DYNATRONICS CORP
Form 10QSB
February 14, 2002

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2001.

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission File Number: 0-12697

Dynatronics Corporation
(Exact name of small business issuer as specified in its charter)

Utah	87-0398434
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7030 Park Centre Drive, Salt Lake City, UT 84121
(Address of principal executive offices)

(801) 568-7000
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

The number of shares outstanding of the issuer's common stock, no par value, as of February 12, 2001 is 8,869,335.

Transitional Small Business Disclosure Format (Check One): Yes __ No X

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DYNATRONICS CORPORATION
Condensed Balance Sheets
(Unaudited)

ASSETS	December 31, 2001
Current assets:	
Cash and cash equivalents	$ 394,183
Trade accounts receivable, less allowance for doubtful accounts of $164,735 at December 31, 2001 and $140,735 at June 30, 2001	3,650,014
Other receivables	207,816
Inventories	4,545,205
Prepaid expenses	370,716
Prepaid income taxes	20,288
Deferred tax asset-current	268,735
Total current assets	9,456,957
Net property and equipment	3,198,654
Excess of cost over book value, net of accumulated amortization of $606,144 at December 31, 2001 and $568,640 at June 30, 2001	833,030
Other assets	282,874
	$ 13,771,515

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current installments of long-term debt	$ 214,831
Line of credit	2,901,882
Accounts payable	654,380
Accrued expenses	330,147
Accrued payroll and benefit expenses	176,829

Total current liabilities	4,278,069	
Long-term debt, excluding current installments	1,754,697	
Deferred compensation	271,417	
Deferred tax liability - noncurrent	78,846	
Total liabilities	6,383,029	
Stockholders' equity:		
Common stock, no par value. Authorized 50,000,000 shares; issued 8,913,774 shares at December 31, 2001 and 8,840,422 at June 30, 2001	2,623,326	
Treasury stock, 59,439 shares at December 31, 2001 and 35,584 shares at June 30, 2001	(159,696)	
Retained earnings	4,924,856	
Total stockholders' equity	7,388,486	
	$ 13,771,515	

See accompanying notes to condensed financial statements.

DYNATRONICS CORPORATION
Condensed Statements Of Income
(Unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	200
Net sales	$ 3,956,430	4,047,562	8,123,717	8,114
Cost of sales	2,360,452	2,362,754	4,795,800	4,731
Gross profit	1,595,978	1,684,808	3,327,917	3,382
Selling, general, and administrative expenses	1,285,179	1,344,831	2,618,648	2,624
Research and development expenses	164,654	191,851	326,090	336
Operating income	146,145	148,126	383,179	421
Other income (expense):				
Interest income	873	2,040	2,896	3
Interest expense	(74,145)	(79,838)	(155,258)	(160
Other income, net	2,159	3,422	4,497	7
Total other income (expense)	(71,113)	(74,376)	(147,865)	(149
Income before income taxes	75,032	73,750	235,314	271
Income tax expense	28,512	28,025	91,950	105

Net income	$ 46,520	45,725	143,364	165
Basic and diluted net income per common share	$ 0.01	0.01	0.02	
Weighted average basic and diluted common shares outstanding (note 2)				
Basic	8,854,335	8,785,038	8,842,776	8,779
Diluted	8,883,477	8,948,872	8,918,139	8,925

See accompanying notes to condensed financial statements.

DYNATRONICS CORPORATION
Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended December 31 2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 143,364	165,675
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of property and equipment	158,805	145,715
Other amortization	43,607	48,549
Provision for doubtful accounts	24,000	18,000
Provision for inventory obsolescence	102,000	102,000
Provision for warranty reserve	113,828	110,295
Deferred compensation	10,818	12,840
Compensation expense on stock options	0	7,000
Decrease (increase) in operating assets and liabilities:		
Receivables	(263,581)	(144,444)
Inventories	99,118	238,506
Prepaid expenses and other assets	(165,532)	(106,927)
Deferred tax asset	0	0
Prepaid income tax	9,450	26,386
Trade accounts payable and accrued expenses	(974)	53,720
Net cash provided by operating activities	274,903	677,315
Cash flows from investing activities-capital expenditures	(80,001)	(110,065)
Cash flows from financing activities:		
Principal payments on long-term debt	(104,526)	(118,821)
Net change in line of credit	30,858	(445,549)
Proceeds from sale of common stock	14,065	0
Net cash used in financing activities	(59,603)	(564,370)

