2017
ANNUAL REPORT

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GROWTH THROUGH ACQUISITIONS

A Letter to Shareholders

With the investment in Dynatronics by Prettybrook Partners and their affiliates in June 2015 we set out on a corporate plan founded on strategic acquisitions blended with organic growth. Fiscal 2017 saw accelerated realization of this plan, including our first significant acquisition and continued organic revenue growth.

We further bolstered our management team during the fiscal year as we added Cyndi McHenry as our Vice President of Operations. Cyndi's prior history of approximately 20 years with St. Jude Medical has enabled her to bring industry knowledge and broad functional skills to her role. Cyndi worked as their Senior Director of Global Operations Integration and Site Optimization from 2013 to 2015, where she defined strategy and led business integrations and site consolidations in the US and internationally. Before this position, she served as the Director of Product Development (2008-2013) and Director of Engineering Operations and Services (2002-2008).

Her contribution has been instrumental in streamlining operations at our Utah, California and Tennessee facilities. We have hired new leaders at our Utah and Tennessee plants, and in September 2017 we consolidated the warehousing function performed at our former Livermore, CA, facility into our operations in Utah. This change reduces costs and makes operations more efficient without negatively impacting shipping times to our customers in the western United States.

Organic sales during the fiscal year continued to be strong, marking the third consecutive year of revenue growth. Excluding the effect of the acquisition of Hausmann Industries in the last quarter of the fiscal year, our organic growth was 5%, improving slightly on the 4% growth rate reported last year.

This growth was mostly attributable to greater focus in the long-term care market. Demand by skilled nursing facilities, nursing homes and intermediate care facilities is being driven largely by the aging population of the baby boomer generation. We expect to see continued strength in demand from this segment of the market.

In addition to the steady organic growth we have experienced over the last three years, fiscal year 2017 brought the first significant acquisition since the Prettybrook investment. In April 2017 we acquired substantially all of the assets of Hausmann Industries, Inc. for approximately $10 million. With sales of approximately $15 million per year, Hausmann manufactures products that are complementary to our current line of products. Hausmann is a manufacturer of powered and non-powered laminate treatment tables and rehabilitation and athletic training products, while Dynatronics has traditionally offered solid wood products. Hausmann's PROTEAM line serves the needs of professional and college sports programs. The combination of the two product lines, along with our high quality therapeutic modalities, positions us particularly well in the athletic training market.

Hausmann was founded in 1955 and has enjoyed an excellent reputation in our market for quality products and on-time delivery. David Hausmann has functioned as President of the company for over 20 years and will continue to serve in that capacity under an employment agreement negotiated as part of the terms of the transaction.

Hausmann manufactures their products at their 65,000 square foot facility in Northvale, NJ. We have leased the facility from the previous owners of Hausmann. We are identifying sales and marketing synergies and we intend to explore operational synergies over time.

To fund the acquisition, we raised $7.8 million through a private placement of 1,559,000 shares of our Series B Preferred stock and common shares. Prettybrook Partners and their affiliates participated in the equity investment, which also included the Hausmann sellers and new institutional investors. We also established an asset based line of credit with Bank of the West that provides up to $8 million in financing at a rate of 2.25% over LIBOR. Our available borrowings under the line, based on the borrowing base calculation at the time of acquisition, were approximately $6 million.

Almost six months to the day after we closed the Hausmann transaction, we completed the acquisition of substantially all of the assets of Bird & Cronin, Inc., a Minne-

apolis based manufacturer of orthopedic soft goods and specialty care products. Bird & Cronin has been in business since 1969 and, like Hausmann, is recognized as a quality manufacturer with excellent brand recognition. We believe that the addition of Bird & Cronin to Dynatronics diversifies our product lines and significantly expands our sales channels in the important hospital market.

Bird & Cronin is managed by Mike Cronin and Jason Anderson. They have been Co-Presidents of the organization for the past several years and will continue in their capacities as Co-Presidents of the Bird & Cronin division of Dynatronics. Over the next year we will explore synergies in sales and marketing, as well as operations.

We financed this acquisition by expanding our asset based line of credit to $11 million, raising $7 million through an offering of a Series C Preferred, and issuing $4 million in a Series D Preferred to the sellers. Both the Series C and Series D Preferred will convert to common stock upon approval of our shareholders, which is expected to occur at the November 29, 2017 shareholder meeting. The total purchase price for Bird & Cronin was $14 million, with $.5 million to $1.5 million in additional consideration to be paid through an earn-out provision over the next two years.

Bird & Cronin and Hausmann reported sales of $24.0 million and $14.8 million respectively in their audited financial statements for fiscal year 2016. When added to the $31.9 million in sales reported by Dynatronics in our last fiscal year, net of Hausmann sales, the combined sales total an annual run rate of approximately $70 million. In those same audited financial statements Bird & Cronin and Hausmann reported respectively $2.1 million and $0.9 million in net profits.

We believe the developments of this last year are strong indicators of our ability to execute on our stated strategic plans and a positive harbinger of what the future holds for Dynatronics. We intend to work diligently to continue our organic growth, complete value-enhancing acquisitions and increase the Company's cash flow. Our goal and our commitment is to bring ever greater value to you, our shareholders.

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

Business Description

Hausmann Industries is an industry leading manufacturer of physical therapy and athletic training equipment; primarily laminate treatment tables. It produces premium priced products with a reputation for on-time delivery, high quality and excellent customer service.

The business is headquartered in Northvale, New Jersey and employs approximately 86 employees. Over ninety percent of products are manufactured in its 65,000 square foot facility. More information can be found on its website www.hausmann.com.

Strategic Rationale

Dynatronics manufactures complementary products that can be sold into Hausmann's existing base of customers, which provide access to large national accounts and buying groups.

The combined company will be solidly cash flow positive.

The transaction increases revenue without additional selling costs in the combined entity.

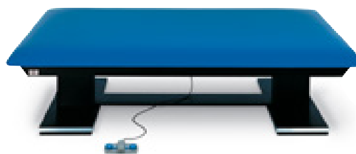
Product Portfolio

Tables and Equipment

- Wide range of treatment tables, stools, benches and cabinets to the physical therapy markets

ProTeam

- Customized, modular taping stations for athletic trainers
- All-laminate products as well as treatment tables, stools, benches and cabinets



Customer Mix

Hausmann sells nearly all of its products through third party dealers. Many of these relationships have been cultivated through decades of delivering consistent quality product and service.

The core dealer network sells to customers in private practice physical therapy, athletic training, and hospital rehabilitation.

Transaction Summary

We successfully closed the acquisition on April 3, 2017 at a purchase price of approximately $10.0 million in cash. Dynatronics financed the transaction through an asset-based lending facility with Bank of the West and the issuance of $7.8 million of equity securities. More information can be found in the press release and related 8-K filed with the SEC in connection with this transaction.

BIRD & CRONIN®

Business Description

Bird and Cronin is an industry leading designer, manufacturer and distributor of orthopedic soft goods and specialty patient care products. It is known as a premium brand with a deep portfolio of branded and private label products.

The business is headquartered in Eagan, Minnesota and employs approximately 110 employees. Over 90 percent of products are manufactured in its 85,000 square foot facility. More information can be found on its website www.birdcronin.com.

Strategic Rationale

The transaction provides an opportunity to expand Bird & Cronin products into private practice physical therapy, athletic training and chiropractic markets.

The combined company will be solidly cash flow positive. In addition, Bird & Cronin is both Gross Margin and Adjusted EBITDA Margin accretive.

Revenue and possible operating synergies will be evaluated over the next twelve months.

Product Portfolio

Bird & Cronin is a market leader in orthopedic soft goods. They offer a full-line of orthopedic soft goods with over thirty different product categories.

Customer Mix

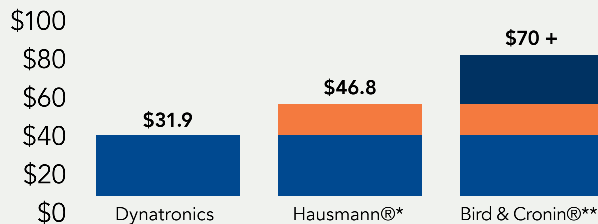
Bird & Cronin has strong relationships with over 2,000 customers across the globe. Its diverse customer base consists of distributors, OEMs and clinics / hospitals. Much like Hausmann, many of these relationships have been cultivated through decades of delivering consistent quality product and service.

Transaction Summary

The acquisition was successfully closed on October 2, 2017 at a purchase price of approximately $14.0 million in cash and Dynatronics stock, with an additional $0.5 million to $1.5 million in additional consideration to be paid through an earn-out provision over the next two years.

Dynatronics financed the transaction through an asset-based lending facility with Bank of the West, the issuance of $7.0 million of Series C Preferred Stock, and the issuance of $4.0 million of Series D Preferred Stock to the sellers. Both the Series C and Series D Preferred will convert to common stock upon shareholder approval. More information can be found in the press release and related 8-K filed with the SEC related to this transaction.

Combined Company Pro Forma Revenue



*Hausmann Revenue from December 31, 2016 audited financial statements.
**Bird & Cronin Revenue from September 30, 2016 audited financial statements.

Board of Directors

Pictured below, in order from left to right

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

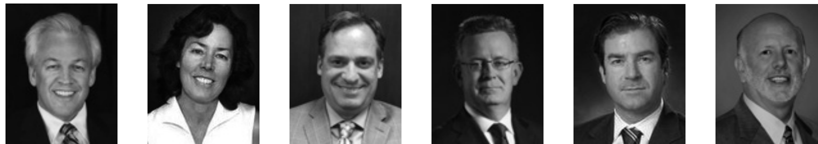
Erin S. Enright
Managing Partner of Prettybrook Partners, LLC

David B. Holtz
Principal of Provco Group Ltd.

Scott A. Klosterman
Chief Financial Officer of HNI Healthcare

Brian M. Larkin
Vice President and General Manager of Diabetes Care at Becton Dickinson

R. Scott Ward, Ph.D.
Chairman of the Department of Physical Therapy at the University of Utah



Management Team

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

David A. Wirthlin
Chief Financial Officer

T. Jeff Gephart
Senior Vice President of Sales

Cynthia L. McHenry
Vice President of Operations

Jim. N. Ogilvie
Vice President of Business Development

Douglas G. Sampson
Vice President of R&D, Quality and Regulatory

Bryan D. Alsop
Vice President of Information Technology

Michael Cronin
Co-President, Bird & Cronin® Division

Jason Anderson
Co-President, Bird & Cronin® Division

David H. Hausmann
President, Hausmann® Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

You should read this discussion together with the audited financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K. The following discussion contains assumptions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed under "Risk Factors," "Special Note on Forward-Looking Statements" and elsewhere in this Annual Report on Form 10-K. These risks could cause our actual results to differ materially from those anticipated in these forward-looking statements.

References to "we," "us," and "our" refer to Dynatronics Corporation and its consolidated subsidiaries. References to "Notes" refer to the Notes to Consolidated Financial Statements included herein (refer to Item 8).

