DYNATRONICS CORP
Form 10QSB
November 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 SEPTEMBER 30, 2002.

[ ] 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 November 11, 2002 is 8,869,335.

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

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Balance Sheets
(Unaudited)

Assets	September 30, 2002
Current assets:	
Cash	$ 326,481
Trade accounts receivable, less allowance for doubtful accounts of $183,763 September 30, 2002 and $165,763 at June 30, 2002	3,453,739
Other receivables	64,956
Inventories	3,916,006
Prepaid expenses	389,427
Deferred tax asset-current	276,905
Total current assets	8,427,514
Property and equipment, net	3,321,998
Goodwill, net of accumulated amortization of $649,792 at September 30, 2002 and at June 30, 2002	789,422
Other assets	293,244
	$ 12,832,178
Liabilities and Stockholders' Equity	
Current liabilities:	
Current installments of long-term debt	$ 225,604

Line of credit	1,369,262
Accounts payable	550,523
Accrued expenses	372,734
Accrued payroll and benefit expenses	247,252
Income tax payable	98,580
Total current liabilities	2,863,955
Long-term debt, excluding current installments	1,896,137
Deferred compensation	288,085
Deferred tax liability - noncurrent	99,160
Total liabilities	5,147,337
Stockholders' equity:	
Common stock, no par value. Authorized 50,000,000 shares; issued 8,869,335 shares at September 30, 2002 and 8,928,774 shares at June 30, 2002	2,478,981
Treasury stock, zero common shares at cost at September 30, 2002 and 59,439 at June 30, 2002	-
Retained earnings	5,205,860
Total stockholders' equity	7,684,841
	$ 12,832,178

See accompanying notes to financial statements.

DYNATRONICS CORPORATION
Condensed Statements Of Income
(Unaudited)

	Three Months E September 3 2002
Net sales	$ 4,115,770
Cost of sales	2,450,169
Gross profit	1,665,601
Selling, general, and administrative expenses	1,234,416
Research and development expenses	212,060
Operating income	219,125

Other income (expense):	
Interest income	10
Interest expense	(45,876)
Other income, net	2,783
Total other income (expense)	(43,083)
Income before income taxes	176,042
Income tax expense	67,776
Net income	$ 108,266
Basic and diluted net income per common share	$ 0.01
Weighted average basic and diluted common shares outstanding (note 2)	
Basic	8,869,335
Diluted	8,869,335

See accompanying notes to condensed financial statements.

DYNATRONICS CORPORATION
Statements of Cash Flows
(Unaudited)

	Three Sep 2002
Cash flows from operating activities:	
Net income	$ 108,2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization of property and equipment	74,0
Other amortization	1,8
Provision for doubtful accounts	18,0

Provision for inventory obsolescence	60,0
Provision for warranty reserve	53,4
Provision for deferred compensation	5,8
Change in operating assets and liabilities:	
Receivables	(322,0
Inventories	(139,2
Prepaid expenses and other assets	(35,8
Accounts payable and accrued expenses	209,2
Income taxes payable	67,7
Net cash provided by operating activities	101,3
Cash flows from investing activities:	
Capital expenditures	(51,0
Cash flows from financing activities:	
Principal payments on long-term debt	(54,1
Net change in line of credit	(66,4
Proceeds from sale of common stock	
Net cash provided by (used in) financing activities	(120,5
Net increase in cash and cash equivalents	(70,3
Cash at beginning of year	396,8
Cash at end of year	$ 326,4
Supplemental disclosures of cash flow information:	
Cash paid for interest	$ 49,1
Cash paid for income taxes	49,0
Supplemental disclosure of non-cash investing and financing activities:	
Common stock issued in exchange for cashless exercise of options using mature stock	$

See accompanying notes to financial statements.

DYNATRONICS CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2002
(Unaudited)

NOTE 1. PRESENTATION

The financial statements as of September 30, 2002 and June 30, 2002 and for the three months ended September 30, 2002 and 2001 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, 2002. 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 months ended September 30, 2002 and 2001 is summarized as follows:

	(Unaudited) Three Months Ended September 30, 2002	2001
Basic weighted average number of common shares outstanding during the period	8,869,335	8,831,216
Weighted average number of dilutive common stock options outstanding during the period	-0-	147,213
Diluted weighted average number of common and common equivalent shares outstanding during the period	8,869,335	8,978,429

Outstanding options not included in the computation of diluted net income per share for the three month periods ended September 30, 2002 and 2001 total 971,403 and 202,297 respectively, because to do so would have been anti-dilutive.

