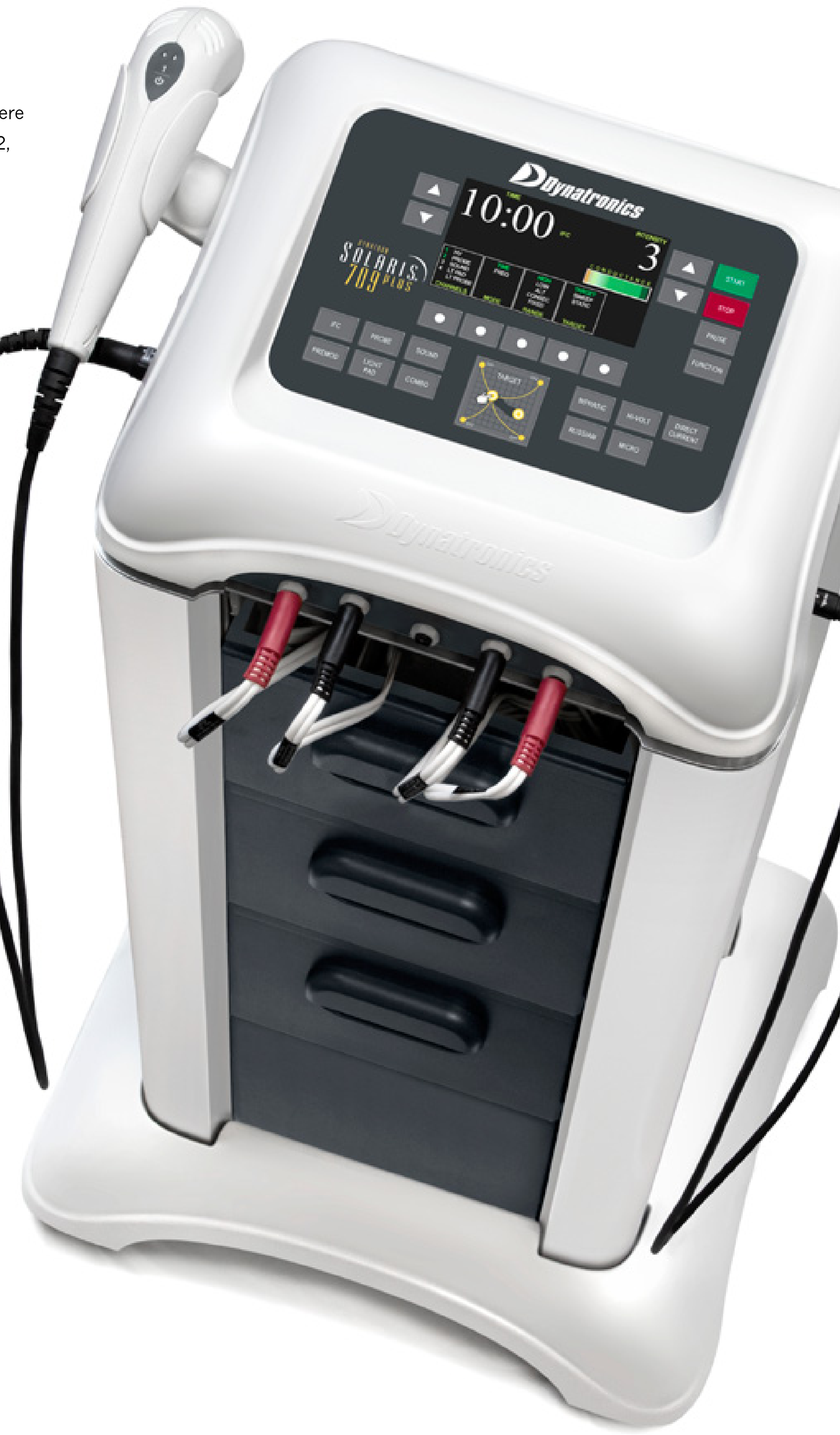
annual report

2013

Dynatronics

The SolarisPlus devices were introduced in August 2012, and quickly became our top–selling product line.



letter to shareholders 2013

Years of increased R&D expenditures and strategic planning culminated in fiscal year 2013 with the introduction of a record number of innovative devices. We expect that these new investments will increase market interest in our product lines. While Dynatronics has long been an innovation leader in our market, we have never introduced a greater number of new devices during any other 12–month period in our history. Even better, the innovation did not stop in fiscal year 2013.

Early in 2013, we introduced the Dynatron Solaris®Plus family of products, updating and improving our premier Solaris brand family of products. The SolarisPlus family of products includes four therapy devices capable of delivering varying combinations of electrotherapy, ultrasound therapy and phototherapy all at the same time, if desired. The top–of–the–line Dynatron SolarisPlus 709 is capable of delivering seven different forms of electro-therapy through five patient therapy channels, three frequencies of ultrasound therapy and multiple variations of phototherapy. The other three SolarisPlus devices, which offer fewer therapy channels or exclude ultrasound therapy, are variations on these combinations. The entire product line provides practitioners with a variety of choices.

> **...we have never introduced a greater number of new devices during any other 12–month period in our history.**

Along with the four devices that comprise the Dynatron SolarisPlus family of products, we introduced the new Tri–Wave Light Probe and the Tri–Wave Light Pad. These devices include three wavelengths of light to deliver powerful phototherapy. The new probe and pad function as accessory devices to the Dynatron SolarisPlus product family.

An additional accessory introduced as part of the SolarisPlus family is a transport cart on which the SolarisPlus unit can be positioned for easy movement around practitioners' clinics. This attractive cart not only improves the aesthetic appeal of the SolarisPlus family of products, but is highly functional, providing three large drawers for storage and a low center of gravity to eliminate tipping.

The introduction of the Dynatron SolarisPlus products helped us reverse a 5 percent decline in therapy device sales to produce a 6 percent sales improvement in fiscal year 2013 compared to fiscal year 2012.

In addition to the Dynatron SolarisPlus family of products, we brought new therapy tables to the market in the second quarter of fiscal year 2013. The Ultra 2 and Ultra 3 are premium hi–lo segmented therapy tables. As indicated by their names, the

Ultra 2 is a two–section table and the Ultra 3 is a three–section table. Both are heavy–duty, 550–pound capacity tables with unique operator conveniences. Interest in these new therapy tables was slow at first, but sales are now gaining momentum.

Besides the SolarisPlus devices, the Tri–Wave Light Probe and Pad, and the Ultra therapy tables, we also introduced a new line of combination therapy devices branded the “25 Series.” The 25 Series is intended to replace our aging 50 Series line of products. The 25 Series products are similar to the SolarisPlus product family, except that they offer only electrotherapy and ultrasound therapy, and do not include phototherapy, a transport cart or the ability to add future modalities.

We expect the 25 Series products will open new doors of distribution for us. Throughout our history we have subscribed to a sales philosophy of protected territories for our proprietary devices. While this has attracted the best sales persons and the best dealers, it has also precluded our pursuit of a significant part of our key market.

With the advent of the 25 Series, we will, for the first time in our history, offer proprietary combination therapy devices to all qualified distributors. We will continue to protect certain distributors and sales persons by restricting the offer and sale of the Dynatron SolarisPlus products and associated accessories to be sold only by these exclusive distributors and repre-sentatives, or under their direction, within limited geographical territories. At the same time, we will make available the 25 Series of combination therapy products generally to qualified sales persons, dealers and distributors without geographic limitations. We anticipate that this will broaden our stable of capable sales persons, many of whom may also be attracted to sell other Dynatronics products, including the Dynatron SolarisPlus products, by working with the appointed sales representative or dealer in their territories.

In the coming months we will introduce one of the most innovative and exciting new products we have engineered in years. It is called the Dynatron Thermostim™ Probe. This new probe will provide practitioners with a tool that delivers thermal therapy and/or electrotherapy in a single device. A year ago we introduced our first version of this probe as an accessory to our Quad 7 thermal therapy device. The original Thermostim achieved heating and cooling of the probe face using heated or cooled water circulated from the Quad 7 device. The Dynatron Thermostim Probe is a new, advanced–technology probe that achieves thermal therapy capabilities by use of a thermoelectric chip, instead of circulating water, eliminating the need for the awkward hoses used on the predicate device.

The new Thermostim Probe, scheduled for release before the end of calendar year 2013, is a plug–and–play accessory to the Dynatron SolarisPlus family of products. This exciting technology will further enhance the innovative SolarisPlus brand. We also expect the introduction of the Thermostim Probe to significantly boost revenue through sales of the probe itself, as well as increased sales of the SolarisPlus products.

We believe the introduction of a record number of products this last year and in the new fiscal year, together with the anticipated introduction of the Thermostim Probe and the new strategy for expanding distribution of products, positions us well for a new growth phase.

[we]... improved operating performance compared to fiscal year 2012, reducing pre-tax losses 31% from $190,241 last year to $131,125 this year.

That strategy is timely: For the first time since we began to offer commercialized products, we reported net losses for two consecutive years. In fiscal year 2012, we reported a net loss of $23,535. In fiscal year 2013, we reported a net loss of $44,371. Despite the slightly larger net loss for fiscal year 2013, we actually improved operating performance compared to fiscal year 2012, reducing pre–tax losses 31% from $190,241 last year to $131,125 this year. That improvement was achieved by cutting expenses by just over $900,000 from fiscal year 2012 to fiscal year 2013. Those expense reductions were offset by a 6.7 percent drop in sales, resulting in a loss of approximately $850,000 in gross profit margin year over year.