Net increase in cash and cash equivalents		135,299	2,880
Cash and cash equivalents at beginning of period		258,884	233,756
Cash and cash equivalents at end of period	$	394,183	236,636
Supplemental cash flow information			
Cash paid for interest		148,130	163,475
Cash paid for income taxes		82,500	49,050
Supplemental disclosure of non-cash investing and financing activities			
Common stock and options issued for license agreement		0	73,240
Common stock and options issued in exchange for mature stock		39,600	0

See accompanying notes to condensed financial statements.

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DYNATRONICS CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
December 31, 2001
(Unaudited)

NOTE 1. PRESENTATION

The financial statements as of December 31, 2001 and June 30, 2001 and for the three and six months ended December 31, 2001 and 2000 were prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all necessary adjustments, which consist only of normal recurring adjustments, to the financial statements have been made to present fairly the financial position and results of operations and cash flows. The results of operations for the respective periods presented are not necessarily indicative of the results for the respective complete years. The Company has previously filed with the SEC an annual report on Form 10-KSB which included audited financial statements for the two years ended June 30, 2001. It is suggested that the financial statements contained in this filing be read in conjunction with the statements and notes thereto contained in the Company's 10-KSB filing.

NOTE 2. NET INCOME PER COMMON SHARE

Net income per common share is computed based on the weighted-average number of common shares and, as appropriate, dilutive common stock equivalents outstanding during the period. Stock options are considered to be common stock equivalents.

Basic net income per common share is the amount of net income for the period available to each share of common stock outstanding during the reporting period. Diluted net income per common share is the amount of

net income for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period.

In calculating net income per common share, the net income was the same for both the basic and diluted calculation. A reconciliation between the basic and diluted weighted-average number of common shares for the three and six months ended December 31, 2001 and 2000 is summarized as follows:

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	(Unaudited) Three Months Ended December 31,		(Unaudited) Six Months Ended December 31,	
	2001	2000	2001	2000
Basic weighted average number of common shares outstanding during the period	8,854,335	8,785,038	8,842,776	8,779,929
Weighted average number of dilutive common stock options outstanding during the period	29,142	163,834	75,363	145,969
Diluted weighted average number of common and common equivalent shares outstanding during the period	8,883,477	8,948,872	8,918,139	8,925,898

Outstanding options not included in the computation of diluted net income per share for the six month periods ended December 31, 2001 and 2000 total 211,471 and 197,414 respectively, because to do so would have been antidilutive.

NOTE 3. COMPREHENSIVE INCOME

For the periods ended December 31, 2001 and 2000, comprehensive income was equal to the net income as presented in the accompanying condensed statements of income.

NOTE 4. INVENTORIES

Inventories consisted of the following:

	December 31 2001	June 30 2001
Raw Material	$ 2,965,792	2,914,710

Finished Goods	1,921,334	2,071,822
Inventory Reserve	(341,921)	(240,209)
	$ 4,545,205	4,746,323

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NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment were as follows:

	December 31 2001	June 30 2001
Land	$ 354,743	354,743
Buildings	2,802,894	2,802,894
Machinery and equipment	1,367,172	1,335,828
Office equipment	337,008	288,351
Vehicles	61,771	61,771
	4,923,588	4,843,587
Less accumulated depreciation and amortization	1,724,934	1,566,129
	$ 3,198,654	3,277,458

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Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Condensed Financial Statements (unaudited) and Notes thereto appearing elsewhere in this Form 10-QSB.

Results of Operations

Sales during the quarter ended December 31, 2001 were $3,956,430, compared to $4,047,562 during the same period last year. Sales for the six-month period ended December 31, 2001 were $8,123,717 compared to $8,114,044 during the six months ended December 31, 2000. During the quarter and six-month period ended December 31, 2001, increased sales of core medical products led by the company's new STSTM devices for chronic pain were offset by decreased aesthetic products sales. Dynatronics is currently working to strengthen the distribution network for its aesthetic products by adding new aesthetic dealers throughout the country to support future growth.

