Section 1: 10-Q (FORM 10-Q - QUARTER ENDED MARCH 31, 2019)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

☐ 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	**41-1732920**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 Sixth Avenue NW New Prague, Minnesota	**56071**
(Address of principal executive offices)	(Zip Code)

(952) 758-9299

(Registrant's telephone number, including area code)

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

Common Stock, $0.01 par value	**ELMD**	**NYSE American LLC**
(Title of each class)	(Trading Symbol)	(Name of each exchange on which registered)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

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

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ | Smaller reporting company ☑

Emerging growth company ☐

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

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

There were 8,408,351 shares of Electromed, Inc. common stock, par value $0.01 per share, outstanding as of the close of business on May 3, 2019.

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Electromed, Inc.
Condensed Balance Sheets

	March 31, 2019 (Unaudited)	June 30, 2018
Assets		
Current Assets		
Cash	$ 7,535,891	$ 7,455,844
Accounts receivable (net of allowances for doubtful accounts of $45,000)	12,275,708	11,811,308
Contract assets	843,801	776,338
Inventories	2,706,756	2,486,848
Prepaid expenses and other current assets	400,760	751,541
Income tax receivable	239,989	–
Total current assets	24,002,905	23,281,879
Property and equipment, net	2,745,121	3,091,242
Finite-life intangible assets, net	602,684	649,103
Other assets	5,807	5,907
Deferred income taxes	337,000	364,000
Total assets	$ 27,693,517	$ 27,392,131
Liabilities and Shareholders' Equity		
Current Liabilities		
Current maturities of long-term debt, net of debt issuance costs	$ –	$ 1,101,043
Accounts payable	622,434	810,644
Accrued compensation	1,199,115	1,269,849
Income tax payable	–	397,390
Warranty reserve	780,000	760,000
Other accrued liabilities	639,527	464,357
Total current liabilities	3,241,076	4,803,283
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $0.01 par value; authorized: 13,000,000 shares; 8,408,351 and 8,288,659 issued and outstanding at March 31, 2019 and June 30, 2018, respectively	84,084	82,887
Additional paid-in capital	15,933,225	14,953,103
Retained earnings	8,435,132	7,552,858
Total shareholders' equity	24,452,441	22,588,848
Total liabilities and shareholders' equity	$ 27,693,517	$ 27,392,131

See Notes to Condensed Financial Statements (Unaudited).

Electromed, Inc.
Condensed Statements of Operations (Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net revenues	$ 7,407,779	$ 7,167,064	$ 22,696,149	$ 20,434,430
Cost of revenues	1,833,478	1,657,506	5,516,517	4,831,538
Gross profit	5,574,301	5,509,558	17,179,632	15,602,892
Operating expenses				
Selling, general and administrative	4,941,773	4,889,070	15,369,921	13,985,146
Research and development	170,757	42,665	476,785	170,123
Total operating expenses	5,112,530	4,931,735	15,846,706	14,155,269
Operating income	461,771	577,823	1,332,926	1,447,623
Interest income (expense), net	27,374	668	57,348	(8,425)
Net income before income taxes	489,145	578,491	1,390,274	1,439,198
Income tax expense	139,000	202,000	508,000	562,000
Net income	$ 350,145	$ 376,491	$ 882,274	$ 877,198
Income per share:				
Basic	$ 0.04	$ 0.05	$ 0.11	$ 0.11
Diluted	$ 0.04	$ 0.04	$ 0.10	$ 0.10
Weighted-average common shares outstanding:				
Basic	8,325,346	8,210,695	8,294,568	8,203,599
Diluted	8,612,448	8,613,370	8,637,414	8,634,452

See Notes to Condensed Financial Statements (Unaudited).

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

	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Cash Flows From Operating Activities		
Net income	$ 882,274	$ 877,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	527,472	495,797
Amortization of finite-life intangible assets	89,728	85,166
Amortization of debt issuance costs	1,958	5,373
Share-based compensation expense	729,470	604,056
Deferred income taxes	27,000	(21,000)
Loss of disposal of property and equipment	1,710	–
Changes in operating assets and liabilities:		
Accounts receivable	(464,400)	(111,573)
Contract assets	(67,463)	(16,209)
Inventories	(205,524)	363,043
Prepaid expenses and other assets	350,881	(114,391)
Income tax receivable	(239,989)	(91,103)
Income tax payable	(397,390)	(156,524)
Accounts payable and accrued liabilities	(63,774)	(48,059)
Net cash provided by operating activities	1,171,953	1,871,774
Cash Flows From Investing Activities		
Expenditures for property and equipment	(197,445)	(379,328)
Expenditures for finite-life intangible assets	(43,309)	(27,818)
Net cash used in investing activities	(240,754)	(407,146)
Cash Flows From Financing Activities		
Principal payments on long-term debt including capital lease obligations	(1,103,001)	(37,927)
Issuance of common stock upon exercise of options	251,849	62,412
Net cash provided by (used in) financing activities	(851,152)	24,485
Net increase in cash	80,047	1,489,113
Cash		
Beginning of period	7,455,844	5,573,709
End of period	$ 7,535,891	$ 7,062,822

See Notes to Condensed Financial Statements (Unaudited).

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

	Common Stock		Additional	Retained	Total Shareholders'
	Shares	Amount	Paid-in Capital	Earnings	Equity
Balance at June 30, 2017	8,230,167	$ 82,302	$ 14,028,602	$ 5,721,685	$ 19,832,589
Net income	–	–	–	80,951	80,951
Issuance of restricted stock	30,000	300	(300)	–	–
Share-based compensation expense	–	–	190,385	–	190,385
Balance at September 30, 2017	8,260,167	82,602	14,218,687	5,802,636	20,103,925
Net income	–	–	–	419,756	419,756
Issuance of restricted stock	10,000	100	(100)	–	–
Share-based compensation expense	–	–	195,863	–	195,863
Balance at December 31, 2017	8,270,167	82,702	14,414,450	6,222,392	20,719,544
Net income	–	–	–	376,491	376,491
Issuance of common stock upon exercise of options	18,492	185	62,227	–	62,412
Share-based compensation expense	–	–	217,808	–	217,808
Balance at March 31, 2018	8,288,659	82,887	14,694,485	6,598,883	21,376,255

	Common Stock		Additional	Retained	Total Shareholders'
	Shares	Amount	Paid-in Capital	Earnings	Equity
Balance at June 30, 2018	8,288,659	$ 82,887	$ 14,953,103	$ 7,552,858	$ 22,588,848
Net income	–	–	–	154,392	154,392
Issuance of restricted stock	30,000	300	(300)	–	–
Issuance of common stock upon exercise of options	11,167	112	33,198	–	33,310
Share-based compensation expense	–	–	257,493	–	257,493
Balance at September 30, 2018	8,329,826	83,299	15,243,494	7,707,250	23,034,043
Net income	–	–	–	377,737	377,737
Issuance of restricted stock	10,000	100	(100)	–	–
Issuance of common stock upon exercise of options	44,358	443	155,068	–	155,511
Share-based compensation expense	–	–	243,252	–	243,252
Balance at December 31, 2018	8,384,184	83,842	15,641,714	8,084,987	23,810,543
Net income	–	–	–	350,145	350,145
Issuance of common stock upon exercise of options	24,167	242	62,786	–	63,028
Share-based compensation expense	–	–	228,725	–	228,725
Balance at March 31, 2019	8,408,351	84,084	15,933,225	8,435,132	24,452,441

See Notes to Condensed Financial Statements (Unaudited).

