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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): May 13, 2014

ELECTROMED, INC.

(Exact Name of Registrant as Specified in Its Charter)

Minnesota
(State or Other Jurisdiction of
Incorporation)

001-34839
(Commission File Number)

41-1732920
(I.R.S. Employer Identification
Number)

500 Sixth Avenue NW
New Prague, MN 56071
(Address of Principal Executive Offices)(Zip Code)

(952) 758-9299
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition

On May 13, 2014, Electromed, Inc. (the “Company”) issued a press release announcing its financial results for the three and nine months ended March 31, 2014. The full text of the press release is set forth in Exhibit 99.1 attached hereto and is incorporated by reference in this Current Report on Form 8-K as if fully set forth herein.

The information contained in this Current Report on Form 8-K, including the Exhibit 99.1 attached hereto and incorporated herein, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section, and shall not be incorporated by reference into any registration statement pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 8.01 Other Events

On May 13, 2014, the Company mailed a letter from its chief executive officer to the Company’s shareholders, dated May 13, 2014, updating the Company’s shareholders on recent Company developments. The full text of the shareholder letter is set forth in Exhibit 99.2 attached hereto and is incorporated by reference in this Current Report on Form 8-K as if fully set forth herein.

Item 9.01 Financial Statements and Exhibits.

- (a) Financial statements: None.
 - (b) Pro forma financial information: None.
 - (c) Shell company transactions: None.
 - (d) Exhibits:
 - 99.1 Press Release dated May 13, 2014.
 - 99.2 Shareholder Letter dated May 13, 2014.
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SIGNATURES

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

Date: May 13, 2014

Electromed, Inc.

By: /s/ Jeremy T. Brock _____

Name: Jeremy T. Brock

Title: Chief Financial Officer

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Washington, D.C. 20549

ELECTROMED, INC.
EXHIBIT INDEX TO FORM 8-K

Date of Report:
May 13, 2014

Commission File No.:
001-34839

Exhibit Number	Description
99.1	Press Release dated May 13, 2014.
99.2	Shareholder Letter dated May 13, 2014.

ELECTROMED, INC.

FOR IMMEDIATE RELEASE

Contact

Kathleen Skarvan
Chief Executive Officer
Electromed, Inc.
952-758-9299
kskarvan@electromed.com

Electromed, Inc. Reports Higher Fiscal 2014 Third Quarter Revenues

New Prague, Minnesota – May 13, 2014 – Electromed, Inc. (NYSE MKT: ELMD) today announced financial results for the three-month period ended March 31, 2014. Net revenues in the third quarter of fiscal 2014 were approximately \$3.96 million, an approximately 24% increase compared to the same period of fiscal 2013. The Company reported a net loss of approximately \$1,004,000 or \$0.12 per basic and diluted share, for the third quarter of fiscal 2014, compared to a net loss of approximately \$431,000, or \$0.05 per basic and diluted share, for the same period last year. In the quarter, the Company recorded a valuation allowance of \$843,000 against all of its U.S. net deferred tax assets. This amount is included in the income tax line on the accompanying income statement for the third quarter and nine months ended March 31, 2014.

Homecare revenue of approximately \$3.2 million in the third quarter was up approximately 24% due to an increase in approvals and higher average selling price based on the mix of referrals while international and government/institutional revenue of approximately \$729,000 was up approximately 24% versus the prior year period. Gross margins in the third quarter declined to 63.7% compared with 76.3% in the third quarter of fiscal 2013. The decline was largely attributable to higher manufacturing costs for the Company's newest product, the SmartVest[®] SQL[®] compared to predecessor products. The SQL is early in its life cycle and efficiencies in manufacturing and sourcing have not yet been fully realized. Operating expenses were essentially flat at approximately \$2.6 million, but declined as a percentage of sales due to the higher revenues in the third quarter of fiscal 2014 as compared to the third quarter of the prior year.

The Company had positive operating cash flow of approximately \$1,020,000 for the nine months ended March 31, although it recorded negative operating cash flow of \$112,000 in the third quarter due to payments made for inventory used to manufacture the SQL device. The larger net loss in the third quarter compared to the same period in the previous year was due to the valuation allowance recorded against the Company's U.S. net deferred tax assets. The valuation allowance is based on the Company's belief that, after considering all positive and negative evidence including both cumulative and projected results, it is more likely than not that the deferred tax assets will not be realized in the foreseeable future.