NOTE 3. COMPREHENSIVE INCOME

For the periods ended September 30, 2002 and 2001, 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:

	September 30 2002	June 30 2002
Raw Material	$ 2,419,340	2,555,535
Finished Goods	1,822,358	1,546,908
Inventory Reserve	(325,692)	(265,692)
	$ 3,916,006	3,836,751

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment were as follows:

	September 30 2002	June 30 2002
Land	$ 354,743	354,743
Buildings	2,877,980	2,871,286
Machinery and equipment	1,612,450	1,603,963
Office equipment	377,967	352,502
Vehicles	72,148	61,771
	5,295,288	5,244,265
Less accumulated depreciation and amortization	1,973,290	1,899,206
	$ 3,321,998	3,345,059

NOTE 6. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 prohibits the use of the pooling-of-interest 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 that intangible assets acquired in a purchase method business combination must meet certain criteria to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized effective July 1, 2002; rather, these assets must be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Beginning July 1, 2002, the Company adopted the provisions of SFAS No. 142. In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Company will perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. The Company has determined that it has one reporting unit. The Company will have six months from the date of adoption to determine the fair value of the Company and compare it to the carrying amount of the Company. Should the carrying amount of the Company exceed the fair value of the Company, an indication exists that the Company's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair

value of goodwill with the carrying amount of the Company's goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the Company to all of the assets (recognized and unrecognized) and liabilities of the Company in a manner similar to a purchase price allocation in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the goodwill. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of income.

Goodwill. The cost of acquired companies in excess of the fair value of the net assets and purchased intangible assets at acquisition date is recorded as goodwill. As of June 30, 2002, the Company had goodwill, net, of $789,422 from the acquisition of Superior Orthopaedic Supplies, Inc on May 1, 1996 and the exchange of Dynatronics Laser Corporation common stock for a minority interest in Dynatronics Marketing Corporation on June 30, 1983. Through June 30, 2002, goodwill was amortized over a period of 15 and 30 years, respectively, on a straight-line basis. The following table sets forth reported net income and basic and diluted net income per share, as adjusted, to exclude amortization of goodwill which would not have been recorded under SFAS No. 142:

	Three months ended September 30, 2001

Net income, as reported	$	96,843
Amortization expense of goodwill, net of tax		13,409
Net income, as adjusted	$	110,252
Basic net income per share, as reported	$	0.01
Diluted net income per share, as reported		0.01
Amortization expense of goodwill basic and diluted share		-
Basic net income per share, as adjusted		0.01
Diluted net income per share, as adjusted		0.01

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	Year ended June 30, 2002		2001
Net income, as reported	$	316,101	334,179
Amortization expense of goodwill, net of tax		57,018	57,018
Net income, as adjusted	$	373,119	391,197
Basic net income per share, as reported	$	0.04	0.04
Diluted net income per share, as reported		0.04	0.04
Amortization expense of goodwill per basic and diluted share		0.01	0.01
Basic net income per share, as adjusted		0.04	0.04
Diluted net income per share, as adjusted		0.04	0.04

License Agreement. Identifiable intangible assets consist of a license agreement entered into on August 16, 2000 for a certain concept and process relating to a patent. The license agreement is being amortized over ten years on a straight-line basis. The following table sets forth the gross carrying amount, accumulated amortization and net carrying amount of the license agreement:

	As of September 30, 2002		As of June 30, 2002
Gross carrying amount	$	73,240	73,240
Accumulated amortization		15,258	13,427
Net carrying amount	$	57,982	59,813

Amortization expense associated with the license agreement was $1,831 for both the three months ended September 30, 2002 and 2001. Estimated amortization expense for the existing license agreement is expected to be $7,324 for each of the fiscal years ending June 30, 2003 through June 30, 2010.

NOTE 7. COMMON STOCK.

During the three months ended September 30, 2002 the Company canceled 59,439 shares of treasury stock.

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 for the quarter ended September 30, 2002 were $4,115,770, compared to $4,167,287 during the same period last year. Net income for the quarter ended September 30, 2002 increased 12% to $108,266 compared to $96,843 in the prior year period. The profits for the first fiscal quarter reflect the continuing success of our `Back to Basics' program. This program, initiated at the first of the calendar year, undertakes a thorough evaluation of corporate overhead expenses and refocuses corporate resources to achieve both long-term and short-term strategic objectives. The results have generated improvements in operating efficiencies, reduced overhead expenses and accelerated new product development. In addition, amortization of intangibles decreased from $23,635 to $1,831 for the quarter ended September 30, 2002 as compared to the same quarter in 2001. The decrease is the result of our adoption as of July 1, 2002, of the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets that eliminated the amortization of goodwill. During the quarter ended September 30, 2001, Dynatronics recorded amortization expense of $21,804 that would not have been recorded under SFAS No. 142.