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

Note 1. Interim Financial Reporting

Basis of presentation: Electromed, Inc. (the "Company") develops, manufactures and markets innovative airway clearance products that apply High Frequency Chest Wall Oscillation ("HFCWO") therapy in pulmonary care for patients of all ages. The Company markets its products in the U.S. 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. International sales were approximately $556,000 and $386,000 for the nine months ended March 31, 2019 and 2018, respectively. Since its inception, the Company has operated in a single industry segment: developing, manufacturing and marketing medical equipment.

The accompanying unaudited condensed financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the Company's financial position and results of operations as required by Regulation S-X. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by U.S. GAAP for annual reports. This interim report should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 ("fiscal 2018").

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

Use of estimates: Management uses estimates and assumptions in preparing the condensed financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. The Company believes the critical accounting policies that require the most significant assumptions and judgments in the preparation of its condensed financial statements include revenue recognition and the related estimation of variable consideration, allowance for doubtful accounts, the potential impairment of intangible and long-lived assets, inventory obsolescence, share-based compensation, income taxes and the warranty reserve.

Net income per common share: Net income is presented on a per share basis for both basic and diluted common shares. Basic net income per common share is computed using the weighted average number of common shares outstanding during the period, excluding any restricted stock awards which have not vested. The diluted net income per common share calculation includes outstanding restricted stock grants and assumes that all stock options were exercised and converted into shares of common stock at the beginning of the period unless their effect would be anti-dilutive. Common stock equivalents excluded from the calculation of diluted earnings per share because their impact was anti-dilutive was 323,750 for both the three and nine months ended March 31, 2019 and were 194,500 and 184,500 for the three and nine months ended March 31, 2018, respectively.

New accounting pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance creating Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers." The new section replaces ASC 605, "Revenue Recognition," and replaces all revenue guidance for specialized transactions and industries. The new section is intended to conform revenue accounting principles to concurrently issued International Financial Reporting Standards with previously differing treatment between U.S. practice and that of much of the rest of the world, as well as to enhance disclosures related to disaggregated revenue information.

The Company adopted the new standard effective July 1, 2018, utilizing the full retrospective method, which required the Company to recast each prior reporting period presented and included adjustments with the cumulative impact of increasing retained earnings by $0.8 million as of July 1, 2017. The Company has updated its control framework for new internal controls and made changes to existing controls related to the new revenue recognition standard.

Primary changes resulting from the adoption of ASC 606:

The Company's adoption of ASC 606 resulted in a change to the timing of revenue recognition, primarily driven by the following:

- Some of the Company's SmartVest® Airway Clearance Systems ("SmartVest Systems") are sold to customers (patients) who have coverage with certain third-party insurance providers from which the Company receives reimbursements on a monthly installment basis over a specific term. The ultimate amount of consideration received can be significantly less than expected if the applicable third-party insurance provider discontinues payments due to changes in the patient's status, including insurance coverage, hospitalization, death, or otherwise becoming unable to use the SmartVest System. As the transaction price was not deemed to be fixed and determinable, the Company previously deferred revenue recognition at the time of sale and recognized revenue as each installment became billable and other criteria were met. Under ASC 606, the Company estimates variable consideration in the transaction price at contract inception and through the duration of the contract based on historical experience and other relevant factors and recognizes revenue when control of the SmartVest System is transferred to the patient, which occurs at the time of shipment. This results in an acceleration of the timing of revenue recognition relative to prior accounting treatment.

- The Company sells the SmartVest Systems to patients under circumstances where it believes the criteria for reimbursement under government or commercial payer contracts has been met; however, coverage is unconfirmed or payments are under appeal, leading to uncertainty as to the amount of the transaction price that will be collected. Additionally, amounts due directly from patients for deductibles, coinsurance and copays may be subject to implicit price concessions if the patient becomes unable to pay due to hospitalization or death. Previously, the Company fully deferred revenue at the time of sale until the transaction price for these contracts was deemed to be fixed and determinable (i.e., when the appeal was settled, or payment was received). Under ASC 606, the Company estimates variable consideration in the transaction price at contract inception and reassesses throughout the contract period based on historical experience and other relevant factors and recognizes revenue when control of the SmartVest System is transferred to the patient, which occurs at the time of shipment or delivery.

Impact on previously reported results:

The following tables present a recast of selected unaudited statement of operations line items after giving effect to the adoption of ASC 606:

	For the three months ended March 31, 2018		
	As Previously Reported	**Effect of Adoption**	**As Adjusted**
Net revenues	$ 7,090,654	$ 76,410	$ 7,167,064
Cost of revenues	1,491,156	166,350	1,657,506
Gross profit	5,599,498	(89,940)	5,509,558
Operating expenses			
Selling, general and administrative	5,071,724	(182,654)	4,889,070
Research and development	42,665	–	42,665
Total operating expenses	5,114,389	(182,654)	4,931,735
Operating income	485,109	92,714	577,823
Interest income (expense), net	669	(1)	668
Net income before income taxes	485,778	92,713	578,491
Income tax expense	173,000	29,000	202,000
Net income	$ 312,778	$ 63,713	$ 376,491
Income per share:			
Basic	$ 0.04	$ 0.01	$ 0.05
Diluted	$ 0.04	$ 0.00	$ 0.04

	For the nine months ended March 31, 2018		
	As Previously Reported	Effect of Adoption	As Adjusted
Net revenues	$ 20,457,058	$ (22,628)	$ 20,434,430
Cost of revenues	4,334,441	497,097	4,831,538
Gross profit	16,122,617	(519,725)	15,602,892
Operating expenses			
Selling, general and administrative	14,534,886	(549,740)	13,985,146
Research and development	170,123	–	170,123
Total operating expenses	14,705,009	(549,740)	14,155,269
Operating income	1,417,608	30,015	1,447,623
Interest income (expense), net	(8,425)	–	(8,425)
Net income before income taxes	1,409,183	30,015	1,439,198
Income tax expense	626,000	(64,000)	562,000
Net income	$ 783,183	$ 94,015	$ 877,198
Income per share:			
Basic	$ 0.10	$ 0.01	$ 0.11
Diluted	$ 0.09	$ 0.01	$ 0.10

The following table presents a recast of selected unaudited balance sheet line items after giving effect to the adoption of ASC 606:

	June 30, 2018		
	As Previously Reported	Effect of Adoption	As Adjusted
Assets			
Current Assets			
Accounts receivable, net of allowances for doubtful accounts	$ 11,563,208	$ 248,100	$ 11,811,308
Contract assets	–	776,338	$ 776,338
Inventories	2,360,693	126,155	2,486,848
Prepaid expenses and other current assets	832,202	(80,661)	751,541
Other assets	91,912	(86,005)	5,907
Deferred income taxes	594,000	(230,000)	364,000
Liabilities and Shareholders' Equity			
Accrued compensation	1,209,738	60,111	1,269,849
Retained earnings	6,859,042	693,816	7,552,858

The following table presents a recast of selected unaudited statement of cash flow line items after giving effect to the adoption of ASC 606:

	For the nine months ended March 31, 2018		
	As Previously Reported	Effect of Adoption	As Adjusted
Cash Flows From Operating Activities			
Net income	$ 783,183	$ 94,015	$ 877,198
Deferred taxes	43,000	(64,000)	(21,000)
Accounts receivable	(125,452)	13,879	(111,573)
Contract assets	-	(16,209)	(16,209)
Inventories	373,417	(10,374)	363,043
Prepaid expenses and other assets	(90,132)	(24,259)	(114,391)
Accounts payable and accrued liabilities	(55,007)	6,948	(48,059)

Lease Accounting:

In February 2016, FASB issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." This standard requires the recognition of all lease transactions with terms in excess of 12 months on the balance sheet as a lease liability and a right-of-use asset (as defined in the standard). ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently evaluating ASU 2016-02 and expects that it will have no material impact on its financial statements or financial statement disclosures upon adoption based on current facts and circumstances.

Note 2. Revenues

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

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

The Company includes shipping and handling fees in net revenues. Shipping and handling costs associated with the shipment of SmartVest Systems after control has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues.

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

Disaggregation of revenues. In the following table, revenue is disaggregated by market:

	For the three months ended March 31,		For the nine months ended March 31,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
Home care	$ 6,851,910	$ 6,552,133	$ 20,905,230	$ 18,951,093
Institutional	414,369	495,536	1,235,176	1,096,913
International	141,500	119,395	555,743	386,424
Total	$ 7,407,779	$ 7,167,064	$ 22,696,149	$ 20,434,430

In the following table, home care revenue is disaggregated by payer type:

	For the three months ended March 31,		For the nine months ended March 31,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
Commercial	$ 2,807,493	$ 2,758,963	$ 9,641,929	$ 8,631,688
Medicare	3,702,807	3,054,378	9,853,450	8,337,266
Medicaid	147,731	577,338	864,846	1,448,373
Other	193,879	161,454	545,005	533,766
Total	$ 6,851,910	$ 6,552,133	$ 20,905,230	$ 18,951,093

Revenues in the Company's home care and international markets are recognized at a point in time when control passes to the customer upon product shipment or delivery. Revenues in the Company's institutional market include sales recognized at a point in time upon shipment or delivery as well as revenues recognized over time under operating leases.

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

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

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

Home care patients generally will rely on third-party payers, including commercial payers and governmental payers such as Medicare, Medicaid, and the Veteran's Administration, to cover and reimburse all or part of the cost of the SmartVest System. The third-party payers' reimbursement programs fall into three types, distinguished by the differences in the timing of payments from the payer, consisting of either (1) outright sale, in which payment is received from the payer based on standard terms, (2) capped installment sale, under which the system is sold for a series of payments that are capped not to exceed a prescribed or negotiated amount over a period of time or (3) installment sale under which the SmartVest Systems are paid for over a period of several months as long as the patient continues to use the system.

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

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

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

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

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

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

Institutional market. The Company's institutional sales are made to adult pulmonology clinics, cystic fibrosis centers, neuromuscular clinics, pulmonary rehabilitation centers, hospitals and home health care centers. Sales to these institutions are negotiated with the individual institution or with group purchasing organizations, with payments received directly from the institution. No insurance reimbursement is involved. Generators are either sold or leased to the institutions and associated hoses and wraps (used in institutional settings rather than vests) are sold separately. Accordingly, each product is distinct and considered a separate performance obligation in sales to institutional customers. The agreements with institutions fall into two main types, distinguished by differences in the timing of transfer of control and timing of payments:

- Outright sale – Under these transactions, the Company sells its products for a prescribed or negotiated price. Transfer of control of the product, and associated revenue recognition, occurs at the time of shipment and payment is made within normal credit terms, usually within 30 days.

- Rentals – Under these transactions, the customer obtains a right to use the product for a period of time in exchange for consideration as usage occurs. These transactions are treated as operating leases and revenue is recognized ratably over the applicable rental period. Lease revenue recognized during the nine months ended March 31, 2019 and 2018 were approximately $34,000 and $44,000, respectively.

International market. Sales to international markets are made directly to a number of independent distributors at fixed contract prices that are not subject to further adjustments for variable consideration. Transfer of control of the products occurs upon shipment or delivery to the distributor as applicable.

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

Accounts receivable. Accounts receivable include amounts billed to customers and third-party payers, for which only the passage of time is required before payment of consideration is due. Amounts due are stated at their net estimated realizable value.

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

Incremental costs to obtain a contract. Sales incentives paid to sales representatives are eligible for capitalization as they are incremental costs that would not have been incurred without entering into a specific sales arrangement and are recoverable through the expected margin on the transaction**.** However, the recovery period is less than one year as the performance obligation is satisfied upon shipment or delivery. Consequently, the Company will apply the practical expedient provided by ASC 340-40-25-4 and expense sales incentives as incurred. These costs are included in selling, general and administrative expenses in the Company's condensed statements of operations.

Other practical expedients. The Company did not elect to apply any of the four optional practical expedients that provide relief from applying the requirements of ASC 606 to certain types of contracts in the comparative periods presented when the full retrospective method of adoption is applied.

Contract balances. The following table provides information about accounts receivable and contracts assets from contracts with customers:

	March 31, 2019	June 30, 2018, as adjusted
Receivables, included in "Accounts receivable, net of allowance for doubtful accounts"	$ 12,275,708	$ 11,811,308
Contract assets, included in other current assets	$ 843,801	$ 776,338

Significant changes in contract assets during the period are as follows:

	For the nine months ended March 31, 2019 Increase (decrease)
Contract assets, June 30, 2018	$ 776,338
Reclassification of beginning contract assets to accounts receivable	(1,504,163)
Contract assets recognized, net of reclassification to accounts receivable	1,575,053
Decrease as a result of changes in the estimate of amounts to be realized from payers, excluding amounts transferred to receivables during the period	(3,427)
Contract assets, March 31, 2019	$ 843,801

Note 3. Inventories

The components of inventory were approximately as follows:

	March 31, 2019	June 30, 2018
Parts inventory	$ 1,599,000	$ 1,388,000
Work in process	700,000	621,000
Finished goods	542,000	632,000
Estimated inventory to be returned	166,000	126,000
Less: Reserve for obsolescence	(300,000)	(280,000)
Total	$ 2,707,000	$ 2,487,000

Note 4. 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 $981,000 and $902,000 at March 31, 2019 and June 30, 2018, respectively.