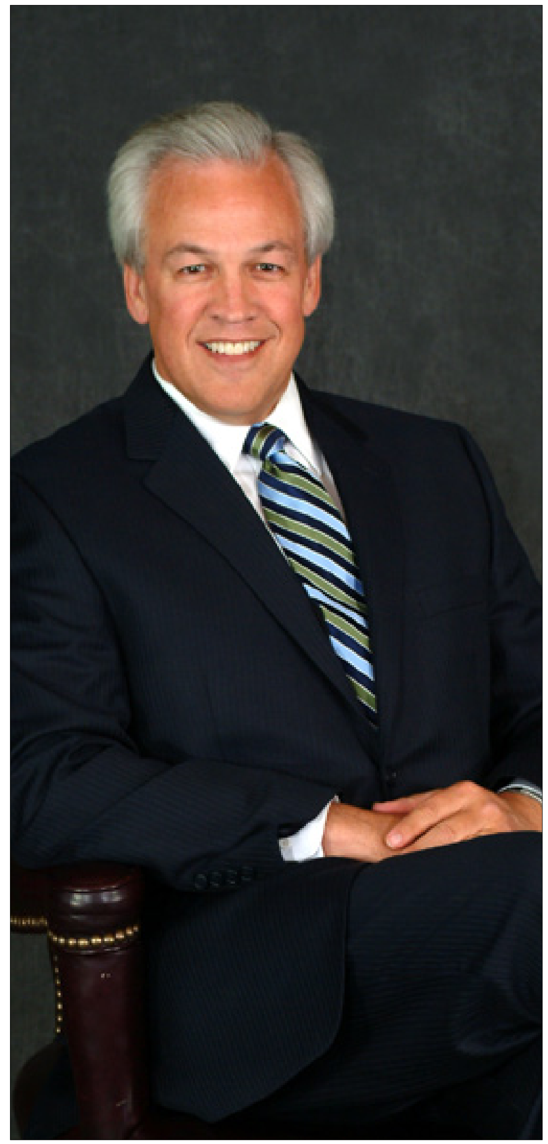
While we are concerned about these declines in sales, we are encouraged by the fact that sales of our proprietary manufactured products increased this fiscal year over last year. The loss of sales has been exclusively limited to decreased sales of distributed products produced by other manufacturers. Our strategy of expanding our sales force by attracting new distributors and sales persons with our innovative, new, proprietary manufactured products will, we believe, also lead to an increase of sales of the products we distribute for other manufacturers.

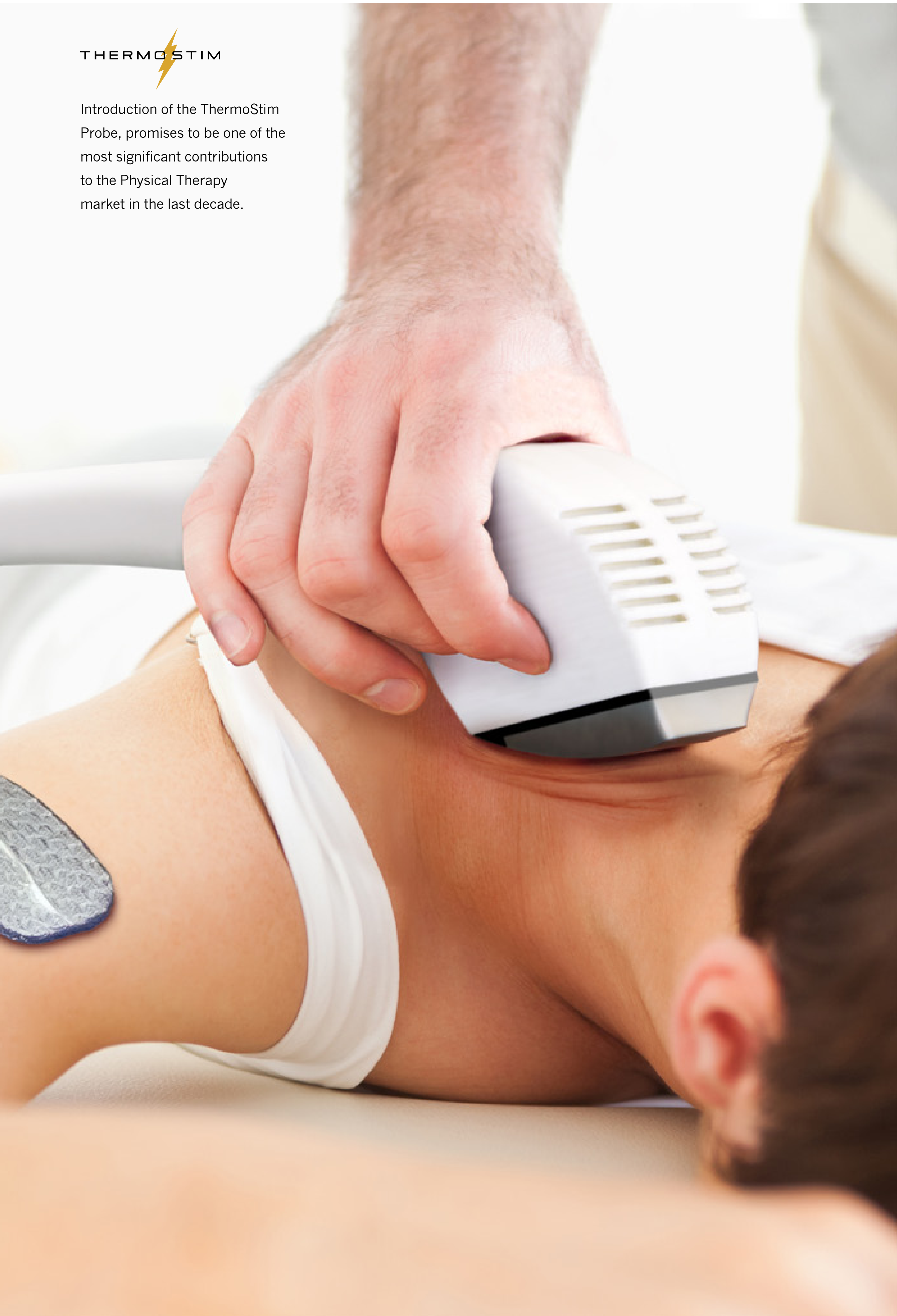
We continue to explore options for expanding relationships with national accounts and group purchasing organizations, and to pursue international sales opportunities. For the first time in our history, we have significant interest in our new products from Asian and European distributors. While cultivating national accounts and international sales is a more prolonged process, we remain engaged to bring those opportunities to fruition.

In December 2012, we implemented a one–for–five reverse split of our common stock. We are pleased that our overall market capitalization has actually improved since the implementation of that reverse stock split. In fact, on August 6, 2013 the stock price closed at $5.57 per share.

We are confident that as we begin to implement the new sales strategy, backed by our new proprietary products, we will see sustained growth in the sales both of Dynatronics–manufactured products as well as distributed products. Adding these improved sales and the resulting gross profits to our more austere platform of reduced expense and overhead should position us to return to profitability in the coming fiscal year.

KELVYN H. CULLIMORE, JR.
Chairman, President and CEO





THERMOSTIM

Introduction of the ThermoStim Probe, promises to be one of the most significant contributions to the Physical Therapy market in the last decade.

poised to make a major impact on the market in 2014

Poised to make a major impact on the market in 2014, a quick review of Dynatronics' history reveals that two things have significantly moved the sales and profitability needle in the past—extending distribution and leveraging new technology.

1996—ACQUISITION OF SUPERIOR ORTHOPEDIC SUPPLIES, INC.

The acquisition of Superior Orthopedic Supplies expanded Dynatronics' manufactured product offerings by over 200 products, including hot/cold packs, supports, pillows, and therapy tables. Sales for fiscal year 1996 jumped 50%, following this major acquisition.

2004—INTRODUCTION OF SOLARIS SERIES

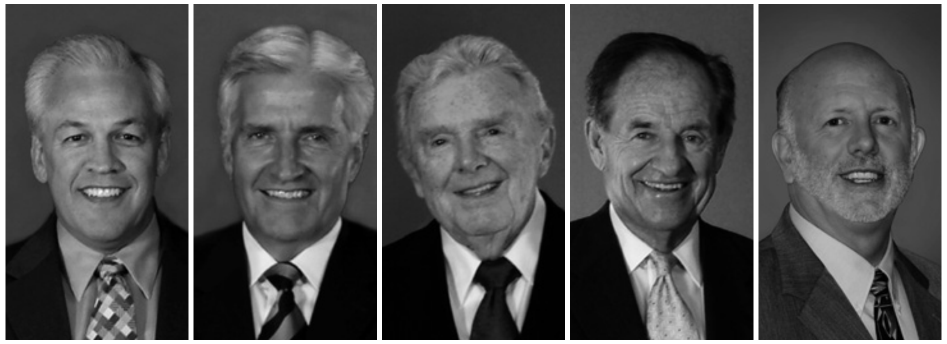
Dynatronics once again raised the bar for technological innovation with the introduction of the Solaris Series of electrotherapy devices. After one year on the market, no other company had yet offered the unique combination of 7 electrotherapy modalities, 3-frequency ultrasound capabilities, and the option of adding light therapy. Leveraging this new technology, company profits jumped from $24,799 to $883,300.

2008—DEALER ACQUISITIONS

The acquisition of 6 key dealers expanded Dynatronics' influence and direct sales access nationwide. With improved sales margins, increased number of sales reps, and solid presence in 29 states across the nation, Dynatronics sales nearly doubled from $17.8 million to $32.6 million.

