,774)	(361,031)
Inventories .....	(64,429)	(128,791)
Prepaid expenses and other assets .....	4,769	(123,643)
Accounts payable and accrued liabilities .....	<u>355,257</u>	<u>65,125</u>
<b>Net cash provided by (used in) operating activities</b> .....	<u>(235,934)</u>	<u>78,319</u>
<b>Cash Flows From Investing Activities</b>		
Expenditures for property and equipment .....	(208,253)	(45,386)
Expenditures for finite-life intangible assets .....	<u>(648,616)</u>	<u>(406,600)</u>
<b>Net cash used in investing activities</b> .....	<u>(856,869)</u>	<u>(451,986)</u>
<b>Cash Flows From Financing Activities</b>		
Borrowings (payments) on revolving line of credit .....	(500,000)	1,268,128
Proceeds from long-term debt .....	-	2,520,000
Principal payments on long-term debt including capital lease obligations	(215,708)	(3,441,758)
Payments of deferred financing fees .....	(4,659)	(46,791)
Proceeds from sales of 1.9 million shares of common stock, net of offering costs of \$1,236,287 .....	6,363,713	-
Proceeds from warrant exercises .....	-	73,332
Repurchase of common stock .....	-	(18,418)
Proceeds from subscription notes receivable.....	-	<u>7,500</u>
<b>Net cash provided by financing activities</b> .....	<u>5,643,346</u>	<u>361,993</u>
<b>Net increase (decrease) in cash and cash equivalents</b> .....	4,550,543	(11,674)
<b>Cash and cash equivalents</b>		
Beginning of period .....	<u>610,727</u>	<u>361,916</u>
End of period .....	<u>\$ 5,161,270</u>	<u>\$ 350,242</u>

See Notes to Condensed Consolidated Financial Statements.

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

	For the Six Months Ended December 31,	
	<u>2010</u>	<u>2009</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest .....	\$ 91,118	\$ 91,809
Cash paid for income taxes .....	<u>\$ 179,575</u>	<u>\$ 498,342</u>
Supplemental Disclosures of Noncash Investing and Financing Activities		
Accrued expenditures for finite-life intangible assets included in accounts payable.....	\$ -	\$ 62,556
Property and equipment financed through capital leases.....	<u>\$ 28,482</u>	<u>\$ 66,564</u>
Reduction in basis of acquired building formerly under capital lease	<u>\$ -</u>	<u>\$ 93,172</u>

See Notes to Condensed Consolidated Financial Statements

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

**Note 1. Interim Financial Reporting**

**Basis of presentation:** Electromed, Inc. (the Company) develops, manufactures and markets innovative airway clearance products which apply High Frequency Chest Wall Oscillation (HFCWO) therapy in pulmonary care for patients of all ages. The Company markets its products in the United States to the home health care and institutional markets for use by patients in personal residences, hospitals and clinics. The Company also sells internationally both directly and through distributors. Since its inception, the Company has operated in a single industry segment: developing, manufacturing and marketing medical equipment.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations as required by Regulation S-X, Rule 10-01. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by U.S. generally accepted accounting principles for annual reports. This interim report should be read in conjunction with the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2010.

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the day the financial statements are issued.

**Principles of consolidation:** The accompanying condensed consolidated financial statements include the accounts of Electromed, Inc. and its subsidiary, Electromed Financial, LLC. Electromed Financial, LLC was established by the Company to assist in raising capital from outside investors. The Company owned 95 percent of Electromed Financial, LLC through March 2, 2010, at which time the Company acquired the remaining five percent of Electromed Financial, LLC from a director of the Company for \$125,000. Income related to the non-controlling interest in the subsidiary is reflected as non-controlling interest on the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

**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. The diluted net income per common share calculation assumes that all stock warrants were exercised and converted into common stock at the beginning of the period, unless their effect would be anti-dilutive. For the six months ended December 31, 2010 common stock equivalents of 245,000, were excluded from the calculation of diluted earnings per share as their impact was antidilutive. For the six months ended December 31, 2009, all common stock equivalents had a dilutive impact.

**Recently issued accounting pronouncements:** In June 2009, the FASB issued revised guidance for the consolidation of variable interest entities. This amends the original guidance requiring an enterprise to

perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity ("VIE"). This analysis identifies the primary beneficiary of a VIE as the enterprise that has both (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE. Additionally, this new guidance requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance. This guidance was effective at the beginning of the Company's 2011 fiscal year and did not have an effect on the Company's consolidated financial statements.

**Reclassifications:** Certain items in the fiscal 2010 financial statements have been reclassified to be consistent with the classifications adopted for fiscal 2011. The fiscal 2010 reclassifications had no impact on previously reported net income or stockholders' equity.

**Note 2. Inventories**

The components of inventory at December 31, 2010 and June 30, 2010 were approximately as follows:

	<u>December 31</u>	<u>June 30</u>
	2010	2010
Parts inventory .....	\$824,000	\$765,000
Work in process .....	343,000	56,000
Finished goods .....	398,000	680,000
Less: Reserve for obsolescence .....	<u>(30,000)</u>	<u>(30,000)</u>
Total .....	<u>\$1,535,000</u>	<u>\$1,471,000</u>

**Note 3. Finite-Life Intangible Assets**

The carrying value of patents and trademarks includes the original cost of obtaining the patents, periodic renewal fees, and other costs associated with maintaining and defending patent and trademark rights. Patents and trademarks are amortized over their estimated useful lives, generally 15 and 12 years, respectively. Accumulated amortization was \$169,000 and \$114,000 at December 31, 2010 and June 30, 2010, respectively.

The activity and balances of finite-life intangible assets were approximately as follows:

	<u>December 31,</u>	<u>June 30,</u>
	2010	2010
Balance, beginning .....	\$1,056,000	\$229,000
Additions .....	283,000	880,000
Amortization expense .....	<u>(55,000)</u>	<u>(53,000)</u>
Balance, ending .....	<u>\$1,284,000</u>	<u>\$1,056,000</u>

Additions consisted primarily of legal defense costs associated with a trademark infringement lawsuit which the Company successfully defended as discussed further in Note 8.

**Note 4. Warranty Liability**

The Company provides a lifetime warranty on its products to the prescribed patient for sales within the United States and Canada, a five-year warranty on its products to the prescribed patient for sales within Greece, and a three-year warranty for all institutional sales and sales to individuals outside the United



States and Canada. The Company estimates the costs that may be incurred under its warranty and it records a liability in the amount of such costs at the time the product is sold. The Company periodically assesses the adequacy of its recorded liability and adjusts the amounts as necessary. Changes in the Company's warranty liability were approximately as follows:

	<u>Six Months Ended</u>	<u>Year Ended</u>
	<u>December 31, 2010</u>	<u>June 30, 2010</u>
Beginning warranty reserve	\$ 363,000	\$ 292,000
Accrual for products sold	143,000	146,000
Expenditures and costs incurred for warranty claims	<u>(82,000)</u>	<u>(75,000)</u>
Ending warranty reserve	<u>\$ 424,000</u>	<u>\$ 363,000</u>

**Note 5. Income Taxes**

On a quarterly basis, the Company estimates what its effective tax rate will be for the full fiscal year and records a quarterly income tax provision based on the anticipated rate. As the year progresses, the Company refines its estimate based on the facts and circumstances by each tax jurisdiction. The effective tax rate for the both the six months ended December 31, 2010 and December 31, 2009 was 40.4%.