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

	Nine Months Ended March 31, 2019	Fiscal Year Ended June 30, 2018
Balance, beginning	$ 649,000	$ 721,000
Additions	43,000	46,000
Abandonments	–	(4,000)
Amortization expense	(89,000)	(114,000)
Balance, ending	$ 603,000	$ 649,000

Note 5. Warranty Liability

The Company provides a lifetime warranty on its products to the prescribed patient for sales within the U.S. and a three-year warranty for all institutional sales and sales to individuals outside the U.S. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time the product is shipped. Factors that affect the Company's warranty liability include the number of units shipped, historical and anticipated rates of warranty claims, the product's useful life and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

Changes in the Company's warranty liability were approximately as follows:

	Nine Months Ended March 31, 2019	Fiscal Year Ended June 30, 2018
Beginning warranty reserve	$ 760,000	$ 640,000
Accrual for products sold	131,000	273,000
Expenditures and costs incurred for warranty claims	(111,000)	(153,000)
Ending warranty reserve	$ 780,000	$ 760,000

Note 6. Income Taxes

The Tax Cuts and Jobs Act (the "Tax Act") significantly revised future and ongoing U.S. corporate tax obligations by, among other things, lowering U.S. corporate income tax rates. Since the Company has a June 30 fiscal year-end, the lower corporate income tax rate was phased in, resulting in a blended U.S. statutory federal rate of approximately 28% for fiscal 2018, and 21% for subsequent fiscal years. The Tax Act also eliminates the domestic production manufacturing deduction effective for the Company's tax year beginning July 1, 2018.

In connection with the adoption of ASC 606, the Company intends to file Form 3115 (Change in Accounting Method) with its federal tax return for the period ending June 30, 2019. Under Rev. Proc. 2018-29, certain accounting method changes related to a taxpayers' adoption of the new revenue recognition standards under ASC 606 will qualify for automatic approval by the Internal Revenue Service. As a result of the accounting method change, the Company estimates an increase in taxable income of approximately $2.2 million, which is to be recognized over four consecutive years. Therefore, the estimated tax liability resulting from taxable income recognition in year one of approximately $140,000 has been reclassified from deferred taxes to current income tax payable.

On a quarterly basis, the Company estimates its effective tax rate 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. Income tax expense was estimated at approximately $139,000 and $508,000 and the effective tax rates were 28.4% and 36.5%, respectively, for the three and nine months ended March 31, 2019. Estimated income tax expense for the nine months ended March 31, 2019 includes a discrete deferred tax expense of approximately $134,000 related to unexercised fully-vested stock options that expired and a discrete current tax benefit of approximately $16,000 related to the excess tax benefit of non-qualified stock options exercised during the period. The net impact of these discrete events increased the estimated effective tax rates by 8.5% during the nine months ended March 31, 2019.

Income tax expense was estimated at approximately $202,000 and $562,000 and the effective tax rates were 34.9% and 39.0%, respectively, for the three and nine months ended March 31, 2018. Estimated income tax expense for the nine months ended March 31, 2018 includes a discrete deferred tax expense of approximately $160,000 as a result of re-measuring certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in future periods under the Tax Act. Additionally, a discrete tax benefit of approximately $27,000 was recognized during the nine months ended March 31, 2018 as a result of greater federal and state research and development tax credits than what was originally estimated in the Company's tax provision for the Company's fiscal year ended June 30, 2017. The net impact of these discrete events increased the effective tax rate by 9.2% during the nine months ended March 31, 2018.

Note 7. Financing Arrangements

The Company has a credit facility that provides for a revolving line of credit and a term loan. Effective December 18, 2018, the Company renewed its $2,500,000 revolving line of credit. There was no outstanding principal balance on the line of credit as of March 31, 2019 or June 30, 2018. Interest on borrowings under the line of credit, if any, accrues at the prime rate (5.50% at March 31, 2019) less 1.00% and is payable monthly. The amount eligible for borrowing on the line of credit is limited to the lesser of $2,500,000 or 57.00% of eligible accounts receivable and the line of credit expires on December 18, 2019, if not renewed. At March 31, 2019, the maximum $2,500,000 was eligible for borrowing. The line of credit is secured by a security interest in substantially all the tangible and intangible assets of the Company.

In connection with the credit facility, the Company also had a term loan, which had an outstanding principal balance of approximately $1,103,000 as of June 30, 2018 and an interest rate of 3.88%. The unamortized debt issuance cost associated with this debt was approximately $2,000 as of June 30, 2018. The term loan matured on December 18, 2018, and the Company utilized cash to repay the required balloon payment of approximately $1,085,000. Payment obligations under the term loan were secured by a mortgage on the Company's real property, which security interest was released upon payoff. The Company no longer has any obligations under the term loan.

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

Note 8. Stock-Based Compensation

In November 2017, the Company's shareholders approved the 2017 Omnibus Incentive Plan (the "2017 Plan") which supersedes the 2014 Equity Incentive Plan (the "2014 Plan"). The 2017 Plan allows the Company's Board of Directors to grant stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards, as well as cash incentive awards to all employees, non-employee directors, and advisors or consultants of the Company. The vesting schedule and term for each award are determined by the Board of Directors upon each grant. The maximum number of shares of common stock available for issuance under the 2017 Plan is 900,000. There were 527,334 stock options granted under the 2014 Plan and prior plans outstanding as of March 31, 2019. There were 183,750 stock options and 50,000 restricted shares issued under the 2017 Plan outstanding and 663,250 shares available for grant under the 2017 Plan as of March 31, 2019.

The Company recorded approximately $729,000 and $604,000 of compensation expense related to current and past grants of stock options and restricted stock for the nine months ended March 31, 2019 and 2018, respectively. This expense is included in selling, general and administrative expense. As of March 31, 2019, approximately $894,000 of total unrecognized compensation expense related to non-vested equity awards was expected to be recognized over a weighted average period of approximately 0.8 years.

The Company recognizes compensation expense related to share-based payment transactions in the financial statements based on the estimated fair value of the award issued. The fair value of each option is estimated using the Black-Scholes pricing model at the time of award grant. The Company estimates the expected life of options based on the expected holding period by the option holder. The risk-free interest rate is based upon observed U.S. Treasury interest rates for the expected term of the options. The Company makes assumptions with respect to expected stock price volatility based upon the historical volatility of its stock price. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates. Forfeitures are estimated based on the percentage of awards expected to vest, taking into consideration the seniority level of the award recipient.