Commenting on the Company's third quarter results, Electromed's Chief Executive Officer, Kathleen Skarvan said, "This quarter showed good progress on a number of fronts as we increased revenues, maintained strong control on expenses and, perhaps, most significantly, delivered our newest HFCWO device to the marketplace. The SQL is truly a step forward as it is smaller, quieter and lighter than our previous device. These are the characteristics most often requested by patients and providers and we delivered.

"The initial response to SQL has been encouraging as referrals increased nearly 8% in the third quarter compared to second quarter with the referral rate rising as the quarter progressed. We believe that trend indicates that the market is recognizing the value the SQL delivers to patients. Our plan has been and continues to be to offer both the SQL and SV2100, our previous HFCWO device, for a period of time as we transition to a primarily SQL-based lineup over the next several quarters.

"We have several initiatives underway to bring the manufacturing cost of the SQL in line with previous devices and we expect to see incremental progress in this area over coming quarters. We expect that SQL's costs will eventually be consistent with previous products, resulting in gross margins that are generally similar with historical levels.

"Reimbursement continues to be challenging for virtually all companies serving the health care market and we are no exception. I continue to be pleased with our team's efforts to both manage expenses and move reimbursement claims through the system successfully. We remain focused on executing our strategies to increase revenue from the homecare market while continuing to support growth in institutional and international markets."

About Electromed, Inc.

Electromed, Inc. manufactures, markets, and sells products that provide airway clearance therapy, including the SmartVest[®] Airway Clearance System and related products, to patients with compromised pulmonary function. Further information about the Company can be found at www.electromed.com.

Cautionary Statements

Certain statements found in this release may constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect the speaker's 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. Forward-looking statements can generally be identified by the words "believe," "expect," "anticipate" or "intend" or similar words. Forward-looking statements made in this release include the Company's beliefs regarding its deferred tax asset, the Company's revenue growth and cost control strategies, and the Company's beliefs and expectations regarding its SQL product, including the realization of cost efficiencies in the manufacturing and sourcing of the SQL, product mix and SQL referral trends. Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements. Examples of risks and uncertainties for Electromed include, but are not limited to, the impact of emerging and existing competitors, the effect of new legislation on our industry and business, the effectiveness of our sales and marketing and cost control initiatives, changes to reimbursement programs, and delays in manufacturing and shipment of our products, as well as other factors described from time to time in our reports to the Securities and Exchange Commission (including our Annual Report on Form 10-K). Investors 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 release.

Electromed, Inc.

Results for the Three-Months Ended March 31, 2014

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Financial Tables Follow:

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Electromed, Inc. and Subsidiary
Condensed Consolidated Balance Sheets

	March 31, 2014	June 30, 2013
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 772,428	\$ 503,564
Accounts receivable (net of allowances for doubtful accounts of \$45,000)	6,469,927	9,014,043
Inventories	2,550,815	1,379,594
Prepaid expenses and other current assets	448,262	428,843
Income taxes receivable	529,599	538,285
Deferred income taxes	—	557,000
Total current assets	<u>10,771,031</u>	<u>12,421,329</u>
Property and equipment, net	3,972,254	3,743,675
Finite-life intangible assets, net	993,807	1,080,734
Other assets	359,504	310,089
Total assets	<u>\$ 16,096,596</u>	<u>\$ 17,555,827</u>
Liabilities and Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 45,758	\$ 57,540
Accounts payable	1,004,025	643,681
Accrued compensation	326,846	565,023
Warranty reserve	740,000	680,000
Other accrued liabilities	295,446	247,267
Total current liabilities	<u>2,412,075</u>	<u>2,193,511</u>
Long-term debt, less current maturities	1,262,889	1,332,455
Deferred income taxes	—	103,000
Total liabilities	<u>3,674,964</u>	<u>3,628,966</u>
Commitments and Contingencies (Note 7)		
Equity		
Common stock, \$0.01 par value; authorized: 13,000,000; shares issued and outstanding: 8,114,252 shares	81,143	81,143
Additional paid-in capital	13,208,759	13,134,938
(Accumulated deficit) retained earnings	(868,270)	710,780
Total equity	<u>12,421,632</u>	<u>13,926,861</u>
Total liabilities and equity	<u>\$ 16,096,596</u>	<u>\$ 17,555,827</u>