2014—THERMOSTIM PROBE

Introduction of the ThermoStim Probe, promises to be one of the most significant contributions to the Physical Therapy market in the last decade. No other device on the market can supply a variety of Stim outputs combined with both heat (112°) and cold (35°) options in one device. Designed as an optional accessory to the SolarisPlus Series, this revolutionary tool facilitates the delivery of three different therapies in one treatment, significantly reducing the time typically required to administer separate treatments. By leveraging proprietary technology, the new ThermoStim Probe will be the catalyst to boost sales and attract new distributors, beginning midway through fiscal year 2014.



BOARD OF DIRECTORS

Pictured above, in order from left to right

Kelvyn H. Cullimore, Jr.
Chairman, President and CEO

Larry K. Beardall
Executive Vice President of Sales and Marketing

Joseph H. Barton
Director

Howard L. Edwards
Director

R. Scott Ward, Ph.D.
Director

MANAGEMENT TEAM

Kelvyn H. Cullimore, Jr.
Chairman, President and CEO

Larry K. Beardall
Executive Vice President of Sales and Marketing

Terry M. Atkinson, CPA
Chief Financial Officer

Robert J. (Bob) Cardon
Vice President of Administration, Secretary/Treasurer

Douglas G. Sampson
Vice President of Production and R&D

Bryan D. Alsop
Vice President of Information Technology

discussion & analysis MGMT

The following discussion should be read in conjunction with our consolidated financial statements and notes to those consolidated financial statements, included elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations.

OVERVIEW—Our principal business is the distribution and marketing of physical medicine products and aesthetic products, many of which we design and manufacture. We offer a broad line of medical equipment including therapy devices, medical supplies and soft goods, treatment tables and rehabilitation equipment. Our line of aesthetic equipment includes aesthetic massage and microdermabrasion devices, as well as skin care products. Our products are sold to and used primarily by physical therapists, chiropractors, sports medicine practitioners, podiatrists, plastic surgeons, dermatologists, aestheticians and other aesthetic services providers. Our fiscal year ends on June 30. Reference to fiscal year 2013 refers to the year ended June 30, 2013.

RESULTS OF OPERATIONS

Fiscal Year 2013 Compared to Fiscal Year 2012

NET SALES—Net sales in fiscal year 2013 were $29,538,275 compared to $31,664,181 in fiscal year 2012. The $2,125,906 decrease is characterized by sales reductions evenly split between supplies and capital equipment distributed for other manufacturers. Consolidated sales of proprietary manufactured products actually increased over the prior year with more significant gains in sales of the new Dynatron Solaris Plus family of products offsetting lower sales of other proprietary manufactured products. The decline in sales of products distributed for other manufacturers is attributable to several factors. Approximately 20% of the reduced sales are due to a single manufacturer that changed their distribution paradigm negatively impacting our sales of their products. The continued general economic weakness in our primary markets combined with uncertainties over anticipation of negative market impacts related to provisions of the Affordable Care Act also contributed to lower sales, particularly of capital equipment. The reductions in sales of distributed medical supplies during the year include the impact of a single large customer that discontinued operations in early 2012.

Sales of proprietary manufactured physical medicine products represented approximately 46% and 42% of total physical medicine product sales in fiscal years 2013 and 2012, respectively. Distribution of products manufactured by other suppliers accounted for the balance of our physical medicine product sales in those years. Sales of manufactured aesthetic products in fiscal years 2013 and 2012, represented approximately 78% and 73% of total aesthetic product sales, respectively, with distributed products making up the balance.

The majority of our sales revenues come from the sale of physical medicine products, both manufactured and distributed. In fiscal years 2013 and 2012, sales of physical medicine products accounted for 91% of total sales in both years. Chargeable repairs, billable freight revenue, aesthetic product sales and other miscellaneous revenue accounted for approximately 9% of total revenues in both years.

During the fiscal year ended June 30, 2013, we introduced more new proprietary manufactured products than at any other time in our history. However, the full impact of these new products will not likely be seen until the next fiscal year. They do provide a strong foundation for a strategy to reverse the trend of declining sales experienced this past fiscal year.

GROSS PROFIT—Gross profit totaled $11,086,602, or 37.5% of net sales, in fiscal year 2013, compared to $11,943,233, or 37.7% of net sales, in fiscal year 2012. The decrease in gross profit during the year directly reflects lower sales generated during the current fiscal year as reported above. Lower sales and margins of distributed capital equipment and certain medical supplies were partially offset by higher sales and margins from the new SolarisPlus and Quad7 products. Overall, gross margin as a percent of sales, remained virtually unchanged. The implementation of the Medical Device Tax on January 1, 2013, as required by the Affordable Care Act placed a 2.3% tax on sales of proprietary manufactured products and products imported by us for distribution in the United States. This tax had the effect of lowering gross profits during the year as it effectively increased the cost of goods sold on all items taxed. During the fiscal year we paid $81,736 in medical device taxes.

Management believes that as market demand for our proprietary manufactured products increases in conjunction with the introduction of our new ThermoStim Probe in the quarter ending December 31, 2013, sales growth will resume and, as a result, gross profit will improve. In addition, as healthcare reform progresses, we expect uncertainty in our market to diminish, confidence to increase and demand for our products to begin to strengthen.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES—Selling, General and Administrative, or SG&A expenses were $9,860,964, or 33.4% of net sales, in fiscal year 2013, compared to $10,506,460, or 33.2% of net sales, in fiscal year 2012. The $645,496 decrease in SG&A expenses in fiscal year 2013 as compared to 2012 is a result of the following:

- $396,178 of lower selling expenses due primarily to lower sales commissions;
- $154,872 of lower labor and overhead costs;
- $94,446 of lower general expenses primarily related to a reduction in professional fees.

...management identified over $500,000 of new annual cost reductions...

During the first quarter of fiscal year 2014, management identified over $500,000 of new annual cost reductions which are being implemented to further reduce labor and overhead costs and improve operating efficiencies in future periods.

RESEARCH AND DEVELOPMENT—Over the last three years, we have undertaken the most extensive research and development ("R&D") effort in our history. More new products have been introduced during this period of time than any period since our formation. These new products include the Quad7 thermal therapy device, the Dynatron SolarisPlus line of four electrotherapy/ultrasound devices enabled to power two phototherapy accessories, the Ultra 2 and Ultra 3 treatment tables, and the 25 Series line of four therapy devices. With the completion of development of the Quad7, Ultra tables and SolarisPlus product line, we were able to reduce research and development ("R&D") expense during the early part of fiscal year 2013 to more normal levels. R&D expenses for 2013 were $1,120,887 compared to $1,410,406 in 2012. R&D expense decreased as a percentage of net sales in fiscal year 2013 to 3.8% from 4.5% of net sales in fiscal year 2012. R&D expenses are expected to increase slightly in fiscal year 2014, as a result of the introduction of the new ThermoStim Probe. However, those increases will mostly be incurred in the first two quarters of the next fiscal year. R&D costs are expensed as incurred.

INTEREST EXPENSE—Interest expense decreased by $1,294, to $260,699 in fiscal year 2013 compared to $261,993 in fiscal year 2012 due to lower balances on our long-term debt compared to fiscal year 2012. During fiscal 2013, we paid off the first mortgage on our Cottonwood Heights facility.

LOSS BEFORE INCOME TAX BENEFIT—Pre-tax loss in fiscal year 2013 was $131,125, compared to $190,241 in fiscal year 2012, an improvement of 31%. The decrease in pre-tax loss for 2013 resulted from lower selling, labor, and R&D expenses. More specifically, an $856,631 reduction in gross margin was offset by reducing SG&A and R&D expenses by $935,015 for the year ended June 30, 2013. It should be noted that during the year we paid $81,736 in medical device taxes as required by the Affordable Care Act. This Medical Device Tax is assessed on sales regardless of profitability. Therefore, despite the fact we did not generate an operating profit we were still required to pay these excise taxes as noted above which contributed to the losses incurred during the fiscal year. As noted above, we have taken steps to reduce expenses at an annualized amount of approximately $500,000 during fiscal year 2014.

INCOME TAX BENEFIT—Income tax benefit was $86,754 in fiscal year 2013, compared to $166,706 in fiscal year 2012. Due to tax benefits associated with R&D tax credits and other credits, the effective income tax benefit rate in fiscal year 2013 was 66.2% compared to an effective tax benefit rate of 87.6% in 2012. The difference in the effective tax rates is attributable to lower R&D tax credits in fiscal year 2013, as well as certain permanent book to tax differences.

NET LOSS—Net loss was $44,371 ($.02 per share) in fiscal year 2013, compared to $23,535 ($.01 per share) in fiscal year 2012. As reported in the section above entitled Loss Before Income Tax Benefit, operating losses were reduced by nearly one third in fiscal year 2013 compared to fiscal year 2012. Therefore, the reason net loss increased from $23,535 last year to $44,371 this year is due to higher income tax benefits last year associated with higher R&D tax credits compared to this year. We expect improved profitability in fiscal year 2014 due to the planned introduction of an important new product in the quarter ending December 31, 2013 and with our planned expense reductions which are scheduled to be implemented during the fiscal year 2014.

LIQUIDITY AND CAPITAL RESOURCES

We have financed operations through available cash reserves and borrowings under a line of credit with a bank. Working capital was $3,516,011 as of June 30, 2013, inclusive of the current portion of long-term obligations and credit facilities, compared to working capital of $3,565,858 as of June 30, 2012. During fiscal year 2013, we generated $643,106 in cash from operating activities, used $418,386 to pay down principal on long-term debt, paid $100,438 for capital expenditures primarily related to improving our e-commerce and IT infrastructure, and paid $99,997 to repurchase and retire common stock.