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

	Nine Months Ended March 31, 2019	Fiscal Year Ended June 30, 2018
Risk-free interest rate	2.53% - 2.77%	1.77% - 2.61%
Expected term (years)	6	6
Expected volatility	182.4% - 191.9%	125.2% - 176.5%

Stock Options

The Company issued 188,750 stock options pursuant to the 2017 Plan during the nine months ended March 31, 2019. Stock option transactions during the nine months ended March 31, 2019 are summarized as follows:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at June 30, 2018	902,059	$ 3.47
Granted	188,750	$ 5.41
Exercised	(79,692)	$ 3.16
Cancelled or Forfeited	(300,033)	$ 3.86
Outstanding at March 31, 2019	711,084	$ 3.86

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. At March 31, 2019, the weighted average remaining contractual term for all outstanding stock options was 7.21 years and their aggregate intrinsic value was approximately $1,044,000. Outstanding at March 31, 2019 were 711,084 stock options issued to employees, of which 402,589 were exercisable and had an aggregate intrinsic value of approximately $999,000.

Restricted Stock

The Company's 2017 Plan permits the grant of other stock-based awards. Historically, the Company makes restricted stock grants to key employees and non-employee directors that vest over six months to three years.

During the nine months ended March 31, 2019, the Company issued restricted stock awards to employees totaling 30,000 shares of common stock, with a vesting term of one to three years and a fair value of $5.42 per share, and to directors totaling 10,000 shares of common stock, with a vesting term of six months and a fair value of $5.70 per share. The restricted stock's fair value per share represents the closing price of its common stock on the date of the grant. Restricted stock transactions during the nine months ended March 31, 2019 are summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding Shares of Restricted Stock Unvested at June 30, 2018	29,998	$ 4.96
Granted	40,000	$ 5.49
Vested	–	–
Forfeited	–	–
Outstanding Shares of Restricted Stock Unvested at March 31, 2019	69,998	$ 5.26

Note 9. Commitments and Contingencies

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.

In April 2019, the Company entered into an agreement for a building expansion project at its New Prague, Minnesota facility. This building expansion commenced in April 2019, and the Company anticipates it will be complete in the first quarter of fiscal 2020. The Company estimates the total cost of the project to range between $1,500,000 and $1,700,000.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed financial statements and related notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited financial statements, related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, or "fiscal 2018."

Overview

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

We manufacture, market and sell products that provide HFCWO, including the SmartVest® Airway Clearance System ("SmartVest System") that includes our newest generation SmartVest SQL® and previous generation SV2100, and related products, to patients with compromised pulmonary function. The SmartVest SQL is smaller, quieter and lighter than our previous product, with enhanced programmability and ease of use. Our products are sold in both the home health care market and the institutional market for use by patients in hospitals, which we refer to as "institutional sales." The SmartVest SQL has been sold in the domestic home care market since our fiscal quarter ended March 31, 2014. In the fourth quarter of our fiscal year ended June 30, 2015, we launched the SmartVest SQL into the institutional and certain international markets. In June 2017, we announced the launch of the SmartVest SQL with SmartVest Connect™ wireless technology, which allows data connection between physicians and patients to track therapy performance and collaborate in treatment decisions. SmartVest Connect is currently available to pediatric and cystic fibrosis patients and was made available to certain targeted adult pulmonary clinics starting in November 2017. Since 2000, we have marketed the SmartVest System and its predecessor products to patients suffering from cystic fibrosis, bronchiectasis and repeated episodes of pneumonia. Additionally, we offer our products to a patient population that includes neuromuscular disorders such as cerebral palsy, muscular dystrophies, amyotrophic lateral sclerosis ("ALS"), the combination of emphysema and chronic bronchitis commonly known as chronic obstructive pulmonary disease ("COPD"), and patients with post-surgical complications or who are ventilator dependent or have other conditions involving excess secretion and impaired mucus transport. During February 2017, we entered into an agreement with Monaghan Medical Corporation to distribute and sell the Aerobika® Oscillating Positive Expiratory Pressure ("OPEP") Device in the U.S. home care market. After over a year of offering Aerobika® OPEP, we determined that continuing to offer the product direct to patients is unlikely to serve a broader patient population as originally planned. As a result, we discontinued distribution of the Aerobika OPEP in November 2018.

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

Critical Accounting Policies and Estimates

For a description of our critical accounting policies, estimates and assumptions used in the preparation of our financial statements, including the condensed financial statements in this report, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 1 to our audited financial statements, included in Part II, Item 8, of our Annual Report on Form 10-K for fiscal 2018.

Some of our accounting policies require us to exercise significant judgment in selecting the appropriate assumptions for calculating financial statements. Such judgments are subject to an inherent degree of uncertainty. These judgments are based upon our historical experience, known trends in our industry, terms of existing contracts and other information from outside sources, as appropriate. We believe the critical accounting policies that require the most significant assumptions and judgments in the preparation of our financial statements, including the condensed financial statements in this report, include: revenue recognition and the estimation of variable consideration, allowance for doubtful accounts, the valuation of intangible and long-lived assets, inventory obsolescence, share-based compensation, income taxes and warranty liability.

Results of Operations

Revenues

Revenue for the three and nine months ended March 31, 2019 and 2018 are summarized in the table below (dollar amounts in thousands).

	Three Months Ended March 31,		Change		Nine Months Ended March 31,		Change	
	2019	2018			2019	2018		
Total Revenue	$ 7,408	$ 7,167	$ 241	3.4%	$ 22,696	$ 20,434	$ 2,262	11.1%
Home Care Revenue	6,852	6,552	300	4.6%	20,905	18,951	1,954	10.3%
Institutional Revenue	414	496	(82)	(16.5%)	1,235	1,097	138	12.6%
International Revenue	142	119	23	19.3%	556	386	170	44.0%

Home Care Revenue. Home care revenue for the three months ended March 31, 2019 was approximately $6,852,000, an increase of approximately $300,000, or 4.6%, compared to the same period in fiscal 2018. For the nine months ended March 31, 2019, home care revenue was approximately $20,905,000, an increase of approximately $1,954,000, or 10.3%, compared to the same period in fiscal 2018. The increases in home care revenue for the three and nine months ended March 31, 2019 were primarily due to a higher level of referrals as a result of greater productivity from our sales force and continued improvements in our reimbursement operations that led to a greater percentage of referrals getting approved as compared to the prior year periods. The higher level of referrals and approvals was offset partially by a lower average allowable due to payer mix compared to the prior year.

Institutional Revenue. Institutional revenue for the three months ended March 31, 2019 was approximately $414,000, a decrease of approximately $82,000 compared to the same period in fiscal 2018, or 16.5%. For the nine months ended March 31, 2019, institutional revenue was approximately $1,235,000, an increase of approximately $138,000, or 12.6%, compared to the same period in fiscal 2018. The decrease in institutional revenue for the three months ended March 31, 2019 was due to a decrease in the number of devices sold due to longer than expected sales cycle in targeted institutions, which was partially offset by an increase in sales of single patient use garments. The increase in institutional revenue for the nine months ended March 31, 2019 was driven primarily by an increase in sales of single patient use garments. Institutional revenue includes sales to distributors, group purchasing organization (“GPO”) members and other institutions.

