2014 ANNUAL REPORT

Dynatronics

LEVERAGING TECHNOLOGY

Expansion of the Solaris Plus line of products continues to flourish. Building on the excitement triggered by the introduction of the one-of-a-kind ThermoStim probe, Dynatronics will be introducing two new devices to the Solaris Plus line in fiscal year 2015, one of which will provide therapy solutions never before available while at the same time, expanding potential sales into a wider spectrum of practitioners.

Innovation has always been the hallmark of Dynatronics' success and the innovative Solaris Plus line has proven to be no exception. Solaris Plus continues to build a solid, dependable foundation for increasing profits. After two years on the market, there is still no other device capable of providing seven waveforms of electrotherapy, TriWave Light therapy, Dynatronics exclusive three-frequency ultrasound and IFC Target features plus the power of ThermoStim.

2014 LETTER TO SHAREHOLDERS

For the third consecutive year we are reporting an operating loss. While the economic conditions improved somewhat in the last year, the impacts of the Affordable Care Act (ACA) have only intensified. We reported an operating loss of $397,000. Notably, $160,000 (40 percent of the total loss) was attributable to the recently imposed Medical Device Tax (MDT). Implemented in January 2013, the MDT imposes a 2.3 percent excise tax on approximately 33 percent of our sales. An excise tax is a tax on sales usually reserved for such consumables as tires or cigarettes. However, the ACA has used this unusual type of tax, instead of an income tax, as one of over 40 new taxes assessed to help pay for healthcare reform. As a result, we are paying $160,000 in tax despite falling short of profitability this fiscal year.

A repeal of this egregious tax has been passed by the House of Representatives at least twice, but the United States Senate failed to act on those bills. However, the United States Senate, in an amendment to its proposed budget for fiscal year 2015, voted 79 to 20 in favor of repealing the MDT. Congressmen and senators have realized the folly of this tax. While it impacts all medical device companies, it is particularly harmful to small companies. I serve on the board of the Medical Device Manufacturers Association (MDMA). Repealing this tax is the top priority of MDMA for this next fiscal year. Failure to do so will cost jobs, stifle innovation and discourage investment in new medical technology.

While the MDT accounted for approximately 40 percent of our reported operating losses this year, the other 60 percent came from operations. Starting in January 2012 when the ACA began to be implemented, we have seen a steady softening of sales. ACA could be dismissed as a convenient scapegoat, but our intelligence indicates that our competitors are also experiencing weaker sales performance. The ACA has created significant uncertainty about how health care will be delivered in the future. It has also put pressure on reimbursement. Add to these factors a slowly recovering economy and health insurance plans that are relying more and more on high deductible features, and it provides a plausible explanation for a sustained softening of demand that cannot be explained any other way.

For the first 18 months of this period of softer sales, we experienced declines only in the lower-margin supplies and soft goods. Capital equipment sales maintained levels equivalent to or better than the prior periods. This may have been attributable to the fact we introduced many new products during that time, thus stimulating sales of capital equipment. During that period, sales were down by an average of approximately seven percent, comparing one month to the same month the prior year.

In fiscal year 2014, we experienced less demand for capital equipment – both manufactured and distributed. This was not totally unexpected. Uncertainty often results in scaling back of capital expenditures, including the replacement of capital equipment and the opening of new clinics. Both of these are typically significant sources of capital equipment sales. The end of fiscal year 2014 concluded a 30-month period where sales were generally down seven percent period over period.

That is the bad news. Those are the reasons for our less-than-satisfactory performance in this and the two previous fiscal years. But there is good news to report.

We have worked to offset fewer sales by making reductions in expenses. In fiscal year 2013, we reduced expenses by $800,000. In fiscal year 2014, we reduced expenses by an additional $600,000. Comparing expenses for the fourth quarter of fiscal year 2014 to the same period in fiscal year 2012, we show an annualized expense reduction rate of $1.5 million, exclusive of the MDT. In other words, we have been reducing expenses in our battle to overcome the onslaught of weak sales demand created by the ACA. Of course, we recognize that expense reduction is not the ultimate answer to these challenges, but it does demonstrate our efforts to appropriately react to the current market conditions.

While capital equipment sales were down in fiscal year 2014, the introduction of the ThermoStim Probe (TSP) helped bolster sagging sales. Over the last seven months of the fiscal year, we averaged sales of about 40 units per month. More importantly, since the TSP is an accessory of the Solaris Plus family of products, 80 percent of TSP sales included the sale of a Solaris Plus device. Sales of the TSP continue to be strong.

The 30-month trend of declining sales seems to have reversed. In the month of June 2014, we saw a significant increase of sales, and that trend has continued through the first quarter of fiscal 2015. During the last 30 months we saw an occasional month where sales were higher than the same period the prior year, but this trend since June is the first sustained increase in sales we have seen in 30 months. That may be an indication that practitioners are starting to adjust to the new ACA and that demand may be on the rebound. We believe pent-up demand will manifest in the coming year.

We recognize the number one priority is to not only stop the 30-month trend of declining sales, but to return to sales growth. To that end, we announced in June that we were awarded a sole source contract with Amerinet: one of the five largest group purchasing organizations (GPOs) in the United States. This contract has the potential to ultimately deliver several million dollars in new sales. It will take time to ramp up the contract, but it presents a significant opportunity to increase sales, representing our first real success in the GPO market since we began efforts to pursue such business six years ago.

International sales also represent a significant opportunity. We have identified new distributors in Asia, South America and Central America that should generate several million dollars in new sales in fiscal year 2015.

Finally, we recognize that the market we have serviced for the past 30 years is a mature market, in which many products are somewhat commoditized. We have avoided the commoditized segment of the business, choosing instead to focus on the higher-margin capital equipment. Nevertheless, in recognition of the maturity of our market, we have embarked on a search to find ways to improve shareholder value by exploring opportunities for growth – not only in our market, but in adjacent markets as well. We filed a registration statement on Form S-3 with the Securities and Exchange Commission in August as a placeholder for raising capital, should we find the right opportunity. We will not raise added capital without the filing of additional disclosure documentation, but we wanted to explain why we filed that form and what our intent is.