Total gross profit during the quarter ended September 30, 2002 was $1,665,601 or 40.5% of sales compared to $1,731,939 or 41.6% of sales in the quarter ended September 30, 2001. While gross margin dropped slightly as a percentage of sales, such fluctuations from quarter to quarter can be expected depending on the mix of products sold during the period. Going forward, we believe gross profit as a percentage of sales will improve as a result of our strategic initiatives to lower manufacturing costs through the automation of certain manufacturing processes and overseas sourcing of high-volume products. In addition, we plan to introduce several new, higher-margin products during this fiscal year, which are expected to increase overall margins.

Selling, general and administrative (SG&A) expenses for the three-month period ended September 30, 2002, decreased to $1,234,416 or 30.0% of sales compared to $1,333,469 or 32.0% of sales in the same period of the prior year. The $99,053 decrease in SG&A expenses reflects our efforts to reduce operating expenses through the Back to Basics program that targeted a $500,000 annual reduction in expenses beginning January 2002. We reduced certain selling expenses in the quarter ended September 30, 2002 to be more consistent with strategic focus on core products. We also realized savings in labor expense related to personnel reductions. Interest expense also decreased markedly due to reduced rates and more importantly to a much lower outstanding balance on our line of credit resulting from a $1,400,000 reduction in inventory and accounts receivable since September 30, 2001. In addition, we were able to eliminate $21,804 of goodwill expense in the quarter ended September 30, 2002 as a result of the adoption of new accounting pronouncements affecting goodwill.

Research and development (R&D) expenses during the three-month period ended September 30, 2002 totaled $212,060 compared to $161,436 for the same period in 2001. This $50,000 increase in R&D expenses is part of a major R&D campaign to

develop several new products including a low-power laser device, a combination STS/Interferential device, and a redesign of our primary line of therapy devices. In addition, we will undertake important clinical research studies related to the STS and laser technologies. As a result, R&D expenses in fiscal year 2003 are budgeted to be significantly higher than prior years due to these extensive development plans.

Pre-tax profit for the quarter ended September 30, 2002 was $176,042 compared to $160,281 during the same period of the prior year. Reduced expenses achieved through the Back to Basics program along with the elimination of goodwill expense and lower interest expense account for this increase.

Income tax expense for the three months ended September 30, 2002 was $67,776 compared to $63,438 in the three months ended September 30, 2001. The effective tax rate for the quarter ended September 30, 2002 was 38.5% compared to 39.6% in the prior year period.

Net income for the quarter ended September 30, 2002 increased 12% to $108,266 (approximately $.01 per share), compared to $96,843 (approximately $.01 per share) in the same quarter in 2001. We have improved profitability due to the stability in demand for our core products, the implementation of strategic initiatives to improve operating efficiencies and reduce overhead expenses, the elimination of goodwill amortization and the reduction of interest expense.

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 September 30, 2002 was 2.9 to 1 compared to 3.1 to 1 at June 30, 2002. Current assets represent 66% of total assets at September 30, 2002.

Net accounts receivable at September 30, 2002 were $3,453,739 compared to $3,156,436 at June 30, 2002. The days of sales outstanding in accounts receivable increased to 77 days at September 30, 2002 from 71 days at June 30, 2002. Accounts receivable are from the dealer network and are generally considered to be within term.

All accounts payable are within term. We continue to take advantage of available payment discounts when possible.

We have a revolving line of credit facility with a commercial bank in the amount of $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 September 30, 2002 was $1,369,262 compared to $1,435,689 at June 30, 2002. The line of credit is secured by inventory and accounts receivable and bears interest at the bank's "Prime Rate," which was 4.75% per annum at September 30, 2002. This line is subject to annual renewal and matures on December 1, 2002. Accrued interest is payable monthly. Renewal of the line with our existing commercial bank is fully expected.

Inventory levels, net of reserves, totaled $3,916,006 at September 30, 2002, compared to $3,836,751 at June 30, 2002. While inventory levels have been significantly reduced from the same period a year ago, we expect inventory levels during the latter part of fiscal year 2003 to increase concurrently with the introduction of several new products currently being developed, including a low-power laser device.

Long-term debt excluding current installments totaled $1,896,137 at September 30, 2002, compared to $1,950,309 at June 30, 2002. 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 $21,409.