International Revenue. International revenue for the three and nine months ended March 31, 2019 was approximately $142,000 and $556,000, respectively, representing an increase of approximately $23,000 and $170,000, or 19.3% and 44.0%, compared to the same periods in fiscal 2018. International sales are affected by the timing of distributor purchases that can cause significant fluctuations in reported revenue on a quarterly basis.

Gross profit

Gross profit increased to approximately $5,574,000, or 75.2% of net revenues, for the three months ended March 31, 2019, from approximately $5,510,000, or 76.9% of net revenues, in the same period in fiscal 2018. Gross profit increased to approximately $17,180,000, or 75.7% of net revenues, for the nine months ended March 31, 2019, from approximately $15,603,000, or 76.4% of net revenues, in the same period in fiscal 2018. The increase in gross profit for the three and nine months ended March 31, 2019 was primarily related to increases in domestic home care revenue. The decrease in gross profit as a percentage of net revenue was driven primarily by a lower average selling price based on payor mix as compared to the prior year.

Operating expenses

Selling, general and administrative expenses. Selling, general and administrative (“SG&A”) expenses were approximately $4,942,000 and $15,370,000 for the three and nine months ended March 31, 2019, respectively, representing increases of approximately $53,000 and $1,385,000, or 1.1% and 9.9%, respectively, compared to the same periods in the prior year.

Payroll and compensation-related expenses were approximately $3,180,000 and $9,938,000 for the three and nine months ended March 31, 2019, respectively, representing increases of approximately $137,000 and $1,389,000, or 4.5% and 16.2%, respectively, compared to the same periods in the prior year. The increases in the current year periods were due to additional employees in sales and administrative roles, additional sales incentives on higher revenue accruals, annual salary increases, higher share-based equity compensation expense and a higher management bonus accrual as compared to the prior year periods.

Professional fees for the three and nine months ended March 31, 2019 were approximately $322,000 and $1,154,000, respectively, decreases of approximately $100,000 and $171,000, or 23.7% and 12.9%, respectively, compared to the same periods in the prior year. These fees are primarily for services related to legal costs, shareowner services and reporting requirements, information technology ("IT") technical support, and consulting fees for enhancing our market development strategy. The decreases in professional fees were primarily in shareowner services, legal and IT costs, which were partially offset by an increase in marketing consulting fees.

Recruiting fees for the three and nine months ended March 31, 2019 were approximately $125,000 and $218,000, respectively, an increase of approximately $8,000, or 6.8%, and a decrease of $196,000, or 47.3%, respectively, compared to the same period in the prior year. The decrease in recruiting fees for the nine months ended March 31, 2019 were due primarily to fewer new employees hired in sales and administrative roles compared to the prior year period.

Travel, meals and entertainment expenses were approximately $542,000 and $1,758,000 for the three and nine months ended March 31, 2019, respectively, representing a decrease of approximately $25,000, or 4.4% and an increase of $177,000, or 11.2%, respectively, compared to the same periods in the prior year. The decrease during the three months ended March 31, 2019 was primarily due to lower spend per sales personnel as compared to the prior year period. The increase during the nine months ended March 31, 2019 was due primarily to a higher number of sales personnel compared to the prior year period.

Research and development expenses. Research and development ("R&D") expenses were approximately $171,000 and $477,000 for the three and nine months ended March 31, 2019, respectively, representing increases of approximately $128,000 and $307,000 compared to the same periods in the prior year. R&D expenses for the three and nine months ended March 31, 2019 were 2.3% and 2.1% of revenue, respectively, compared to 0.6% and 0.8% of revenue for the same periods in the prior year. As a percentage of net revenues, we expect spending on R&D expenses to be consistent with our current year-to-date run rates for the remainder of our fiscal year ending June 30, 2019.

Interest income (expense), net

Net interest income for the three and nine months ended March 31, 2019 was $27,000 and $57,000, respectively, compared to net interest income of $1,000 and net interest expense of $8,000 in the comparable prior year periods. Increases in net interest income was primarily driven by higher rates earned on our cash deposits.

Income tax expense

Income tax expense was estimated at approximately $139,000 and $508,000 and the effective tax rates were 28.4% and 36.5%, respectively, for the three and nine months ended March 31, 2019. Estimated income tax expense for the nine months ended March 31, 2019 includes a discrete deferred tax expense of approximately $134,000 related to unexercised fully-vested stock options that expired and a discrete current tax benefit of approximately $16,000 related to the excess tax benefit of non-qualified stock options exercised during the period. The net impact of these discrete events increased the estimated effective tax rates by 8.5% during the nine months ended March 31, 2019.

Income tax expense was estimated at approximately $202,000 and $562,000 and the effective tax rates were 34.9% and 39.0%, respectively, for the three and nine months ended March 31, 2018. Estimated income tax expense for the nine months ended March 31, 2018 includes a discrete deferred tax expense of approximately $160,000 as a result of re-measuring certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in future periods under the Tax Act. Additionally, a discrete tax benefit of approximately $27,000 was recognized during the nine months ended March 31, 2018 as a result of greater federal and state research and development tax credits than what was originally estimated in our tax provision for the fiscal year ended June 30, 2017. The net impact of these discrete events increased the effective tax rate by 9.2% during the nine months ended March 31, 2018.

Net income

Net income for the three and nine months ended March 31, 2019 was approximately $350,000 and $882,000, respectively, compared to net income of approximately $376,000 and $877,000 for the same periods in the prior year. The year-over-year increase in net income during the nine months ended March 31, 2019 was a result of increases in gross profit driven by higher revenue, which was partially offset by higher SG&A expenses related to year-over-year growth in sales and administrative roles supporting growth initiatives and higher R&D expenses as compared to the prior year period.

Liquidity and Capital Resources

Cash Flows and Sources of Liquidity

Cash Flows from Operating Activities

For the nine months ended March 31, 2019, net cash provided by operating activities was approximately $1,172,000. Cash flows provided by operating activities consisted of net income of approximately $882,000, non-cash expenses of $1,377,000 and a decrease in prepaid expenses and other assets of $351,000. These cash flows from operating activities were partially offset by an increase in accounts receivable of $464,000, a decrease in taxes payable of $397,000, an increase in income taxes receivable of $240,000, an increase in inventory of $206,000, an increase in contract assets of $67,000 and a decrease in accounts payable and accrued liabilities of $64,000.

Cash Flows from Investing Activities

For the nine months ended March 31, 2019, cash used in investing activities was approximately $241,000. Cash used in investing activities consisted of approximately $198,000 in expenditures for property and equipment and $43,000 in payments for patent costs.

Cash Flows from Financing Activities

For the nine months ended March 31, 2019, cash used in financing activities was approximately $851,000, which consisted of principal payments on long-term debt of $1,103,000 and $252,000 received from the exercise of stock options.