The 30-month period ending in June 2014 has been perhaps the most difficult period of the last 30 years. Battling sales that are being weakened by general market conditions has been frustrating, especially when the MDT is added as an insult to the injury that has been the ACA. We are nevertheless optimistic about the future. We have reduced expenses and are a leaner operation as a result. New product introductions are helping boost sales. The market seems to be showing signs of rebounding based on trends from the end of the fourth quarter of 2014 to the first quarter of 2015. The new Amerinet contract will help increase sales for the next three years. International sales increases are more imminent than at any other period in our history. Add to these operating factors the fact we are seeking ways to enhance operations through expansion in this or strategic markets, and there is realistic cause for optimism.

We are committed to improving our performance. We appreciate your patience and support as we work to return the company to profitability and enhance shareholder value.

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

GLOBAL EXPANSION

Dynatronics is increasing its international footprint with expansion into a number of countries including China, Singapore, Thailand, Malaysia, and Mexico. As we near the completion of all required approvals for our new specialty products, Australia, New Zealand, and countries in the European Union will soon provide opportunities to further expand international sales.

The International Division has been reorganized and expanded under the direction of Kelvyn H. Cullimore, Sr. whose years of international experience are helping to provide a clear path for global expansion. Dynatronics' increased focus in the international arena is comprised of more than just making investments outside the United States, it includes the concept of maintaining profitable, long-term business relationships with our worldwide neighbors.

Amerinet

EXCLUSIVE CONTRACT

After several years of pursuing a contract with one of the large GPOs (Group Purchasing Organizations), we are pleased to have been awarded an exclusive sole-source contract for rehabilitation equipment and supplies with Amerinet, a GPO that represents over 65,000 member facilities.

Group Purchasing Organizations were created to help hospitals and other providers pool their purchasing power to secure significant discounts. Being awarded an exclusive contract with a GPO means that its members now have the ability to purchase all of their equipment and supplies at very competitive prices from Dynatronics. This purchasing advantage not only works for the GPO members, but works to the advantage of Dynatronics as well, creating higher sales over the course of the three-year contract.

WE DO IT ALL

Professional teams, high schools, colleges, and universities nationwide are reaching out to Dynatronics to design, customize, and build well-branded training rooms. Dynatronics is not only bringing state-of-the-art functionality to their facilities, but adding the wow factor that often makes the difference when recruiting the most talented athletes in the game.

Dynatronics furnishes these athletic facilities with individual taping stations and cabinets in beautiful, durable hardwoods with custom wood-carved details. Team logos are color-screened or debossed into the Naugahyde®. In addition, these teams benefit from all the advantages of buying direct from the manufacturer, not only for their customized training tables and furniture, but for all of the advanced therapy equipment and supplies needed to completely outfit the facility.

BOARD OF DIRECTORS

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

Larry K. Beardall
Executive Vice President of Sales and Marketing

Joseph H. Barton *(deceased 11/07/14)*
Director

Howard L. Edwards
Director

R. Scott Ward, Ph.D.
Director

MANAGEMENT TEAM

Pictured below, in order from left to right

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

     

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with our consolidated financial statements and notes to those consolidated financial statements, included elsewhere in our Annual Report on Form 10-K filed with the Securities and Exchange Commision on Sept. 29, 2014. 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. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed in the section of the Annual Report entitled "Item 1A. Risk Factors."

OVERVIEW

Our principal business is the manufacturing, distribution and marketing of physical medicine products and aesthetic products. 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 2014 refers to the year ended June 30, 2014.

RESULTS OF OPERATIONS

Fiscal Year 2014 Compared to Fiscal Year 2013

Net Sales

Net sales in fiscal year 2014 were $27,444,223, compared to $29,538,275 in fiscal year 2013. In fiscal year 2013, we introduced the new SolarisPlus product line which significantly increased sales during that period. In fiscal year 2014, increased sales of our top-selling SolarisPlus therapy devices and new ThermoStim probe were offset by lower sales of certain medical products and supplies, including other manufactured modalities, metal treatment tables, exercise products, nutritional supplements and taping products. Market conditions continued to deteriorate during the year due to the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010 (the "Health Care Reform Law"). The Health Care Reform Law has had the effect of creating significant uncertainty relative to delivery of care and reimbursement. There has been a marked decline in the opening of new clinics and expansion of existing clinics in our marketplace which typically are a significant source of demand for our products – particularly the higher margin capital equipment products. The uncertainty surrounding the Health Care Reform Law has not only led to customers focusing more on controlling operating costs by reducing expenditures, but has also caused a reluctance to invest in new equipment and clinic upgrades. In addition to the impacts of the Health Care Reform Law, we continue to see slower economic recovery in some parts of the country as well as a temporary decrease in demand due to severe weather events during this past winter.

With a currently shrinking market, it is necessary to implement strategies to increase market share. To accomplish that, management has undertaken efforts to (i) expand our distribution channels by adding several new dealers and sales representatives, and (ii) stimulate sales of the new Dynatron ThermoStim Probe and other new products. We may also consider the acquisition of other businesses and technology. The new ThermoStim probe delivers thermal (hot and cold) therapy and/or electrotherapy in a targeted, attended treatment. Because the probe is operated from the control console of the SolarisPlus units, we are seeing demand for SolarisPlus units rise commensurate with the demand for the ThermoStim probe.

Management believes that as healthcare reform progresses, uncertainty in our market will diminish, and demand for our products will begin to strengthen.

Sales of proprietary manufactured physical medicine products represented approximately 47% and 46% of total physical medicine product sales in fiscal years 2014 and 2013, 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 2014 and 2013, represented approximately 86% and 78% 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 2014 and 2013, 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.