Interest in the Dynatron STS and STS Rx technology remains high. A

research study assessing the effectiveness of STS treatments was published in the January 2002 edition of the American Journal of Pain Management. According to study results, 85% of participants treated with STS therapy experienced a reduction of pain, with 50% of the patients becoming totally pain-free. Having the study published in a peer-reviewed medical journal has been an important factor in improving acceptance among medical practitioners and insurance carriers. The STS devices incorporate patented, non-invasive technology, which effectively provides relief for many chronic pain sufferers.

Total gross profit during the quarter ended December 31, 2001 was $1,595,978 or 40.3% of sales compared to $1,684,808 or 41.6% of sales in the quarter ended December 31, 2000. Gross profit during the six-month period ended December 31, 2001 was $3,327,917 or 41.0% of sales compared to $3,382,794 or 41.7% of sales in the six months ended December 31, 2000. Sales during the quarter ended December 31, 2000 included a large order for Synergie AMS/MDA combination units filled for an international distributor. The large volume of high margin Synergie sales in the quarter ended December 31, 2000 increased gross margins in that period.

Selling, general and administrative (SG&A) expenses for the three-month period ended December 31, 2001, decreased to $1,285,179 or 32.5% of sales compared to $1,344,831 or 33.2% of sales in the same period of the prior year. SG&A expenses for the six-month period ended December 31, 2001 were $2,618,648 or 32.2% of sales compared to $2,624,485 or 32.3% of sales for the six months ended December 31, 2000. The decline in SG&A reflects management's efforts to reduce expenses. The Company has taken steps to increase its profitability through an expense reduction program that it expects will generate future annual savings of as much as $500,000. The company believes that the effect of these expense reductions will begin to be reflected in the quarter ending June 30, 2002.

Research and development (R&D) expenses during the three and six-month periods ended December 31, 2001 totaled $164,654 and $326,090, respectively compared to $191,851 and $336,937, respectively for the

same periods in 2000. The Company remains committed to its objective of investing significantly in R&D to develop technological enhancements as well as new technologies that address unmet patient and clinical needs.

Pre-tax profit for the quarter ended December 31, 2001 was $75,032 compared to $73,750 during the same period of the prior year. Pre-tax profit for the six months ended December 31, 2000 was $235,314 compared to $271,510 in the similar period in 2000. The success of the Dynatron STS and Dynatron STS Rx has been primarily responsible for this stability in profitability. In addition, the Company has worked to reduce operating expenses.

Income tax expense for the three and six months ended December 31, 2001 was $28,512 and $91,950, respectively compared to $28,025 and $105,835, respectively in the three and six months ended December 31, 2000.

Net income for the quarter ended December 31, 2001 was $46,520 ($.01 per share), compared to $45,725 ($.01 per share) in the same quarter in

2000. Net income for the six months ended December 31, 2001 was $143,364 ($.02 per share) compared to $165,675 ($.02 per share) in the six months ended December 31, 2000.

Liquidity and Capital Resources

We expect that revenues from operations, together with amounts available under an existing bank line of credit will be adequate to meet working capital needs related to our business and planned capital expenditures for the next 12 months.

The current ratio at December 31, 2001 was 2.2 to 1. The current ratio at June 30, 2001 was also 2.2 to 1. Current assets represent 69% of total assets at December 31, 2001.

Net accounts receivable at December 31, 2001 were $3,650,014 compared to $3,426,404 at June 30, 2001. Accounts receivable are from the dealer network and are generally considered to be within term.

All accounts payable are within term. The Company continues to take advantage of available payment discounts when possible.

During the quarter ended December 31, 2001, the Company increased its revolving line of credit facility with a commercial bank to $4,500,000. Borrowing limitations are based on 30% of eligible inventory and up to 80% of eligible accounts receivable. The outstanding balance on the line of credit at December 31, 2001 was $2,901,882 compared to $2,871,024 at June 30, 2001. The line of credit is secured by inventory and accounts receivable. The line bears interest at the bank's "Prime Rate," which was 4.75% per annum at December 31, 2001. This line is subject to annual renewal and matures on December 1, 2002. Accrued interest is payable monthly.