Overview

We design, manufacture and distribute advanced-technology medical devices, therapeutic and medical treatment tables, rehabilitation equipment, custom athletic training treatment tables and equipment, institutional cabinetry as well as thousands of rehabilitation and therapy products and supplies. Through our various distribution channels, we market and sell our products to physical therapists, chiropractors, athletic trainers, sports medicine practitioners, and other medical professionals and institutions. We offer customers a one-stop shop for their medical equipment and supply needs, including electrotherapy, therapeutic ultrasound, phototherapy, rehabilitation products and supplies, treatment tables, customized training room products and exercise products.

Results of Operations

Fiscal Year 2017 Compared to Fiscal Year 2016

Net Sales

Net sales in fiscal year 2017 increased 17.6%, or $5,346,000, to $35,758,000, compared to net sales of $30,412,000 in fiscal year 2016. The year-over-year increase was driven primarily by our acquisition of Hausmann that contributed $3,812,000 in net sales in the fourth fiscal quarter ended June 30, 2017, which represented a 4.5% increase over Hausmann's sales for the same quarter of the prior year, prior to the acquisition of Hausmann. The year-over year increase was also driven by a 5% increase ($1,534,000) in sales of Dynatronics legacy products, including a $1,645,000 increase in net sales of distributed capital equipment, which are other manufacturers' products that we distribute. These increases were partially offset by a net decrease of $110,000 in sales of other product categories. Much of the growth in sales of distributed capital equipment was in long-term care markets where we devoted increased sales and marketing resources this year. We are executing on strategic and marketing initiatives with the aim of increasing demand for and sales of our higher margin manufactured and OEM products.

Gross Profit

Gross profit for the year ended June, 2017 increased $1,154,000, or about 11.1%, to $11,508,000, or 32.2% of net sales. By comparison, gross profit for the year ended June 30, 2016 was $10,354,000, or 34.0% of net sales. The increase in gross profit dollars was driven by Hausmann gross profit of approximately $1,082,000 and increased gross profit of $492,000 on sales of Dynatronics' distributed capital equipment which increased 21.0% over the prior fiscal year. These increases were partially offset by lower gross profit of approximately $420,000 on other product categories. The year-over-year decrease in gross margin percentage from 34.0% to 32.2% was primarily attributable to the Hausmann acquisition, which generated gross margin of approximately 28.1% in the quarter ended June 30, 2017. Our Hausmann subsidiary sells primarily to dealers at wholesale and generates slightly lower gross margin percentage, but also incurs lower selling costs than much of the Dynatronics legacy business. The overall gross margin also decreased due to increased sales of distributed capital products that carry a lower gross margin than our manufactured therapeutic modalities, and due to higher inventory write-offs in fiscal year 2017. Those write-offs increased by $165,000 from $270,000 in fiscal year 2016 to $435,000 in 2017, due to

discontinued product lines, excess repair parts, product rejected for quality standards, and other non-performing inventory.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased 10.2%, or $1,123,000, to $12,102,000 for the year ended June 30, 2017, compared to $10,979,000 for the year ended June 30, 2016. Selling expenses represented $774,000 of the $1,123,000 increase in SG&A expenses. Increases in selling expenses were driven primarily by $310,000 associated with Hausmann operations, all incurred in the fourth quarter of our fiscal year, $303,000 in higher personnel costs associated with hiring additional sales management and marketing personnel to implement our plans for organic growth, and $112,000 associated with our digital marketing program.

General and administrative ("G&A") expenses represented $349,000 of the $1,123,000 increase in SG&A expenses. Increases in G&A expenses were driven primarily by $628,000 in increased acquisition related costs and $540,000 associated with the Hausmann operations. These increases in G&A were offset by $768,000 in lower severance related expenses. Severance related expenses were recorded in fiscal year 2016 primarily associated with the separation of two executives.

Research and Development

R&D expenses for the year ended June 30, 2017 increased 1.0%, or $11,000, to $1,081,000 compared to $1,070,000 for the year ended June 30, 2016. Hausmann operations resulted in $12,000 of R&D. Product development and improvement are important elements of our strategy to obtain repeat business and to capture market share. R&D costs are expensed as incurred and are expected to remain approximately at present levels in the next fiscal year.

Interest Expense

Interest expense decreased by approximately $11,000 in fiscal year 2017, to approximately $278,000, compared to approximately $289,000 in fiscal year 2016. The reduction in interest expense is related primarily to the payoff and termination of our previous line of credit in the third quarter of fiscal year 2016, offset by our new line of credit established at the end of third quarter of fiscal year 2017. The largest component of interest expense in fiscal year 2017 was $189,000 of imputed interest related to the sale/leaseback of our corporate headquarters facility. Interest expense also included interest on our line of credit, mortgage interest on our Tennessee property, and a small amount of interest for equipment loans for office furnishings and vehicles.

Loss Before Income Tax Benefit

Pre-tax loss for the year ended June 30, 2017 was $1,866,000 compared to pre-tax loss of $1,967,000 for the year ended June 30, 2016. The $101,000 decrease in pre-tax loss was primarily attributable to a $1,154,000 increase in gross profit and a $768,000 reduction of severance expense, offset by $774,000 of higher selling expenses, $628,000 of higher acquisition costs, and $489,000 of increases in other G&A expenses. The Hausmann operations contributed approximately $223,000 in pre-tax income.

Income Taxes

Income tax benefit was $0 in fiscal year 2017, compared to income tax benefit of $65,000 in fiscal year 2016. We increased the valuation allowance on our net deferred income tax assets by $772,288 and $744,724 for the years ended June 30, 2017 and 2016, respectively, eliminating any income tax benefit that would have otherwise been recognized. See Note 11 to the consolidated financial statements as well as "Critical Accounting Policies and Estimates – Deferred Income Tax Assets" for more information regarding the valuation allowance and its impact on the effective tax rate for 2017.

Net Loss

Net loss for fiscal year 2017 was $1,866,000, compared to $1,903,000 for the year ended June 30, 2016. Fiscal year 2016 included a $65,000 income tax benefit, otherwise, the changes in net loss are the same as explained above for Loss Before Income Tax.

Net Loss Applicable to Common Shareholders

Net loss applicable to common stockholders was $4,293,000 ($1.36 per share) for the year ended June 30, 2017, compared to $2,275,000 ($0.84 per share) for the year ended June 30, 2016. The higher net loss applicable to common stockholders for the year ended June 30, 2017 is due to increased dividends on Preferred Stock as explained below and $1,944,000 in deemed dividends associated with the issuance of 390,000 shares of Series A Preferred in December 2016 and 1,559,000 shares of Series B Preferred in April 2017. The deemed dividends reflect the difference between the underlying common share value of the Series A Preferred and Series B Preferred shares as if converted, based on the closing price of the Company's common stock on the date of the applicable transaction (December 28, 2016 for Series A Preferred and April 3, 2017 for the Series B Preferred), less an amount of the purchase price assigned to the Series A Preferred or Series B Preferred, as applicable, in an allocation of purchase price between the preferred shares and common stock purchase warrants that were issued with the Series A Preferred and Series B Preferred.

Net loss applicable to common stockholders includes the effect of accrued dividends to holders of the Series A Preferred and Series B Preferred which totaled $466,000 for the year ended June 30, 2017 compared to $372,000 for the year ended June 30, 2016. The increase in dividends reflects the issuance of additional Series A Preferred shares in December 2016 and the issuance of Series B Preferred in April 2017. We paid accrued dividends by issuing shares of our common stock and paying $16,240 in cash. The cash payments related to a portion of the dividends accrued on the shares of Series A Preferred issued December 28, 2016.

Liquidity and Capital Resources

We have historically financed operations through cash from operations, available cash reserves, borrowings under a line of credit facility, and sales of equity securities. On March 31, 2017, we entered into a new two year loan and security agreement with Bank

of the West (the "Loan and Security Agreement") for an asset based lending facility for up to the lesser of $8,000,000 or an amount available based upon a borrowing base calculation established in the agreement. We expect to obtain capital for future acquisitions using proceeds from debt and equity offerings. Working capital was $5,834,000 as of June 30, 2017 compared to working capital of $5,820,000 as of June 30, 2016. The current ratio was 1.8 to 1 as of June 30, 2017 and 2.5 to 1 as of June 30, 2016. Current assets were 51.7% of total assets as of June 30, 2017 and 63.9% of total assets as of June 30, 2016.

Cash and Cash Equivalents

Our cash and cash equivalents position as of June 30, 2017, was $255,000 compared to cash and cash equivalents of $966,000 as of June 30, 2016. The primary sources of cash in the year ended June 30, 2017 were two equity offerings in which we raised net proceeds of approximately $8,199,000 and net borrowing under a new line of credit of $2,172,000. Primary uses of cash included the acquisition of Hausmann, which used $9,116,000 net of the acquisition holdback, and net cash used in operating activities of approximately $1,528,000 of which $425,000 was due to changes in working capital and $678,000 in transaction costs associated with the Hausmann acquisition.

During the current and prior year we incurred significant operating losses and negative cash flows from operating activities. We believe that our existing and acquired revenue streams, current capital resources, together with cash flows from our Hausmann subsidiary will be sufficient to fund operations through at least one year from the filing date of this Annual Report on Form 10-K. To fully execute on our business strategy of acquiring other entities, we will need to raise additional capital.

Accounts Receivable

Trade accounts receivable, net of allowance for doubtful accounts, increased approximately $1,758,000, or 49.9%, to $5,281,000 as of June 30, 2017, from $3,524,000 as of June 30, 2016. The increase is primarily due to the addition of the Hausmann subsidiary that added $2,104,000 in accounts receivable as of June 30, 2017. This increase was partially offset by a decrease in accounts receivable in our other operations due to collection activities. 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 our customers. Accounts receivable are generally collected within approximately 30 days of invoicing.

Inventories

Inventories, net of reserves, increased $2,401,000, or 48.0%, to $7,398,000 as of June 30, 2017, compared to $4,997,000 as of June 30, 2016. The increase was driven primarily by the addition of the Hausmann subsidiary that had $1,993,000 of net inventory as of June 30, 2017. Inventory levels fluctuate based on the timing of large inventory purchases from domestic and overseas suppliers as well as increased parts related to new products being planned for introduction. During fiscal year 2017, we recorded approximately $435,000 in non-cash write-offs of inventory related to discontinued product lines, excess repair parts, product rejected for quality standards, and other non-performing inventory compared to inventory write-offs of $270,000 in fiscal year 2016. We believe that our estimate of the allowance for inventory reserves is adequate based on our historical knowledge and product sales trends.

Accounts Payable

Accounts payable increased approximately $420,000, or 22.0%, to $2,335,000 as of June 30, 2017, from $1,914,000 as of June 30, 2016. The increase was driven primarily by the addition of the Hausmann subsidiary that had $614,000 of accounts payable at June 30, 2017.

Line of Credit

On March 31, 2017, we entered into the Loan and Security Agreement with Bank of the West to provide asset-based financing to the Company to be used for funding the Hausmann acquisition and for operating capital. This Loan and Security Agreement replaces the previous $1,000,000 line of credit, which we closed prior to the Hausmann acquisition.