**Note 6. Financing Arrangements**

The Company renewed its \$3,500,000 revolving line of credit on November 30, 2010. The line of credit expires on November 30, 2011, if not renewed. Advances are due at the expiration date and are secured by substantially all the Company assets. The amount available for borrowing is limited to 60 percent of eligible accounts receivable less the outstanding balance of the Company's 4.28% term note due December 2012. Interest on advances accrues at LIBOR plus 2.75 percent (3.06% at December 31, 2010) and is payable monthly. As of December 31, 2010, there was approximately \$1,268,000 outstanding on the line of credit and had unused availability of \$2,232,000. The Company is required to pay a fee of 0.125% per annum on unused portions of the revolving line of credit.

**Note 7. Common Stock**

**Sales of common stock:** On August 13, 2010 the Company completed an initial public stock offering (IPO) of 1,700,000 shares of common stock at an offering price of \$4.00 per share. In addition on September 28, 2010, the underwriter in the IPO acquired an additional 200,000 shares at \$4.00 per share pursuant to exercise of a portion of its over-allotment option. After deducting the payment of underwriter discounts, commissions and offering costs, the net proceeds from the sale of shares in the IPO was approximately \$5,946,000.

At the annual meeting of shareholders held on November 5, 2010, the shareholders of the Company voted to amend the Company's Articles of Incorporation to increase the number of authorized shares of capital stock from 10,000,000 to 15,000,000, consisting of 13,000,000 shares of common stock par value \$0.01 per share, and 2,000,000 shares of undesignated stock.

**Note 8. Commitments and Contingencies**

**Litigation:** Subsidiaries of Hill-Rom Holdings, Inc., (collectively, “Hill-Rom”) brought an action on August 21, 2009, against the Company alleging that the Company’s use of the term “SmartVest” infringes on its alleged trademark “The Vest”. For the six months ended December 31, 2010 and the year ended June 30, 2010, the Company incurred and capitalized costs of approximately \$283,000 and \$880,000 respectively in defending this trademark. On September 30, 2010, the companies reached a settlement to the lawsuit. The terms of the Settlement Agreement are confidential, but will not prohibit the Company’s continued use of its SmartVest® marks.

In addition to the trademark matter discussed above, the Company is occasionally involved in claims and disputes arising in the ordinary course of business. The Company insures its 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.

#### **Note 9. Related Parties**

The Company uses a related-party service provider, a director and minority shareholder of which was the original inventor of the Company’s product, to perform certain outsourced research and development functions. The Company’s chief executive officer is also president, chief executive officer and chairman of the board of directors of the service provider and owns approximately 11% of that entity’s outstanding common stock. In addition, two members of the Company’s board of directors are directors and minority shareholders of the service provider. The Company has an agreement with the service provider which provides that the service provider will perform 80 hours per week of research and development work in exchange for a monthly fee, in the amount of \$30,000. The agreement, which remains in effect for successive six-month terms until terminated by either party, was automatically renewed at December 31, 2010. For the six months ended December 31, 2010 and 2009, expenses for these services totaled approximately \$180,000 and \$114,000 respectively, and such expenses are included in research and development expense in the income statement.

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

*Some of the statements in this report may contain forward-looking statements that reflect our current view on future events, future business, industry and other conditions, our future performance, and our plans and expectations for future operations and actions. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Our forward-looking statements in this report primarily relate to the following: our ability to receive reimbursement for our products; our ability to gain market share; impact of our business strategy on revenues and earnings; increased expenditures for research and development; anticipated expenses related to our intellectual property; future innovations in our product offerings; and our beliefs regarding the sufficiency of working capital and our ability to renew or obtain financing. These statements involve known and unknown risks, uncertainties and other factors that may cause our results or our industry’s actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management’s beliefs and assumptions, which in turn are based on currently available information.*

*You should read this report thoroughly with the understanding that our actual results may differ materially from those set forth in the forward-looking statements for many reasons, including events beyond our control and assumptions that prove to be inaccurate or unfounded. Our actual results or actions could and likely will differ materially from those anticipated in the forward-looking statements for many reasons, including the reasons described in this report. These factors include, but are not limited to:*

*the competitive nature of our market; the risks associated with expansion into international markets; changes to Medicare, Medicaid, or private insurance reimbursement policies; changes to health care laws; changes affecting the medical device industry; our need to maintain regulatory compliance and to gain future regulatory approvals and clearances; our ability to recruit, train, and retain an effective sales force, reimbursement staff, and patient services staff; our ability to protect our intellectual property; the effect of litigation, including legal expenses, that may arise with respect to our intellectual property in the ordinary course of business or otherwise; the impact of tight credit markets on our ability to continue to obtain financing on reasonable terms; and general economic and business conditions.*

## **Overview**

Electromed, Inc. (“we,” “us,” “our,” “the Company,” or “Electromed”) was incorporated in 1992. We are engaged in the business of providing innovative airway clearance products applying High Frequency Chest Wall Oscillation (“HFCWO”) technologies in pulmonary care for patients of all ages.

We manufacture, market and sell products that provide HFCWO, including the Electromed, Inc. SmartVest® Airway Clearance System (“SmartVest System”) and related products, to patients with compromised pulmonary function. The products are sold for both the home health care market and the institutional market for use by patients in hospitals, which are referred to as “institutional sales.” For approximately ten years, we have marketed the SmartVest System and its predecessor products to patients suffering from cystic fibrosis, chronic obstructive pulmonary disease (“COPD”), bronchiectasis and related conditions which can result in repeated episodes of pneumonia. Additionally, we offer such products, upon physician prescription to a patient population that includes post-surgical and intensive care patients at risk of developing pneumonia, patients with end-stage neuromuscular disease, and ventilator-dependent patients. Our goal is to be a consistent innovator in providing HFCWO to patients with compromised pulmonary function.

## **Critical Accounting Policies and Estimates**

Our significant accounting policies and estimates are disclosed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 1 to our Audited Consolidated Financial Statements, included in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended June 30, 2010. The critical accounting policies used in the preparation of the financial statements as of December 31, 2010 have remained unchanged from June 30, 2010.

Some of our accounting policies require us to exercise significant judgment in selecting the appropriate assumptions for calculating financial estimates. Such judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, known trends in our industry, terms of existing contract and other information from outside sources, as appropriate. Policies that require us to exercise significant judgment include revenue recognition and allowance for doubtful accounts; valuation of long-lived and intangible assets; allowance for excess and slow-moving inventory; income taxes; warranty reserve; and share-based compensation.

## **New Accounting Pronouncements**

For recently issued accounting pronouncements, see Note 1 to the Unaudited Consolidated Financial Statements, included in Part I, Item 1 of this Report.

## Results of Operations

### Three Months Ended December 31, 2010 Compared to Three Months Ended December 31, 2009

#### Revenues

Revenue results for the three month periods are summarized in the table below (dollar amounts in thousands).