Inventory levels, net of reserves, totaled $4,545,205 at December 31, 2001, compared to $4,746,323 at June 30, 2001. The Company expects inventory levels to decline over the course of the current fiscal year as inventories are managed more closely, and as sales of the new STS devices accelerate as a result of new marketing plans and initiatives. Sustained sales of aesthetic devices will also contribute to a reduction in overall inventories.

Long-term debt excluding current installments totaled $1,754,697 at December 31, 2001, compared to $1,834,903 at June 30, 2001. Long-term debt is comprised primarily of the mortgage loans on our office and manufacturing facilities in Utah and Tennessee. The principal balance on the mortgage loans is approximately $1.9 million with monthly principal and interest payments of $26,900.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial
Accounting Standards (SFAS) No. 141 Business Combinations, and SFAS No. 142 Goodwill and Other Intangible Assets. SFAS 141 prohibits the use of the pooling-of-interests method of accounting and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and is applicable to all purchase method

business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill. Effective for the Company beginning July 1, 2002, SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in acceptance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and review for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

As of the date of adoption, we expect to have unamortized goodwill and other intangibles in the amount of $849,000, which will be subject to the transition provision of SFAS Nos. 141 and 142. Amortization expense related to goodwill and other intangibles was $43,607 for the six-month period ended December 31, 2001. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on our financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principles.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset.

The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending September 30, 2002. To accomplish this, the Company must identify legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. Because of the effort necessary to comply with the adoption of SFAS No. 143, it is not practicable for management to estimate the impact of adopting this Statement at the date of this report.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. SFAS No. 144 retains the basic provisions of APB Opinion 30 on how to present discontinued

operations in the income statement but broadens that presentation to include a component of an entity rather than a segment of a business.

The Company is required and plans to adopt the provisions of SFAS No. 144 for the quarter ending September 30, 2002. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Company's financial statements.

Business Plan

Over the past seven years, Dynatronics' annual net sales have more than tripled from $4.9 million in fiscal year 1994 to $16.8 million in fiscal year 2001. The Company believes that this growth is the result of many factors including acquisitions, strategic alliances, the introduction of new products and increasing market share. During the quarter ended December 31, 2001, the Company continued to implement a strategy of expanding product lines, strengthening channels of distribution, and developing new products for the rehabilitation and aesthetic markets.

As part of this strategy, in August 2000, the Company announced the signing of an agreement with Alan Neuromedical Technologies (ANT) granting Dynatronics the exclusive license for ANT's patented technology for treating chronic pain. Two devices incorporating the new technology - the Dynatron STS clinical unit and the Dynatron STS Rx prescription unit for home use - were introduced in February 2001 to distributors from around the world at meetings held in Salt Lake City, Utah. Currently, many medical professionals are using STS therapy to treat chronic pain associated with a variety of conditions in patients who had previously experienced only marginal results with traditional therapy regimens. According to the American Pain Foundation, millions of people around the world suffer from chronic pain. The associated costs in the United States alone are estimated to exceed $100 billion annually. There is great demand for an effective treatment in the battle against chronic pain.

In a research study published in the January, 2002 edition of the American Journal of Pain Management, test results showed 85% of chronic pain patients receiving STS treatments realized some reduction of pain - with 50% of the patients becoming totally pain-free. The Company believes that the fact these results were achieved with patients who

had suffered on average for eight years with their chronic pain condition further attests to the effectiveness of this therapy. Additional research studies are planned to further validate the efficacy of this innovative technology. Having the study published in a peer-reviewed medical journal has been an important factor in improving acceptance among medical practitioners and insurance

carriers.

Although the studies so far show that not every chronic pain sufferer will benefit from this therapy, the results do support the Company's belief that many who suffer from chronic pain conditions with a sympathetic bias may benefit from STS treatments.