The Loan and Security Agreement provides for revolving credit borrowings by the Company in an amount up to the lesser of $8,000,000 or the calculated borrowing base. The borrowing base is computed monthly and is equal to the sum of stated percentages of eligible accounts receivable and inventory, less a reserve. Amounts outstanding bear interest at LIBOR plus 2.25%. We paid a commitment fee of .25% and the line is subject to an unused line fee of .25%. The maturity date is two years from the date of the agreement. Our obligations under the Loan and Security Agreement are secured by a first-priority security interest in substantially all of our assets. The Loan and Security Agreement contains affirmative and negative covenants, including covenants that restrict the ability of the Company and its subsidiaries to, among other things, incur or guarantee indebtedness, incur liens, dispose of assets, engage in mergers and consolidations, make acquisitions or other investments, make changes in the nature of its business, and engage in transactions with affiliates. The Loan and Security Agreement also contains financial covenants applicable to the Company and its subsidiaries, including a maximum monthly consolidated leverage and a minimum monthly consolidated fixed charge coverage ratio. As of June 30, 2017, we had borrowed approximately $2,172,000 under the Loan and Security Agreement compared to no borrowings as of June 30, 2016.

Debt

Long-term debt, excluding current installments decreased approximately $91,000 to approximately $462,000 as of June 30, 2017, compared to approximately $553,000 as of June 30, 2016. Our long-term debt is primarily comprised of the mortgage loan on our office and manufacturing facility in Tennessee and also includes loans related to equipment and a vehicle. The principal

balance on the mortgage loan is approximately $508,000 of which $378,000 is classified as long-term debt, with monthly principal and interest payments of $13,278. Our mortgage loan matures in 2021.

In conjunction with the sale and leaseback of our corporate headquarters in August 2014, we entered into a $3.8 million lease for a 15-year term with an investor group. That sale generated a profit of $2.3 million which is being recorded monthly over the life of the lease at $12,500 per month, or approximately $150,000 per year. The building lease is recorded as a capital lease with the related amortization being recorded on a straight line basis over 15 years at approximately $250,000 per year. Lease payments, currently approximately $28,000, are payable monthly and increase annually by approximately 2% per year over the life of the lease. Total accumulated amortization related to the leased building is approximately $735,000 at June 30, 2017. Imputed interest for the fiscal year ended June 30, 2017, was approximately $189,000. Future minimum gross lease payments required under the capital lease as of June 30, 2017 are as follows: 2018, $342,000; 2019, $348,000; 2020, $355,000; 2021, $363,000; 2022, $370,000 and $2,875,000 thereafter.

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

In 2011, 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. The Board periodically approves the dollar amounts for share repurchases under the plan. As of June 30, 2017, approximately $448,000 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 year ended June 30, 2017, or during the past five fiscal years.

Critical Accounting Policies

This 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 GAAP. 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. See Note 18 to our consolidated financial statements for the impact of recent accounting pronouncements.

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 2017, 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;
- Strategic marketing and production plans
- 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, 2017, and 2016, our inventory valuation reserve balance, which established a new cost basis, was approximately $403,000 and $415,000, respectively, and our inventory balance was $7,398,000 and $4,997,000, net of reserves, respectively.

Revenue Recognition

Our sales force and distributors sell our products to end users, including physical therapists, athletic trainers, chiropractors, and medical doctors. 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 $5,281,000 and $3,524,000, net of allowance for doubtful accounts of $382,000 and $389,000 as of June 30, 2017, and 2016, respectively.

Deferred Income Tax Assets

A valuation allowance is required when there is significant uncertainty as to the realizability

of deferred tax assets. The realization of deferred tax assets is dependent upon our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- future reversals of existing taxable temporary differences;
- future taxable income or loss, exclusive of reversing temporary differences and carryforwards;
- tax-planning strategies; and
- taxable income in prior carryback years.

We considered both positive and negative evidence in determining the continued need for a valuation allowance, including the following:

Positive evidence:

- Current forecasts indicate that we will generate pre-tax income and taxable income in the future. However, there can be no assurance that the new strategic plans will result in profitability.
- A majority of our tax attributes have indefinite carryover periods.

Negative evidence:

- We have six years of cumulative losses as of June 30, 2017.

We place more weight on objectively verifiable evidence than on other types of evidence and management currently believes that available negative evidence outweighs the available positive evidence. We have therefore determined that we do not meet the "more likely than not" threshold that deferred tax assets will be realized. Accordingly, a valuation allowance is required. Any reversal of the valuation allowance will favorably impact the Company's results of operations in the period of reversal.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. The amendment in this update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. An entity should apply the amendments in this update on a prospective basis. This amendment will be effective for us in our fiscal year beginning July 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact the adoption of ASU 2017-04 will have on its consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business. The Board issued this update to clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under Topic 805, there are three elements of a business—inputs, processes, and outputs (collectively referred to as a "set") although outputs are not required as an element of a business set. The amendments in this update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, reducing the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this update:

1. require that a business set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output, and
2. remove the evaluation of whether a market participant could replace missing elements.

The amendments provide a framework for evaluating whether both an input and a substantive process are present. Lastly, the amendments in this update narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606. This amendment will be effective for us in our fiscal year (including interim periods) beginning July 1, 2018. We are currently evaluating the impact the adoption of ASU 2017-01 will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842,) a new guidance on leases. This guidance replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and lease liabilities by lessees for substantially all leases, with an exception for leases with terms of less than twelve months. The standard also requires additional quantitative and qualitative disclosures. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The standard requires a modified retrospective approach, which includes several optional practical expedients. Accordingly, the standard is effective for us on July 1, 2019. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments, a guidance related to financial instruments - overall recognition and measurement of financial assets and financial liabilities. The guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The update to the standard is effective for public companies for interim and annual periods beginning after December 15, 2017. Accordingly, the standard is effective for us on July 1, 2018. We are currently evaluating the impact that the standard will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customer (Topic 606). This authoritative accounting guidance related to revenue from contracts with customers. This guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue

to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2017. Accordingly, we will adopt this guidance on July 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this guidance. We are evaluating which transition approach to use and its impact, if any, on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 Presentation of Financial Statements—Going Concern, an authoritative accounting guidance related to the disclosure of uncertainties about an entity's ability to continue as a going concern. This guidance requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the consolidated financial statements are issued, and provide related disclosures. We adopted this guidance for the fiscal year ended June 30, 2017.

Business Plan and Outlook

This past year we have continued to strengthen our executive management team, strengthened our sales organization and pursued acquisition candidates. In that regard we successfully acquired and integrated assets and operations of Hausmann Industries which has significantly increased our market presence and improved our operating results. We will continue to pursue our growth strategies in fiscal 2018 as follows:

- Achieve organic sales growth through improved sales management, new product introductions, geographic expansion, improved market penetration, and continued expansion into post-acute care markets;
- Identify and act on additional acquisition opportunities that will further enhance our product offering, distribution coverage and leverage our current sales network to improve gross profit margins and cash flows. To that end, we announced the agreement to acquire substantially all the assets of B&C as described in the "Recent Developments" section of this report; and
- Bolster our investor relations activities and strengthen our financial markets position.

To better execute on our growth strategies, during fiscal year 2017 we made important additions to our executive management team. In October 2016, David Wirthlin joined the Company as Chief Financial Officer. In March 2017, we hired Cyndi McHenry as our Vice President of Operations. As a result the Hausmann acquisition, David Hausmann, a seasoned industry executive, functions as the President of our Hausmann subsidiary. We have also made changes to our production management at both our Utah and Tennessee operations. These changes are all calculated to better position us to execute on our strategic growth plans.

We will release new product innovations during fiscal 2018 to strengthen our current product offering and to expand our product portfolio. In the fall of 2017 we anticipate the release of our new Knee Rom product, a device designed to enable practitioners to better assist patients with knee mobilization following surgery. The promotion of this new product, as well as other new products anticipated for this year, are expected to increase sales during fiscal year 2018.

On April 3, 2017, we completed the acquisition of Hausmann and on September 26, 2017 we entered into an Asset Purchase Agreement to acquire the assets of B&C. These two transactions provide momentum toward the execution of our strategic plan to grow by acquisition.

We are actively pursuing our acquisition strategy to consolidate other small manufacturers and distributors in our core markets (i.e. physical therapy, athletic training, and chiropractic). We are primarily seeking candidates that fall into the following categories:

- Manufacturers that extend our product portfolio
- Distributors that extend geographic reach or provide different channel access
- Tuck-in manufacturers / distributors in adjacent markets (i.e. Orthopedics, Sports Medicine, etc.)

In summary, based on our defined strategic initiatives we are focusing our resources in the following areas:

- Updating and improving our selling and marketing efforts including new sales management, new reporting tools, and focusing our sales and marketing efforts into our core markets;
- Seeking to improve distribution of our products through recruitment of additional qualified sales representatives and dealers attracted by the many new products being offered and expanding the availability of proprietary combination therapy device;
- Improving gross profit margins by, among other initiatives, increasing market share of manufactured capital products by promoting sales of our state-of-the-art Dynatron® ThermoStim probe, Dynatron Solaris® Plus and 25 Series™ products;
- Maintaining our position as a technological leader and innovator in our markets through the introduction of new products during the new fiscal year;
- Exploring strategic business acquisitions. This will leverage and complement our competitive strengths, increase market reach and allow us to potentially expand into broader medical markets; and
- Attending strategic conferences to make investors aware of our strategic plans, attract new capital to support the business development strategy and identify other acquisition targets

To the Board of Directors and Stockholders Dynatronics Corporation

We have audited the consolidated balance sheet of Dynatronics Corporation and subsidiaries (collectively, the Company) as of June 30, 2017, 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 the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynatronics Corporation and subsidiaries as of June 30, 2017, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LLC
Salt Lake City, Utah
September 27, 2017

Report of Independent Registered Accounting Firm
Board of Directors and Stockholders
Dynatronics Corporation, Cottonwood Heights, Utah

We have audited the accompanying consolidated balance sheet of Dynatronics Corporation ("Company") as of June 30, 2016 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 at June 30, 2016, 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/ BDO USA, LLP
Salt Lake City, Utah
September 28, 2016

Consolidated Balance Sheets

Years ended June 30:

		2017		2016
Assets				
Current assets				
Cash and cash equivalents	$	254,705	$	966,183
Trade accounts receivable, less allowance for doubtful accounts of $382,333 as of June 30, 2017 and $389,050 as of June 30, 2016		5,281,348		3,523,731
Other receivables		33,388		10,946
Inventories, net		7,397,682		4,997,254
Prepaid expenses		503,800		256,735
Total current assets		13,470,923		9,754,849
Property and equipment, net		4,973,477		4,777,565
Intangible assets, net		2,754,118		160,123
Goodwill		4,302,486		—
Other assets		562,873		580,161
Total assets	$	26,063,877	$	15,272,698
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	2,334,563	$	1,914,342
Accrued payroll and benefits expense		1,472,773		1,034,688
Accrued expenses		656,839		358,787
Income tax payable		8,438		2,895
Warranty reserve		202,000		152,605
Line of credit		2,171,935		—
Current portion of acquisition holdback		294,744		—
Current portion of long-term debt		151,808		137,283
Current portion of capital lease		193,818		183,302
Current portion of deferred gain		150,448		150,448
Total current liabilities		7,637,366		3,934,350
Long-term debt, net of current portion		461,806		553,191
Capital lease, net of current portion		3,087,729		3,281,547
Deferred gain, net of current portion		1,680,001		1,830,449
Acquisition holdback, net of current portion		750,000		—
Deferred rent		122,585		85,151
Total liabilities		13,739,487		9,684,688
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, no par value: Authorized 50,000,000 shares; 3,559,000 shares and 1,610,000 shares issued and outstanding as June 30, 2017 and June 30, 2016, respectively		8,501,295		3,708,152
Common stock, no par value: Authorized 100,000,000 shares; 4,653,165 shares and 2,805,280 shares issued and outstanding as of June 30, 2017 and June 30, 2016, respectively		11,838,022		7,545,880
Accumulated deficit		(8,014,927)		(5,666,022)
Total stockholders' equity		12,324,390		5,588,010
Total liabilities and stockholders' equity	$	26,063,877	$	15,272,698

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years ended June 30:		2017		2016
Net sales	$	35,758,330	$	30,411,757
Cost of sales		24,249,832		20,057,614
Gross profit		11,508,498		10,354,143
Selling, general, and administrative expenses		12,101,539		10,978,606
Research and development expenses		1,081,373		1,070,383
Operating loss		(1,674,414)		(1,694,846)
Other income (expense):				
Interest income		508		2,885
Interest expense		(277,630)		(289,149)
Other income, net		85,141		14,298
Total other expense		(191,981)		(271,966)
Loss before income tax benefit		(1,866,395)		(1,966,812)
Income tax (provision) benefit		—		64,551
Net loss		(1,866,395)		(1,902,261)
Deemed dividend on 8% convertible preferred stock		(1,944,223)		—
8% Convertible preferred stock dividend, in common stock		(466,269)		(372,291)
8% Convertible preferred stock dividend, in cash		(16,241)		—
Net loss applicable to common stockholders	$	(4,293,128)	$	(2,274,552)
Basic and diluted net loss per common share	$	(1.36)	$	(0.84)
Weighted-average basic and diluted common shares outstanding		3,152,425		2,706,424

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended June 30, 2017 and 2016

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Accumulated Deficit	Total Stockholders' Equity
Balances as of June 30, 2015	2,642,389	6,969,700	1,610,000	3,728,098	(3,391,470)	7,306,328
Stock-based compensation	71,596	203,889	—	—	—	203,889
Issuance of preferred stock and warrants, net of issuance costs	—	—	—	(19,946)	—	(19,946)
Preferred stock dividend, in common stock, issued or to be issued	91,295	372,291	—	—	(372,291)	—
Net loss	—	—	—	—	(1,902,261)	(1,902,261)
Balances as of June 30, 2016	$ 2,805,280	$ 7,545,880	1,610,000	$ 3,708,152	$ (5,666,022)	$ 5,588,010
Stock-based compensation	143,054	419,925	—	—	—	419,925
Issuance of common stock in association with capital raise, net of issuance costs of $268,328	1,565,173	3,405,948	—	—	—	3,405,948
Issuance of preferred stock and warrants, net of issuance costs of $302,581	—	—	1,949,000	4,793,143	—	4,793,143
Preferred stock dividend, in cash	—	—	—	—	(16,241)	(16,241)
Preferred stock dividend, in common stock, issued or to be issued	139,658	466,269	—	—	(466,269)	—
Preferred stock beneficial conversion feature	—	—	—	1,944,223	—	1,944,223
Dividend of beneficial conversion feature	—	—	—	(1,944,223)	—	(1,944,223)
Net loss	—	—	—	—	(1,866,395)	(1,866,395)
Balances as of June 30, 2017	$ 4,653,165	$ 11,838,022	$ 3,559,000	$ 8,501,295	$ (8,014,927)	$ 12,324,390

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30:

	2017	2016
Cash flows from operating activities:		
Net loss	$ (1,866,395)	$ (1,902,261)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	242,542	229,930
Amortization of intangible assets	95,005	30,680
Amortization of other assets	124,774	51,372
Amortization of building capital lease	251,934	251,934
Gain on sale of property and equipment	(15,754)	4,703
Stock-based compensation expense	419,925	203,889
Change in deferred income taxes	—	(136,128)
Change in provision for doubtful accounts receivable	(6,717)	(28,394)
Change in provision for inventory obsolescence	(13,021)	57,213
Deferred gain on sale/leaseback	(150,448)	(150,448)
Change in operating assets and liabilities:		
Receivables, net	(81,321)	(152,765)
Inventories, net	(269,977)	367,320
Prepaid expenses	(110,224)	16,894
Other assets	(107,486)	(8,191)
Income tax payable	5,543	343,898
Accounts payable and accrued expenses	(46,708)	285,377
Net cash used in operating activities	(1,528,328)	(534,977)
Cash flows from investing activities:		
Purchase of property and equipment	(117,876)	(195,946)
Net cash paid in acquisition - see Note 2	(9,116,089)	—
Proceeds from sale of property and equipment	32,000	—
Net cash used in investing activities	(9,201,965)	(195,946)
Cash flows from financing activities:		
Principal payments on long-term debt	(152,668)	(125,638)
Principal payments on long-term capital lease	(183,302)	(173,358)
Net change in line of credit	2,171,935	(1,909,919)
Proceeds from issuance of stock, net	8,199,091	(19,946)
Preferred stock dividends paid in cash	(16,241)	—
Net cash provided by (used in) financing activities	10,018,815	(2,228,861)
Net change in cash and cash equivalents	(711,478)	(2,959,784)
Cash and cash equivalents at beginning of the period	966,183	3,925,967
Cash and cash equivalents at end of the period	$ 254,705	$ 966,183

Continued on next page.

Consolidated Statements of Cash Flows (continued)

Years ended June 30:	2017	2016
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 271,254	$ 307,644
Supplemental disclosure of non-cash investing and financing activity:		
Capital lease and note payable obligations incurred to acquire property and equipment	$ 75,808	$ 43,110
Deemed dividends on 8% convertible preferred stock	1,944,223	—
8% Preferred stock dividends paid or to be paid in common stock	466,269	372,291
Preferred stock issuance costs paid in common stock	17,000	—
Fair value of assets acquired and liabilities assumed in the Hausmann acquisition on April 3, 2017 - see Note 2:		
Cash and cash equivalents	600	—
Trade accounts receivable	1,691,420	—
Inventories	2,117,430	—
Prepaid expenses	136,841	—
Property and equipment	512,950	—
Intangible assets	2,689,000	—
Goodwill	4,302,486	—
Warranty reserve	(50,000)	—
Accounts payable	(544,625)	—
Accrued expenses	(33,981)	—
Accrued payroll and benefits	(661,288)	—
Purchase price	10,160,833	—
Acquisition holdback	(1,044,744)	—
Net cash paid in acquisition	9,116,089	—

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation and Summary of Significant Accounting Policies

(a) Description of Business

Dynatronics Corporation ("the Company," "Dynatronics") designs, manufactures and distributes advanced-technology medical devices, therapeutic and medical treatment tables, rehabilitation equipment, custom athletic training treatment tables and equipment, institutional cabinetry as well as other rehabilitation and therapy products and supplies. Through the Company's various distribution channels, it markets and sells its products to physical therapists, chiropractors, athletic trainers, sports medicine practitioners, and other medical professionals and institutions. The Company offers customers a one-stop shop for their medical equipment and supply needs, including electrotherapy, therapeutic ultrasound, phototherapy, rehabilitation products and supplies, treatment tables, customized training room products and exercise products.

(b) Principles of Consolidation

The consolidated financial statements include the accounts and operations of Dynatronics Corporation and its wholly owned subsidiaries, Hausmann Enterprises, LLC (see Note 2) and Dynatronics Distribution Company, LLC. The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). 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. Cash equivalents totaled approximately $255,000 and $966,000 as of June 30, 2017 and 2016, respectively.

(d) Inventories

Finished goods inventories are stated at the lower of standard cost, which approximates actual cost using the first-in, first-out method, or net realizable value. Raw materials are stated at the lower of cost (first in, first out method) or net realizable value. The Company periodically reviews the value of items in inventory and records write-downs or write-offs based on its assessment of slow moving or obsolete inventory. The Company maintains a reserve for obsolete inventory and generally makes inventory value adjustments against the reserve.

(e) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest, although finance charges may be applied to past due accounts. The Company maintains an allowance for doubtful accounts that is the Company's estimate of credit risk in the Company's existing accounts receivable. The Company determines the allowance based on a combination of statistical analysis, historical collection patterns, customers' current credit worthiness, the age of account balances, and general economic conditions. All account balances are reviewed on an individual basis. Account balances are charged against the allowance when the potential for recovery is considered remote. Recoveries of accounts previously written 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. Buildings and improvements are depreciated over estimated useful lives that range from 5 to 31.5 years. Leasehold improvements are amortized over the remaining term of the respective building lease. Machinery, office equipment, computer equipment and software and vehicles are depreciated over estimated useful lives that range from 3 to 7 years.

(g) Goodwill

Goodwill resulted from the Hausmann acquisition (see Note 2). Goodwill in a business combination represents the purchase price in excess of identifiable tangible and intangible assets. Goodwill

and intangible assets that have an indefinite useful life are not amortized. Instead they are reviewed periodically for impairment.

The Company evaluates goodwill on an annual basis in the fourth quarter or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a quantitative goodwill impairment test. The impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company's evaluation of goodwill completed during the year resulted in no impairment losses.

(h) Long-Lived Assets

Long–lived assets 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 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 are separately presented in the balance sheet at the lower of net book value or fair value less estimated disposition costs, and are no longer depreciated.

(i) Intangible Assets

Costs associated with the acquisition of trademarks, certain 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. Trade names determined to have an indefinite life are not amortized, but are required to be tested for impairment and written down, if necessary. The Company assesses indefinite lived intangible assets for impairment each fiscal year or more frequently if events and circumstances indicate impairment may have occurred.

(j) 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. Costs for shipping and handling of products to customers are recorded as cost of sales.

(k) Research and Development Costs

Research and development costs are expensed as incurred.

(l) Product Warranty Costs

The Company provides a warranty on all products it manufactures for time periods ranging in length from 90 days to five years from the date of sale. 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. The Company maintains a reserve for estimated product warranty costs to be incurred related to products previously sold.

(m) Net Loss per Common Share

Net loss per common share is computed based on the weighted-average number of common shares outstanding and, when appropriate, dilutive potential common shares outstanding during the year. Convertible preferred stock, stock options and warrants are considered to be potential common shares. The computation of diluted net loss per common share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

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

The reconciliation between the basic and diluted weighted-average number of common shares for the years ended June 30, 2017 and 2016, is summarized as follows:

	2017	2016
Basic weighted-average number of common shares outstanding during the year	3,152,425	2,706,424
Weighted-average number of potential common shares outstanding during the year	—	—
Diluted weighted-average number of common and potential common shares outstanding during the year	3,152,425	2,706,424

Outstanding potential common shares not included in the computation of diluted net loss per common share totaled 9,029,080 as of June 30, 2017 and 4,127,814 as of June

30, 2016. These potential common shares are not included in the computation because they would be antidilutive.