	Three Months Ended December 31,		Increase (Decrease)	
	2010	2009		
<b>Total Revenue</b>	\$ 4,686	\$ 3,223	\$1,463	45.4 %
<b>Home Care Revenue</b>	\$ 4,246	\$ 3,044	\$1,202	39.5 %
<b>International Revenue</b>	\$ 199	\$ 73	\$ 126	172.6 %
<b>Government/Institutional Revenue</b>	\$ 241	\$ 106	\$ 135	127.4 %

*Home Care Revenue.* Home care revenue was approximately \$4,246,000 for the three months ended December 31, 2010, representing an increase of approximately \$1,202,000, or 39.5%, compared to the same period in the prior fiscal year. This resulted from a 22.9% increase in referrals, from 541 in the three months ended December 31, 2009, to 665 in the same period in the current fiscal year. The percentage increase in revenues is higher than the percentage increase in referrals due to patient referrals received in previous periods being approved for third party reimbursement in the current period. Although the rate of approvals for third-party reimbursement typically varies from period to period, we expect approvals for third-party reimbursement to remain at levels consistent with our historical experience over the course of the fiscal year. The increase in revenues and the increase in referrals is attributable to a 43.4% increase in the existing sales staff, from 14 full time equivalents (FTE's) in the three months ended December 31, 2009, to 21 FTE's in the three months ended December 31, 2010. This increase in sales staff fostered higher revenues through both a deeper and broader penetration of the market.

*International Revenue.* International revenue was \$199,000 for the three months ended December 31, 2010, representing an increase of approximately \$126,000, or 172.6%, compared to the same period in the prior fiscal year. This increase resulted from an increase in sales to Europe and Asia. International sales is still a small portion of our total sales and is subject to large percentage increases and decreases from quarter to quarter although the dollar variation is not large compared to our total sales.

*Government/Institutional Revenue.* Government/institutional revenue was approximately \$241,000 for the three months ended December 31, 2010, representing an increase of approximately \$135,000, or 127.4%, compared to approximately \$106,000 for the same period in the prior fiscal year reflecting increased sales to group purchasing organization members, sales to a larger number of institutions and generally greater market acceptance.

### ***Gross Profit***

Gross profit increased to \$3,540,000, or 75.6% of net revenues, for the three months ended December 31, 2010, from approximately \$2,239,000, or 69.5% of net revenues in the same period in the prior fiscal year. The increase in gross profit dollars resulted primarily from an increase in sales volume. The increase in gross profit percentage was primarily the result of higher than average reimbursement yield secured from the mix of referrals during the three month period. Factors such as diagnoses which are not assured of reimbursement and insurance programs with lower reimbursement amounts (for example state Medicaid programs) affect average reimbursement received on a short-term basis. These factors tend to fluctuate on a quarterly basis; however, management does not believe the results of the quarter ended December 31, 2010, are indicative of a long-term increase in margins.

### ***Operating expenses***

*Selling, general and administrative expenses.* Selling, general and administrative expenses were approximately \$2,778,000 for the three months ended December 31, 2010, representing an increase of approximately \$845,000, or 43.7%, compared to selling, general and administrative expenses of approximately \$1,933,000 for the same period the prior fiscal year. Payroll and compensation-related expenses were approximately \$1,203,000 for the three months ended December 31, 2010, representing an increase of approximately \$392,000, or 48.2%, compared to approximately \$811,000 in the same period the prior year. This increase primarily resulted from a 51.4% increase in selling, general and administrative employees from an average of 37 selling, general and administrative employees for the three months ended December 31, 2009 compared to an average of 56 in for the same period in the current fiscal year.

Health insurance costs for full-time employees were approximately \$172,000 for the three months ended December 31, 2010, representing an increase of approximately \$57,000, or 49.6%, from approximately \$115,000 in the same period of fiscal 2010. This increase resulted from an increase in the number of participants in the health insurance plan. Travel, meals and entertainment expenses were approximately \$348,000 in the three months ended December 31, 2010, representing an increase of approximately \$95,000, or 37.5%, compared to approximately \$253,000 the same period in the prior year. This increase was primarily due to the 43.4% increase in the size of the sales force.

Advertising and marketing expenses for the three months ended December 31, 2010 were approximately \$262,000, an increase of approximately \$102,000 or, 63.8% compared to approximately \$160,000 in the same period the prior fiscal year. These increased expenditures related to providing marketing support to a larger sales team. Patient training expenses for the three months ended December 31, 2010, were approximately \$118,000, an increase of approximately \$32,000, or 37.2% compared to approximately \$86,000 in the same period the prior fiscal year. These increases resulted from the increased volume of home care patient referrals for the three months ended December 31, 2010 compared to the same period the prior fiscal year.

Accounting and outside services expenses for the three months ended December 31, 2010 were approximately \$140,000, an increase of approximately \$119,000 compared to approximately \$21,000 in the same period of the prior fiscal year related primarily to additional auditing and review services, increased IT expenses related to security and backup, and expenses for printing and shareholder services related to being a public company. General insurance expenses were approximately \$34,000 for the three months ended December 31, 2010, an increase of approximately \$24,000 compared to approximately \$10,000 in the same period the prior fiscal year. This was primarily the result of an increased general liability premium due to higher sales and an increased director and officer premium related to becoming a public company.

*Research and development expenses.* Research and development expenses were approximately \$219,000 for the three months ended December 31, 2010, representing an increase of approximately \$83,000, or 61.0%, compared to approximately \$136,000 in the same period the prior fiscal year. The increase was related to various research projects directed toward system design and performance, enhancements to therapy garments and possible product additions to the SmartVest® line. Research and development costs for the three months ended December 31, 2010 were 4.7% of revenue, compared to

4.2% of revenue in the same period the prior fiscal year. Management plans to increase research and development expenses to approximately 5% or greater of revenue in the future.

***Interest expense***

Interest expense was approximately \$53,000 for the three months ended December 31, 2010, representing a decrease of approximately \$27,000, or 33.8%, compared to approximately \$80,000 for the same period the prior fiscal year. The decrease resulted from a combination of a decrease in average debt outstanding due to payments on term loans and lower average interest rates on outstanding debt.

***Income tax expense***

Income tax expense was approximately \$198,000 for the three months ended December 31, 2010 compared to \$49,000 in the same period the prior fiscal year. Income tax expense increased as a result of higher pre-tax income.

***Net income***

Net income for the three months ended December 31, 2010, was approximately \$292,000, or 6.2% of revenues, compared to approximately \$35,000, or 1.1% of revenues, for the same period the prior fiscal year and earnings per share for the three months ended December 31, 2010, was \$0.04 per share, compared to \$0.01 per share for the same period the prior fiscal year. The increase in net income in dollars, as a percentage of revenues, and earnings per share primarily resulted from increases in revenues which were greater than increases in expenses. Management believes the increases in sales force, support and production personnel coupled with an aggressive expansion of marketing have resulted in higher revenues and increased earnings.

***Six Months Ended December 31, 2010 Compared to Six Months Ended December 31, 2009***

***Revenues***

Revenue results for the six month periods are summarized in the table below (dollar amounts in thousands).