ACCOUNTS RECEIVABLE—Trade accounts receivable, net of allowance for doubtful accounts, decreased $420,374, or 11.5%, to $3,246,712 as of June 30, 2013, compared to $3,667,086 as of June 30, 2012. Trade accounts receivable represent amounts due from our dealer network as well as from medical practitioners and clinics. We believe that our estimate of the allowance for doubtful accounts is adequate based on our historical knowledge and relationship with our customers. Accounts receivable are generally collected within 30 days of the agreed terms.

INVENTORIES—Inventories, net of reserves, increased $308,956, or 5.1%, to $6,407,553 as of June 30, 2013, compared to $6,098,597 as of June 30, 2012. During fiscal year 2013, we increased our inventory of parts in conjunction with the introduction of the Dynatron SolarisPlus product line, Ultra Tables product line and the 25 Series product line. In addition, inventory levels fluctuate based on the timing of large inventory purchases from overseas suppliers.

ACCOUNTS PAYABLE—Accounts payable increased $338,693, or 14.0%, to $2,751,894 as of June 30, 2013, from $2,413,201 as of June 30, 2012. The increase in accounts payable is a result of increased inventories, the timing of our weekly payments to suppliers and the timing of purchases of product components. Accounts payable are generally not aged beyond the terms of our suppliers. We take advantage of available early payment discounts when offered by our vendors.

CASH AND CASH EQUIVALENTS—Our cash position as of June 30, 2013 was $302,050, compared to cash of $278,263 as of June 30, 2012. We expect that cash flows from operating activities, together with amounts available through an existing line-of-credit facility, will be sufficient to cover operating needs in the ordinary course of business for the next twelve months. If we experience an adverse operating environment, including a further worsening of the general economy in the United States, or unusual capital expenditure requirements, additional financing may be required. However, no assurance can be given that additional financing, if required, would be available on terms favorable to us, or at all.

LINE OF CREDIT—During fiscal year 2013, the outstanding balance on our line of credit remained steady with a balance outstanding of $3,496,390 as of June 30, 2013, compared to $3,497,597 as of June 30, 2012. Interest on the line of credit is based on the 90-day LIBOR rate (0.27% as of June 30, 2013) plus 3.5%. The line of credit is collateralized by accounts receivable and inventories. Borrowing limitations are based on approximately 45% of eligible inventory and up to 80% of eligible accounts receivable, up to a maximum credit facility of $7,000,000. Interest payments on the line are due monthly. As of June 30, 2013, the borrowing base was approximately $4,821,000, resulting in approximately $1,325,000 available on the line. The line of credit is renewable on December 15, 2013 and includes covenants requiring us to maintain certain financial ratios. As of June 30, 2013, we were in compliance with the loan covenants or had received waivers of compliance. If the line of credit is not extended, we will need to find additional sources of financing. Failure to obtain additional financing would have a material adverse effect on our business operations. All borrowings under the line of credit are presented as current liabilities in the accompanying consolidated balance sheet.

The current ratio remained constant at 1.5 to 1 as of June 30, 2013 and June 30, 2012. Current assets represented 72% of total assets as of June 30, 2013 compared to 70% as of June 30, 2012.

DEBT—Long-term debt (excluding current installments) totaled $1,561,776 as of June 30, 2013, compared to $1,916,315 as of June 30, 2012. Long-term debt is comprised primarily of the mortgage loans on our office and manufacturing facilities in Utah and Tennessee. The principal balance on the mortgage loans is approximately $1,762,255 with monthly principal and interest payments of $30,263. For a more complete explanation of the long-term debt, see Note 7 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires estimates and judgments that affect the reported amounts of our assets, liabilities, net sales and expenses. Management bases estimates on historical experience and other assumptions it believes to be reasonable given the circumstances and evaluates these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies involve a high degree of judgment and complexity. See Note 1 to our consolidated financial statements for fiscal year 2013, for a complete discussion of our significant accounting policies. The following summary sets forth information regarding significant estimates and judgments used in the preparation of our consolidated financial statements.

INVENTORY RESERVES—The nature of our business requires that we maintain sufficient inventory on hand at all times to meet the requirements of our customers. We record finished goods inventory at the lower of standard cost, which approximates actual cost (first-in, first-out) or market. Raw materials are recorded at the lower of cost (first-in, first-out) or market. Inventory valuation reserves are maintained for the estimated impairment of the inventory. Impairment may be a result of slow-moving or excess inventory, product obsolescence or changes in the valuation of the inventory. In determining the adequacy of reserves, we analyze the following, among other things:

- Current inventory quantities on hand;
- Product acceptance in the marketplace;
- Customer demand;
- Historical sales;
- Forecast sales;
- Product obsolescence;
- Technological innovations; and
- Character of the inventory as a distributed item, finished manufactured item or raw material.

Any modifications to estimates of inventory valuation reserves are reflected in cost of goods sold within the statements of operations during the period in which such modifications are determined necessary by management. As of June 30, 2013 and 2012, our inventory valuation reserve balance, which established a new cost basis, was $327,519 and $292,999, respectively, and our inventory balance was $6,407,553 and $6,098,597, net of reserves, respectively.

REVENUE RECOGNITION—Our sales force and distributors sell our products to end users, including physical therapists, professional trainers, athletic trainers, chiropractors, medical doctors and aestheticians. Sales revenues are recorded when products are shipped FOB shipping point under an agreement with a customer, risk of loss and title have passed to the customer, and collection of any resulting receivable is reasonably assured. Amounts billed for shipping and handling of products are recorded as sales revenue. Costs for shipping and handling of products to customers are recorded as cost of sales.

ALLOWANCE FOR DOUBTFUL ACCOUNTS—We must make estimates of the collectability of accounts receivable. In doing so, we analyze historical bad debt trends, customer credit worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was $3,246,712 and $3,667,086, net of allowance for doubtful accounts of $247,708 and $201,349, as of June 30, 2013 and 2012, respectively.

DEFERRED INCOME TAX ASSETS—In assessing the deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred income tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences.

We have available at June 30, 2013 and 2012 federal and state net operating loss ("NOL") carry forwards of $499,614 and $558,062, respectively. The federal NOLs will expire in 2028. The state NOLs will expire depending upon the various rules in the states in which we operate. Our federal and state income tax returns for June 30, 2010, 2011, and 2012 are open tax years.

BUSINESS PLAN AND OUTLOOK

During the past three years, we have focused much of our resources and energy on developing new and innovative products. The scope of that R&D effort has been more significant than at any time in our history. As a result, we have introduced several important new products over the past year.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION

In June 2013, we began shipping our new Dynatron® 25 Series electrotherapy/ultrasound line of combination therapy devices. This new line consists of four separate devices: the Dynatron 925, Dynatron 825, Dynatron 625 and Dynatron 525. These four units provide seven different types of electrotherapy treatments and three frequencies of ultrasound, including our proprietary three-frequency ultrasound transducers. They are capable of delivering between three and five separate treatments simultaneously, depending on the model. The ability to provide multiple treatments simultaneously is expected to be very helpful in busy clinics and training rooms, or for patients needing treatment of multiple areas of the body. This new product line was specially designed to be sold through our expanding channel of general line distributors.

In December 2012, we introduced a new line of motorized treatment tables. The Ultra 2 and Ultra 3 are the first two of possibly several other future treatment tables manufactured for us by Enraf-Nonius, a well-established manufacturer of physical therapy products in Europe. These tables offer features popular to the practitioner such as full-length foot bars that elevate and lower the table height together with a unique wheel raising system that lifts the table allowing an easy change between mobility and stability. Enraf tables are known for their high quality standards and are competitively priced for the US market.

In August 2012, we introduced to the market our new Dynatron SolarisPlus line of electrotherapy/ultrasound/ phototherapy units. This new product line consists of four new units: the Dynatron SolarisPlus 709, 708, 706, and 705. These attractive new units provide our most advanced technology in combination therapy devices by adding phototherapy capabilities to enhanced electrotherapy and ultrasound combination devices. The Dynatron SolarisPlus line of products features a Tri-Wave phototherapy probe and a Tri-Wave phototherapy pad. Tri-Wave phototherapy features infrared, red and blue wavelength light. The new Dynatron Solaris Tri-Wave phototherapy pad is capable of treating large areas of the body via unattended infrared, red and blue wavelength phototherapy. The Tri-Wave phototherapy probe allows the practitioner to treat specific, targeted areas of the body in an attended treatment. As part of the SolarisPlus product line, we also introduced a new display cart specifically designed for these units. The SolarisPlus line is expected to quickly become popular for its power and versatility. The new units are capable of simultaneously powering five electrotherapy channels, ultrasound therapy, a phototherapy probe and phototherapy pad. No other device on the market offers such powerful simultaneous combination therapies.

In the quarter ended December 31, 2013, we anticipate introducing the ThermoStim probe - one of the most innovative and revolutionary products in our history. The ThermoStim probe will offer the ability to do thermal therapy (hot and cold) and/or electrotherapy in a targeted, attended treatment. The hand held probe is an accessory to the Dynatron SolarisPlus family of products. Unlike its predecessor, also called the ThermoStim probe, this new probe does not require a water source to heat and cool the surface of the treatment face. Instead, a thermoelectric chip powers the thermal therapy controlled by the Dynatron SolarisPlus console. This innovative probe is expected to generate significant demand not only for the probe, but also for the new SolarisPlus units which serve as the control console for the probe. It will be the catalyst to boost sales and attract new distributors beginning midway through fiscal year 2014.