(n) 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. Accounting standards require the consideration of a valuation allowance for deferred tax assets if it is "more likely than not" that some component or all of the benefits of deferred tax assets will not be realized. Accruals for uncertain tax positions are provided for in accordance with applicable accounting standards. 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. 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.

(o) Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award determined by using the Black-Scholes option-pricing model and is recognized as expense over the applicable vesting period of the stock award (zero to five years) using the straight-line method.

(p) 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.

As of June 30, 2017 and 2016, the Company had approximately $242,000 and $716,000, respectively, in cash and cash equivalents in excess of federally insured limits. The Company has not experienced any losses in such accounts.

(q) Operating Segments

The Company operates in one line of business: the development, manufacturing, marketing, and distribution of a broad line of medical products for the physical therapy and similar markets. As such, the Company has only one reportable operating segment.

(r) 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 U.S. GAAP. Significant items subject to such estimates and assumptions include the impairment and useful lives of long-lived assets; valuation allowances for doubtful accounts receivables, deferred income taxes, and obsolete inventories; accrued product warranty costs; and fair values of assets acquired and liabilities assumed in an acquisition. Actual results could differ from those estimates.

(s) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2017 and 2016 was approximately $73,000 and $100,000, respectively.

(t) Reclassification

Certain amounts in the prior year's consolidated statement of stockholders' equity have been reclassified for comparative purposes to conform to the presentation in the current year's consolidated statement of stockholders' equity.

(2) Acquisition

On April 3, 2017, Dynatronics, through its wholly-owned subsidiary Hausmann Enterprises, LLC, (Subsidiary) a newly formed Utah limited liability company, completed the purchase of substantially all the assets of Hausmann Industries, Inc., a New Jersey corporation ("Hausmann") for $10 million in cash, pursuant to an asset purchase agreement dated March 21, 2017, by and between the Company and Hausmann ("Asset Purchase Agreement"). The transaction is referred to as the "Acquisition." This acquisition will expand Dynatronics' sales in the physical therapy, athletic training and other markets by leveraging the products and distribution network offered by the acquired company.

Financing for the Acquisition was provided by proceeds from the sale of equity securities in a private offering to accredited investors (the "Private Placement") and borrowings under a loan and security agreement (see Note 7). Closing of the Private Placement occurred concurrently with the closing of the Acquisition. At the closing of the Acquisition, the Company paid Hausmann $9.0 million of the $10.0 million purchase price holding back $1.0 million for purposes of satisfying adjustments to the purchase price as may be required by the Asset Purchase Agreement and indemnification claims, if any. Pursuant to a working capital adjustment provision in the Asset Purchase Agreement, the purchase price was subsequently increased $160,833 to $10,160,833. The Company paid an additional $116,089 to Hausmann and held back $44,744 until no later than November 15, 2017. The $44,744 is combined with the acquisition holdback in the accompanying consolidated balance sheets. Subject to additional adjustments or claims as provided by the Asset Purchase Agreement, 25% of the holdback amount will be released to Hausmann on January 1, 2018, and the balance will be released to Hausmann 18 months after closing. As part of the Acquisition, the Company assumed certain liabilities and obligations of Hausmann related to its ongoing business (primarily trade accounts and similar obligations in the ordinary course).

In connection with the Acquisition, the Company sold equity securities for gross proceeds of $7,795,000 in the Private Place-

ment pursuant to the terms of a Securities Purchase Agreement dated March 21, 2017 (the "Securities Purchase Agreement") entered into with certain accredited investors, including institutional investors (the "Investors"). See Note 14 for details.

Also in connection with the Acquisition, Subsidiary entered into an agreement with Hausmann to lease the 60,000 square-foot manufacturing and office facility in Northvale, New Jersey (the "New Jersey Facility") effective as of the closing date (the "Lease") with an initial two-year term, annual lease payments of $360,000 for the first year, and 2% increases in each subsequent year. The Lease grants Subsidiary two options to extend the term of the Lease for two years per extension term, subject to annual 2% per year increases in base rent, and a third option at the end of the second option term for an additional five-years at fair market value. The Company also offered employment to Hausmann's employees at closing including David Hausmann, the primary stockholder of Hausmann and its former principal executive officer. Mr. Hausmann entered into an employment agreement with the Company effective at the closing to assist in the transition of the acquired business.

The Acquisition has been accounted for under the purchase method as prescribed by applicable accounting standards. Under this method, the Company has allocated the purchase price to the assets acquired and liabilities assumed at estimated fair values. The total purchase price was $10,160,833. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of acquisition.

Cash and cash equivalents	$	600
Trade accounts receivable		1,691,420
Inventories		2,117,430
Prepaid expenses		136,841
Property and equipment		512,950
Intangible assets		2,689,000
Goodwill		4,302,486
Warranty reserve		(50,000)
Accounts payable		(544,625)
Accrued expenses		(33,981)
Accrued payroll and benefits		(661,288)
Purchase price	$	10,160,833

As of June 30, 2017, the Company had paid $9,116,089 of the purchase price and retained holdbacks of $1,044,744 due as follows:

Nov. 15, 2017	$	44,744
Jan. 1, 2018		250,000
Oct. 3, 2018		750,000
Acquisition holdback	$	1,044,744

The amounts of Hausmann's net sales and net income included in the Company's consolidated statement of operations for the year ended June 30, 2017 were $3,812,000 and $223,000, respectively. Pro forma net sales and net loss of the combined operations had the acquisition date been July 1, 2016 are:

	Net Sales		Net Income (loss)
Supplemental pro forma for year ended June 30, 2017	46,859,000	$	(917,000)
Supplemental pro forma for year ended June 30, 2016	45,378,000	$	(1,129,000)

2017 supplemental pro forma earnings were adjusted to exclude $90,000 of acquisition-related costs incurred in 2017 and $-0- of nonrecurring expense related to the fair value adjustment to acquisition-date inventory. 2016 supplemental pro forma earnings were adjusted to include these charges.

(3) Inventories

Inventories consist of the following as of June 30:

		2017		2016
Raw materials	$	3,766,940	$	1,999,936
Work in process		470,721		59,112
Finished goods		3,562,758		3, 353,964
Inventory reserve		(402,737)		(415,758)
	$	7,397,682	$	4,997,254

Included in cost of goods sold for the years ended June 30, 2017 and 2016, are inventory write-offs of $435,000 and $270,000, respectively. During the fiscal year 2017 the write-off reflects inventories related to discontinued product lines, excess repair parts, product rejected for quality standards, and other non-performing inventories. The $270,000 during fiscal year 2016 was based on write-offs of non-performing inventories related to the Company's Amerinet GPO contract and product rejected for quality standards.

(4) Property and Equipment

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

		2017		2016
Land	$	30,287	$	30,287
Buildings		5,640,527		5,603,859
Machinery and equip.		2,246,910		1,686,386
Office equip.		283,805		275,977
Computer equip.		2,194,119		2,102,005
Vehicles		195,001		253,513
		10,590,649		9,952,027
Less accumulated depreciation and amortization		(5,617,172)		(5,174,462)
	$	4,973,477	$	4,777,565

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was $242,542 and $229,930, respectively.

Included in the above caption, "Buildings" as of June 30, 2017 and 2016 is a building lease that is accounted for as a capital lease asset (See Notes 9 and 10) with a gross value of $3,800,000. The net book value of the capital lease asset as of June 30, 2017 and 2016 was $3,065,193 and $3,317,127, respectively. Amortization of the capital lease asset was $251,934 for each of the years ended June 30, 2017 and 2016.

(5) Intangible Assets

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

		2017		2016
Trade name – indefinite	$	464,000	$	—
Trade name – 15 years		339,400		339,400
Domain name – 15 years		5,400		5,400
Non-compete covenant – 4-5 years		504,400		149,400
Customer relationships – 7-10 years		1,990,000		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
Total identifiable intangibles		3,389,000		700,000
Less accumulated amortization		(634,882)		(539,877)
Net carrying amount	$	2,754,118	$	160,123

Amortization expense associated with the intangible assets was $95,005 and $30,680 for the fiscal years ended June 30, 2017 and 2016, respectively. Estimated amortization expense for the identifiable intangible assets is expected to be as follows: 2018, $283,730; 2019, $283,730; 2020, $283,730; 2021, $277,720; 2022, $258,033 and thereafter $903,175.

(6) Warranty Reserve

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

		2017		2016
Beginning warranty reserve balance	$	152,605	$	153,185
Warranty costs incurred		(143,444)		(143,934)
Warranty expense accrued		148,820		141,009
Warranty reserve assumed in the Acquisition		50,000		—
Changes in estimated warranty costs		(5,981)		2,345
Ending warranty reserve	$	202,000	$	152,605

(7) Line of Credit

On March 31, 2017, the Company entered into an $8,000,000, two year, loan and security agreement to provide asset-based financing to the Company for funding acquisitions and for working capital ("Loan and Security Agreement"). This Loan and Security Agreement replaces the $1,000,000 line of credit previously put in place with an asset based lender in September 2016 and closed prior to the April 2017 Acquisition.

The Loan and Security Agreement provides for revolving credit borrowings by the Company in an amount up to the lesser of $8,000,000 or the calculated borrowing base. The borrowing base is computed monthly and is equal to the sum of stated percentages of eligible accounts receivable and inventory, less a reserve. Amounts outstanding bear interest at LIBOR plus 2.25% (3.47% as of June 30, 2017). The Company paid a commitment fee of .25% and the line is subject to an unused line fee of .25%. The loan matures March 31, 2019.

The Company's obligations under the Loan and Security Agreement are secured by a first-priority security interest in substantially all of the Company's assets. The Loan and Security Agreement requires a lockbox arrangement and contains affirmative and negative covenants, including covenants that restrict the ability of the Company to, among other things, incur or guarantee indebtedness, incur liens, dispose of assets, engage in mergers and consolidations, make acquisitions or other investments, make changes in the nature of its business, and engage in transactions with affiliates. The Loan and Security Agreement also contains financial covenants applicable to the Company, including a maximum monthly consolidated leverage and a minimum monthly consolidated fixed charge coverage ratio. As of June 30, 2017, the Company had borrowed approximately $2,172,000 under the Loan and Security Agreement and had no borrowings on the previous line of credit as of June 30, 2016. There was approximately $3,709,000 available to borrow under the loan and security agreement as of June 30, 2017.

(8) Long Term Debt

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

		2017		2016
6.44% promissory note secured by trust deed on real property, maturing January 2021, payable in monthly installments of $13,278	$	508,633	$	630,901
5.99% promissory note secured by a vehicle, payable in monthly installments of $833 through December 2020		31,500		39,355
Promissory note secured by a vehicle, payable in monthly installments of $639, paid in full		—		20,218
6.04% promissory note secured by copier equipment, payable monthly installments of $851 through February 2022		43,989		—
3.99% promissory note secured by equipment, payable in monthly installments of $247 through February 2023		14,822		—
3.97% promissory note secured by equipment, payable in monthly installments of $242 through February 2021		9,878		—
7.56% promissory note secured by copier equipment, payable in monthly installments of $166 through February 2020		4,792		—
		613,614		690,474
		(151,808)		(137,283)
Less current portion	$	461,806	$	553,191

The aggregate maturities of long term debt for each of the years subsequent to June 30, 2017 are as follows: 2018, $151,808; 2019, $163,031; 2020, $172,988; 2021, $109,731; 2022, $12,617 and 2023, $3,439.