	<b>Six Months Ended December 31,</b>		<b>Increase (Decrease)</b>	
	<b>2010</b>	<b>2009</b>		
<b>Total Revenue</b>	\$ 8,851	\$ 6,451	\$2,400	37.2 %
<b>Home Care Revenue</b>	\$ 8,049	\$ 5,981	\$2,068	34.4 %
<b>International Revenue</b>	\$ 358	\$ 275	\$ 83	30.2 %
<b>Government/Institutional Revenue</b>	\$ 444	\$ 195	\$ 249	127.7 %

***Home Care Revenue.*** Home care revenue was approximately \$8,049,000 for the six months ended December 31, 2010, representing an increase of approximately \$2,068,000, or 34.6%, compared to approximately \$5,981,000 for the same period in the prior fiscal year. This increase resulted from a 30.3% increase in referrals, advancing from 965 in the six months ended December 31, 2009, to 1,257 in the same

period in fiscal 2011. The percentage increase in revenues was higher than the percentage increase in referrals due to patient referrals received in previous periods being approved for third party reimbursement in the current period. Although the rate of approvals for third-party reimbursement typically varies from period to period, we expect approvals for third-party reimbursement to remain at levels consistent with historical experience over the course of the year. The increase in revenues and the increase in referrals resulted primarily from a 35.7% increase in our existing sales staff, from 14 FTE's in the six months ended December 31, 2009, to 19 FTE's in the comparable period in the current fiscal year. This increase in sales staff fostered higher revenues through both a deeper and broader penetration of the market.

*International Revenue.* International revenue was approximately \$358,000 for the six months ended December 31, 2010, representing an increase of approximately \$83,000, or 30.2%, compared to approximately \$275,000 the same period the prior fiscal year as sales to both Europe and Asia increased. International sales is still a small portion of our total sales and is subject to large percentage increases and decreases when comparing current to previous periods although the dollar variation is not large compared to our total sales.

*Government/Institutional Revenue.* Government/institutional revenue was approximately \$444,000 for the six months ended December 31, 2010, representing an increase of approximately \$249,000, or 127.7%, compared to approximately \$195,000 in the same period in the prior fiscal year reflecting increased sales to group purchasing organization members, sales to a larger number of institutions and generally greater market acceptance.

### ***Gross Profit***

Gross profit increased to \$6,474,000, or 73.1% of net revenues, for the six months ended December 31, 2010, from approximately \$4,698,000 million, or 72.8% of net revenues in the same period in the prior fiscal year. The increase in gross profit dollars resulted primarily from the increase in sales volume.

### ***Operating expenses***

*Selling, general and administrative expenses.* Selling, general and administrative expenses were approximately \$5,266,000 for the six months ended December 31, 2010, representing an increase of approximately \$1,611,000, or 44.0%, compared to selling, general and administrative expenses of approximately \$3,655,000 for the same period in the prior fiscal year. Payroll and compensation-related expenses were approximately \$2,350,000 for the six months ended December 31, 2010, representing an increase of approximately \$698,000, or 42.2%, compared to approximately \$1,652,000 in the same period the prior fiscal year. This increase primarily resulted from a 46.5% increase in total employees from an average of 36 full-time equivalent (FTE) selling, general and administrative employees in the six months ended December 31, 2009 compared to an average of 52 FTE selling, general and administrative employees in for the same period in the current fiscal year.

Health insurance costs for full-time employees were approximately \$330,000 for the six months ended December 31, 2010, representing an increase of approximately \$115,000, or 53.5%, from approximately \$215,000 in the same period in fiscal 2010. This increase resulted primarily from an increase in the number of participants in the health insurance plan as the number of qualifying employees increased. Travel and meals and entertainment expenses were approximately \$683,000 in the six months ended December 31, 2010, representing an increase of approximately \$238,000, or 53.5%, compared to approximately \$445,000 the same period in the prior fiscal year. This increase was primarily due to the 35.7% increase in the size of the sales force along with increased travel costs of management in connection with training new staff.

Advertising and marketing expenses for the six months ended December 31, 2010, were approximately \$486,000, an increase of approximately \$240,000, or 97.5% compared to approximately \$246,000 in the

same period the prior fiscal year. These increased expenditures related to providing greater marketing support to a larger sales team. Patient training expenses for the six months ended December 31, 2010, were approximately \$218,000, an increase of approximately \$61,000, or 38.9% compared to approximately \$157,000 in the same period the prior fiscal year. These increases resulted from the increased volume of home care patient referrals for the six months ended December 31, 2010, compared to the same period the prior fiscal year.

Accounting and outside services expenses for the six months ended December 31, 2010, were approximately \$229,000, an increase of approximately \$127,000, or 124.5% compared to approximately \$102,000 in the same period of the prior fiscal year related primarily to additional auditing and review services, increased IT expenses related to security and backup, and expenses for printing and shareholder services related to being a public company.

*Research and development expenses.* Research and development expenses were approximately \$417,000 for the six months ended December 31, 2010, representing an increase of approximately \$166,000, or 66.1%, compared to research and development expenses of approximately \$251,000 in the same period the prior fiscal year. The increase was related to various research projects related to system design and performance, enhancements to therapy garments and possible product additions to the SmartVest line. Research and development costs for the six months ended December 31, 2010 were 4.7% of revenue, compared to 3.9% of revenue for the same period the prior fiscal year. Management plans for research and development expense to increase to approximately 5% of revenue in the future.

#### ***Interest expense***

Interest expense was approximately \$113,000 for the six months ended December 31, 2010 representing a decrease of approximately \$35,000, or 23.6%, compared to interest expense of approximately \$148,000 for the same period the prior fiscal year. The decrease resulted from a combination of a decrease in average debt outstanding due to payments on term loans and lower average interest rates on outstanding debt.

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

Income tax expense was approximately \$274,000 for the six months ended December 31, 2010 compared to \$260,000 in the same period the prior year. Income tax expense increased as a result of higher pre-tax income. The effective income tax rate for both the six months ended December 31, 2010 and December 31, 2009 was 40.4%.

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

Net income for the six months ended December 31, 2010 was approximately \$404,000, or 4.6% of revenues, compared to approximately \$371,000, or 5.8% of revenues, for the same period the prior fiscal year, and earnings per share for the three months ended December 31, 2010, was \$0.05 per share, compared to \$0.06 per share for the same period the prior fiscal year. The decrease in net income as a percentage of revenues primarily resulted from increases in expenses designed to develop, support and maintain a higher sales level. The decrease in earnings per share for the six-month period primarily resulted from an increase to the number of outstanding shares of Company common stock as compared to the prior-year period, which was attributable to the Company's completion of its initial public offering in August 2010. Including the underwriter's over-allotment option, a total of 1,900,000 shares of Company common stock were registered and sold in the initial public offering. Management believes the increases in sales force, support and production personnel coupled with an aggressive expansion of marketing and research and development efforts is providing the foundation for a successful increase in market share.



## **Liquidity and Capital Resources**

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

#### *Cash Flows from Operating Activities*

For the six months ended December 31, 2010, net cash used by operating activities was approximately \$236,000. Cash used by operations was primarily attributable to net income adjusted for non-cash expenses of approximately \$740,000, combined with a decrease in prepaid expenses, and an increase in other accrued liabilities of approximately \$360,000. This was offset by increases in accounts receivable and inventory of \$1,272,000 and \$64,000, respectively.

For the six months ended December 31, 2009, net cash provided by operating activities was approximately \$78,000. Cash flows provided by operations were primarily a result of net income adjusted for non-cash expenses of approximately \$627,000 combined with an increase in trade payables and other accrued liabilities of approximately \$65,000 offset by increases in accounts receivable, inventories and prepaid expenses of approximately \$361,000, \$129,000 and \$124,000 respectively.

#### *Cash Flows from Investing Activities*

For the six months ended December 31, 2010, cash used in investing activities was approximately \$857,000. During this period we paid approximately \$649,000 in costs related to defending the SmartVest® trademark and approximately \$208,000 for purchases of property and equipment.