With most of the planned new products now released, R&D costs cycled back to a lower level more in line with historical amounts during fiscal year 2013. Those R&D costs are expected to rise again during the first part of fiscal year 2014 as the new ThermoStim Probe is finalized. Management is confident the investments made in R&D will yield long-term benefits and are important to assuring that we maintain our reputation in the industry for being an innovator and leader in product development.

In April 2013, we began shipping the newly updated version of our product catalog to customers. This new catalog not only includes our new proprietary products previously discussed, but also expands our offering of non-proprietary products by hundreds of items in order to better service the broader needs of our customers. It also provides an excellent new sales tool for all of our sales representatives in the field and the foundation for expanding our e-commerce platform. The new catalog includes an online electronic version of the catalog that is incorporated into our e-commerce website. The new catalog has been praised for its clarity and ease of use.

Over the past few years, consolidations in our market have changed the landscape of our industry's distribution channels. At the present time, we believe that there remain only two companies with a national direct sales force selling proprietary and distributed products: Dynatronics and Patterson Medical. All other distribution in our market is directed through catalog companies with a limited direct sales force, or through independent local dealers that have limited geographical reach. In the past year, we have reinforced our direct sales team that includes over 50 direct sales employees and independent sales representatives. In addition to these direct sales representatives, we continue to enjoy a strong relationship with scores of independent dealers. We believe we have the best trained and most knowledgeable sales force in the industry. We are actively seeking to expand our market penetration through increased distribution. To accomplish this, we have, for the first time in our history, made available to all distributors and qualified sales persons, a family of proprietary combination therapy devices, the Dynatron 25 Series. The availability of these products is attracting new distributors and sales persons. In addition, where these sales persons have had limited or no access to premier lines like the Dynatron SolarisPlus products, they will now be able to access these products in certain geographical areas through the authorized sales representative or dealer who has the rights to the products in those territories. Making these products more widely available will increase our ability to expand distribution of not only our own proprietary products, but also those we distribute on behalf of other manufacturers. This strategic expansion of distribution will begin to hit stride as the new ThermoStim product is released in the second fiscal quarter of 2014.

We are actively seeking to expand our market penetration through increased distribution.

Pursuit of national accounts, including Group Purchasing Organizations (GPO) continues to be a strategic endeavor. However, securing such accounts has proven to be elusive as entrenched suppliers seem to dominate many of the large GPO accounts. As a result, we have turned our attention more toward accessible national and regional accounts where we can more easily prove our value proposition. While we have not abandoned efforts to secure GPO and large national account business, we have become more strategic in our approach to such business. Last year we were successful in qualifying to be an approved vendor to the federal government, including the Veterans Administration hospitals and medical facilities associated with military installations. These types of contracts are strategically more accessible for us than GPO business.

Economic pressures from the recent recession in the United States have affected available credit that would facilitate large capital purchases, and have also reduced demand for discretionary services such as those provided by the purchasers of our aesthetic products. As a result, we reduced our expenses in the Synergie department. We believe that our aesthetic devices remain the best value on the market and we are seeking innovative ways to market these products, including strategic partnerships, both domestic and international, to help enhance sales momentum.

We have long believed that international markets present an untapped potential for growth and expansion. Adding new distributors in several countries will be the key to this expansion effort. We remain committed to finding the most effective ways to expand our markets internationally. Over the coming year, our efforts will be focused on partnering with key manufacturers and distributors interested in our product line or technology. Our Utah facility, where all electrotherapy, ultrasound, traction, phototherapy and Synergie products are manufactured, is certified to ISO 13485:2003, an internationally recognized standard of excellence in medical device manufacturing. This designation is an important requirement in obtaining the CE Mark certification, which allows us to market our products in the European Union and in other international locations. The introduction of several important new products has generated new interest on the part of some foreign distributors in Asia, Europe and South America. As we secure CE Mark Certification for our products we will be better able to explore the interest of these distributors. Refining our business model for supporting sales representatives and distributors will also be a focal point of operations.

We will continue to evaluate the most efficient ways to maintain our satellite sales offices and warehouses. The ongoing refinement of this model is expected to yield further efficiencies that will better achieve sales goals while, at the same time, reduce expenses.

Refining our business model for supporting sales representatives and distributors will also be a focal point of operations.

Our efforts to prudently reduce costs in the face of some economic uncertainty have made us a leaner operation. During fiscal year 2013 we implemented almost $1,000,000 in expense reductions. So far in fiscal 2014 we have identified another $500,000 annually in cost savings that have been or will be implemented to reduce expenses. We will continue to be vigilant in maintaining appropriate overhead costs and operating costs while still providing support for anticipated increases in sales from our new products.

Based on our defined strategic initiatives, we are focusing our resources in the following areas:

- Increasing market share of manufactured capital products by promoting sales of our new state-of-the-art Dynatron SolarisPlus and 25 Series products.
- Introducing additional new products such as the ThermoStim Probe to better capitalize on opportunities in our core markets.
- Seeking to improve distribution of our products through recruitment of additional qualified sales representatives and dealers attracted by the many new products being offered and expanding the availability of proprietary combination therapy devices.
- Increasing market share with our new 2013-14 product catalog featuring a broader product offering.
- Continue to seek ways of increasing business with GPOs, as well as through GSA contracts with the U.S. Government and to national and regional accounts.
- Improving operational efficiencies by scaling costs to be reflective of current levels of sales. Strengthening pricing management and procurement methodologies.
- Minimizing expense associated in the Synergie department until demand for capital equipment re-emerges, and, in the meantime, seeking additional independent distributors and strategic partnerships.
- Focusing international sales efforts on identifying key distributors and strategic partners who could represent the Company's product line, particularly in Europe and China.
- Exploring strategic business alliances that will leverage and complement our competitive strengths, increase market reach and supplement capital resources.

MARKET INFORMATION

As of September 18, 2013, we had approximately 2,518,904 shares of common stock issued and outstanding. Our common stock is included on the NASDAQ Capital Market (symbol: DYNT). The following table shows the range of high and low sale prices for our common stock as quoted on the NASDAQ system for the quarterly periods indicated. All common stock share and per share information in the tables below have been adjusted to reflect retrospective application of the reverse stock split.

Fiscal Year Ended June 30,	*2013*			*2012*		
		High	Low		High	Low
1st Quarter (July-September)	$	3.25	2.35	$	8.85	4.00
2nd Quarter (October-December)	$	4.24	2.00	$	4.15	3.11
3rd Quarter (January-March)	$	3.95	2.30	$	4.65	3.33
4th Quarter (April-June)	$	2.86	2.45	$	4.00	2.36

SHAREHOLDERS

As of September 18, 2013, the approximate number of shareholders of record was 393. This number does not include beneficial owners of shares held in "nominee" or "street" name. Including such beneficial owners, we estimate that the total number of beneficial owners of our common stock is approximately 2,200.

DIVIDENDS

We have never paid cash dividends on our common stock. Our anticipated capital requirements are such that we intend to follow a policy of retaining earnings in order to finance the development of the business.

NASDAQ

Minimum Bid Requirement

On January 8, 2013, we announced that we had received notification from NASDAQ that we had regained compliance with the $1.00 minimum bid requirement for continued listing on that exchange as a result of a 1 for 5 reverse split of our common stock effected on December 19, 2012. All common share and per share information in the accompanying condensed consolidated financial statements and notes thereto have been adjusted to reflect retrospective application of the reverse stock split, except for par value per share and the number of authorized shares, which were not affected by the reverse stock split.

independent registered public accounting firm REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,

Larson certified public accountants

We have audited the accompanying consolidated balance sheet of Dynatronics Corporation and subsidiary (collectively, the Company) as of June 30, 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynatronics Corporation and subsidiary as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Larson & Company P.C.

Salt Lake City, Utah
September 30, 2013

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,

TANNER

We have audited the consolidated balance sheet of Dynatronics Corporation and subsidiary (collectively, the Company) as of June 30, 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynatronics Corporation and subsidiary as of June 30, 2012, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Tanner LLC

Salt Lake City, Utah
September 28, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DYNATRONICS CORPORATION CONSOLIDATED BALANCE SHEETS

June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 302,050	278,263
Trade accounts receivable, less allowance for doubtful accounts of $247,708 as of June 30, 2013 and $201,349 as of June 30, 2012	3,246,712	3,667,086
Other receivables	27,197	11,718
Inventories, net	6,407,553	6,098,597
Prepaid expenses and other assets	506,836	226,596
Prepaid income taxes	—	3,550
Current portion of deferred income tax asset	389,101	368,348
Total current assets	10,879,449	10,654,158
Property and equipment, net	3,324,947	3,677,898
Intangible asset, net	280,078	324,715
Other assets	422,672	482,719
Deferred income tax assets, net of current portion	197,441	131,440
Total assets	$ 15,104,587	15,270,930
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 322,573	395,055
Line of credit	3,496,390	3,497,597
Warranty reserve	178,148	181,000
Accounts payable	2,751,894	2,413,201
Accrued expenses	347,221	386,229
Accrued payroll and benefits expenses	216,266	215,218
Income tax payable	21,369	—
Total current liabilities	7,333,861	7,088,300
Long-term debt, net of current portion	1,561,776	1,916,315
Total liabilities	8,895,637	9,004,615
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par value: Authorized 50,000,000 shares; issued 2,518,904 shares as of June 30, 2013 and 2,537,730 shares as of June 30, 2012	7,078,941	7,091,935
Accumulated deficit	(869,991)	(825,620)
Total stockholders' equity	6,208,950	6,266,315
Total liabilities and stockholders' equity	$ 15,104,587	15,270,930

See accompanying notes to consolidated financial statements.