Adequacy of Capital Resources

Our primary working capital requirements relate to adding employees to our sales force and support functions, continuing R&D efforts, and supporting general corporate needs, including financing equipment purchases and other capital expenditures incurred in the ordinary course of business. Based on our recent operational performance, we believe our working capital of approximately $20,762,000 as of Mach 31, 2019 and available borrowings under our existing credit facility will provide adequate liquidity for the next year.

Effective December 18, 2018, we renewed our credit facility, which provides us with a revolving line of credit. Interest on borrowings on the line of credit accrues at the prime rate (5.50% at March 31, 2019) less 1.00% and is payable monthly. The amount eligible for borrowing on the line of credit is limited to the lesser of $2,500,000 or 57.00% of eligible accounts receivable, and the line of credit expires on December 18, 2019, if not renewed. At March 31, 2019, the maximum $2,500,000 was available under the line of credit. Payment obligations under the line of credit are secured by a security interest in substantially all of our tangible and intangible assets.

In connection with the credit facility, we also had a term loan, which had an outstanding principal balance of approximately $1,103,000 as of June 30, 2018 and an interest rate of 3.88%. The unamortized debt issuance cost associated with this debt was approximately $2,000 as of June 30, 2018. The term loan matured on December 18, 2018, and we utilized cash to repay the required balloon payment of approximately $1,085,000. Payment obligations under the term loan were secured by a mortgage on our real property, which security interest was released upon payoff. We no longer have any obligation under the term loan.

The documents governing our line of credit contain certain financial and nonfinancial covenants that include a minimum tangible net worth of not less than $10,125,000 and restrictions on our ability to incur certain additional indebtedness or pay dividends. We were in compliance with these covenants as of March 31, 2019.

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

For the nine months ended March 31, 2019 and 2018, we spent approximately $197,000 and $379,000, respectively, on property and equipment. In April 2019, we entered into an agreement for a building expansion project at our New Prague, Minnesota facility. This building expansion commenced in April 2019, and we anticipate it will be complete in the first quarter of fiscal 2020. We estimate the total cost of the project to range between $1,500,000 and $1,700,000, will save us over $130,000 in annual lease expense and provide us with sufficient infrastructure to support our long-term growth.

We currently expect to finance planned equipment purchases with cash flows from operations or borrowings under our credit facility. We may need to incur additional debt if we have an unforeseen need for additional capital equipment or if our operating performance does not generate adequate cash flows.

Off-Balance Sheet Arrangements

As of March 31, 2019, we had no off-balance sheet arrangements.

Cautionary Note Regarding Forward-Looking Statements

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

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

- the competitive nature of our market;
- changes to Medicare, Medicaid, or private insurance reimbursement policies;
- changes to health care laws;
- changes affecting the medical device industry;
- our ability to develop new sales channels for our products;
- our need to maintain regulatory compliance and to gain future regulatory approvals and clearances;
- new drug or pharmaceutical discoveries;
- general economic and business conditions;
- our ability to renew our line of credit or obtain additional credit as necessary;
- our ability to protect and expand our intellectual property portfolio; and
- the risks associated with expansion into international markets.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes to Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Occasionally, we may be party to legal actions, proceedings, or claims in the ordinary course of business, including claims based on assertions of patent and trademark infringement. Corresponding costs are accrued when it is probable that a loss will be incurred 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 our financial condition or results of operations.

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Unless otherwise indicated, all documents incorporated into this Quarterly Report on Form 10-Q by reference to a document filed with the SEC pursuant to the Exchange Act are located under SEC file number 001-34839.

Exhibit Number	Description	Method of Filing
3.1	Composite Articles of Incorporation, as amended through November 8, 2010 (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K for the fiscal year ended June 30, 2015)	Incorporated by Reference
3.2	Composite Bylaws, as amended through June 30, 2012 (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K for the fiscal year ended June 30, 2015)	Incorporated by Reference
10.1	Form of Non-Qualified Stock Option Agreement under the 2017 Omnibus Incentive Plan *	Filed Electronically
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Electronically
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Electronically
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Electronically
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Electronically
101	Financial statements from the Quarterly Report on Form 10-Q for the period ended March 31, 2019, formatted in XBRL: (i) Condensed Balance Sheets, (ii) Condensed Statements of Operations, (iii) Condensed Statements of Cash Flows, (iv) Condensed Statements of Shareholders' Equity, and (v) Notes to Condensed Financial Statements	Filed Electronically

* Management compensatory contract or agreement required to be filed as an exhibit to this Quarterly Report on Form 10-Q.

SIGNATURES

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

	ELECTROMED, INC.
Date: May 7, 2019	/s/ Kathleen S. Skarvan Kathleen S. Skarvan, President and Chief Executive Officer (duly authorized officer)
Date: May 7, 2019	/s/ Jeremy T. Brock Jeremy T. Brock, Chief Financial Officer (principal financial officer and principal accounting officer)

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Section 2: EX-10.1 (FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT)

Exhibit 10.1

ELECTROMED, INC.

Non-Qualified Stock Option Agreement
Under the 2017 Omnibus Incentive Plan

Electromed, Inc., a Minnesota corporation (the "Company"), pursuant to its 2017 Omnibus Incentive Plan (the "Plan"), hereby grants an Option to purchase shares of the Company's common stock, par value $0.01 per share ("Common Stock"), to you, the Participant named below. The terms and conditions of the Option Award are set forth in this Agreement, consisting of this cover page and the Option Terms and Conditions on the following pages, and in the Plan document, a copy of which has been provided to you. Any capitalized term that is not defined in this Agreement shall have the meaning set forth in the Plan as it currently exists or as it is amended in the future.

Name of Participant: **[________________________]	
No. of Shares Covered: **[_______]	Grant Date: __________, 20__
Exercise Price Per Share: $**[______]	Expiration Date: __________, 20__
Vesting and Exercise Schedule:	
Dates	Portion of Shares as to Which Option Becomes Vested and Exercisable

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents and that they set forth the entire agreement between you and the Company regarding your right to purchase shares of the Company's Common Stock pursuant to this Option.

PARTICIPANT:

By: ________________________________
Name:______________________________

ELECTROMED, INC.

By: ________________________________
Name:______________________________
Title:______________________________

Electromed, Inc.
2017 Omnibus Incentive Plan
Non-Qualified Stock Option Agreement

Option Terms and Conditions

1. **Non-Qualified Stock Option**. This Option is not intended to be an "incentive stock option" within the meaning of Section 422 of the Code and will be interpreted accordingly.

2. **Vesting and Exercisability of Option**.

(a) Scheduled Vesting. This Option will vest and become exercisable as to the number of Shares and on the dates specified in the Vesting and Exercise Schedule on the cover page to this Agreement, so long as your Service to the Company does not end. The Vesting and Exercise Schedule is cumulative, meaning that to the extent the Option has not already been exercised and has not expired or been terminated or cancelled, you or the person otherwise entitled to exercise the Option as provided in this Agreement may at any time purchase all or any portion of the Shares subject to the vested portion of the Option.