Gross Profit

Gross profit totaled $10,020,372, or 36.5% of net sales, in fiscal year 2014, compared to $11,086,602, or 37.5% of net sales, in fiscal year 2013. Lower sales revenue generated during the year was the primary factor in the reduction in gross profit compared to the prior year period. In addition, a reduction in revenue from the phasing out of our Stream software service contributed to the lower gross profit and gross margin percentage generated in the reporting periods. Sales of Stream services were approximately $7,765 in 2014, compared to $108,100 in 2013. Those sales were 100% gross profit as they carried no associated cost of sale. Loss of approximately $100,000 in gross profit from the termination of the Stream program accounted for one third of the drop in gross profit percentage. The balance was attributable to product mix favoring lower margin supply products and slightly increased cost of sales for manufactured capital products.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A expenses were $9,213,433, or 33.6% of net sales, in fiscal year 2014, compared to $9,860,964, or 33.4% of net sales, in fiscal year 2013. The $647,531 decrease in SG&A expenses in fiscal year 2014 as compared to 2013 is a result of the following:

- $281,331 of lower selling expenses due primarily to lower sales commissions;
- $226,860 of lower labor and overhead costs;
- $139,340 of lower general expenses primarily related to a reduction in regulatory compliance costs and professional fees and lower bad debt expense.

The reduction in expenses was related to the declining sales. However, the reduction in expense was insufficient to fully offset the $1,067,000 decrease in gross profit during the period.

Research and Development

Research and development, or R&D expenses for 2014 were $992,729 compared to $1,120,887 in 2013, a drop of $128,158. With the completion of the development work associated with the new ThermoStim probe, R&D expense in the latter half of 2014 decreased. Over the past two years, we have introduced more new products than any previous two-year period in our history. The new product introductions include the SolarisPlus line of electrotherapy/ultrasound/ phototherapy units, the Ultra 2 and Ultra 3 motorized treatment tables, the 25 Series line of electrotherapy and ultrasound products, as well as the Dynatron ThermoStim Probe. We believe that developing new products is a key element in our strategy and critical to moving purchasing momentum in a positive direction. R&D costs are expensed as incurred and are expected to remain at current levels in the coming year as we have concluded a major R&D investment cycle incurred over the past three years. R&D expense decreased as a percentage of net sales in fiscal year 2014 to 3.6% from 3.8% of net sales in fiscal year 2013.

Interest Expense

Interest expense decreased by $28,834, to $231,865 in fiscal year 2014 compared to $260,699 in fiscal year 2013 due to lower balances on our long-term debt compared to fiscal year 2013. In August 2014, we sold our Cottonwood Heights facility housing our principal executive offices and manufacturing facilities to an investment group and leased the facility back for a 15-year term. This sale allowed us to use the proceeds to retire the mortgage loan on the property and to pay down our line of credit by approximately $2.1 million. As a result of this repayment of debt, our maximum credit facility under the line of credit was changed to $2,500,000 in August 2014. Our outstanding balance under the line as of September 14, 2014 was approximately $827,000.

Loss Before Income Tax Benefit

Pre-tax loss in fiscal year 2014 was $397,165, compared to $131,125 in fiscal year 2013. Lower sales and gross margin led to $1,066,230 in lower gross profit in 2014 compared to 2013. That lower gross profit was offset by $775,689 in lower SG&A and R&D expenses and $24,501 of lower interest expense and other income resulting in a $266,040 greater loss before taxes for 2014. Adding the $266,040 to the $131,125 loss last year results in this year's pre-tax loss of $397,165. We believe the introduction of the new ThermoStim probe not only adds a new, highly profitable product to our product line to increase sales, but we also expect that it will boost demand for SolarisPlus products that are required to power the ThermoStim probe.

Income Tax Benefit

Income tax benefit was $126,023 in fiscal year 2014, compared to $86,754 in fiscal year 2013. Due to tax benefits associated with a reduction of R&D tax credits and other credits, the effective income tax benefit rate in fiscal year 2014 was 31.7% compared to an effective tax benefit rate of 66.2% in 2013. The difference in the effective tax benefit rates is attributable to lower R&D tax credits in fiscal year 2014, a true up of R&D tax credits in 2013, as well as certain permanent book to tax differences. It should be noted that the sale of the building referenced above will result in a profit that consumes all tax attributes available to us at the end of fiscal year 2015.

Net Loss

Net loss was $271,142 ($.11 per share) in fiscal year 2014, compared to $44,371 ($.02 per share) in fiscal year 2013. As reported above, lower sales and gross profits were the primary reason for the increase in net loss for the reporting periods. These increases were partially offset by lower SG&A, R&D and interest expenses for fiscal year 2014. The difference in effective tax benefit rates also affected the increase in net loss for 2014.

LIQUIDITY AND CAPITAL RESOURCES

We have financed operations through cash from operations, available cash reserves, and borrowings under a line of credit with a bank. Working capital decreased $197,993 to $3,347,595 as of June 30, 2014, inclusive of the current portion of long-term obligations and credit facilities, compared to working capital of $3,545,588 as of June 30, 2013. As of June 30, 2014, the Company had approximately $978,800 of available credit under a credit facility with a commercial bank. The current ratio was 1.48 to 1 as of June 30, 2014 and June 30, 2013. Current assets were 73% of total assets as of June 30, 2014 and 72% of total assets as of June 30, 2013.

Cash and Cash Equivalents

Our cash and cash equivalents position as of June 30, 2014, was $332,800, compared to cash and cash equivalents of $302,050 as of June 30, 2013. Our cash position varies throughout the year, but typically stays within a range of $200,000 to $350,000. 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 at least the next twelve months. If we experience an adverse operating environment, or unusual capital expenditure requirements, additional financing may be required. No assurance can be given that additional financing, if required, would be available on terms favorable to us, or at all.

Accounts Receivable

Trade accounts receivable, net of allowance for doubtful accounts, decreased $81,316, or 2.5%, to $3,165,396 as of June 30, 2014, compared to $3,246,712 as of June 30, 2013. Trade accounts receivable represent amounts due from our customers including medical practitioners, clinics, hospitals, colleges and universities and sports teams as well as dealers and distributors that purchase our products for redistribution. We believe that our estimate of the allowance for doubtful accounts is adequate based on our historical knowledge and relationship with these customers. Accounts receivable are generally collected within 30 days of the agreed terms.

Inventories

Inventories, net of reserves, decreased $249,705, or 3.9%, to $6,157,848 as of June 30, 2014, compared to $6,407,553 as of June 30, 2013. Inventory levels can fluctuate based on the timing of large inventory purchases from overseas suppliers.