For the six months ended December 31, 2009, cash used for investing activities was approximately \$452,000. During this period we paid approximately \$407,000 in costs related to defending the SmartVest® trademark and approximately \$45,000 for the purchase of equipment.

#### *Cash Flows from Financing Activities*

For the six months ended December 31, 2010, cash provided by financing activities was approximately \$5,643,000, consisting of approximately \$6,364,000 net proceeds during the six month period from the issuance of common stock in our initial public offering (IPO). This was offset by payments of \$500,000 on the revolving credit line, principal payments on long-term debt of approximately \$216,000 and payments of deferred financing fees of approximately \$5,000.

For the six months ended December 31, 2009, cash provided by financing activities was approximately \$362,000, consisting of approximately \$1,268,000 net borrowings on a revolving line of credit along with proceeds from long-term debt of approximately \$2,520,000 and approximately \$81,000 from the sale of common stock and receipts on subscription notes receivable, offset by payments on long-term debt of approximately \$3,442,000, deferred financing fees of approximately \$47,000, and non-controlling interest distributions of approximately \$18,000.

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

We believe, based on our current operational performance, our available borrowings under our existing credit facility and available cash from the successful completion of our IPO are sufficient to meet our liquidity needs for, at a minimum, the next twelve months. 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 flow.

Our primary capital requirements relate to adding employees in our Reimbursement, Patient Services and Administrative Departments; adding members to our sales force; continuing research and development efforts; and for general corporate purposes, including to finance equipment purchases and other capital expenditures in the ordinary course of business and to satisfy working capital needs.

For the first six months of fiscal 2011 and 2010, respectively, we spent approximately \$208,000 and \$45,000 on property and equipment. We currently expect to finance equipment purchases with borrowings under the credit facility and with available cash. In addition, we have incurred and capitalized approximately a total of \$1,163,000 of legal defense costs associated with a trademark lawsuit, which, as disclosed in Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, entitled "Legal Proceedings," was settled pursuant to a confidential settlement agreement on September 30, 2010. Accordingly, we anticipate future costs associated with intellectual property to be at significantly lower levels.

We currently have a credit facility with U.S. Bank, National Association ("U.S. Bank") that provides for a \$3,500,000 revolving line of credit and \$2,520,000 in term debt. A \$1,520,000 term loan bears interest at 5.79% ("Term Loan A"). The remaining \$1,000,000 term loan bears interest at 4.28% ("Term Loan B"). The operating line of credit has an interest rate of LIBOR plus 2.75%. The amount eligible for borrowing on the line of credit is limited to 60% of eligible accounts receivable less the outstanding balance on our Term Loan B and requires monthly payments of interest. The line of credit was originally scheduled to expire on November 30, 2010. As disclosed in Part II, Item 5 of this Report, entitled "Other Information," the credit facility was amended on November 30, 2010 to extend the maturity date for the operating line of credit to November 30, 2011. Term Loan B requires monthly payments of principal and interest of approximately \$29,600 and has a maturity date of December 9, 2012. As of December 31, 2010, we had \$1,268,000 outstanding on the operating line of credit and \$2,127,000 outstanding on the term debt for a total outstanding under the U.S. Bank credit facility of \$3,395,000. As of December 31, 2010, we had net unused availability of \$2,232,000 under the line of credit. We are required to pay a fee of 0.125% per annum on unused portions of the revolving line of credit.

The agreement governing the credit facility contains certain covenants that restrict the Company's ability to, among other things, pay cash dividends, incur indebtedness or liens, change Chief Executive Officer or Chief Financial Officer, merge or consolidate with any person, or sell, lease, assign, transfer or otherwise dispose of any assets other than in the ordinary course of business. The agreement also contains financial covenants that require maintenance of certain fixed charge and cash flow leverage ratios. Our obligations under the U.S. Bank credit facility are secured by substantially all of our assets and are guaranteed by our wholly owned subsidiary, Electromed Financial, LLC.

On August 13, 2010, we completed the sale of 1,700,000 shares of common stock, par value \$0.01 per share, in an IPO, at an offering price of \$4.00 per share. On September 28, 2010, Feltl and Company, Inc., the underwriter of the IPO, acquired 200,000 shares of our common stock at a price of \$4.00 per share, pursuant to exercise of its over-allotment option. Gross proceeds from the issuance of common stock in connection with the IPO, including the over-allotment option, were approximately \$7,600,000. After deducting the payment of underwriters' discounts and commissions and offering expenses, our net proceeds from the sale of shares in the IPO, including the over-allotment option, were approximately \$5,946,000.

#### **Certain Information Concerning Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

#### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Not applicable to smaller reporting companies.

## **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 Rule 13a-15(e) or Rule 15d-15(e), as of the end of the period subject to this Report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our periodic and current reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate to allow timely decisions regarding required disclosures.

### **Changes to Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the first six months of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

As previously disclosed in Part II, Item 1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010, we reached a definitive settlement agreement on September 30, 2010 with respect to its litigation with Hill-Rom Services, Inc., ARI, Hill-Rom Company, Inc., and Hill-Rom Services Pte. Ltd. (collectively, "Hill-Rom"). The terms of the settlement are confidential. We have no plans to change our use of the SmartVest® marks.

In addition to the foregoing, we may be party to legal actions, proceedings, or claims in the ordinary course of business. Corresponding costs are accrued when it is more likely than not that we will incur a loss and the amount can be precisely or reasonably estimated. We are not aware of any undisclosed actual or threatened litigation that would have a material adverse effect on its financial condition or results of operations.

### **Item 1A. Risk Factors**

Not applicable to smaller reporting companies.

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

#### **Unregistered Sales of Equity Securities**

On January 1, 2011, we issued 12,000 shares of common stock to an employee pursuant to a warrant exercise for cash consideration of \$24,000. The transaction did not involve an underwriter. We believe the transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, based on the limited number of offerees and the identity of the offeree as an executive officer of the Company, and Section 3(a)(9) thereof and Rule 701 promulgated thereunder, because the sale was made pursuant to a written compensatory benefit contract, and the offer of the securities commenced prior to the time the Company became subject to Exchange Act reporting obligations.

## **Use of Proceeds**

We completed our IPO of shares of common stock, \$0.01 par value during the fiscal quarter ended September 30, 2010. The effective date of the registration statement relating to the IPO, filed on Form S-1 under the Securities Act of 1933 (File No. 333-166470), was August 12, 2010. A total of 1,700,000 shares of common stock were registered and sold in the IPO. In addition, we granted Feltl and Company, Inc. (“Feltl”), the underwriter of the IPO, warrants to purchase up to 170,000 additional shares of our common stock at a price of \$4.80 per share and an over-allotment option to purchase 255,000 shares at \$4.00 per share, less an underwriting discount of \$0.30 per share. On September 28, 2010, Feltl exercised its overallotment option to acquire 200,000 additional shares of common stock. As a result of this exercise, Feltl also received warrants to purchase up to 20,000 additional shares of our common stock.

The aggregate offering price of the securities sold in the IPO, including the shares sold to Feltl upon exercise of its overallotment option, was equal to \$7,600,000. The aggregate underwriting discount for shares sold in the offering and pursuant to the overallotment option was equal to \$570,000, none of which was or will be paid to our affiliates. We incurred approximately \$1,084,000 of offering costs in connection with the IPO. We received net proceeds from the IPO of approximately \$5,946,000. We have used \$500,000 to reduce the amount of existing indebtedness under our credit facility with U.S. Bank, National Association. We have used and intend to use the remainder of the proceeds from the offering to add employees to our Reimbursement, Patient Services and Administrative Departments; add members to our sales force and further develop its focus on institutional sales; continue its research and development efforts; and for general corporate purposes, including to finance equipment purchases and other capital expenditures in the ordinary course of business and to satisfy working capital needs.

