
**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): February 7, 2017

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 February 7, 2017, Electromed, Inc. (the “Company”) issued a press release announcing its financial results for the three and six months ended December 31, 2016. The full text of the press release is attached as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits:

99.1 Press Release dated February 7, 2017.

The information contained in this Current Report on Form 8-K, including Exhibit 99.1 attached hereto, 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.

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: February 7, 2017

ELECTROMED, INC.

By: /s/ Jeremy T. Brock

Name: Jeremy T. Brock

Title: Chief Financial Officer

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> | <u>Method of Filing</u> |
|-----------------------|--------------------------------------|--------------------------|
| 99.1 | Press Release dated February 7, 2017 | Furnished Electronically |

ELECTROMED, INC.

FOR IMMEDIATE RELEASE

Electromed, Inc. Announces Fiscal 2017 Second Quarter Financial Results

-- Reports Record Revenue and Cash Flow from Operations --

New Prague, Minnesota – February 7, 2017 – Electromed, Inc. (“Electromed” or “the Company”) (NYSE MKT: ELMD), a leader in innovative airway clearance technologies, today announced financial results for its three months ended December 31, 2016 (“Q2 FY 2017”).

Q2 FY 2017 Highlights

- Net revenue reached a record \$6.4 million, up from \$6.3 million in the three months ended December 31, 2015 (“Q2 FY 2016”). Net revenue was negatively impacted during Q2 FY 2017 by \$212,000 while Q2 FY 2016 included a favorable impact of \$250,000 from one-time items which are described in more detail below under the heading “Q2 FY 2017 Review”.
- Gross profit totaled \$4.9 million, or 77.3% of net revenue, approximately flat with the comparable figure in Q2 FY 2016.
- Operating income declined to \$729,000 from \$1.2 million in Q2 FY 2016, primarily reflecting higher SG&A expense to support the growth of the business.
- Net income totaled \$444,000, or \$0.05 per diluted share, compared to \$1.1 million, or \$0.13 per diluted share, in Q2 FY 2016.
- Cash flow from operations for Q2 FY 2017 increased 46.6% to a record \$1.3 million from \$856,000 in Q2 FY 2016.
- Beta testing of the SmartVest® Airway Clearance System wireless connectivity and reporting solution commenced in January 2017.
- Field sales staff increased to 35 at the end of Q2 FY 2017 from 27 at the end of Q2 FY 2016.

Kathleen Skarvan, President and Chief Executive Officer of Electromed, commented, “In our second quarter we achieved record revenue and cash flow from operations while continuing to invest in our sales team, reimbursement platform, and product innovation. These investments, combined with an evidence-based sales approach and improved sales force productivity, drove a record level of referrals and higher approvals in Q2 FY 2017, positioning Electromed for ongoing revenue growth during the second half of the fiscal year. We remain excited about the large market opportunity for our SmartVest® Airway Clearance System and are extremely pleased with this quarter’s improving level of referrals per sales representative and our progress in educating physicians to better identify patients who may benefit from therapy with our devices.”

Ms. Skarvan continued, “Our sales team has gained significant traction using two recently published studies verifying the effectiveness of SmartVest use by patients with non-cystic fibrosis bronchiectasis. The most recent study, published in January 2017, demonstrates a 60% reduction in overall health care utilization and cost as a result of a material decrease in bronchiectasis-related exacerbations for a population of patients who used our SmartVest device. Our field reps also are hearing enthusiasm from patients and clinicians about the opportunity to further personalize their therapy with our new garment colors and first-to-market generator color choices, which we began shipping in October 2016. As announced last quarter, we are developing wireless connectivity for the SmartVest SQL® and this January began shipping wireless enabled devices to patients in five clinics throughout the country as part of our beta testing process. We remain on target for a formal launch by the end of fiscal 2017. We believe that continued product innovation, combined with SmartVest SQL’s light weight, quiet operation and ease-of-use, will promote greater patient acceptance and satisfaction.”

Q2 FY 2017 Review

Net revenues in Q2 FY 2017 increased 1.8% to \$6.4 million from \$6.3 million in Q2 FY 2016.

Home care revenue in Q2 FY 2017 was negatively impacted by the retroactive repayment of previously collected and recognized revenue to a state Medicaid program totaling approximately \$212,000. The repayment resulted from the state Medicaid program's reinterpretation of its reimbursement process and a reduction in its allowable payments. We believe that the repayment is a one-time event and is not reflective of other state Medicaid reimbursement processes. During the three months ended December 31, 2015, home care revenue benefited by approximately \$250,000 from processing a backlog of referrals from the prior fiscal year in a certain state. The backlog accumulated while we reapplied for a state home medical equipment license until we met a newly imposed requirement to have an approved in-state presence. The license was reinstated in October 2015.

After taking into consideration the negative impact of the retroactive repayment during Q2 FY 2017, and the favorable impact of the processing of the backlogged referrals during Q2 FY 2016, home care revenue increased primarily due to an increase in both approvals and referrals. The increase in referrals was predominately due to growth in the number of field sales employees and a higher referral per field sales employee as compared to the comparable prior year period.