Medical Device Tax

In January 2013, all medical device manufacturers, including the Company, became subject to the medical device tax or "MDT" provisions of the Health Care Reform Law. The MDT requires that medical device manufacturers and importers pay a 2.3% excise tax on sales of all qualified medical devices. Some exemptions in the law allow us to exclude a large portion of sales from being subject to the MDT. For instance, products that are sold internationally are not subject to the MDT. Some rehabilitation products that are generally sold at retail are not subject to the MDT. Income from our distribution and sale of products manufactured by others is not taxable to us under the MDT (although many of the manufacturers of these products are raising prices to their customers, including the Company, to cover their cost of the MDT). Given these exemptions, we estimate that approximately 33% of our total sales are subject to the MDT. During fiscal year 2014, we paid approximately $159,920, compared to $81,726 in 2013 in MDT. The MDT began January 1, 2013 and only affected operations for the last half of fiscal year 2013, compared to the full fiscal year 2014.

Accounts Payable

Accounts payable decreased $318,360, or 11.6%, to $2,433,534 as of June 30, 2014, from $2,751,894 as of June 30, 2013. Over the year, management has made a concerted effort to reduce outstanding payables. We take advantage of available early payment discounts when offered by our vendors.

Line of Credit

The outstanding balance on our line of credit increased $24,819 to $3,521,209 as of June 30, 2014, compared to $3,496,390 as of June 30, 2013. Interest on the line of credit is based on the 90-day LIBOR rate (0.23% as of June 30, 2014) 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 $4,500,000. Interest payments on the line are due monthly. As of June 30, 2014, the borrowing base was approximately $4,500,000 resulting in approximately $979,000 of available credit on the line. All borrowings under the line of credit are presented as current liabilities in the accompanying consolidated balance sheet.

The line of credit agreement includes covenants requiring us to maintain certain financial ratios. As of June 30, 2014, we were not in compliance with one of the loan covenants; however, the bank granted a waiver for the period. The line of credit matures on October 31, 2014. On October 3, 2014, the bank informed us that it did not intend to renew the line, but would likely extend it until January 31, 2015 to allow us time to find a new lending partner. We intend to seek a new credit facility with other lenders. We have also entered into an agreement with a placement agent to seek equity funding to provide working capital for the Company. Failure to obtain a new credit facility with another lender or to obtain the equity funding will have a material adverse effect on our business operations.

Subject to the risk described above, we believe that amounts available under the line of credit as well as cash generated from operating activities will continue to be sufficient to meet our short term operating requirements.

As previously explained in this report, in order to assure adequate availability of operating capital under our line of credit and to more fully take advantage of accumulated deferred tax assets, on August 8, 2014, we sold our building that houses operations in Utah and leased back the premises for a term of 15 years. The sales price was $3,800,000. Proceeds from the sale were used to pay off the mortgage on the property, to pay down amounts outstanding on our line of credit and to reduce debt obligations of the Company. The profit generated from the sale will be sufficient to utilize the majority, if not all of our deferred tax assets. As a result of this repayment of debt, our maximum credit facility under the line of credit was changed to $2,500,000 in August 2014. Our outstanding balance under the line as of September 14, 2014 was approximately $827,000.

Debt

Long-term debt, excluding current installments decreased $306,643 to $1,255,133 as of June 30, 2014, compared to $1,561,776 as of June 30, 2013. 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 at June 30, 2014 was approximately $1,498,051, of which $1,291,646 is classified as long-term debt, with monthly principal and interest payments of $30,263. Our mortgage loans mature in 2017 and 2021. In conjunction with the sale/leaseback of our Utah facility, approximately $632,000 of mortgage debt was paid to the lender. Of this amount, approximately $170,900 was included as current portion of long-term debt as of June 30, 2014.

Inflation

Our revenues and net income have not been unusually affected by inflation or price increases for raw materials and parts from vendors.

Stock Repurchase Plans

Our Board of Directors adopted a stock repurchase plan authorizing repurchases of shares in the open market, through block trades or otherwise. Decisions to repurchase shares under this plan are based upon market conditions, the level of our cash balances, general business opportunities, and other factors. Our Board of Directors periodically approves the dollar amounts for share repurchases under the plan. As of June 30, 2014, $448,450 remained available under the Board's authorization for purchases under the plan. There is no expiration date for the plan. No purchases were made under this plan during the three months ended June 30, 2014.

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 2014, 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, 2014 and 2013, our inventory valuation reserve balance, which established a new cost basis, was $335,355 and $327,519, respectively, and our inventory balance was $6,157,848 and $6,407,553, 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 $3,165,396 and $3,246,712, net of allowance for doubtful accounts of $325,355 and $247,708, as of June 30, 2014 and 2013, 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. The sale and lease-back of our Utah facility generated sufficient profitability to use all existing deferred tax assets making the evaluation of any impairment of deferred tax assets unnecessary for fiscal year 2014 and 2015.

We have available at June 30, 2014 and 2013 federal and state net operating loss ("NOL") carry forwards of $745,605 and $974,484, respectively. The federal NOLs will expire in 2030. 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, 2011, 2012 and 2013 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. Looking ahead, we intend to build upon the investments of the past few years. Those investments are the foundation for our growth and business success. Highlights include the following:

In December 2013, we introduced the ThermoStim probe – one of the most innovative and revolutionary products in our history. The ThermoStim probe offers the ability to deliver 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. The ThermoStim probe utilizes thermoelectric chip technology to generate the thermal therapy. This innovative product is generating demand not only for the probe, but also for the SolarisPlus units which serve as the control console for the probe. Based on sales of the last six months of the fiscal year, 80% of all ThermoStim probe sales were accompanied by the sale of a Dynatron SolarisPlus device.