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

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2014	2013	2014	2013
Net revenues	\$ 3,956,335	\$ 3,198,534	\$ 10,875,588	\$ 11,086,190
Cost of revenues	1,436,195	756,693	3,476,570	3,309,148
Gross profit	<u>2,520,140</u>	<u>2,441,841</u>	<u>7,399,018</u>	<u>7,777,042</u>
Operating expenses				
Selling, general and administrative	2,634,036	3,034,189	8,097,067	8,850,735
Research and development	103,166	101,460	405,009	311,899
Total operating expenses	<u>2,737,202</u>	<u>3,135,649</u>	<u>8,502,076</u>	<u>9,162,634</u>
Operating loss	(217,062)	(693,808)	(1,103,058)	(1,385,592)
Interest expense, net of interest income of \$391, \$618, \$11,730, and \$15,940 respectively	23,321	29,158	57,992	91,673
Net loss before income taxes	(240,383)	(722,966)	(1,161,050)	(1,477,265)
Income tax benefit (expense)	(764,000)	292,000	(418,000)	564,000
Net loss	<u>\$ (1,004,383)</u>	<u>\$ (430,966)</u>	<u>\$ (1,579,050)</u>	<u>\$ (913,265)</u>
Loss per share:				
Basic and diluted	<u>\$ (0.12)</u>	<u>\$ (0.05)</u>	<u>\$ (0.19)</u>	<u>\$ (0.11)</u>
Weighted-average common shares outstanding:				
Basic	<u>8,114,252</u>	<u>8,114,252</u>	<u>8,114,252</u>	<u>8,114,252</u>
Diluted	<u>8,114,252</u>	<u>8,114,252</u>	<u>8,114,252</u>	<u>8,114,252</u>

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

	For the Nine Months Ended	
	March 31,	
	2014	2013
Cash Flows From Operating Activities		
Net loss	\$ (1,579,050)	\$ (913,265)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	409,651	344,695
Amortization of finite-life intangible assets	95,082	98,069
Amortization of debt issuance costs	13,078	8,691
Share-based compensation expense	73,821	132,179
Deferred income taxes	454,000	—
Loss on disposal of property and equipment	34,110	43,143
Changes in operating assets and liabilities:		
Accounts receivable	2,544,116	1,652,815
Inventories	(1,171,221)	250,971
Prepaid expenses and other assets	(37,930)	(632,197)
Accounts payable and accrued liabilities	184,333	5,086
Net cash provided by operating activities	1,019,990	990,187
Cash Flows From Investing Activities		
Expenditures for property and equipment	(626,327)	(707,140)
Expenditures for finite-life intangible assets	(8,155)	(35,642)
Net cash used in investing activities	(634,482)	(742,782)
Cash Flows From Financing Activities		
Net payments on revolving line of credit	—	(1,208,128)
Principal payments on long-term debt including capital lease obligations	(81,348)	(236,762)
Payments of deferred financing fees	(35,296)	—
Net cash used in financing activities	(116,644)	(1,444,890)
Net increase (decrease) in cash and cash equivalents	268,864	(1,197,485)
Cash and cash equivalents		
Beginning of period	503,564	1,702,435
End of period	<u>\$ 772,428</u>	<u>\$ 504,950</u>

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FY 2014 Q3 Letter to Shareholders

Making life's important moments possible – one breath at a time.™

To our shareholders

I am pleased to be writing to you to provide an update on the progress we have made, the challenges we face and the strategies we are employing to deliver revenue growth and profitability. We saw real progress on a number of fronts in the third quarter ended March 31, 2014. Revenues of \$3.96 million were up 24% compared with the third quarter of last year.