DYNATRONICS CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended June 30, 2013 and 2012

	2013	2012
Net sales	$ 29,538,275	31,664,181
Cost of sales	18,451,673	19,720,948
Gross profit	11,086,602	11,943,233
Selling, general, and administrative expenses	9,860,964	10,506,460
Research and development expenses	1,120,887	1,410,406
Operating income	104,751	26,367
Other Income (expense):		
Interest income	681	16,183
Interest expense	(260,699)	(261,993)
Other income, net	24,142	29,202
Total other income (expense)	(235,876)	(216,608)
Loss before income tax benefit	(131,125)	(190,241)
Income tax benefit	86,754	166,706
Net loss	$ (44,371)	(23,535)
Basic and diluted net loss per common share	$ (0.02)	(0.01)
Weighted-average basic and diluted common shares outstanding:	2,526,533	2,562,203

See accompanying notes to consolidated financial statements.

DYNATRONICS CORPORATION CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended June 30, 2013 and 2012

	*Number of shares**	*Common stock*	*Accumulated Deficit*	*Total Stockholders' Equity*
Balances at July 1, 2011	2,612,078	$ 7,417,244	(802,085)	6,615,159
Repurchase of common stock	(79,857)	(401,408)	—	(401,408)
Stock based compensation	5,509	76,099	—	76,099
Net loss	—	—	(23,535)	(23,535)
Balances at June 30, 2012	2,537,730	7,091,935	(825,620)	6,266,315
Repurchase of common stock	(32,786)	(99,997)	—	(99,997)
Stock-based compensation	13,689	86,639	—	86,639
Issuance of common stock upon exercise of employee stock options	208	364	—	364
Shares issued due to stock split rounding	63	—	—	—
Net loss	—	—	(44,371)	(44,371)
Balances at June 30, 2013	2,518,904	$ 7,078,941	(869,991)	6,208,950

Reflects adjusted shares due to 1:5 reverse stock split effective December 19, 2012

See accompanying notes to consolidated financial statements.

DYNATRONICS CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2013 and 2012

	2013	*2012*
Cash flows from operating activities:		
Net loss	$ (44,371)	(23,535)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization of property & equipment	435,366	404,374
Amortization of intangible and other assets	118,335	44,637
Gain on sale of assets	(2,993)	—
Stock-based compensation expense	86,639	76,099
Change in deferred income tax assets	(86,754)	(166,706)
Provision for doubtful accounts receivable	180,000	108,000
Provision for inventory obsolescence	206,460	120,000
Change in operating assets and liabilities:		
Receivables	224,895	(100,512)
Inventories	(515,416)	(570,782)
Prepaid expenses and other assets	(281,855)	(148,607)
Prepaid income taxes	23,615	27,771
Accounts payable and accrued expenses	299,185	265,073
Net cash provided by operating activities	643,106	35,812
Cash flows from investing activities:		
Purchase of property and equipment	(100,438)	(328,707)
Proceeds from sale of property and equipment	345	—
Net cash used in investing activities	(100,093)	(328,707)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	45,341
Principal payments on long-term debt	(418,386)	(371,339)
Net change in line of credit	(1,207)	913,660
Proceeds from issuance of common stock	364	—
Purchase and retirement of common stock	(99,997)	(401,408)
Net cash provided by (used in) financing activities	(519,226)	186,254
Net change in cash and cash equivalents	23,787	(106,641)
Cash and cash equivalents at beginning of the year	278,263	384,904
Cash and cash equivalents at end of the year	302,050	278,263
Supplemental disclosures of cash flow information:		
Cash paid for interest	259,794	263,491
Cash paid for income taxes	—	2,100
Supplemental disclosures of non-cash investing and financing activities:		
Long-term debt incurred for purchase of property and equipment	—	44,334

See accompanying notes to consolidated financial statements.

consolidated financial statements

NOTES

(1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) DESCRIPTION OF BUSINESS—Dynatronics Corporation (the Company), a Utah corporation, distributes and markets a broad line of medical and aesthetic products, many of which are designed and manufactured by the Company. Among the products offered by the Company are therapeutic, diagnostic, and rehabilitation equipment, medical supplies and soft goods, treatment tables and aesthetic medical devices to an expanding market of physical therapists, podiatrists, orthopedists, chiropractors, plastic surgeons, dermatologists, and other medical professionals.

(B) PRINCIPLES OF CONSOLIDATION—The consolidated financial statements include the accounts and operations of Dynatronics Corporation and its wholly owned subsidiary, Dynatronics Distribution Company, LLC. All significant intercompany account balances and transactions have been eliminated in consolidation.

(C) CASH EQUIVALENTS—Cash equivalents include all highly liquid investments with maturities of three months or less at the date of purchase. Also included within cash equivalents are deposits in-transit from banks for payments related to third-party credit card and debit card transactions.

(D) INVENTORIES—Finished goods inventories are stated at the lower of standard cost (first-in, first-out method), which approximates actual cost, or market. Raw materials are stated at the lower of cost (first in, first out method) or market. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of slow moving or obsolete inventory. Write-downs and write-offs are charged against the reserve.

(E) TRADE ACCOUNTS RECEIVABLE—Trade accounts receivable are recorded at the invoiced amount and do not bear interest, although a finance charge may be applied to such receivables that are past due. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on a combination of statistical analysis, historical collections, customers' current credit worthiness, the age of the receivable balance both individually and in the aggregate and general economic conditions that may affect the customer's ability to pay. All account balances are reviewed on an individual basis. Account balances are charged off against the allowance when the potential for recovery is considered remote. Recoveries of receivables previously charged off are recognized when payment is received.

(F) PROPERTY AND EQUIPMENT—Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the assets. The building and its component parts are being depreciated over their estimated useful lives that range from 5 to 31.5 years. Estimated lives for all other depreciable assets range from 3 to 7 years.

(G) LONG-LIVED ASSETS—Long–lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the difference between the carrying amount of the asset and the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(H) INTANGIBLE ASSETS—Costs associated with the acquisition of trademarks, trade names, license rights and non-compete agreements are capitalized and amortized using the straight-line method over periods ranging from 3 months to 15 years.

(I) REVENUE RECOGNITION—The Company recognizes revenue when products are shipped FOB shipping point under an agreement with a customer, risk of loss and title have passed to the customer, and collection of any resulting receivable is reasonably assured. Amounts billed for shipping and handling of products are recorded as sales revenue. Costs for shipping and handling of products to customers are recorded as cost of sales.

(J) RESEARCH AND DEVELOPMENT COSTS—Direct research and development costs are expensed as incurred.

(K) PRODUCT WARRANTY COSTS—Costs estimated to be incurred in connection with the Company's product warranty programs are charged to expense as products are sold based on historical warranty rates.

(L) NET INCOME (LOSS) PER COMMON SHARE—Net income (loss) per common share is computed based on the weighted-average number of common shares outstanding and, when appropriate, dilutive common stock equivalents outstanding during the year. Stock options are considered to be common stock equivalents. The computation of diluted net income (loss) per common share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Basic net income (loss) per common share is the amount of net income (loss) for the year available to each weighted-average share of common stock outstanding during the year. Diluted net income (loss) per common share is the amount of net income (loss) for the year available to each weighted-average share of common stock outstanding during the year and to each common stock equivalent outstanding during the year, unless inclusion of common stock equivalents would have an anti-dilutive effect.

On December 19, 2012, the Company completed a 1-for-5 reverse split of its common stock. All common stock share and per share information in the accompanying consolidated financial statements and notes thereto have been adjusted to reflect retrospective application of the reverse stock split, except for par value per share and the number of authorized shares, which were not affected by the reverse stock split.

The reconciliation between the basic and diluted weighted-average number of common shares for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013	*2012*
Basic weighted-average number of common shares outstanding during the year	2,526,533	2,562,203
Weighted-average number of dilutive common stock options outstanding during the year	—	—
Diluted weighted-average number of common and common equivalent shares outstanding during the year	2,526,533	2,562,203

Outstanding options not included in the computation of diluted net loss per common share totaled 161,454 as of June 30, 2013. These common stock equivalents were not included in the computation because to do so would have been antidilutive.

(M) INCOME TAXES—The Company recognizes an asset or liability for the deferred income tax consequences of all temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. Accruals for uncertain tax positions are provided for in accordance with the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, Income Taxes. Under ASC 740-10, the Company may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC 740-10 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in the financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact the Company's financial position, results of operations and cash flows.

The Company evaluates the need for a valuation allowance on deferred taxes on a quarterly and annual basis. This evaluation considers the level of historical taxable income and projections for future taxable income over the periods which the deferred income tax assets are deductible. If management determines that it is more likely than not that the Company will not realize the benefits of these deductible differences, a valuation allowance is recorded.

(N) STOCK-BASED COMPENSATION—The Company accounts for stock-based compensation in accordance with FASB ASC 718, Stock Compensation. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable vesting period of the stock award (generally five years) using the straight-line method.

(O) CONCENTRATION OF RISK—In the normal course of business, the Company provides unsecured credit to its customers. Most of the Company's customers are involved in the medical industry. The Company performs ongoing credit evaluations of its customers and maintains allowances for probable losses which, when realized, have been within the range of management's expectations. The Company maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risks with respect to cash or cash equivalents.