In June 2013, we began shipping our Dynatron® 25 Series electrotherapy/ultrasound line of combination therapy devices. This 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. The Dynatron 25 Series of products was specifically designed to replace the aging Dynatron 50 Plus series of products. This product line was also positioned to be sold through our expanding channel of general line distributors. The predecessor 50 Series Plus line of products was only available to direct sales representatives and dealers authorized to sell our specialty line of products. Making the 25 Series available to all distributors is a departure from past practice and designed to increase sales of these products. Initial results indicate that sales of 25 Series products have fallen short of expectations, but upselling from the lower price 25 Series to the SolarisPlus devices appears to be more successful than upselling from the 50 Series Plus line of products.

In December 2012, we introduced a 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 Dynatron SolarisPlus line of electrotherapy/ultrasound/ phototherapy units. This product line consists of four units: the Dynatron SolarisPlus 709, 708, 706, and 705. These attractive 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 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 display cart specifically designed for these units. The SolarisPlus line has become popular for its power and versatility. The 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.

The introduction of so many new products in the last two years marks the most productive two year period of new product introductions in our history. With most of the planned new products now released, R&D costs in 2014 cycled back to a lower level more in line with historical amounts. 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.

Our product catalog not only includes our proprietary products previously discussed, but also our expansive offering of non-proprietary products (approximately 13,000 SKUs) to service the broader needs of our customers. It also provides an excellent sales tool for our sales representatives in the field and the foundation for our e-commerce platform. The catalog includes an online electronic version of the catalog that is incorporated into our e-commerce website. The 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. Our national direct sales force consists of 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, during fiscal year 2014, for the first time in our history, we 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 are now 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 is expected to increase our ability to expand distribution of not only our own proprietary products, but also those we distribute on behalf of other manufacturers.

Pursuit of national accounts, including Group Purchasing Organizations (GPO) continues to be a strategic endeavor. During fiscal year 2014, we signed an exclusive, sole-source agreement with Amerinet, one of the five largest GPO's in the United States, to supply medical products to their acute care and alternate care members. Amerinet is one of the nation's leading healthcare GPOs, helping its members to reduce healthcare costs and improve healthcare quality. The three-year agreement with Amerinet became effective July 1, 2014. The prior vendor reported approximately $6,000,000 per year in sales to Amerinet members. We do not expect that this contract will rise to that level for various reasons and we anticipate that it will take several months to ramp up sales under this contract. We expect that sales under this contract will gradually increase over the life of the contract to a rate of approximately $3,000,000 annually. In 2013, 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.

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. We are focusing specifically on distribution in China, Japan, Central and South America. We are also examining the potential for distribution within Europe more seriously than in the past. As we secure CE Mark Certification and meet local regulatory requirements for our products we will be better able to explore the interest of distributors in these markets.

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. For instance, on June 30, 2014 we closed our office in Youngstown, OH.

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. In fiscal 2014, we reduced costs by an additional $648,000. 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 ThermoStim Probe, SolarisPlus and 25 Series products.
- 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.
- Developing sales through the recently acquired Amerinet contract.
- Continuing to seek ways of increasing business with regional and national accounts including other group purchasing organizations such as Amerinet and the U.S. Government.
- Improving operational efficiencies by scaling costs to be reflective of current levels of sales.
- Strengthening pricing management and procurement methodologies.
- Focusing international sales efforts on identifying key distributors and strategic partners who could represent the Company's product line, particularly in China, Japan, Southeast Asia, Central and South America as well as portions of Europe.
- 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, 2014, we had approximately 2,520,389 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 that was effected in December 2012.

Fiscal Year Ended June 30:	*2013*		*2014*	
	High	Low	High	Low
1st Quarter Jul-Sep	$3.25	$2.35	$7.94	$2.33
2nd Quarter Oct-Dec	$4.24	$2.00	$4.85	$2.74
3rd Quarter Jan-Mar	$3.95	$2.30	$5.57	$2.94
4th Quarter Apr-Jun	$2.86	$2.45	$4.44	$2.86

Stockholders

As of September 18, 2014, the approximate number of shareholders of record was 385. 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, if any, in order to finance the development of the business.

BOARD OF DIRECTORS AND STOCKHOLDERS OF DYNATRONICS CORPORATION AND SUBSIDIARY

We have audited the accompanying consolidated balance sheet of Dynatronics Corporation and subsidiary (collectively, the Company) as of June 30, 2014 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dynatronics Corporation and subsidiary at June 30, 2014, 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.

/s/ Mantyla McReynolds, LLC
Salt Lake City, Utah
September 26, 2014

Mantyla McReynolds LLC
Certified Public Accountants

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF DYNATRONICS CORPORATION

We have audited the accompanying balance sheet of Dynatronics Corporation and subsidiary (collectively, the Company) as of June 30, 2013, and the related statements of income, 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, 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.

/s/Larson & Company PC
Salt Lake City, UT
September 30, 2013

Larson
certified public accountants

Balance Sheets

Years ended June 30:		*2014*	*2013*
Assets			
Current assets:			
Cash and cash equivalents	$	332,800	302,050
Trade accounts receivable, less allowance for doubtful accounts of $325,355 as of June 30, 2014 and $247,708 as of June 30, 2013		3,165,396	3,246,712
Other receivables		15,594	27,197
Inventories, net		6,157,848	6,407,553
Prepaid expenses and other assets		298,370	506,836
Prepaid income taxes		—	—
Current portion of deferred income tax assets		408,919	389,101
Total current assets		10,378,927	10,879,449
Property and equipment, net		2,980,677	3,324,947
Intangible asset, net		235,440	280,078
Other assets		396,456	422,672
Deferred income tax assets, net of current portion		303,644	197,441
Total assets	$	**14,295,144**	**15,104,587**
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portion of long-term debt	$	302,274	322,573
Line of credit		3,521,209	3,496,390
Warranty reserve		157,753	178,148
Accounts payable		2,433,534	2,751,894
Accrued expenses		342,716	347,221
Accrued payroll and benefits expenses		243,394	216,266
Income tax payable		30,452	21,369
Total current liabilities		7,031,332	7,333,861
Long-term debt, net of current portion		1,255,133	1,561,776
Total liabilities		8,286,465	8,895,637
Commitments and contingencies			
Stockholders' equity:			
Common stock, no par value: Authorized 50,000,000 shares; 2,520,389 shares and 2,518,904 shares issued and outstanding at June 30, 2014 shares as of June 30, 2013, respectively		7,149,812	7,078,941
Accumulated deficit		(1,141,133)	(869,991)
Total stockholders' equity		6,008,679	6,208,950
Total liabilities and stockholders' equity	$	**14,295,144**	**15,104,587**

See accompanying notes to consolidated financial statements.