(9) Leases

Operating Leases

The Company leases vehicles under non-cancelable operating lease agreements. Lease expense for the years ended June 30, 2017 and 2016, was $8,001 and $14,430, respectively. Future minimum lease payments required under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2017 is as follows: 2018, $8,001 and 2019, $6,001.

The Company rents office, manufacturing, warehouse and storage space and office equipment under agreements which run one year or more in duration. Rent expense for the years ended June 30, 2017 and 2016 was $289,323 and $186,882, respectively. Future minimum rental payments required under operating leases that have a duration of one year or more as of June 30, 2017 are as follows: 2018, $402,888; 2019,$407,744; 2020, $39,000 and 2021, $32,500.

During fiscal year 2017, the office, manufacturing and warehouse facilities in Detroit, Michigan, Hopkins, Minnesota and Northvale, New Jersey were leased on an annual/monthly basis from employees/stockholders; or entities controlled by stockholders, who were previously principals of businesses acquired by the Company. The leases are related-party transactions. The expense associated with these related-party transactions totaled $160,800 and $70,800 for the fiscal years ended June 30, 2017 and 2016, respectively.

Capital Lease

On August 8, 2014, the Company sold the property 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 primarily used to reduce debt obligations of the Company.

The building lease is recorded as a capital lease obligation in the accompanying consolidated balance sheets. The capital lease asset is included in Property and Equipment (See Note 4). The balance of the capital lease obligation was as follows as of June 30:

		2017		2016
Balance of capital lease obligation	$	3,281,547	$	3,464,849
Less current portion		(193,818)		(183,302)
	$	3,087,729	$	3,281,547

Future minimum gross lease payments required under the capital lease are as follows for the fiscal years ending June 30: 2018, $341,648; 2019, $348,478; 2020, $355,450; 2021, $362,566; 2022, $369,816 and $2,875,310 thereafter. Included in the future lease payments are $1,249,136 of imputed interest and $122,585 of deferred rent.

(10) Deferred Gain

The sale of the building (See Note 9) resulted in a $2,269,255 gain, which is recorded in the consolidated balance sheets as deferred gain that is being recognized in selling, general and administrative expenses over the 15 year life of the lease on a straight line basis. The balance of the deferred gain was as follows as of June 30:

		2017		2016
Balance of deferred gain	$	1,830,449	$	1,980,897
Less current portion		(150,448)		(150,448)
	$	1,680,001	$	1,830,449

(11) Income Taxes

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

		Current	Deferred	Total
2017	U.S. federal	$ —	$ —	$ —
	State and local	—	—	—
		$ —	$ —	$ —
2016	U.S. federal	$ —	$ 40,245	$ 40,245
	State and local	—	24,306	24,306
		$ —	64,551	$ 64,551

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:

	2017	2016
Expected tax benefit	634,574	668,716
State taxes, net of federal tax benefit	$ 57,176	$ 63,844
R&D tax credit	40,000	86,659
Valuation allowance	(772,288)	(744,724)
Incentive stock options	$ (11,284)	$ (6,105)
Other, net	51,822	(3,839)
	—	$ 64,551

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

	2017	2016
Net deferred income tax assets (liabilities):		
Inventory capitalization for income tax purposes	$ 92,681	$ 57,079
Inventory reserve	157,068	162,146
Warranty reserve	78,780	59,516
Accrued product liability	9,103	5,875
Allowance for doubtful accounts	149,110	151,730
Property and equipment, principally due to differences in depreciation	(103,308)	(71,038)
Research and development credit carryover	351,903	304,669
Other intangibles	(45,256)	(62,448)
Deferred gain on sale lease-back	846,061	863,370
Operating loss carry forwards	1,428,119	721,074
Valuation allowance	(2,964,261)	(2,191,973)
Total deferred income tax assets (liabilities)	$ —	$ —

A valuation allowance is required when there is significant uncertainty as to the realizability of deferred income tax assets. The ability to realize deferred income tax assets is dependent upon the Company's ability to generate sufficient taxable income within the carryforward periods as provided in the tax law for each tax jurisdiction. The Company has considered the following possible sources of taxable income when assessing the realization of its deferred income tax assets:

- future reversals of existing taxable temporary differences;
- future taxable income or loss, exclusive of reversing temporary differences and carryforwards;
- tax-planning strategies; and
- taxable income in prior carryback years.

The Company considered both positive and negative evidence in determining the need for a valuation allowance, including the following:

Positive evidence:

- Current forecasts indicate that the Company will generate pre-tax income and taxable income in the future. However, there can be no assurance that the new strategic plans will result in profitability.
- A majority of the Company's tax attributes have indefinite carryover periods.

Negative evidence:

- The Company has several years of cumulative losses as of June 30, 2017.

The Company places more weight on objectively verifiable evidence than on other types of evidence and management currently believes that available negative evidence outweighs the available positive evidence. Management has therefore determined that the Company does not meet the "more likely than not" threshold that deferred income tax assets will be realized and has implemented a full valuation allowance against the tax benefit for fiscal years 2017 and 2016. Any reversal of the valuation allowance will favorably impact the Company's results of operations in the period of reversal.

The anticipated accumulated NOL carry forward from fiscal year 2017 is approximately $3,577,000 that will begin to expire in 2038. The Company has no uncertain tax positions as of June 30, 2017.

(12) Major Customers and Sales by Geographic Location

During the fiscal years ended June 30, 2017 and 2016, 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 approximately $814,000 or 2.3% of net sales, for the fiscal year ended June 30, 2017 compared to $850,000 or 2.8% of net sales, for the fiscal year ended June 30, 2016.

(13) Common Stock and Common Stock Equivalents

On December 16, 2016, the shareholders approved an increase to the aggregate number of shares of common stock that the Company is authorized to issue from 50,000,000 shares to 100,000,000 shares.

For the year ended June 30, 2017, the Company granted 36,122 shares of restricted common stock to directors in connection with compensation arrangements and 106,932 shares to employees. For the year ended June 30, 2016, the Company granted 36,174 shares of restricted common stock to directors in connection with compensation arrangements and 35,422 shares to employees.

For the year ended June 30, 2017, the Company issued 1,559,000 shares of common stock pursuant to the Private Placement with gross proceeds of $7,795,000 used for the Acquisition and 6,173 shares for professional fees in conjunction with the Acquisition.

The Company issued 139,658 shares of common stock during the fiscal year ended June 30, 2017 and 91,295 shares of common stock during the fiscal year ended June 30, 2016 as payment of preferred stock dividends.

The Company maintained a 2005 equity incentive plan for the benefit of employees. On June 29, 2015 the shareholders approved a new 2015 equity incentive plan setting aside 500,000 shares ("2015 Equity Plan"). The 2015 Equity Plan was filed with the SEC on September 3, 2015. 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. As of June 30, 2017, 299,549 shares of common stock were authorized and reserved for issuance, but were not granted under the terms of the 2015 Equity Plan.

The Company granted 49,500 options under its 2015 Equity Plan during fiscal year 2017 and 95,000 options during fiscal year 2016. The options were 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 of directors, 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:

	2017	2016
Expected dividend yield	0%	0%
Expected stock price volatility	47% - 54%	63% - 65%
Risk-free interest rate	1.84% - 2.02%	1.83% - 2.04%
Expected life of options	6 - 8 years	8 years

The weighted average fair value of options granted during fiscal year 2017 was $1.33.

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

	2017 Number of Shares	2017 Weighted Average Exercise Price	2017 Weighted Average Remaining Contractual Term	2016 Number of Shares	2016 Weighted Average Exercise Price
Options outstanding at beginning of the year	121,557	$ 3.33	3.56 years	91,152	$ 5.07
Options granted	49,500	2.83	6.51 years	95,000	3.27
Options canceled or expired	(4,067)	4.86		(64,595)	4.74
Options outstanding at end of the year	166,990	3.14	4.76 years	121,557	3.84
Options exercisable at end of the year	74,473	4.46		63,940	4.75
Range of exercise prices at end of the year		$ 1.75 - 5.55			$ 1.75 – 5.55

The Company recognized $419,925 and $203,889 in stock-based compensation for the years ended June 30, 2017 and 2016, 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. Included in the stock-based compensation for fiscal year 2017 and 2016 was $123,877 and $79,333, respectively, related to severance expenses that were settled with the issuance of common stock.

As of June 30, 2017 there was $259,241 of unrecognized stock-based compensation cost that is expected to be expensed over the next four years.

No options were exercised during fiscal years 2017 and 2016. The aggregate intrinsic value of the outstanding options as of June 30, 2017 and 2016 was $1,646 and $3,816, respectively.

(14) Preferred Stock

On December 16, 2016 the shareholders approved an increase to the aggregate number of shares of preferred stock that the Company is authorized to issue from 5,000,000 shares to 50,000,000 shares.

On December 28, 2016, the Company completed a private placement with affiliates of Prettybrook Partners, LLC ("Prettybrook") and certain other purchasers (collectively with Prettybrook, the "Series A Preferred Investors") for the offer and sale of the remaining designated 390,000 shares of the Company's Series A 8% Convertible Preferred Stock (the "Series A Preferred") for gross proceeds of approximately $975,000. Proceeds from the private placement were recorded net of offering costs incurred. The Series A Preferred is convertible to common stock on a 1:1 basis. A forced conversion can be initiated based on a formula related to share price and trading volumes as outlined in the Certificate Designating the Preferences, Rights and Limitations of the Series A Preferred ("Series A Designation"). The dividend is fixed at 8% and is payable in either cash or common stock subject to conditions contained in the Series A Designation. This dividend is payable quarterly and equates to an annual payment of $400,000 in cash or a value in common stock based on the trading price of the stock on the date the dividend is declared. Certain redemption rights are attached to the Series A Preferred, but none of the redemption rights for cash are deemed outside the control of the Company. The redemption rights deemed outside the control of the Company require common stock payments or an increase in the dividend rate. The Series A Preferred includes a liquidation preference under which Series A Preferred Investors would receive cash equal to the stated value of their stock plus unpaid dividends. In accordance with the terms of the sale of the Series A Preferred, the Company was required to register the underlying common shares associated with the Series A Preferred and the Series A Warrants issued to the Preferred Investors in the private placement, as described below. That registration statement was filed on Form S-3 on January 28, 2017 and amended on February 1, 2017. The registration statement became effective on February 10, 2017.

The Series A Preferred votes on an as-converted basis, one vote for each share of common stock issuable upon conversion of the Series A Preferred, provided the number of shares of potential common stock eligible for voting by the Preferred Investors is 390,000.