As of June 30, 2013, the Company has approximately $52,000 in cash and cash equivalents in excess of the Federal Deposit Insurance Corporation (FDIC) limits. The Company has not experienced any losses in such accounts.

(P) OPERATING SEGMENTS—The Company operates in one line of business: the development, marketing, and distribution of a broad line of medical products for the physical therapy and aesthetics markets. As such, the Company has only one reportable operating segment.

The Company groups its sales into physical medicine products and aesthetic products. Physical medicine products made up 91% of net sales for both the years ended June 30, 2013 and 2012. Aesthetics products made up 1% of net sales for both the years ended June 30, 2013 and 2012. Chargeable repairs, billable freight and other miscellaneous revenues account for the remaining 8% of net sales for both the years ended June 30, 2013 and 2012.

(Q) USE OF ESTIMATES—Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in accordance with US Generally Accepted Accounting Principles (US GAAP). Significant items subject to such estimates and assumptions include the carrying amount of property and equipment; valuation allowances for receivables, income taxes, and inventories; accrued product warranty costs; and estimated recoverability of intangible assets. Actual results could differ from those estimates.

(R) ADVERTISING COSTS—Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2013 and 2012 was approximately $127,400 and $87,400, respectively.

(2) INVENTORIES

Inventories consist of the following as of June 30:

	2013	2012
Raw materials	$ 2,732,363	2,401,676
Finished goods	4,002,709	3,989,920
Inventory reserve	(327,519)	(292,999)
	$ 6,407,553	6,098,597

(3) PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2013	2012
Land	$ 354,743	354,743
Buildings	3,746,472	3,745,404
Machinery and equipment	1,550,633	1,521,896
Office equipment	263,861	263,861
Computer equipment	1,963,414	1,905,332
Vehicles	266,946	289,678
	8,146,069	8,080,914
Less accumulated depreciation	(4,821,122)	(4,403,016)
	$ 3,324,947	3,677,898

Depreciation expense for the years ended June 30, 2013 and 2012 was $435,366 and $404,374, respectively.

(4) INTANGIBLE ASSETS

Identifiable intangibles assets and their useful lives consist of the following as of June 30:

	2013	2012
Trade name – 15 years	$ 339,400	339,400
Domain name – 15 years	5,400	5,400
Non-compete covenant – 4 years	149,400	149,400
Customer relationships – 7 years	120,000	120,000
Trademark licensing agreement – 20 years	45,000	45,000
Backlog of orders – 3 months	2,700	2,700
Customer database – 7 years	38,100	38,100
License agreement – 10 years	73,240	73,240
Total identifiable intangibles	773,240	773,240
Less accumulated amortization	(493,162)	(448,525)
Net carrying amount	$ 280,078	324,715

Amortization expense associated with the intangible assets was $44,637 for both fiscal years 2013 and 2012. Estimated amortization expense for the identifiable intangibles is expected to be as follows: 2014, $44,637; 2015, $30,680; 2016, $30,680; 2017, $30,680; 2018, $26,430 and thereafter $116,970.

(5) WARRANTY RESERVE

A reconciliation of the change in the warranty reserve consists of the following for the fiscal years ended June 30:

	2013	2012
Beginning warranty reserve balance	$ 181,000	185,245
Warranty repairs	(160,267)	(124,844)
Warranties issued	127,863	127,059
Changes in estimated warranty costs	29,552	(6,460)
Ending warranty reserve	$ 178,148	181,000

(6) LINE OF CREDIT

The Company has a revolving line-of-credit facility with a commercial bank in the amount of $7,000,000. Borrowing limitations are based on 45% of eligible inventory and up to 80% of eligible accounts receivable resulting in a borrowing limit of $4,821,000 as of June 30, 2013. As of June 30, 2013 and 2012, the outstanding balance was approximately $3,496,000 and $3,498,000, respectively. Available borrowings as of June 30, 2013 were $1,325,000. The line of credit is collateralized by inventory and accounts receivable and bears interest at a rate based on the lender's 90-day LIBOR rate plus 3%. The interest rate was 3.8% and 3.5% as of

June 30, 2013 and 2012, respectively. The line of credit is renewable on December 15, 2013. If the line of credit is not extended, the Company will need to find additional sources of financing. Failure to obtain additional financing would have a material adverse effect on the Company's operations. All borrowings under the line of credit are presented as current liabilities in the accompanying consolidated balance sheets.

Accrued interest is payable monthly. The Company's revolving line of credit agreement includes covenants requiring the Company to maintain certain financial ratios. As of June 30, 2013, the Company was in compliance with the loan covenants or had received waivers of compliance.

(7) LONG TERM DEBT

Long term debt consists of the following as of June 30:

	2013	2012
6.44% promissory note secured by trust deed on real property, maturing January 2021, payable in monthly installments of $13,278	$ 953,929	1,048,496
5.649% promissory note secured by building, maturing December 2017, payable in monthly installments of $16,985	808,326	961,196
Promissory note secured by a vehicle, payable in monthly installments of $639 through February 2019	43,449	—
8.49% promissory note secured by equipment, payable in monthly installments of $2,097 through December 2014	35,332	56,515
14.305% promissory note secured by equipment, payable in monthly installments of $2,338 through May 2014	23,965	46,781
5.887% promissory note secured by a vehicle, payable in monthly installments of $390 through March 2017	15,970	19,284
5.75% promissory note secured by a vehicle, payable in monthly installments of $435 through October 2013	1,695	6,661
13.001% promissory note secured by equipment, payable in monthly installments of $70 through October 2015	1,683	2,263
6.21% promissory note secured by a trust deed on real property, maturing November 2013, payable in monthly installments of $7,240	—	108,243
4.75% promissory note secured by a vehicle, payable in monthly installments of $721 through May 2017	—	37,859
5.531% promissory note secured by a vehicle, payable in monthly installments of $482 through August 2016	—	21,460
10.15% promissory note secured by a vehicle, payable in monthly installments of $448 through December 2012	—	2,612
Total long-term debt	1,884,349	2,311,370
Less current installments	(322,573)	(395,055)
Long-term debt, net of current installments	$ 1,561,776	1,916,315

The aggregate maturities of long term debt for each of the years subsequent to 2013 are as follows:

	2014	2015	2016	2017	2018	thereafter
Long Term Debt	$322,573	$303,196	$308,491	$326,194	$240,387	$383,508

(8) LEASES

The Company leases vehicles under noncancelable operating lease agreements. Lease expense for the years ended June 30, 2013 and 2012, was $15,076 and $7,812, respectively. Future minimum lease payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of 2013 are as follows:

	2014	2015	2016
Future minimum lease payments	$16,106	$16,106	$7,403

The Company rents office, warehouse and storage space and office equipment under agreements which run one year or more in duration. The rent expense for the years ended June 30, 2013 and 2012 was $191,659 and $231,142, respectively. Future minimum rental payments required under operating leases that have a duration of one year or more as of June 30, 2013 are as follows:

	2014	2015	2016	2017
Future minimum rental payments	$138,164	$89,664	$79,689	$49,764

During fiscal year 2013, the office and warehouse spaces in Detroit, Michigan; Pleasanton, California; and Hopkins, Minnesota were leased on an annual/monthly basis from employees/stockholders; or entities controlled by stockholders, who were previously principals of the dealers acquired in June and July, 2007. The leases are related-party transactions with three employee/stockholders, however, management believes the lease agreements have been conducted on an arms-length basis and the terms are similar to those that would be available to other third parties. In December, 2012, the Company moved its Pleasanton operation to a new, larger location in Livermore, California and entered into a lease agreement with an unaffiliated third party. The expense associated with these related-party transactions totaled $93,300 and $156,000 for the years ended June 30, 2013 and 2012.

(9) INCOME TAXES

Income tax provision (provision) for the years ended June 30 consists of:

	Current	Deferred	Total
2013:			
U.S. federal	$ —	83,198	83,198
State and local	—	3,556	3,556
	$ —	86,754	86,754
2012:			
U.S. federal	$ —	159,921	159,921
State and local	—	6,785	6,785
	$ —	166,706	166,706

The actual income tax benefit (provision) differs from the "expected" tax benefit (provision) computed by applying the U.S. federal corporate income tax rate of 34% to income (loss) before income taxes for the years ended June 30, as follows:

		2013	2012
Expected tax benefit (provision)	$	44,583	64,682
State taxes, net of federal tax benefit		2,359	4,478
R&D tax credit		55,000	75,000
Incentive stock options		(10,213)	(14,246)
Other, net		(4,975)	36,792
	$	86,754	166,706

Deferred income tax assets and liabilities related to the tax effects of temporary differences are as follow as of June 30:

		2013	2012
Net deferred income tax asset – current:			
Inventory capitalization for income tax purposes	$	72,058	75,127
Inventory reserve		127,732	114,270
Warranty reserve		69,477	70,590
Accrued product liability		23,228	29,835
Allowance for doubtful accounts		96,606	78,526
Total net deferred income tax asset – current	$	389,101	368,348
Net deferred income tax asset (liabilities) – non-current:			
Property and equipment, principally due to differences in depreciation		(262,726)	(268,839)
Research and development credit carryover		383,226	328,927
Other intangibles		(109,231)	(126,640)
Operating loss carry forwards		186,172	197,992
Total net deferred income tax asset (liabilities) – non-current	$	197,441	131,440

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these temporary differences.

The Company has available at June 30, 2013 and 2012 federal and state net operating loss ("NOL") carry forwards of $499,614 and $558,062, respectively. The federal NOLs will expire in 2028. The state NOLs will expire depending upon the various rules in the states in which the Company operates.