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

None.

### **Item 4. (Removed and Reserved)**

### **Item 5. Other Information**

On November 30, 2010, we entered into a First Amendment to Credit Agreement (the “Amendment”) with U.S. Bank, which amended our Credit Agreement dated December 9, 2009. The Amendment extends our revolving line of credit until November 30, 2011 and requires us to pay a fee of 0.125% per annum on unused portions of the revolving line of credit.

### **Item 6. Exhibits**

See attached exhibit index.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: February 11, 2011

/s/ Robert D. Hansen

Robert D. Hansen, Chief Executive Officer  
(Principal Executive Officer)

/s/ Terry M. Belford

Terry M. Belford, Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT INDEX  
ELECTROMED, INC.  
FORM 10-Q

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amendment No. 3, dated November 8, 2010, to Articles of Incorporation
10.1	First Amendment, dated November 30, 2010, to Credit Agreement dated December 9, 2009, between Electromed, Inc. and U.S. Bank, N.A.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**ARTICLES OF AMENDMENT  
OF  
ELECTROMED, INC.**

Electromed, Inc., a corporation organized and existing under the laws of the State of Minnesota (the “Company”) hereby certifies as follows:

The Board of Directors of the Company has adopted a resolution to amend the Company’s Articles of Incorporation and the Shareholders of the Company have voted to approve the amendment, such that Article 3 of the Articles of Incorporation of the Company reads in its entirety as follows:

**ARTICLE 3 – CAPITAL STOCK**

3.1 Authorized Shares. The aggregate number of shares that the corporation has authority to issue shall be Fifteen Million (15,000,000) shares, consisting of 13,000,000 shares of common stock and 2,000,000 shares of undesignated stock. Such shares shall not have any par value, except that they shall have a par value of one cent (\$.01) per share solely for the purpose of a statute or regulation imposing a tax or fee based upon the capitalization of a corporation, and except that they shall have such par value as may be fixed by the Corporation’s Board of Directors for the purpose of a statute or regulation requiring the shares of the corporation to have a par value.

3.2 Issuance of Shares. The Board of Directors of the corporation is authorized from time to time to accept subscriptions for, issue, sell and deliver shares of stock of any class or series of the corporation, and rights to purchase securities of the corporation, to such persons, at such time, for such consideration, and upon such terms and conditions as the Board shall determine.

3.3 Classes and Series of Shares. The Board of Directors of the corporation is further authorized to establish from among the authorized shares, by resolutions adopted and filed in the manner provided by law, one or more classes and/or series of shares, to designate each such class and/or series, and to fix the relative rights, preferences, and limitations of any such classes and/or series.

/s/ Robert D. Hansen  
Robert D. Hansen, Chairman



## FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), made and entered into as of November 30, 2010, is by and between Electromed, Inc., a Minnesota corporation (the "Borrower"), and U.S. Bank National Association, a national banking association (the "Bank").

### RECITALS

1. The Bank and the Borrower entered into a Credit Agreement dated as of December 9, 2009 (the "Credit Agreement"); and
2. The Borrower desires to amend certain provisions of the Credit Agreement, and the Bank has agreed to make such amendments, subject to the terms and conditions set forth in this Amendment.

### AGREEMENT

**NOW, THEREFORE**, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby covenant and agree to be bound as follows:

**Section 1. Capitalized Terms.** Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, unless the context otherwise requires.

**Section 2. Amendments.** The Credit Agreement is hereby amended as follows:

2.1 **Definitions.** Section 1.1 of the Credit Agreement is amended as follows:

(a) The definitions of "Fixed Charge Coverage Ratio," "Obligations," and "Termination Date" are amended to read in their respective entireties as follows:

"Fixed Charge Coverage Ratio": For the four consecutive fiscal quarters ending on the date of determination, the ratio of

(a) EBITDA, plus operating lease expense, minus the sum of (i) any Restricted Payments, (ii) 50% of depreciation and (iii) tax expenses of the Borrower paid in cash,

to

(b) the sum of cash interest payments and all required principal payments with respect to Total Liabilities (including but not limited to all payments with respect to Capitalized Lease Obligations of the Borrower), plus operating lease expense,

in each case determined for said period in accordance with GAAP.

"Obligations": The Borrower's obligations in respect of the due and punctual payment of principal and interest on the Notes when and as due, whether by acceleration or otherwise, all fees (including Revolving Commitment Fees), expenses, indemnities, reimbursements and other obligations of the Borrower under this Agreement or any other Borrower Loan Document, and the Rate Protection Obligations, in all cases whether now existing or hereafter arising or incurred.

“Termination Date”: The earlier of (a) November 30, 2011, and (b) the date on which the Revolving Commitment is terminated pursuant to Section 7.2.

(b) The following new definitions are added in their proper alphabetical order:

“Revolving Commitment Fee”: As defined in Section 2.12.

“Unused Revolving Commitment”: As of any date of determination, the amount by which the Revolving Commitment Amount exceeds the principal amount of Revolving Loans outstanding on such date.

2.2 **Application of Mandatory Prepayments for a Prepayment Event**. Section 2.6(b) of the Credit Agreement is amended to read in its entirety as follows:

(b) **Mandatory Prepayments for a Prepayment Event**. If at any time a Prepayment Event occurs, the Borrower shall immediately pay to the Bank the net proceeds realized by such Prepayment Event. Each such payment shall be applied first to any outstanding Revolving Loans, second to the Term Loan B, and third to the Term Loan A. All prepayments applied to a Term Loan shall be applied to the scheduled principal payments on such Term Loan in the inverse order of their maturities.

2.3 **Computation**. Section 2.7 of the Credit Agreement is amended to read in its entirety as follows:

Section 2.7 **Computation**. Revolving Commitment Fees and interest on the Loans shall be computed on the basis of actual days elapsed and a year of 360 days.

2.4 **Revolving Commitment Fees**. The following new Section 2.12 is added to the Credit Agreement:

Section 2.12 **Revolving Commitment Fees**. The Borrower shall pay to the Bank fees (the “Revolving Commitment Fees”) in an amount determined by applying a rate of 0.125% per annum to the average daily Unused Revolving Commitment for the period from the date of the First Amendment hereto to the Termination Date. Revolving Commitment Fees are payable in arrears on the last day of each fiscal quarter of the Borrower and on the Termination Date.

2.5 **Financial Statements and Reports**. Section 5.1(c), (d), and (e) of the Credit Agreement are amended to read in their respective entireties as follows:

(c) As soon as practicable and in any event within 30 days after the end of each fiscal quarter of the Borrower, (i) a compliance certificate in the form attached hereto as Exhibit G signed by the chief financial officer of the Borrower demonstrating in reasonable detail compliance (or noncompliance, as the case may be) with Sections 6.14 and 6.15 as at the end of such quarter and stating that as at the end of such quarter there existed no Default or Event of Default or, if a Default or Event of Default existed, specifying the nature and period of existence thereof and what action the Borrower has taken, is taking, and proposes to take with respect thereto and (ii) levels of dilutive write-offs to receivables.