Gross profit in both Q2 FY 2017 and Q2 FY 2016 approximated \$4.9 million. Gross profit in Q2 FY 2017 was 77.3% of net revenues, compared to 78.2% of net revenues in Q2 FY 2016.

Operating expenses, which include selling, general and administrative ("SG&A") as well as research and development ("R&D") expenses, totaled \$4.2 million, or 65.9% of revenue, in Q2 FY 2017 compared with \$3.6 million, or 58.3% of revenue, in the same period of the prior year. SG&A expenses increased 14.0% to \$4.1 million in Q2 FY 2017 from \$3.6 million in Q2 FY 2016, primarily due to higher payroll and compensation-related expenses, higher professional fees, and increased travel, meals and entertainment expenses. R&D expenses increased to \$101,000 in Q2 FY 2017 from \$57,000 in Q2 FY 2016, primarily driven by incremental investment in the Company's wireless connectivity project. In Q2 FY 2017 the Company capitalized an additional \$190,000 related to software development of its patient and clinician communication portal for its wireless connectivity project.

Operating income in Q2 FY 2017 declined to \$729,000 from \$1.2 million in Q2 FY 2016, reflecting higher operating expenses. The year-over-year decrease in operating income was driven primarily by increased payroll and compensation expenses in sales and administrative positions and increased research and development costs, which were partially offset by increased gross profit driven by higher revenue.

Net income before income tax expense in Q2 FY 2017 was \$714,000, compared to \$1.2 million in Q2 FY 2016.

The Company reported net income of \$444,000, or \$0.05 per basic and diluted share, in Q2 FY 2017, compared to \$1.1 million, or \$0.13 per basic and diluted share, in Q2 FY 2016. In Q2 FY 2017, the Company reported income tax expense of \$270,000, compared to \$164,000 in the same period of the prior year. The prior year benefited by a discrete tax benefit of \$294,000.

Year-to-Date FY 2017 Summary

For the six months ended December 31, 2016, revenue increased 5.8% to \$11.9 million from \$11.3 million in the same period of fiscal 2016. Gross margins were 77.7%, compared to 77.8% in the same period of the prior year, while net income was \$635,000, or \$0.08 per diluted share, compared to \$1.4 million, or \$0.17 per diluted share in the same period of the prior year.

Financial Condition

Electromed's balance sheet at December 31, 2016 included cash and cash equivalents of \$4.8 million, long-term debt including current maturities of \$1.2 million, working capital of \$13.7 million, and shareholders' equity of \$17.2 million.

Conference Call

Management will host a conference call on February 8, 2017 at 8:00 am CT (9:00 am ET) to discuss Q2 FY 2017 financial results and other matters.

Interested parties may participate in the call by dialing:

- (877) 407-9753 (Domestic)
- (201) 493-6739 (International)

The conference call will also be accessible via the following link:

<http://www.investorcalendar.com/IC/CEPage.asp?ID=175581>.

For those who cannot listen to the live broadcast, an online webcast replay will be available in the Investor Relations section of Electromed's web site at: <http://www.smartvest.com/electromed/investor-relations/>.

About Electromed, Inc.

Electromed, Inc. manufactures, markets, and sells products that provide airway clearance therapy, including the SmartVest® Airway Clearance System, to patients with compromised pulmonary function. The Company is headquartered in New Prague, Minnesota and was founded in 1992. Further information about Electromed can be found at www.smartvest.com.

Cautionary Statements

Certain statements in this release constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views with respect to future events and financial performance and include any statement that does not directly relate to a current or historical fact. Forward-looking statements can generally be identified by the words "anticipate," "believe," "estimate," "expect," "will" and similar words. Forward-looking statements in this release include estimated revenue trends, changes in sales opportunities and our sales force, product and service innovations, referral quality and processing, financial performance, profitability and market 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 the Company include, but are not limited to, the impact of emerging and existing competitors, the effect of new legislation on the Company's industry and business, the effectiveness of the Company's sales and marketing and cost control initiatives, changes to reimbursement programs, as well as other factors described from time to time in the Company's reports to the Securities and Exchange Commission (including the Company's most recent Annual Report on Form 10-K, as amended from time to time, and subsequent reports on Form 10-Q and Form 8-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.

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Financial Tables Follow:

Electromed, Inc.
Condensed Balance Sheets

| | <u>December 31, 2016</u> (Unaudited) | <u>June 30, 2016</u> |
|---|---|----------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 4,821,504 | \$ 5,123,355 |
| Accounts receivable (net of allowances for doubtful accounts of \$45,000) | 8,284,895 | 7,611,437 |
| Inventories | 2,570,850 | 2,480,443 |
| Prepaid expenses and other current assets | 425,855 | 419,616 |
| Income tax receivable | 2,896 | 192,685 |
| Total current assets | <u>16,106,000</u> | <u>15,827,536</u> |
| Property and equipment, net | 3,381,803 | 3,375,189 |
| Finite-life intangible assets, net | 776,091 | 904,033 |
| Other assets | 112,058 | 127,759 |
| Deferred income taxes | 330,000 | 343,000 |
| Total assets | <u>\$ 20,705,952</u> | <u>\$ 20,577,517</u> |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 49,720 | \$ 46,309 |
| Accounts payable | 466,863 | 589,225 |
| Accrued compensation | 724,504 | 1,489,798 |
| Warranty reserve | 660,000 | 660,000 |
| Other accrued liabilities | 455,747 | 287,194 |
| Total current liabilities | <u>2,356,834</u> | <u>3,072,526</u> |
| Long-term debt, less current maturities and net of debt issuance costs | 1,120,856 | 1,146,395 |
| Total liabilities | <u>3,477,690</u> | <u>4,218,921</u> |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Common stock, \$0.01 par value; authorized: 13,000,000 shares; 8,230,167 and 8,187,112 issued and outstanding at December 31, 2016 and June 30, 2016, respectively | 82,302 | 81,871 |
| Additional paid-in capital | 13,783,754 | 13,549,551 |
| Retained earnings | 3,362,206 | 2,727,174 |
| Total shareholders' equity | <u>17,228,262</u> | <u>16,358,596</u> |
| Total liabilities and shareholders' equity | <u>\$ 20,705,952</u> | <u>\$ 20,577,517</u> |

Electromed, Inc.
Condensed Statements of Operations (Unaudited)

| | For the Three Months Ended December 31, | | For the Six Months Ended December 31, | |
|--|--|---------------------|--|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net revenues | \$ 6,372,243 | \$ 6,262,106 | \$ 11,917,606 | \$ 11,263,295 |
| Cost of revenues | 1,445,786 | 1,363,509 | 2,663,522 | 2,505,268 |
| Gross profit | <u>4,926,457</u> | <u>4,898,597</u> | <u>9,254,084</u> | <u>8,758,027</u> |
| Operating expenses | | | | |
| Selling, general and administrative | 4,096,197 | 3,591,934 | 7,784,107 | 6,824,653 |
| Research and development | 100,801 | 57,090 | 451,641 | 98,634 |
| Total operating expenses | <u>4,196,998</u> | <u>3,649,024</u> | <u>8,235,748</u> | <u>6,923,287</u> |
| Operating income | <u>729,459</u> | <u>1,249,573</u> | <u>1,018,336</u> | <u>1,834,740</u> |
| Interest expense, net of interest income of \$3,603, \$2,924, \$6,969 and \$3,548 respectively | 15,598 | 17,880 | 32,304 | 38,086 |
| Net income before income taxes | <u>713,861</u> | <u>1,231,693</u> | <u>986,032</u> | <u>1,796,654</u> |
| Income tax expense | (270,000) | (164,000) | (351,000) | (388,000) |
| Net income | <u>\$ 443,861</u> | <u>\$ 1,067,693</u> | <u>\$ 635,032</u> | <u>\$ 1,408,654</u> |
| Income per share: | | | | |
| Basic | \$ 0.05 | \$ 0.13 | \$ 0.08 | \$ 0.17 |
| Diluted | <u>\$ 0.05</u> | <u>\$ 0.13</u> | <u>\$ 0.08</u> | <u>\$ 0.17</u> |
| Weighted-average common shares outstanding: | | | | |
| Basic | 8,167,112 | 8,133,857 | 8,167,112 | 8,133,857 |
| Diluted | <u>8,426,996</u> | <u>8,195,389</u> | <u>8,440,698</u> | <u>8,185,196</u> |

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

| | Six Months Ended December 31, | |
|---|-------------------------------|---------------------|
| | 2016 | 2015 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 635,032 | \$ 1,408,654 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 312,075 | 307,778 |
| Amortization of finite-life intangible assets | 60,963 | 61,272 |
| Amortization of debt issuance costs | 9,216 | 9,327 |
| Share-based compensation expense | 234,634 | 109,164 |
| Deferred taxes | 13,000 | (288,000) |
| Loss on disposal of property and equipment | — | 17,117 |
| Loss on disposal of intangible assets | 111,497 | 7,848 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (673,458) | (384,562) |
| Inventories | (53,894) | (290,582) |
| Prepaid expenses and other assets | 196,835 | 57,843 |
| Accounts payable and accrued liabilities | (807,188) | 151,127 |
| Net cash provided by operating activities | <u>38,712</u> | <u>1,166,986</u> |
| Cash Flows From Investing Activities | | |
| Expenditures for property and equipment | (267,117) | (181,290) |
| Expenditures for finite-life intangible assets | (44,518) | (17,790) |
| Net cash used in investing activities | <u>(311,635)</u> | <u>(199,080)</u> |
| Cash Flows From Financing Activities | | |
| Principal payments on long-term debt including capital lease obligations | (24,056) | (24,046) |
| Payment of deferred financing fees | (4,872) | (13,520) |
| Net cash used in financing activities | <u>(28,928)</u> | <u>(37,566)</u> |
| Net increase (decrease) in cash | <u>(301,851)</u> | <u>930,340</u> |
| Cash | | |
| Beginning of period | 5,123,355 | 3,598,240 |
| End of period | <u>\$ 4,821,504</u> | <u>\$ 4,528,580</u> |

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