As with any new medical therapy or technology, we expect that insurance reimbursement may influence the rate of growth of the STS technology. Presently, limited reimbursement is available for STS treatments or home units. Most are reviewed on a case-by-case basis. However, as medical practitioners experience positive outcomes and further research supports the efficacy of this therapy, it is anticipated that reimbursements will be more broadly established. It will take time, perhaps years, to obtain broad acceptance and reimbursement for this new therapy. Notably, this technology potentially holds the key to not only relieving suffering for many chronic pain patients, but significantly reducing the long-term costs of supporting chronic pain patients through reducing intake of expensive narcotic medications or avoiding costly invasive procedures. We believe that as these potential cost savings are realized, insurance companies should begin to view STS treatments as an economical alternative to the traditional treatments for chronic pain sufferers.

Interest in STS technology is experiencing particular growth in the workers compensation market. Several workers' compensation groups have instituted a program to expand the availability of STS treatments to chronic pain sufferers throughout their systems. Management believes the development of the workers compensation market represents an important step in expanding STS treatment programs because a significant number of chronic pain patients are covered under workers' compensation plans.

Dynatronics began selling the Dynatron STS clinical device during the quarter ended March 31, 2001, and the Dynatron STS Rx home unit during the fourth quarter of fiscal year 2001. The home unit is available to patients by prescription from their medical practitioner with financing terms available through third party finance companies.

Another important part of our strategic plan is the expansion of worldwide marketing efforts, particularly into the European Community. In March 2001, Dynatronics' Salt Lake operations, where all electrotherapy, ultrasound, STS devices and Synergie products are manufactured, was designated an ISO 9001 certified facility. With this designation in place, the Company can market products manufactured in this facility in any country that recognizes the CE Mark. We are now working to establish effective distribution of these products in the European Community with additional human and capital resources committed to this expansion effort.

A third strategic component of our growth plan is further expansion into the aesthetics market. The Synergie Peel microdermabrasion device was developed as a companion to the Synergie AMS (aesthetic massage system). Microdermabrasion technology is very popular in the aesthetics industry because of its distinct advantages over chemical and laser peels. The Synergie Peel device has unique competitive

advantages in the market due to its patent-pending design, which eliminates clogging. Furthermore, the combination of the Synergie AMS and Synergie Peel make it not only unique, but the most affordable combination device of its kind on the market.

To take full advantage of the opportunities of the aesthetics market, Dynatronics has continued efforts to establish effective distribution for its aesthetic products. The Company's Chairman, Kelvyn H. Cullimore, is personally managing the effort to establish this distribution. We recently shifted our distribution strategy to establishing dealers who are uniquely focused on the aesthetics market and also to cultivating national accounts. Previously, we had attempted to establish a direct sales force for Synergie products. We changed our strategy because we believe that the dealer strategy requires less overhead expense, is more easily managed and will result in better local control of sales. Controlling and expanding the channels of distribution for these products is expected to ultimately increase sales and allow us to more fully access the potential of the aesthetics products market. We perceive this market to be both lucrative and expanding, particularly as aging baby boomers continue to look for ways to retain a youthful appearance.

Over the past year, we have allocated resources to enhance the Company's presence in the e-business arena. Dynatronics has undertaken to improve the appearance and application of its corporate website and is researching ways to apply electronic media and Internet solutions to better serve customer needs, access new business opportunities, reduce cost of operations, and stay technologically current in the way business is conducted. We believe the allocation of resources to developing e-business capabilities is critical to improving future performance and have made the establishment of these capabilities a focal strategy for the next fiscal year. In February 2001, we launched a new website that we believe better reflects the quality of Dynatronics' products and services. The site may be viewed at www.dynatronics.com. This reference to the Company's website is not intended to incorporate the contents of the website into or as a part of this report.

Based on these strategic initiatives, we are focusing the Company's resources in the following areas:

- Introducing the new Dynatron STS and Dynatron STS Rx therapy products to the billion-dollar chronic pain market. This includes efforts to maximize sales in the face of limited reimbursement by focusing on specific target markets that will embrace STS treatments such as workers compensation programs and thus better educate the medical and insurance communities on the efficacy of STS treatments. Additional research and other related efforts will also be evaluated to obtain broader support of the medical and insurance communities.

- Improving sales and distribution of rehabilitation products domestically through strengthened relationships with dealers, particularly the high-volume specialty dealers.

- Expanding distribution of both rehabilitation and aesthetic products internationally.