While we reported a net loss of \$1,004,000 in the third quarter, the substantial majority of that loss was due to a valuation allowance we took against all of our net U.S. net deferred tax assets. To put that in simpler terms, we determined that the deferred tax asset we had on our balance sheet was more likely than not going to be unusable in the foreseeable future and we wrote it off against our results in the quarter. To give you a better sense of the Company's results excluding this one-time event, we reported a loss before taxes of \$240,000 in the third quarter of 2014 compared with a loss of \$723,000 in the third quarter a year ago. While we are not yet profitable, we have made real and substantive progress towards that goal each quarter. Although we used some cash in the quarter we remained cash flow positive for the year due to strong collections of accounts receivable as well as improved sales levels.

Most importantly, we began to deliver the Company's next generation of high frequency chest wall oscillation (HFCWO) therapy devices, which we call the SmartVest® SQL®. SQL offers the features patients have most often requested. It is smaller, quieter and lighter than previous Electromed devices. We believe these features will make adhering with the therapy regimen easier, leading to better long-term outcomes with fewer admissions to the hospital for treatment of secondary infections and other complications. We are optimistic about the market's acceptance of SQL as the early indications we have seen suggest it can deliver what patients and providers are looking for in a HFCWO therapy device. In fact, referrals from physicians and clinicians were up in the third quarter and, in what we believe is an indicator of the appeal of SQL, the volume of referrals grew as the quarter progressed. That is certainly encouraging and we are working to build on that momentum as the fourth quarter progresses.

As we have rolled SQL out to the market, we have continued to sell our predecessor product, the SV2100, as it remains a good solution for certain patients and situations. As is often the case with new products, we have not yet reached full efficiency in manufacturing and sourcing SQL and this directly impacted our gross margin in the quarter. Gross margin, which is sales less cost of goods sold, was 63.7% in the third quarter compared with 76.3% in the third quarter last year and 72.1% in the second quarter of this fiscal year. We have several projects underway to reduce both the component and build cost of the SQL and we expect to see improvement in our gross margins over the next several quarters, although quarter-to-quarter progress will be difficult to predict. We are confident we can bring the manufacturing cost of SQL down sufficiently to make its gross margins generally comparable with our previous device. That will provide more dollars to fund marketing and sales initiatives as well as bring to the bottom line and fund additional strategic marketing and sales initiatives.

While we have made significant progress on a number of fronts in a relatively short period of time, there is clearly much more to do. With the SQL in hand, our sales force should be in a position to secure new business, make inroads into competitive accounts and reach providers that may not have been previously accessible. I believe we are in the best position we have been in from a product and people standpoint in some time even though our sales cycle is longer than ideal.

To maintain and build upon our sales and referral momentum, we have implemented a new sales coaching, training and pipeline management initiative. We have initiated targeted sales and marketing strategies to penetrate select competitive strongholds in an effort to create awareness and early acceptance of the SQL's unique features and benefits.

One area that continues to challenge us is reimbursement. Virtually every company selling into the health care market today faces hurdles unlike any we have seen before. Decisions on what will be reimbursed are taking longer and with stricter criteria, which means we carry more risk of not receiving payment for a device, despite the evidence it is making a positive difference in somebody's life. The good news is that the market opportunity for HFCWO therapy is growing as the population ages and medical conditions such as COPD become more prevalent. We believe the long term outlook for our market is positive and we remain committed to delivering the best product, service and patient experience in the industry.

In sum, I am encouraged by the many steps forward we have taken. We have brought a new best-in-class product to market and are seeing initial indications that the market likes what it sees. We have improved the efficiency of our business processes and brought the right talent to bear on the key challenges we must overcome to be successful. We have a solid strategy and a dedicated team of employees who come to work every day with the mission to improve the lives of the patients we touch with our products. I am honored to work with them, and all of us are focused on taking the next steps to deliver profitable growth and gain market share.

Thank you, shareholders, for your continued support.

Sincerely,

/s/ Kathleen S. Skarvan

Kathleen Skarvan

Chief Executive Officer

Testimonial

"As my husband says, it's easy to use. No question about it. And he hasn't been in the hospital with pneumonia since he started using it."

Helen E., on behalf of her husband, Tom, ALS patient

Cautionary Statements

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