(d) As soon as practicable and in any event within 30 days after the end of each month, a Borrowing Base Certificate signed by the chief financial officer of the Borrower, reporting (i) the Borrowing Base as of the last day of the month just ended and (ii) gross monthly A/R billings.

(e) As soon as practicable and in any event within 120 days after the beginning of each fiscal year of the Borrower, statements of forecasted income for the Borrower for each fiscal

month in such fiscal year and a forecasted balance sheet of the Borrower, together with supporting assumptions, as at the end of each fiscal month, all in reasonable detail and reasonably satisfactory in scope to the Bank.

2.6 **Disposition of Assets.** Section 6.2 of the Credit Agreement is amended by (a) deleting the word “and” from the end of subsection (a) thereof; (b) deleting the period at the end of subsection (b) thereof and inserting “; and”; and (c) adding the following new subsection (c):

(c) the sale of property (other than accounts receivable) in an amount not to exceed \$100,000 in the aggregate in an fiscal year of the Borrower (so long as before and after giving effect to each such sale no Default or Event of Default exists).

2.7 **Collateral Exam.** Section 6.20 of the Credit Agreement is amended to read in its entirety as follows:

Section 6.20 **Collateral Exam.** Upon request of the Bank, the Borrower shall permit the Bank to make collateral examinations as provided in the Security Agreement.

2.8 **Form of Compliance Certificate.** Exhibit G to the Credit Agreement is amended to read in its entirety as set forth on Exhibit A hereto.

**Section 3. Effectiveness of Amendments.** The amendments in this Amendment shall become effective upon delivery by the Borrower of, and compliance by the Borrower with, the following:

3.1 This Amendment duly executed by the Borrower.

3.2 A copy of the resolutions of the board of directors of the Borrower authorizing the execution, delivery, and performance of this Amendment certified as true and accurate by the Borrower’s secretary or assistant secretary, along with a certification by such secretary or assistant secretary (i) that there has been no amendment to the articles of incorporation or bylaws of the Borrower since true and accurate copies of the same were delivered to the Bank with a certificate of the secretary of the Borrower dated December 9, 2009, and (ii) as to each officer of the Borrower authorized to execute this Amendment and any other instrument or agreement executed by the Borrower in connection with this Amendment (collectively, the “Amendment Documents”), and as to specimens of such officer’s signature and such officer’s incumbency in such offices as such officer holds.

3.3 Certified copies of all documents evidencing any necessary corporate action, consent, or governmental or regulatory approval (if any) with respect to this Amendment.

3.4 A consent by the Guarantor in the form of Exhibit B hereto, duly executed by the Guarantor.

3.5 Good standing certificates for the Borrower and Guarantor from the State of Minnesota issued as of a date acceptable to the Bank.

3.6 The Borrower shall have satisfied such other conditions as specified by the Bank, including payment of all unpaid legal fees and expenses incurred by the Bank through the date of this Amendment in connection with the Credit Agreement and the Amendment Documents.

**Section 4. Representations, Warranties, Authority, No Adverse Claim.**

4.1 **Reassertion of Representations and Warranties, No Default.** The Borrower hereby represents that on and as of the date hereof and after giving effect to this Amendment (a) all of the representations and warranties in the Credit Agreement are true, correct, and complete in all respects as of the date hereof as though made on and as of such date, except for changes permitted by the terms of the

Credit Agreement, and (b) there will exist no Default or Event of Default under the Credit Agreement as amended by this Amendment on such date that the Bank has not waived.

4.2 **Authority, No Conflict, No Consent Required.** The Borrower represents and warrants that it has the power, legal right, and authority to enter into the Amendment Documents and has duly authorized as appropriate the execution and delivery of the Amendment Documents and other agreements and documents executed and delivered by the Borrower in connection therewith by proper corporate action, and none of the Amendment Documents and the agreements therein contravenes or constitutes a default under any agreement, instrument, or indenture to which the Borrower is a party or a signatory, any provision of the Borrower's articles of incorporation or bylaws, or any other agreement or requirement of law, or results in the imposition of any Lien on any of the Borrower's property under any agreement binding on or applicable to the Borrower or any of its property except, if any, in favor of the Bank. The Borrower represents and warrants that no consent, approval, or authorization of or registration or declaration with any Person, including but not limited to any governmental authority, is required in connection with the execution and delivery by the Borrower of the Amendment Documents or other agreements and documents executed and delivered by the Borrower in connection therewith or the performance of obligations of the Borrower therein described, except for those that the Borrower has obtained or provided and as to which the Borrower has delivered certified copies of documents evidencing each such action to the Bank.

4.3 **No Adverse Claim.** The Borrower warrants, acknowledges, and agrees that no events have taken place and no circumstances exist at the date hereof that would give the Borrower a basis to assert a defense, offset, or counterclaim to any claim of the Bank with respect to the Obligations.

**Section 5. Affirmation of Credit Agreement, Further References, Affirmation of Security Interest.** The Bank and the Borrower each acknowledge and affirm that the Credit Agreement, as hereby amended, is hereby ratified and confirmed in all respects and all terms, conditions, and provisions of the Credit Agreement, except as amended by this Amendment, shall remain unmodified and in full force and effect. All references in any document or instrument to the Credit Agreement are hereby amended to refer to the Credit Agreement as amended by this Amendment. The Borrower confirms to the Bank that the Obligations are and continue to be secured by the security interests granted by the Borrower in favor of the Bank under the Security Documents, and all of the terms, conditions, provisions, agreements, requirements, promises, obligations, duties, covenants, and representations of the Borrower under the Security Documents and any and all other documents and agreements entered into with respect to the obligations under the Credit Agreement are incorporated herein by reference and are hereby ratified and affirmed in all respects by the Borrower.

**Section 6. Merger and Integration, Superseding Effect.** This Amendment, from and after the date hereof, embodies the entire agreement and understanding between the parties hereto and supersedes and has merged into this Amendment all prior oral and written agreements on the same subjects by and between the parties hereto with the effect that this Amendment shall control with respect to the specific subjects hereof and thereof.

**Section 7. Severability.** Whenever possible, each provision of this Amendment and the other Amendment Documents and any other statement, instrument, or transaction contemplated hereby or thereby or relating hereto or thereto shall be interpreted so as to be effective, valid, and enforceable under the applicable law of any jurisdiction, but if any provision of this Amendment, the other Amendment Documents, or any other statement, instrument, or transaction contemplated hereby or thereby or relating hereto or thereto is held to be prohibited, invalid, or unenforceable under the applicable law, such provision shall be ineffective in such jurisdiction only to the extent of such prohibition, invalidity, or unenforceability, without invalidating or rendering unenforceable the remainder of such provision or the remaining provisions of this Amendment, the other Amendment Documents, or any other statement, instrument, or transaction contemplated hereby or thereby or relating hereto or thereto in such jurisdiction, or affecting the effectiveness, validity, or enforceability of such provision in any other jurisdiction.

**Section 8. Successors.** The Amendment Documents shall be binding upon the Borrower, the Bank, and their respective successors and assigns and shall inure to the benefit of the Borrower, the Bank, and the Bank's successors and assigns.