(b) Accelerated Vesting. Vesting and exercisability of this Option may be accelerated during the term of the Option under the circumstances described in Sections 12(b) and 12(c) of the Plan, and at the discretion of the Committee in accordance with Section 3(b)(2) of the Plan.

3. **Expiration**. This Option will expire and will no longer be exercisable at 5:00 p.m. Central Time on the earliest of:

(a) The expiration date specified on the cover page of this Agreement;

(b) Upon your termination of Service for Cause;

(c) Upon the expiration of any applicable period specified in Section 6(d) of the Plan or Section 2 of this Agreement during which this Option may be exercised after your termination of Service; or

(d) The date (if any) fixed for termination or cancellation of this Option pursuant to Section 12 of the Plan.

4. **Service Requirement.** Except as otherwise provided in Section 6(d) of the Plan or Section 2 of this Agreement, this Option may be exercised only while you continue to provide Service to the Company or any Affiliate, and only if you have continuously provided such Service since the Grant Date of this Option.

5. **Exercise of Option**. Subject to Section 4, the vested and exercisable portion of this Option may be exercised in whole or in part at any time during the Option term by delivering a written or electronic notice of exercise to the Company's Chief Financial Officer or to such other party as may be designated by such officer, and by providing for payment of the exercise price of the Shares being acquired and any related withholding taxes. The notice of exercise must be in a form approved by the Company and state the number of Shares to be purchased, the method of payment of the aggregate exercise price and the directions for the delivery of the Shares to be acquired, and must be signed or otherwise authenticated by the person exercising the Option. If you are not the person exercising the Option, the person submitting the notice also must submit appropriate proof of his/her right to exercise the Option.

6. **Payment of Exercise Price**. When you submit your notice of exercise, you must include payment of the exercise price of the Shares being purchased through one or a combination of the following methods:

   (a) Cash (including personal check, cashier's check or money order);

   (b) By means of a broker-assisted cashless exercise in which you irrevocably instruct your broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise to the Company in payment of the exercise price of such Shares;

   (c) By delivery to the Company of Shares (by actual delivery or attestation of ownership in a form approved by the Company) already owned by you that are not subject to any security interest and that have an aggregate Fair Market Value on the date of exercise equal to the exercise price of the Shares being purchased; or

   (d) By authorizing the Company to retain, from the total number of Shares as to which the Option is being exercised, that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is being exercised.

7. **Withholding Taxes**. You may not exercise this Option in whole or in part unless you make arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the exercise of this Option. You hereby authorize the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 14 of the Plan. You may satisfy such withholding tax obligations by delivering Shares you already own or by having the Company retain a portion of the Shares being acquired upon exercise of the Option, provided you notify the Company in advance of any exercise of your desire to pay withholding taxes in this manner. Delivery of Shares upon exercise of this Option is subject to the satisfaction of applicable withholding tax obligations.

8. **Delivery of Shares.** As soon as practicable after the Company receives the notice of exercise and payment of the exercise price as provided above, and has determined that all other conditions to exercise, including satisfaction of withholding tax obligations and compliance with applicable laws as provided in Section 17(c) of the Plan, have been satisfied, it shall deliver to the person exercising the Option, in the name of such person, the Shares being purchased, as evidenced by issuance of a stock certificate or certificates, electronic delivery of such Shares to a brokerage account designated by such person, or book-entry registration of such Shares

with the Company's transfer agent. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the Shares and all fees and expenses incurred by it in connection therewith. All Shares so issued shall be fully paid and nonassessable.

9. **Transfer of Option**. During your lifetime, only you (or your guardian or legal representative in the event of legal incapacity) may exercise this Option except in the case of a transfer described below. You may not assign or transfer this Option except for a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(c) of the Plan. The Option held by any such transferee will continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer and may be exercised by such transferee as and to the extent that the Option has become exercisable and has not terminated in accordance with the provisions of the Plan and this Agreement.

10. **No Stockholder Rights Before Exercise**. Neither you nor any permitted transferee of this Option will have any of the rights of a stockholder of the Company with respect to any Shares subject to this Option until a certificate evidencing such Shares has been issued, electronic delivery of such Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made. No adjustments shall be made for dividends or other rights if the applicable record date occurs before your stock certificate has been issued, electronic delivery of your Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made, except as otherwise described in the Plan.

11. **Governing Plan Document**. This Agreement and Option are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

12. **Choice of Law**. This Agreement will be interpreted and enforced under the laws of the state of Minnesota (without regard to its conflicts or choice of law principles).

13. **Binding Effect**. This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

14. **Other Agreements.** You agree that in connection with the exercise of this Option, you will execute such documents as may be necessary to become a party to any stockholder, voting or similar agreements as the Company may require.

15. **Restrictive Legends.** The Company may place a legend or legends on any certificate representing Shares issued upon the exercise of this Option summarizing transfer and other restrictions to which the Shares may be subject under applicable securities laws, other provisions of this Agreement, or other agreements contemplated by Section 14 of this Agreement. You agree that in order to ensure compliance with the restrictions referred to in this Agreement, the Company may issue appropriate "stop transfer" instructions to its transfer agent.

16. **Compensation Recovery Policy**. To the extent that any compensation paid or payable pursuant to this Agreement is considered "incentive-based compensation" within the meaning and subject to the requirements of Section 10D of the Exchange Act, such compensation shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by

the Board or any committee thereof in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's Common Stock is then listed. This Agreement may be unilaterally amended by the Company to comply with any such compensation recovery policy.

17. **Electronic Delivery and Acceptance**. The Company may deliver any documents related to this Option Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator.

By signing the cover page of this Agreement or otherwise accepting this Agreement in a manner approved by the Company, you agree to all the terms and conditions described above and in the Plan document.

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Section 3: EX-31.1 (CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302)

Exhibit 31.1

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

I, Kathleen S. Skarvan, certify that:

1. I have reviewed this report on Form 10-Q of Electromed, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Kathleen S. Skarvan
Kathleen S. Skarvan
President and Chief Executive Officer

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Section 4: EX-31.2 (CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302)

Exhibit 31.2

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

I, Jeremy T. Brock, certify that:

1. I have reviewed this report on Form 10-Q of Electromed, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Jeremy T. Brock
Jeremy T. Brock
Chief Financial Officer

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Section 5: EX-32.1 (CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906)

Exhibit 32.1

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

In connection with the Quarterly Report of Electromed, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission (the “Report”), I, Kathleen S. Skarvan, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2019

/s/ Kathleen S. Skarvan
Kathleen S. Skarvan
President and Chief Executive Officer

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Section 6: EX-32.2 (CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906)

Exhibit 32.2

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

In connection with the Quarterly Report of Electromed, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission (the “Report”), I, Jeremy T. Brock, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2019

/s/ Jeremy T. Brock
Jeremy T. Brock
Chief Financial Officer

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