Statements of Operations

Years ended June 30:		*2014*	*2013*
Net sales	$	27,444,223	29,538,275
Cost of sales		17,423,851	18,451,673
Gross profit		10,020,372	11,086,602
Selling, general, and administrative expenses		9,213,433	9,860,964
Research and development expenses		992,729	1,120,887
Operating income		(185,790)	104,751
Other Income (expense):			
Interest income		44	681
Interest expense		(231,865)	(260,699)
Other income, net		20,446	24,142
Total other income (expense)		(211,375)	(235,876)
Loss before income tax benefit		(397,165)	(131,125)
Income tax benefit		126,023	86,754
Net loss	$	**(271,142)**	**(44,371)**
Basic and diluted net loss per common share	$	(0.11)	(0.02)
Weighted-average basic and diluted common shares outstanding:		2,519,490	2,526,533

See accompanying notes to consolidated financial statements.

Statements of Stockholders' Equity

Years ended June 30:

	*Number of shares**		*Common stock*	*Accumulated Deficit*	*Total Stockholders' Equity*
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
Repurchase of common stock	—		—	—	—
Stock-based compensation	1,485		70,871	—	70,871
Issuance of common stock upon exercise of employee stock options	—		—	—	—
Shares issued due to stock split rounding	—		—	—	—
Net loss	—		—	(271,142)	(271,142)
Balances as of June 30, 2014	**2,520,389**	$	**7,149,812**	**(1,141,331)**	**6,008,679**

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

See accompanying notes to consolidated financial statements.

Statements of Cash Flows

Years ended June 30:		*2014*	*2013*
Cash flows from operating activities:			
Net income (loss)	$	(271,142)	(44,371)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation & amortization of property & equipment		433,014	435,366
Amortization of intangible and other assets		147,901	118,335
Gain on sale of assets		—	(2,993)
Stock-based compensation expense		70,871	86,639
Change in deferred income tax assets		(126,021)	(86,754)
Provision for doubtful accounts receivable		96,000	180,000
Provision for inventory obsolescence		120,000	206,460
Change in operating assets and liabilities:			
Receivables		(3,081)	224,895
Inventories		129,705	(515,416)
Prepaid expenses and other assets		216,324	(281,855)
Prepaid income taxes		20,248	23,615
Accounts payable and accrued expenses		(327,297)	299,185
Net cash provided by operating activities		506,522	643,106
Cash flows from investing activities:			
Purchase of property and equipment		(176,958)	(100,438)
Proceeds from sale of property and equipment		—	345
Net cash used in investing activities		(176,958)	(100,093)
Cash flows from financing activities:			
Principal payments on long-term debt		(323,633)	(418,386)
Net change in line of credit		24,819	(1,207)
Proceeds from issuance of common stock		—	364
Purchase and retirement of common stock		—	(99,997)
Net cash used in financing activities		(298,814)	(519,226)
Net change in cash and cash equivalents		30,750	23,787
Cash and cash equivalents at beginning of the year		302,050	278,263
Cash and cash equivalents at end of the year		**332,800**	**302,050**
Supplemental disclosures of cash flow information:			
Cash paid for interest		232,571	259,794

See accompanying notes to consolidated financial statements.

NOTES FINANCIAL STATEMENTS

(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 the due date. 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 20 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, 2014 and 2013 is summarized as follows:

	2014	2013
Basic weighted-average number of common shares outstanding during the year	2,519,490	2,526,533
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	2,519,490	2,526,533

Outstanding options not included in the computation of diluted net loss per common share totaled 145,987 as of June 30, 2014 and 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 base. 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, 2014, the Company has approximately $82,800 in cash and cash equivalents in excess of the 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, 2014 and 2013. Aesthetics products made up 1% of net sales for both the years ended June 30, 2014 and 2013. Chargeable repairs, billable freight and other miscellaneous revenues account for the remaining 8% of net sales for both the years ended June 30, 2014 and 2013.

(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, 2014 and 2013 was approximately $111,900 and $127,400, respectively.

(2) INVENTORIES

Inventories consist of the following as of June 30:

		2014	2013
Raw materials	$	2,783,306	2,732,363
Finished goods		3,709,897	4,002,709
Inventory reserve		(335,355)	(327,519)
	$	**6,157,848**	**6,407,553**

(3) PROPERTY AND EQUIPMENT

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

		2014	2013
Land	$	354,743	354,743
Buildings		3,758,524	3,746,472
Machinery and equipment		1,598,770	1,550,633
Office equipment		266,563	263,861
Computer equipment		1,980,746	1,963,414
Vehicles		236,987	266,946
		8,196,333	8,146,069
Less accumulated depreciation and amortization		(5,215,656)	(4,821,122)
	$	**2,980,677**	**3,324,947**

Depreciation expense for the years ended June 30, 2014 and 2013 was $433,686 and $435,366, respectively.

(4) INTANGIBLE ASSETS

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

		2014	2013
Trade name—5 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		(537,800)	(493,162)
Net carrying amount	$	**235,440**	**280,078**

Amortization expense associated with the intangible assets was $44,637 for both fiscal years 2014 and 2013. Estimated amortization expense for the identifiable intangibles is expected to be as follows: 2015, $30,680; 2016, $30,680; 2017, $30,680; 2018, 26,430; 2019, 26,430 and thereafter $90,540.