**Section 9. Legal Expenses.** As provided in Section 8.2 of the Credit Agreement, the Borrower shall pay or reimburse the Bank, upon execution of this Amendment, for all reasonable out-of-pocket expenses paid or incurred by the Bank, including filing and recording costs and fees, charges and disbursements of outside counsel to the Bank (determined on the basis of such counsel's generally applicable rates, which may be higher than the rates such counsel charges the Bank in certain matters), and/or the allocated costs of in-house counsel incurred from time to time, in connection with the Credit Agreement, including in connection with the negotiation, preparation, execution, collection, and enforcement of the Amendment Documents and all other documents negotiated, prepared, and executed in connection with the Amendment Documents, and in enforcing the obligations of the Borrower under the Amendment Documents, and to pay and save the Bank harmless from all liability for any stamp or other taxes that may be payable with respect to the execution or delivery of the Amendment Documents, which obligations of the Borrower shall survive any termination of the Credit Agreement.

**Section 10. Headings.** The headings of various sections of this Amendment are for reference only and shall not be deemed to be a part of this Amendment.

**Section 11. Counterparts.** The Amendment Documents may be executed in several counterparts as deemed necessary or convenient, each of which, when so executed, shall be deemed an original, provided that all such counterparts shall be regarded as one and the same document.

**Section 12. Governing Law. THE AMENDMENT DOCUMENTS SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAW PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS, THEIR HOLDING COMPANIES, AND THEIR AFFILIATES.**

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the date and year first above written.

BORROWER:

ELECTROMED, INC.

By: /s/ Terry Belford  
Title: Chief Financial Officer

BANK:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Dan Miller

FORM OF COMPLIANCE CERTIFICATE

To: U.S. Bank National Association:

THE UNDERSIGNED HEREBY CERTIFIES THAT:

- (1) I am the duly elected chief financial officer of Electromed, Inc. (the "Borrower");
- (2) I have reviewed the terms of the Credit Agreement dated as of December 9, 2009, between the Borrower and U.S. Bank National Association (as amended, restated, or otherwise modified from time to time, the "Credit Agreement"), and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower during the accounting period covered by the Attachment hereto;
- (3) The examination described in paragraph (2) did not disclose, and I have no knowledge, whether arising out of such examinations or otherwise, of the existence of any condition or event that constitutes a Default or an Event of Default (as such terms are defined in the Credit Agreement) during or at the end of the accounting period covered by the Attachment hereto or as of the date of this Certificate, except as described below (or on a separate attachment to this Certificate). The exceptions listing, in detail, the nature of the condition or event, the period during which it has existed, and the action the Borrower has taken, is taking, or proposes to take with respect to each such condition or event are as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The foregoing certification, together with the computations in the Attachment hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this \_\_ day of \_\_\_\_\_, pursuant to Section 5.1(d) of the Credit Agreement.

ELECTROMED, INC.

By \_\_\_\_\_

Title \_\_\_\_\_

ATTACHMENT TO COMPLIANCE CERTIFICATE

This Compliance Certificate is delivered under the Credit Agreement dated as of December 9, 2009, as amended, between Electromed and U.S. Bank National Association (the "Credit Agreement").

All terms used in this Compliance Certificate shall have the meanings given them in the Credit Agreement.

The figures used in this Compliance Certificate were determined as of \_\_\_\_\_.

I certify that the following amounts were correctly determined according to the Credit Agreement as of the date set forth above:

**1. Total Cash Flow Leverage (Tested Quarterly) In Compliance Yes \_\_\_\_\_ No \_\_\_\_\_**

<i>Long Term Interest Bearing Debt</i>	_____
<i>Plus Short Term Interest Bearing Debt</i>	_____
<i>Plus Capital Leases</i>	_____
<i>Plus 6 times Annual Rent Expense</i>	_____
<i>Total (A)</i>	<input type="text"/>
<i>EBITDAR for LTM (B)</i>	<input type="text"/>
<i>Ratio of (A) to (B)</i>	<input type="text"/>

**2. Fixed Charge Coverage Ratio (Tested Quarterly) In Compliance Yes \_\_\_\_\_ No \_\_\_\_\_**

	<input type="text" value="For LTM"/>
<i>EBITDAR</i>	_____
<i>Less:</i>	
<i>Cash Taxes</i>	_____
<i>Cash Dividends/Cash distributions</i>	_____
<i>Maintenance CAPEX (50% of Depreciation Expense)</i>	_____
<i>Total (A)</i>	<input type="text"/>
<i>Required Principal Payments</i>	_____
<i>Plus Cash Interest Payments</i>	_____
<i>Plus Rental or Lease Expense</i>	_____
<i>Total (B)</i>	<input type="text"/>
<i>Ratio of (A) to (B)</i>	<input type="text"/>



**3. No Additional Interest Bearing Debt (except for \$2.5MM debentures, if approved by US Bank) (Tested Quarterly)**

**In Compliance Yes \_\_\_\_\_ No \_\_\_\_\_**

I further certify that the Borrower is in compliance with all other terms and conditions of the Agreement and that no Event of Default or event that with notice or lapse of time would be an Event of Default has occurred since the last Compliance Certificate provided to the Bank.

**Electromed, Inc.**

By \_\_\_\_\_

Title \_\_\_\_\_

EXHIBIT B TO  
FIRST AMENDMENT TO  
CREDIT AGREEMENT

REAFFIRMATION OF GUARANTY

This REAFFIRMATION OF GUARANTY is executed as of November \_\_, 2010, and is made and given by Electromed Financial, LLC (the "Guarantor") in favor of U.S. Bank National Association (the "Bank").

The Guarantor has executed and delivered to the Bank a Guaranty dated as of December 9, 2009 (as amended, the "Guaranty"), in connection with the Credit Agreement dated as of December 9, 2009, by and between Electromed, Inc. (the "Borrower") and the Bank (as amended, restated, or otherwise modified from time to time, the "Credit Agreement") and the Notes dated as of December 9, 2009, made by the Borrower in favor of the Bank. Capitalized terms used but not defined herein shall have the meanings given in the Credit Agreement.

The Guarantor acknowledges that it has received a copy of the proposed First Amendment to Credit Agreement, to be dated concurrently herewith (the "Amendment"). The Guarantor agrees and acknowledges that the Amendment shall in no way impair or limit the rights of the Bank under the Guaranty, and confirms that by, and subject to the terms and conditions of, the Guaranty, the Guarantor continues to guaranty payment and performance of the obligations of the Borrower to the Bank under the Credit Agreement and the Notes as amended pursuant to the Amendment. The Guarantor hereby confirms that the Guaranty remains in full force and effect, enforceable against the Guarantor in accordance with its terms.

ELECTROMED FINANCIAL, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

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

I, Robert D. Hansen, 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 the 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 15(d)-15(e)) 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) 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
  - c) 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: February 11, 2011

By: /s/ Robert D. Hansen  
Chief Executive Officer

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

I, Terry M. Belford, 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 the 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 15(d)-15(e)) 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) 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

c) 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: February 11, 2011

By: /s/ Terry M. Belford  
Chief Financial Officer

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 this Periodic Report of Electromed, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2010, as filed with the Securities and Exchange Commission (the "Report"), I, Robert D. Hansen, 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.

Dated: February 11, 2011

/s/ Robert D. Hansen  
Robert D. Hansen  
Chief Executive Officer

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 this Periodic Report of Electromed, Inc. (the “Company”) on Form 10-Q for the period ended December 31, 2010, as filed with the Securities and Exchange Commission (the “Report”), I, Terry M. Belford, 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.

Dated: February 11, 2011

/s/ Terry M. Belford  
Terry M. Belford  
Chief Financial Officer