The Preferred Investors purchased a total of 390,000 shares of Series A Preferred, and received in connection with such purchase common stock purchase warrants (collectively, the "Series A Warrants"); (i) A-Warrants, exercisable by cash exercise only, to purchase 292,500 shares of common stock, and (ii) B-Warrants, exercisable by "cashless exercise", to purchase 292,500 shares of common stock, but only after exercise of holder's A-Warrants. The Series A Warrants are exercisable for 72 months from the date of issuance and carry a put feature in the event of a change in control. The put right is not subject to derivative accounting as all equity holders are treated the same in the event of a change in control.

The Company's shareholders originally authorized the issuance of 2,000,000 shares of the Series A Preferred in June, 2015. The Company sold and issued 1,610,000 shares of Series A Preferred in June 2015, leaving 390,000 shares available for future issuance. Those remaining 390,000 shares were sold and issued in December 2016 as described above. The only difference between the shares of Series A Preferred issued in June 2015 and those issued in December 2016 is that the formula determining voting rights for the shares issued in June 2015 indicated a cutback in the voting power of those shares as required by the Series A Designation. The shares of Series A Preferred issued in December 2016 were not subject to any cutback. For information regarding the original issuance of the Series A Preferred in June 2015, see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

In April 2017, the Company closed the Private Placement in which it raised gross proceeds of $7,795,000 pursuant to the terms of a Securities Purchase Agreement dated March 21, 2017 (the "Securities Purchase Agreement"). Certain accredited investors, including institutional investors (the "Series B Preferred Investors") participated in the Private Placement pursuant to which the Company issued a total of 1,559,000 units at $5.00 per unit, with each unit made up of one share of common stock, no par value per share ("Common Stock") at $2.50 per share, one share of Series B Convertible Preferred stock, no par value per share ("Series B Preferred") at $2.50 per share, and a warrant to purchase 1.5 shares of Common Stock, exercisable at $2.75 per share for six years. Ladenburg Thalmann & Co. Inc. ("Ladenburg") acted as placement agent in connection with the Private Placement and the Company paid Ladenburg fees and expenses related to placing certain investors in the Private Placement. The Series B Preferred is convertible to common stock on a 1:1 basis. A forced conversion can be initiated based on a formula related to share price and trading volumes as outlined in the Certificate Designating the Preferences, Rights and Limitations of the Series B Preferred ("Series B Designation"). The dividend is fixed at 8% and is payable in either cash or common stock subject to conditions contained in the Series B Designation. This dividend is payable quarterly and equates to an annual payment of $311,800 in cash or a value in common stock based on the trading price of the stock on

the date the dividend is declared. Certain redemption rights are attached to the Series B Preferred, but none of the redemption rights for cash are deemed outside the control of the Company. The redemption rights deemed outside the control of the Company require common stock payments or an increase in the dividend rate. The Series B Preferred includes a liquidation preference, subject to the liquidation preference of the Series A Preferred, under which Series B Preferred Investors would receive cash equal to the stated value of their stock plus unpaid dividends. In connection with the Private Placement, the Company also entered into a Registration Rights Agreement, obligating the Company to file a registration statement with the Securities and Exchange Commission within 45 days of closing to register all shares of Common Stock issuable as part of the units, as well as all shares of Common Stock underlying conversion of the Series B Preferred stock or payment of Series B dividends or issuable upon exercise of the warrants. On April 14, 2017, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission to meet these registration obligations. The registration statement became effective on April 24, 2017.

As of June 30, 2017, the Company currently had 3,559,000 shares of Series A Preferred and Series B Preferred outstanding. Dividends payable on these shares accrue at the rate of 8% per year and are payable quarterly in stock or cash. The Company generally pays the dividends in stock. The formula for paying this dividend in common stock can change the effective yield on the dividend to more or less than 8% depending on the price of the stock at the time of issuance.

In connection with each of the issuances of Series A Preferred and the Series B Preferred, the Company recorded a deemed dividend related to a beneficial conversion feature, which reflects the difference between the underlying common share value of the Series A Preferred and Series B Preferred shares as if converted, based on the closing price of the Company's common stock on the date of the applicable transaction (December 28, 2016 for Series A Preferred and April 3, 2017 for the Series B Preferred), less an amount of the purchase price assigned to the Series A Preferred or Series B Preferred, as applicable, in an allocation of purchase price between the preferred shares and common stock purchase warrants that were issued with the Series A Preferred and Series B Preferred. For the year ended June 30, 2017, the Company recorded deemed dividends of $1,944,223 consisting of $375,858 associated with the Series A Preferred and $1,568,365 associated with the Series B Preferred. The deemed dividends are combined with net loss and payment of dividends on preferred stock to compute net loss applicable to common stockholders for purposes of calculating loss per share.

The Company chose to pay preferred stock dividends by issuing common shares valued at $370,672 in fiscal year 2017 and $273,375 in fiscal year 2016. At June 30, 2017, there was $194,513 in accrued dividends payable for the quarter ended June 30, 2017, which were issued in July 2017. The Company also paid preferred stock dividends of $16,241 in cash in fiscal year 2017. No cash dividends were paid in fiscal year 2016.

In case of liquidation, dissolution or winding up of the Company, Preferred stock has preferential treatment beginning with the Series A Preferred, then Series B Preferred. After preferential amounts, if any, to which the holders of Preferred Stock may be entitled, the holders of all outstanding shares of common stock shall be entitled to share ratably in the remaining assets of the Company. Liquidation preference is as follows:

	Shares Designated	Shares Outstanding	Liquidation Value/ Preference
Series A Preferred	2,000,000	2,000,000	5,000,000
Series B Preferred	1,800,000	1,559,000	3,897,500

(15) Employee Benefit Plan

The Company has two deferred savings plans which qualify under Internal Revenue Code Section 401(k).

The first plan covers all employees of the Dynatronics Corporation entity, (the "Parent Company"), who have at least six months of service and who are age 20 or older. For fiscal years 2017 and 2016, the Parent Company made matching contributions of 25% of the first $2,000 of each employee's contribution, with a six-year vesting schedule. The Parent Company's contributions to the plan for fiscal years 2017 and 2016 were $45,294 and $36,103, respectively. The Parent Company matching contributions for future years are at the discretion of the board of directors.

The second plan covers all employees of Hausmann Enterprises LLC, the Subsidiary, who have at least twelve months of service and who are age 21 or older. For the fiscal year 2017, the Subsidiary made matching contributions of 50% of the first 6% of each employee's deferred contribution up to a maximum of 3% of compensation, with a six-year vesting schedule applies. The Subsidiary's contributions to the plan for the three-months in which it was owned by the Parent Company were approximately $93,000.

(16) Liquidity and Capital Resources

As of June 30, 2017, the Company had $255,000 in cash, compared to $966,000 as of June 30, 2016. During fiscal year 2017, the Company incurred operating losses and negative cash flows from operating activities. The Company believes that its existing revenue stream, cash flows from consolidated operations, current capital resources, and borrowing availability pursuant to the Loan and Security Agreement provide sufficient liquidity to fund operations through at least September 30, 2018.

On March 31, 2017, the Company entered into a new two year Loan and Security Agreement (See Note 7) as of June 30, 2017 there was approximately $3,709,000 of additional borrowing capacity related to this Loan and Security Agreement. To fully execute on its business strategy of acquiring other entities, the Company will need to raise additional

capital. Absent additional financing, the Company may have to curtail its current acquisition strategy.

(17) Subsequent Events

On September 26, 2017, the Company entered into a definitive agreement (the "Asset Purchase Agreement") to acquire substantially all of the assets of Bird & Cronin, Inc., a Minnesota corporation ("B&C"), for $14.5 million to $15.5 million in cash and securities, subject to adjustment, as provided in the Asset Purchase Agreement (the "Acquisition"). The Company will fund the Acquisition with proceeds from the private placement of the Company's Series C 6% Non-Voting Convertible Preferred Stock (the "Private Placement") and borrowings under an amended asset-based lending facility that the Company has in place with Bank of the West (the "Amended Credit Facility"). B&C designs and manufactures orthopedic soft goods and medical supplies which it sells and distributes in the United States and internationally under its own brands and under private-label manufacturing agreements.

Closing of the Acquisition is expected to occur on or about October 2, 2017, concurrent with the closing of the Private Placement and funding of the Amended Credit Facility. At the Closing, the Company will acquire substantially all of the assets of B&C and following the Closing, Dynatronics will operate the business formerly conducted by B&C at its Minneapolis, Minnesota facility, which is owned by an affiliate of the principal shareholder of B&C. The Company will lease the facility on terms contained in a lease agreement (the "Lease") with an initial three-year term, with annual lease payments of $600,000.

The purchase price for B&C is an amount not to exceed $15.5 million and no less than $14.5 million, payable in cash of $10.5 million and shares of the Company's Series D 6% Non-Voting Convertible Preferred Stock (the "Series D Preferred") valued at $4.0 million (as provided in the Asset Purchase Agreement), with a potential for an additional $1.0 million earn-out based on revenues of the business during the two year period following the closing of the Acquisition. The Company will hold back $1.4 million of the purchase price for purposes of satisfying adjustments to the purchase price as may be required by the Asset Purchase Agreement and indemnification claims, if any. Subject to adjustments or claims as provided by the Asset Purchase Agreement, 50% of the holdback amount will be released to B&C on the first anniversary date of the closing of the Acquisition; the balance of this holdback amount will be released to B&C 18 months after Closing. As part of the Acquisition transaction, the Company will pay and discharge certain liabilities and obligations of B&C related to its ongoing business (primarily trade accounts and similar obligations in the ordinary course). Each share of Series D Preferred is convertible into one share of common stock of the Company automatically upon, but not before receipt of shareholder approval, as described below under the heading "Conversion of Series C and Series D Preferred Stock."

The Company will make offers of employment to employees of B&C to become Dynatronics employees at Closing. The Company has also entered into employment agreements with the co-presidents of B&C, Michael Cronin and Jason Anderson, who will act in the same positions with the wholly-owned operating subsidiary of the Company that will act as assignee of Dynatronics at closing and become the operating entity thereafter. Under these agreements, the Company will pay each of Messrs. Cronin and Anderson an annual salary of $175,000, a bonus up to $10,000 as determined by the Company's CEO, and other employee benefits provided to the Company's employees generally at their level of management at the Minnesota location (including, e.g., paid time off and paid holidays, medical/dental/vision insurance, Section 125 Flexible Spending Account (FSA), and 401(k)).

The Asset Purchase Agreement contains customary representations, warranties and covenants by B&C and the Company, as well as customary indemnification provisions among the parties. Post-closing covenants include a covenant that for a period of five years (the "Restrictive Period"), B&C and its stockholders (including Mr. Cronin and Mr. Anderson as beneficial owners of stockholders of B&C) will refrain from solicitation of employees, customers and business of B&C or the Company and from other competitive activity as defined in the Asset Purchase Agreement, and requires them and their representatives (as defined in the Asset Purchase Agreement) to maintain (other than in connection with performing obligations pursuant to the Lease or the Employment Agreements, as applicable) the confidentiality of, and not use, confidential information relating to the acquired business or purchased assets, except as permitted by the Asset Purchase Agreement.