(5) WARRANTY RESERVE

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

		2014	2013
Beginning warranty reserve balance	$	178,148	181,000
Warranty repairs		(141,471)	(160,267)
Warranties issued		153,648	127,863
Changes in estimated warranty costs		(32,572)	29,552
Ending warranty reserve	$	**157,753**	**178,148**

(6) LINE OF CREDIT

The Company has a revolving line-of-credit facility with a commercial bank in the amount of $4,500,000. Borrowing limitations are based on 45% of eligible inventory and up to 80% of eligible accounts receivable resulting in a borrowing base of $4,845,000, subject to the $4,500,000 limitation as described above, as of June 30, 2014. As of June 30, 2014 and 2013, the outstanding balance was approximately $3,521,000 and $3,496,000, respectively. Available borrowings as of June 30, 2014 were $979,000. 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 3.7% and 3.8% as of June 30, 2014 and 2013, respectively. This line is subject to biennial renewal and matures on October 31, 2014. However, 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 our business operations. All borrowings under the line of credit are presented as current liabilities in the accompanying condensed consolidated balance sheet.

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, 2014, the Company was not in compliance with one of the loan covenants, however, the bank granted a waiver for the period.

The Company believes that amounts available under the line of credit as well as cash generated from operating activities will continue to be sufficient to meet our short term operating requirements.

(7) LONG TERM DEBT

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

		2014	2013
6.44% promissory note secured by trust deed on real property, maturing January 2021, payable in monthly installments of $13,278	$	853,090	953,929
5.235% promissory note secured by building, maturing December 2017, payable in monthly installments of $16,985		644,962	808,326
Promissory note secured by a vehicle, payable in monthly installments of $639 through February 2019		33,913	43,449
8.49% promissory note secured by equipment, payable in monthly installments of $2,097 through December 2014		12,279	35,332
5.887% promissory note secured by a vehicle, payable in monthly installments of $390 through March 2017		12,140	15,970
13.001% promissory note secured by equipment, payable in monthly installments of $70 through October 2015		1,023	1,683
14.305% promissory note secured by equipment, payable in monthly installments of $2,338 through May 2014		—	23,965
5.75% promissory note secured by a vehicle, payable in monthly installments of $435 through October 2013		—	1,695
		1,557,407	1,884,349
Less accumulated amortization		(302,274)	(322,573)
	$	**1,255,133**	**1,561,776**

The aggregate maturities of long term debt for each of the years subsequent to 2014 are as follows: 2015, $302,274; 2016, $307,773; 2017, $325,687; 2018, $240,098; 2019, $144,707 and thereafter $236,868.

(8) LEASES

The Company leases vehicles under noncancelable operating lease agreements. Lease expense for the years ended June 30, 2014 and 2013, was $16,106 and $15,076, respectively. Future minimum lease payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of 2014 are as follows: 2015, $16,106 and 2016, $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, 2014 and 2013 was $203,361 and $191,659, respectively. Future minimum rental payments required under operating leases that have a duration of one year or more as of June 30, 2014 are as follows: 2015, $94,752; 2016, $84,777; 2017, $54,852; 2018, $5,088 and 2019, $2,544.

During fiscal year 2014, the office and warehouse spaces in Detroit, Michigan 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 July 2007. The leases are related-party transactions with two 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. During fiscal year 2013 the Company also leased office and warehouse space in Pleasanton, California from an employee/stockholder. 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 $52,200 and $93,300 expense for the fiscal years ended June 30, 2014 and 2013.

(9) INCOME TAXES

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

		Current	*Deferred*	*Total*
2014:				
U.S. federal	$	—	107,439	107,439
State and Local		—	18,584	18,584
	$	—	**126,023**	**126,023**
2013:		*Current*	*Deferred*	*Total*
U.S. federal	$	—	83,198	83,198
State and Local		—	3,556	3,556
	$	—	**86,754**	**86,754**

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, are as follows:

		2014	*2013*
Expected tax benefit (provision)	$	135,036	44,583
State taxes, net of federal tax benefit		12,265	2,359
R&D tax credit		—	55,000
Incentive stock options		(4,852)	(10,213)
Other, net		(16,426)	(4,975)
	$	**126,023**	**86,754**

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

		2014	2013
Net deferred income tax assets – current:			
Inventory capitalization for income tax purposes	$	68,748	72,058
Inventory reserve		130,788	127,732
Warranty reserve		61,524	69,477
Accrued product liability		20,970	23,228
Allowance for doubtful accounts		126,889	96,606
Total deferred income tax assets – current	$	**408,919**	**389,101**

		2014	2013
Net deferred income tax assets (liabilities) – non-current:			
Property and equipment, principally due to differences in depreciation	$	(255,835)	(262,726)
Research and development credit carryover		370,757	383,226
Other intangibles		(91,822)	(109,231)
Operating loss carry forwards		280,544	186,172
Total deferred income tax assets (liabilities) – non-current	$	**303,644**	**197,441**

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 deductible differences.

The Company has available at June 30, 2014 and 2013 estimated federal and state net operating loss ("NOL") carry forwards of $745,605 and $974,484, respectively. The federal NOL will expire in 2030. 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, 2011, 2012 and 2013 are open tax years.

(10) MAJOR CUSTOMERS AND SALES BY GEOGRAPHIC LOCATION

During the fiscal years ended June 30, 2014 and 2013, 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 $749,341 or 2.7% of net sales, for the fiscal year ended June 30, 2014 compared to $647,047, or 2.2% of net sales, for the fiscal year ended June 30, 2013.

(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, 2014, the Company did not acquired any shares of common stock. During the year ended June 30, 2013, the Company acquired and retired 32,786 shares of common stock for $99,997.

During the years ended June 30, 2014 and 2013, the Company granted 1,485 and 13,689 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, 2014, 117,451 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 2014 and 2013. 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:

	2014	*2013*
Expected dividend yield	0%	0%
Expected stock price volatility	69%	69%
Risk-free interest rate	2.53%	1.74%
Expected life of options	10 years	10 years

The weighted average fair value of options granted during fiscal years 2014 and 2013 was $1.89 and $2.03, respectively.