- Introducing other new rehabilitation products and aesthetic products that fit the Dynatronics distribution system.

- Applying e-commerce solutions to improving overall performance.

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Cautionary Statement Concerning Forward-Looking Statements

The statements contained in this Report on Form 10-QSB that are not purely historical are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act. These statements refer to our expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. They may be identified by the use of the words or phrases "believes," "expects," "anticipates," "should," "plans," "estimates," "intends," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis or Plan of Operation regarding product development, clinical results, market acceptance, financial performance, revenue and expense levels in the future and the sufficiency of its existing assets to fund future operations and capital spending needs. Actual results could differ materially from the anticipated results or other expectations expressed in such forward-looking statements for the reasons detailed in our Annual Report on Form 10-KSB under the headings "Description of Business" and "Risk Factors." The fact that some of the risk factors may be the same or similar to past reports filed with the Securities and Exchange Commission means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in the industry in which we operate and compete and will likely be present in all periods reported. The fact that certain risks are endemic to the industry does not lessen their significance.

The forward-looking statements contained in this Report are made as of the date of this Report and we assume no obligation to update them or to update the reasons why actual results could differ from those projected in such forward-looking statements. Among others, risks and uncertainties that may affect the business, financial condition, performance, development, and results of operations include:

- The terrorist attacks in New York and Washington, D.C. on September 11, 2001, and the subsequent anthrax attacks on the East Coast of the United Sates appear to be having an adverse effect on business, financial and general economic conditions in the United States. At this time we cannot predict the nature, extent, or duration of these effects on overall economic conditions generally, or on our business and operations specifically.

- Market acceptance of our technologies, particularly our core therapy devices, Synergie AMS/MDA product line and the new Dynatron STS and Dynatron STS Rx products;

- Insurance company reimbursement for STS treatments or the home prescription Dynatron STS Rx device not materializing as expected;

- The ability to hire and retain the services of trained personnel at cost-effective rates;

- Rigorous government scrutiny or the possibility of additional

government regulation of the industry in which we market our products;

- Reliance on key management personnel;

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- Foreign government regulation of our products and manufacturing practices that may bar or significantly increase the expense of expanding to foreign markets;

- Economic and political risks related to expansion into international markets;

- Failure to sustain or manage growth including the failure to continue to develop new products or to meet demand for existing products;

- Reliance on information technology;

- The timing and extent of research and development expenses;

- The ability to keep pace with technological advances, which can occur rapidly;

- The loss of product market share to competitors;

- Potential adverse effect of taxation;

- The ability to obtain required financing to meet changes or other risks described above;

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

At the Company's Annual Meeting of Shareholders held on November 20, 2001, the shareholders of the Company voted on the following proposals:

Proposal 1 - To elect the following seven directors, each to serve until the next annual meeting of shareholders and until his successor is elected and shall have qualified: Kelvyn H. Cullimore, Kelvyn H. Cullimore, Jr., Larry K. Beardall, E. Keith Hansen MD, Joseph H. Barton, Howard L. Edwards and Val J. Christensen.

Proposal 2 - To approve the extension of the termination date of the Company's Stock Option Plan to September 18, 2011.

Proposal 3 - To approve the Board of Directors' selection of KPMG LLP as the Company's independent auditors.

Each of the proposals was approved by the requisite majority of the shares cast at the annual meeting. Voting results were as follows:

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Proposal 1:	For	Against	Abstain
Mr. Cullimore	7,834,782	2,100	85,500
Mr. Cullimore, Jr.	7,835,882	1,000	85,500
Mr. Beardall	7,836,882	0	85,500
Dr. Hansen	7,836,882	0	85,500
Mr. Christensen	7,835,682	1,200	85,500
Mr. Barton	7,836,782	100	85,500
Mr. Edwards	7,836,782	100	85,500

Proposal 2:	For	Against	Abstain
	2,682,551	608,796	26,215

Proposal 3:	For	Against	Abstain
	7,788,092	36,600	12,090

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNATRONICS CORPORATION
Registrant

Date 2/13/02

/s/ Kelvyn H. Cullimore, Jr.
Kelvyn H. Cullimore, Jr.
President, Chief Executive Officer
and Principal Accounting Officer

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