The Company will file a Current Report on Form 8-K with the Asset Purchase Agreement, Financial Statements and other documents as exhibits, containing a more complete description of the Acquisition and the related transactions. The foregoing description of the Asset Purchase Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Asset Purchase Agreement.

On September 25, 2017, the Company obtained a commitment letter for an amended loan and security agreement and related documentation to amend the Company's credit facility with Bank of the West ("Bank") to provide asset-based financing to the Company to be used for funding the Acquisition and for operating capital (the "Amended Credit Facility"). Amounts available to the Company under the Amended Credit Facility will be subject to a borrowing base calculation of up to a maximum availability of $11,000,000 and will bear interest at LIBOR plus 2.25%. The Company will pay a line increase fee of $7,500 and an unused line fee of .25%. The maturity date is two years from the date of the note. The borrowing base is computed as an amount equal to 80% of eligible accounts receivable, 48% of finished goods inventory, and 15% of raw materials inventory.

The Amended Credit Facility is subject to documentation (including a loan and security agreement, financing statements, notes and other agreements) and the obligations of the Company will be secured by first priority liens on substantially all of the Company's

and its subsidiaries' assets (as defined in the Amended Credit Facility). The Amended Credit Facility includes financial covenants, such as ratios for consolidated leverage and fixed charge coverage, and customary affirmative and negative covenants for a transaction of this type, including, among others, the provision of annual, quarterly and monthly financial statements and compliance certificates, maintenance of property, insurance, compliance with laws and environmental matters, restrictions on incurrence of indebtedness, granting of liens, making investments and acquisitions, paying dividends, entering into affiliate transactions and asset sales. The Amended Credit Facility also contains penalties in connection with customary events of default, including, among others, payment, bankruptcy, representation and warranty, covenant, change in control, judgment and events or conditions that have a Material Adverse Effect (as defined in the Amended Credit Facility).

The foregoing description of the Amended Credit Facility does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the loan and security agreement and related documents, which will be filed as exhibits to the Company's Current Report on Form 8-K, to be filed in connection with the Acquisition.

In connection with the Acquisition, the Company initiated a private offering of the Company's equity securities to raise up to $7.0 million (the "Private Placement"). Closing of the Private Placement under the Securities Purchase Agreement will occur simultaneously with the Closing of the Acquisition. In the Private Placement, the Company offered and sold shares of the Company's Series C 6% Convertible Non-Voting Preferred Stock (the "Series C Preferred") and common stock purchase warrants ("Warrants") to a limited number of accredited investors (the "Investors") pursuant to the terms and conditions of a Securities Purchase Agreement.

The Series C Preferred and the Warrants and their underlying securities are offered and will be issued in reliance upon exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), including exemptions under Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder, relating to offers and sales by an issuer not involving any public offering, and in reliance on similar exemptions under applicable state laws. Each purchaser represented that it is an accredited investor and that it is acquiring the securities for investment purposes only and not with a view to any resale, distribution or other disposition of such securities in violation of the United States federal securities laws. Securities issued in the Private Placement are "restricted securities" under the Securities Act and may not be transferred, sold or otherwise disposed of unless they are subsequently registered or an exemption is available under the Securities Act. Neither this Form 10-K, nor the exhibits attached hereto, is an offer to sell or the solicitation of an offer to buy the securities described herein.

Each share of Series C Preferred is convertible into one share of common stock of the Company automatically upon, but not before receipt of shareholder approval. A holder may elect to retain the Series C Preferred and not convert subject to future beneficial ownership limitations and loss of preferential rights. Purchasers of the securities include a select group of accredited investors, including institutional investors (the "Investors"). Certain of Dynatronics' officers and directors and significant shareholders, are Investors in the Private Placement.

Conversion of the Series C and Series D Preferred Stock. Until Dynatronics has obtained shareholder approval, the Company will not issue any shares of common stock in an amount that exceeds 19.9% of the issued and outstanding shares of common stock of the Company, in connection with the Series C Preferred or the Series D Preferred.

The Company's Common Stock is currently listed on The NASDAQ Capital Market and therefore the Company is subject to the Nasdaq Listing Rules ("Nasdaq Rules") governing listing requirements (Section 5500 of the Nasdaq Rules for securities listed on the Capital Market) and corporate governance (Section 5600 of the Nasdaq Rules) of companies with securities listed on Nasdaq. Pursuant to the terms of both the Asset Purchase Agreement and the Securities Purchase Agreement, the Company has covenanted to obtain approval of the Company's shareholders ("Shareholder Approval") as may be required by the Nasdaq Rules for the Company to issue the shares of common stock underlying the conversion or exercise of any rights under the Series C or the Series D Preferred Stock or the execution of the warrants, including the following:

Nasdaq Listing Rule 5635(a), which requires shareholder approval prior to the issuance of securities in connection with an acquisition of the stock or assets of another company where the total number of shares of common stock to be issued is or will be equal to or in excess of 20% of the total number of shares of common stock outstanding before the issuance of the stock or securities;

Nasdaq Listing Rule 5635(b), which requires prior shareholder approval for issuances of securities that could result in a "change of control" of the issuer - Nasdaq may deem a change of control to occur when, as a result of an issuance, an investor or a group would own, or have the right to acquire, 20% or more of the outstanding shares of common stock or voting power, and such ownership or voting power of an issuer would be the largest ownership position of the issuer;

Nasdaq Rule 5635(c), requiring shareholder approval when common stock may be issued to "insiders" (directors, officers, employees or consultants) of the issuer in transactions at prices less than market value, which includes sales deemed to be "equity compensation" paid to insiders, as well as the issuance of common stock at less than market prices in payment of dividends or for redemption of other securities or payment of debt; and

Nasdaq Rule 5635(d), which requires shareholder approval prior to the issuance of common stock in connection with certain non-public offerings involving the sale, issuance or potential issuance of common stock (and/or securities convertible into or exercisable for common stock) equal to 20% or more of common stock outstanding before the issuance.

At the Company's 2017 Annual Meeting of Shareholders, to be held in November

or December 2017, the Company will seek shareholder approval of these matters as described above. Certain key shareholders of the Company (officers, directors and certain shareholders) are have entered into agreements with the Investors and with B&C to vote all voting securities of the Company over which such persons have voting control as of the record date for the meeting of shareholders, amounting to, in the aggregate, at least 35% of all current voting power of the Company in favor of the shareholder approvals described above.

In connection with the Private Placement and the Acquisition, the Company agreed to file registration statements under the Securities Act registering the issuance and resale of all shares of common stock underlying the conversion of the Series C Preferred and Series D Preferred and the exercise of the Warrants.

The rights and preferences of the Series C Preferred and the Series D Preferred will be designated by the Company's Board of Directors in amendments to the Company's Amended and Restated Articles of Incorporation (the "Designations") which will be filed prior to the closing of the Acquisition with the Utah Division of Corporations and Commercial Code.

The Warrants have an exercise price of $2.75 per share of Common Stock and a term of six years. The Warrants may not be exercised unless and until Shareholder Approval has been obtained. At the election of the holder of the Warrant, the holder may be restricted from the exercise of the Warrant or any portion of the Warrant held by such holder, to the extent that, after giving effect to the conversion, such holder (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own in excess of 4.99% (or 9.99%, as such holder may elect) of the number of shares of the Common Stock outstanding immediately after giving effect to the exercise.

Ladenburg Thalmann & Co. Inc. ("Ladenburg") acted as placement agent and the Company will pay Ladenburg fees for its services in connection with proceeds received in the Private Placement from Investors introduced to the Company by Ladenburg pursuant to its agreement with the Company, in accordance with applicable FINRA rules and regulations. No compensation, fees, or discounts will be paid or given to any other person in connection with the offer and sale of the securities.

The foregoing descriptions of the Series C Preferred, Series D Preferred, Securities Purchase Agreement, Voting Agreements, and warrants do not purport to be complete and are subject to, and qualified in their entirety by, the full text of these documents, which will be filed as exhibits to the Company's Current Report on Form 8-K regarding the Acquisition.

(18) Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. The amendment in this update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. An entity should apply the amendments in this update on a prospective basis. This amendment will be effective for the Company in its fiscal year beginning July 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact the adoption of ASU 2017-04 will have on its consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business. The Board issued this update to clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under Topic 805, there are three elements of a business—inputs, processes, and outputs (collectively referred to as a "set") although outputs are not required as an element of a business set. The amendments in this update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, reducing the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this update:

1. require that a business set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output, and
2. remove the evaluation of whether a market participant could replace missing elements.

The amendments provide a framework for evaluating whether both an input and a substantive process are present. Lastly, the amendments in this update narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606. This amendment will be effective for the Company in its fiscal year (including interim periods) beginning July 1, 2018. The Company is currently evaluating the impact the adoption of ASU 2017-01 will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842,) a new guidance on leases. This guidance replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and lease liabilities by lessees for substantially all leases, with an exception for leases with terms of less than twelve months. The standard also requires additional quantitative and qualitative disclosures. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The standard requires a modified retrospective approach, which includes several optional practical expedients. Accordingly, the standard is effective for the Company on July 1, 2019. It is currently evaluating the impact that this guidance will have on the consolidated financial statements of the Company.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments, a guidance related to financial instruments - overall recognition and measurement of financial assets and financial liabilities. The guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The update to the standard is effective for public companies for interim and annual periods beginning after December 15, 2017. Accordingly, the standard is effective for the Company on July 1, 2018. It is currently evaluating the impact that the standard will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customer (Topic 606). This authoritative accounting guidance related to revenue from contracts with customers. This guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2017. Accordingly, the Company will adopt this guidance on July 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this guidance. The Company is evaluating which transition approach to use and its impact, if any, on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 Presentation of Financial Statements—Going Concern, an authoritative accounting guidance related to the disclosure of uncertainties about an entity's ability to continue as a going concern. This guidance requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the consolidated financial statements are issued, and provide related disclosures. The Company adopted this guidance for the fiscal year ended June 30, 2017.

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, 2017, may be obtained at no charge by sending a written request to:

Mr. Jim Ogilvie
Vice President of Business Development
Dynatronics Corporation
7030 Park Centre Drive
Cottonwood Heights, Utah 84121

Officers and Directors

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

David A. Wirthlin
Chief Financial Officer

T. Jeff Gephart
Senior Vice President of Sales

Cynthia L. McHenry
Vice President of Operations

Jim. N. Ogilvie
Vice President of Business Development

Douglas G. Sampson
Vice President of R&D, Quality and Regulatory

Bryan D. Alsop
Vice President of Information Technology

Erin S. Enright
Director

David B. Holtz
Director

Scott A. Klosterman
Director

Brian M. Larkin
Director

R. Scott Ward, PT PhD
Director

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, and treatment tables to an expanding market of physical therapists, sports medicine practitioners and athletic trainers, chiropractors, podiatrists, orthopedists, and other medical professionals.

Annual Meeting

The company's annual shareholder meeting will be held at Dynatronics' corporate headquarters on November 29, 2017 at 3:00 pm MT.

7030 Park Centre Drive
Cottonwood Heights, Utah 84121

Accountants, Legal Counsel and Transfer Agent

Tanner, 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

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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.