The following table summarizes the Company's stock option activity during the reported fiscal years:

	2014 Number of shares	*2014 Weighted average exercise price*	*Weighted average remaining contractual term*	*2013 Number of shares*	*2013 Weighted average exercise price*
Options outstanding at beginning of the year	163,868	$ 6.51	4.12 years	173,089	$ 6.48
Options granted	3,598	2.42		1,352	2.70
Options exercised	—	—		(208)	1.75
Options canceled or expired	(11,862)	6.01		(10,365)	5.69
Options outstanding at end of the year	155,604	6.45	3.56 years	163,868	6.51
Options exercisable at end of the year	137,804	7.09		138,920	7.20
Range of exercise prices at end of the year		$ 1.75 – 8.60			$ 1.75 – 8.60

The Company recognized $70,871 and $86,639 in stock-based compensation for the years ended June 30, 2014 and 2013, 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, 2014 there was $387,855 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 2014. The aggregate intrinsic value of the outstanding options as of June 30, 2014 and 2013 was $8,732 and $734, 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 2014 and 2013, 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 2014 and 2013 were $39,056 and $35,167, respectively. Company matching contributions for future years are at the discretion of the board of directors.

(13) SUBSEQUENT EVENTS

On August 8, 2014, the Company sold the building that houses its operations in Utah and leased back the premises for a term of 15 years. The sale price was $3.8 million. Proceeds from the sale were used to reduce debt obligations of the Company. The profit generated from the sale will be sufficient to utilize the majority, if not all of the Company's deferred tax assets. As a result of this repayment of debt, our maximum credit facility under the line of credit was changed to $2,500,000 in August, 2014.

(14) RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This Update clarifies the accounting for equity awards in which the performance target (ie IPO) could be achieved after the requisite service period. The guidance require a performance target that affects vesting and that could be achieved after the service period be treated as a performance condition and not be reflected in the fair value of the award. Therefore, the compensation costs will begin to be recognized when it becomes probable that the performance target will be achieved. If the requisite service period is complete, the entire amount of compensation costs should be recognized at that time. This Update is effective for reporting periods beginning after December 15, 2015. The Company currently does not have any stock-based awards meeting the criteria noted so the Company doesn't expect this Update to have a significant impact on its financials However, it will evaluate new grants and ensure the guidance is followed if these types of grants are made.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. This Update eliminates different accounting treatments for repurchase agreements so the accounting for repurchase-to-maturity and linked repurchase financings to secured borrowings is consistent with other repurchase agreements. The amendment also requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. This Update is effective for reporting periods beginning after December 15, 2014. Since the Company does not have the repurchase agreements identified in the Update, the Company doesn't expect this Update to have a significant impact on its financials.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customer (Topic 606). This Update provides new revenue recognition guidance that will be applicable for all industries and develops a common revenue standard for GAAP and IFRS. The main purpose of the new guidance is to remove inconsistencies, provide a more robust framework, improve comparability among industries, improve disclosure requirements and reduce the number of requirements to which an entity must refer. The guidance outlines the following five steps that should be followed in recognizing revenue:

1. Identify contract with customer
2. Identify the performance obligations in the contract
3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the performance obligation is satisfied.

The update also provides disclosure requirements requiring entities to provide sufficient information to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This Update is effective for public entities for reporting periods beginning after December 15, 2016 and for all other entities, it is effective for periods beginning after December 15, 2017. Due to the extensive nature of this Update, the Company is evaluating the impact this new guidance will have on its financials.

In March 2014, the FASB issued ASU 2014-07, Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements. Under the amendments in this update, a private company could elect, when certain conditions exist, not to apply VIE guidance to a lessor entity under common control. This update is not applicable to public business entities; therefore, the update is not applicable to our Company.

In March 2014, the FASB issued ASU 2014-06, Technical Corrections and Improvements Related to Glossary Terms. The amendments in this update represent changes to clarify the Master Glossary of the Codification, consolidate multiple instances of the same term into a single definition, or make minor improvements to the Master Glossary that are not expected to result in substantive changes to the application of existing guidance or create a significant administrative cost to most entities. Additionally, the amendments will make the Master Glossary easier to understand, as well as reduce the number of terms appearing in the Master Glossary. The amendments in this update are effective immediately. The Company reviewed and noted the changes made in this update, which can be categorized into four sections: 1) Deletion of Master Glossary Terms, 2) Addition of Master Glossary Term Links, 3) Duplicate Master Glossary Terms, and 4) Other Technical Corrections Related to Glossary Terms. The Company implemented the update upon issuance, but the changes did not have a significant impact on our financial statements.

In January 2014, the FASB issued ASU 2014-05, Service Concession Arrangements (Topic 853) a consensus of the FASB Emerging Issues Task Force. Current U.S. GAAP does not contain specific guidance for the accounting for service concession arrangements. Depending on the terms of a service concession arrangement, an operating entity may or may not conclude that a service concession arrangement meets the lease criteria in Topic 840. Consequently, the amendments in this update improve financial reporting by clarifying that a service concession arrangement within the scope of this update should not be accounted for as a lease in accordance with Topic 840 and, thereby, alleviates the confusion that arises for preparers when determining whether a service concession arrangement is a lease. A service concession arrangement is an arrangement between a public-sector entity grantor and an operating entity under which the operating entity operates the grantor's infrastructure (for example, airports, roads, and bridges). The operating entity also may provide the construction, upgrading, or maintenance services of the grantor's infrastructure. The update is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The Company does not receive any service concession arrangements from any public-sector entity; therefore, the Company does not believe this update will have a significant impact on our financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740) – Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update indicates that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset except in circumstances where a net operating loss carryforward or tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction. This update is effective for years beginning after December 15, 2013 for public companies. The adoption of this pronouncement had no significant effect on the Company's financial statements.

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, 2014, 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

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 *(deceased 11/07/14)*
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

ANNUAL MEETING

The company's annual shareholder meeting will be held at Dynatronics corporate headquarters at a date and time to be announced.

7030 Park Centre Drive,
Cottonwood Heights, Utah 84121

ACCOUNTANTS, LEGAL COUNSEL AND TRANSFER AGENT

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

DYNATRONICS CORPORATION HEADQUARTERS

7030 Park Centre Drive, Cottonwood Heights, Utah 84121
1.800.874.6251, http://www.dynatronics.com

This annual report contains forward-looking statements related to anticipated financial performance, product development and similar matters. Securities laws provide a safe harbor for such statements. The company notes that risks inherent in its business and a variety of factors could cause or contribute to a difference between actual results and anticipated results.

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