The Company's federal and state income tax returns for June 30, 2010, 2011, and 2012 are open tax years.

(10) MAJOR CUSTOMERS AND SALES BY GEOGRAPHIC LOCATION

During the fiscal years ended June 30, 2013 and 2012, sales to any single customer did not exceed 10% of total net sales.

The Company exports products to approximately 30 countries. Sales outside North America totaled $647,047, or 2.2% of net sales, for the fiscal year ended June 30, 2013 compared to $896,887, or 2.8% of net sales, for the fiscal year ended June 30, 2012.

(11) COMMON STOCK AND COMMON STOCK EQUIVALENTS

On July 15, 2003, the board of directors (board) approved an open-market share repurchase program for up to $500,000 of the Company's common stock. On November 27, 2007, the board approved an additional $250,000 for the open-market share repurchase program after the original $500,000 was used. In February 2011, the board approved an additional $1,000,000 for repurchases under the program. During fiscal year 2010, the board authorized the repurchase of up to $100,000 of stock annually for three years from each of two former distributors that were acquired by the Company in 2007. During the year ended June 30, 2013, the Company acquired and retired 32,786 shares of common stock for $99,997. During the year ended June 30, 2012, the Company acquired and retired 79,857 shares of common stock for $401,408.

During the years ended June 30, 2013 and 2012, the Company granted 13,689 and 5,509 shares, respectively, of restricted common stock to directors and officers in connection with compensation arrangements.

The Company maintains a 2005 equity incentive plan for the benefit of employees. Incentive and nonqualified stock options, restricted common stock, stock appreciation rights, and other share-based awards may be granted under the plan. Awards granted under the plan may be performance-based. Effective November 27, 2007, the plan was amended, as approved by the shareholders, to increase the number of shares available by 1,000,000 shares. As of June 30, 2013, 109,187 shares of common stock were authorized and reserved for issuance, but were not granted under the terms of the 2005 equity incentive plan as amended.

The Company granted options to acquire common stock under its 2005 equity incentive plan during fiscal years 2013 and 2012. The options are granted at not less than 100% of the market price of the stock at the date of grant. Option terms are determined by the board, and exercise dates may range from 6 months to 10 years from the date of grant.

The fair value of each option grant was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

	2013	2012
Expected dividend yield	0%	0%
Expected stock price volatility	69%	69%
Risk-free interest rate	1.74%	2.09%
Expected life of options	10 years	10 years

The weighted average fair value of options granted during fiscal years 2013 and 2012 was $2.03 and $3.10, respectively.

The following table summarizes the Company's stock option activity during the fiscal years 2013 and 2012:

	2013			2012	
	Number of shares	Weighted average exercise price	Weighted average remaining contractual terms	Number of shares	Weighted average exercise price
Options outstanding at beginning of the year	173,089	$ 6.48	4.12 yrs	186,692	$ 6.63
Options granted	1,352	2.70		10,455	4.10
Options exercised	(208)	1.75		—	—
Options canceled or expired	(10,365)	5.69		(24,058)	6.56
Options outstanding at end of the year	163,868	6.51	3.56 yrs	173,089	6.48
Options exercisable at end of the year	138,920	7.20		112,333	7.75
Range of exercise prices at end of the year		$ 1.75 – 8.60			$ 1.75 – 9.45

The Company recognized $86,639 and $76,099 in stock-based compensation for the years ended June 30, 2013 and 2012, respectively, which is included in selling, general, and administrative expenses in the consolidated statements of operations. The stock-based compensation includes amounts for both restricted stock and stock options under ASC 718.

As of June 30, 2013, there was $450,823 of unrecognized stock-based compensation cost that is expected to be expensed over periods of four to nine years.

The aggregate intrinsic value on the date of exercise of options exercised during the year ended June 30, 2013 was $386. No options were exercised during the fiscal year 2012. The aggregate intrinsic value of the outstanding options as of June 30, 2013 and 2012 was $734 and $1,281, respectively.

(12) EMPLOYEE BENEFIT PLAN

The Company has a deferred savings plan which qualifies under Internal Revenue Code Section 401(k). The plan covers all employees of the Company who have at least six months of service and who are age 20 or older. For fiscal years 2013 and 2012, the Company made matching contributions of 25% of the first $2,000 of each employee's contribution. The Company's contributions to the plan for 2013 and 2012 were $35,167 and $37,745, respectively. Company matching contributions for future years are at the discretion of the board of directors.

(13) SUBSEQUENT EVENTS

In accordance with ASC 855-10, management determined that through the date of this 10K report, there are no material subsequent events to report.

(14) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2013, the FASB issued ASU 2013-07, Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting. This update requires an entity to use the liquidation basis of accounting when liquidation is imminent. Liquidation is considered imminent if the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved or (b) a plan for liquidation is being imposed by other forces. The update also indicates that asset should be measured and presented at the expected amount of cash proceeds to be received upon liquidation. The entity should also present any assets not previously recognized but expects to sell in liquidation or use in settling liabilities (i.e. trademarks, etc.). This update is effective for periods beginning after December 15, 2013. The Company doesn't expect this update to impact its financials since it does not expect liquidation to be imminent in the near future.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405) – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The update requires a company to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the following: 1) The amount the entity agreed to pay on the basis of its arrangement among its co-obligors and 2) Any additional amount the entity expects to pay on behalf of its co-obligors. This update is effective retrospectively for fiscal years beginning after December 15, 2013 for public companies. The Company doesn't expect this update to impact its financials since it does not have any obligations from joint and several liability arrangements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The main purpose of this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The update requires that the effect of significant reclassifi-cations out of accumulated other comprehensive income be reported on the respective line items in net income if the amount being reclassified in its entirety to net income. For those items not reclassified in its entirety to net income, a cross-reference to other disclosures providing information about those amounts. Furthermore, information about amounts reclassified out of accumulated other comprehensive income must be shown by component. This update is effective prospectively for reporting periods beginning after December 15, 2012 for public companies. The Company doesn't expect this update to impact its financials since it does not have any comprehensive income items. However, if any are noted in the future, the appropriate disclosures will be incorporated.

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210) – Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The main purpose of this update is to clarify that the disclosures regarding offsetting assets and liabilities per ASU 2011-11 apply to derivatives including embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and lending transactions that are offset or subject to a master netting agreement. Other types of transactions are not impacted. This update is effective for fiscal years beginning on or after January 1, 2013 and for all interim periods within that fiscal year. The Company doesn't expect this update to impact the Company's financials since it does not have instruments noted in the update that are offset.

In October 2012, the FASB issued ASU No 2012-04, Technical Corrections and Improvements. This update makes technical corrections, clarifications, and limited-scope improvements to various topics throughout the Financial Accounting Standards Board Codification. The changes clarify the Codification or correct unintended application of guidance and are not expected to have a significant impact on current accounting practices. The majority of the amendments in this update are effective immediately with a few limited scope amendments (mainly related to plan accounting) that will be effective for fiscal years beginning after December 15, 2012 for public companies. This guidance had no significant impact on the Company's financials since it was primarily issued to provide corrections and/ or clarifications of currently issued guidance.

AVAILABILITY OF FORM 10-K

Dynatronics Corporation files an annual report on Form 10-K each year with the Securities and Exchange Commission. A copy of the Form 10-K for the fiscal year ended June 30, 2013, may be obtained at no charge by sending a written request to:

Mr. Bob Cardon, *Vice President of Administration*
Dynatronics Corporation
7030 Park Centre Drive,
Cottonwood Heights, Utah 84121

ANNUAL MEETING

The company's annual shareholders meeting will be Monday, November 25, 2013, at 3:00 p.m. MST at: Dynatronics' corporate headquarters:

7030 Park Centre Drive,
Cottonwood Heights, Utah 84121

GENERAL INFORMATION

Dynatronics Corporation, a Utah corporation organized on April 29, 1983, manufactures, markets and distributes a broad line of therapeutic, diagnostic and rehabilitation equipment, medical supplies and soft goods, treatment tables, and aesthetic massage and microdermabrasion devices to an expanding market of physical therapists, sports medicine practitioners and athletic trainers, chiropractors, podiatrists, orthopedists, plastic surgeons, dermatologists, aestheticians and other medical professionals.

OFFICERS AND DIRECTORS

Kelvyn H. Cullimore, Jr., *Chairman of the Board, President and CEO*
Larry K. Beardall, *Executive Vice President of Sales & Marketing & Director*
Terry M. Atkinson, CPA, *Chief Financial Officer*
Robert J. (Bob) Cardon, *Vice President of Administration, Secretary & Treasurer*
Douglas Sampson, *Vice President of Production and R&D*
Bryan D. Alsop, *Vice President of Information Technology*

Joseph H. Barton, *Director, Retired Sr. Vice President, GranCare Inc.*
Howard L. Edwards, *Director, Retired Corporate Secretary, ARCO Company*
R. Scott Ward, PT PhD, *Director, Chairman of Department of Physical Therapy, University of Utah*

ACCOUNTANTS, LEGAL COUNSEL AND TRANSFER AGENT

Independent Registered Public Accounting Firm, *Larson & Company, Salt Lake City, Utah*
Corporate Legal Counsel, *Durham Jones & Pinegar, Salt Lake City, Utah*
Intellectual Property Legal Counsel, *Kirton & McConkie, Salt Lake City, Utah*
Transfer Agent, *Interwest Transfer Company, P.O. Box 17136, Salt Lake City, Utah 84117*

DYNATRONICS CORPORATION HEADQUARTERS

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