Critical Accounting Policies

In Note 1 to the consolidated financial statements attached to our Annual Report on Form 10-KSB for the year ended June 30 2002, we discuss those accounting policies that are considered to be significant in determining our results of operations and financial position. In all material respects, the accounting principles that are utilized conform with generally accepted accounting principles in the United States of America.

The preparation of consolidated financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, we evaluate these estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. We base our estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual results may differ from these estimates under different assumptions or conditions.

With respect to inventory reserves, revenue recognition and allowance for doubtful accounts, we apply the following critical accounting policies in the preparation of the 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 costs (first-in, first-out) or market. Raw materials are stated at the lower of cost (first-in, first-out), or market. Inventory 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;

o Forecast sales;
o Product obsolescence; and o Technological innovations.

Any modifications to estimates of its reserves are reflected in the cost of goods sold within the statement of operations during the period in which such modifications are determined necessary by management. At September 30, 2002 and June 30, 2002, our inventory reserve balance was $325,692 and $265,692, respectively and our inventory balance was $3,916,006 and $3,836,751 net of reserves, respectively.

Revenue Recognition

Our products are sold primarily through a network of independent distributors. Sales revenues are generally recorded when products are shipped under an agreement with a distributor or customer, risk of loss and title have passed and collection of any resulting receivable is reasonably assured. The distributors, who sell the products to other customers, take title to the products, have no special rights of return, and assume the risk for credit and obsolescence.

Allowance for Doubtful Accounts

We must make estimates of the collectibility of accounts receivables. In doing so, we analyze accounts receivable and historical bad debts, customer credit-worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was $3,453,739 and $3,156,436, net of allowance for doubtful accounts of $183,763 and $165,763, at September 30, 2002 and June 30, 2002, respectively.

Recent Accounting Pronouncements

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.

We adopted the provisions of SFAS No. 143 during the quarter ended September 30, 2002 and determined there was no liability for asset retirement obligations. Thus, the adoption of SFAS No. 143 did not impact our operating results or financial condition.

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.

We adopted the provisions of SFAS No. 144 during the quarter ended September 30, 2002. The adoption of SFAS No. 144 for long-lived assets held for use did not have a material impact on our 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 to newly initiated disposal activities.

Business Plan

Over the past five years, annual net sales have grown 60 percent from $10.2 million in fiscal year 1997 to $16.3 million in fiscal year 2002. During fiscal year 2003, we will continue to implement a strategy of expanding product lines, strengthening channels of distribution, and developing new products for the rehabilitation and aesthetic markets.

To further strengthen our position in the core physical medicine market, we plan to introduce several new products in the current fiscal year, including a low-power laser device. In the early 1980's we attempted to gain FDA approval for a low-power laser device, but were unsuccessful. At that time the laser device was the only product we offered - a fact reflected in the original name of the company, Dynatronics Laser Corporation. When we were unable to obtain approval for the low power laser device, we began pursuing the development of other physical medicine modalities and subsequently changed our name to Dynatronics Corporation. A recent change in the regulatory landscape now allows the introduction of low-power laser devices for the treatment of pain. We believe the company enjoys a residual reputation as a pioneer in this field and we intend to capitalize on that by introducing a technologically advanced, yet affordable, low-power laser product in late fiscal year 2003.

In addition to the low-power laser device, over the course of the fiscal year we will introduce a new line of electrotherapy and ultrasound products incorporating advanced technology features and design. This new line of products is expected to further enhance our share of the electrotherapy and ultrasound market.

Over the past year, we enhanced our manufacturing capabilities with the goal of improving margins and competitive pricing capability. To that end, some products previously contracted to other manufacturers are being converted to in-house manufacturing. Other products are being contracted for overseas manufacturing.

During fiscal year 2003, we will continue to emphasize our "Back to Basics" plan. Resources are being allocated to strengthen our core market emphasis and products. We will incur more research and development expense in 2003 than at any time since the early days of seeking FDA approval for our first low-power laser product. All of these efforts are designed to increase market share and improve profitability in the coming years.

In August 2000, we acquired an exclusive license for the patented STS 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 fiscal year 2001. The treatment delivered by these devices is referred to as Sympathetic Therapy or STS Therapy. Medical professionals have used this 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 STS-treated patients suffering pain associated with peripheral neuropathies realized some reduction of pain, with 50% of the patients becoming totally pain-free. We believe 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 underway to further validate the efficacy of this innovative technology.

As with many new medical therapies or technologies, 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. STS treatments are not a panacea and do not help every chronic pain sufferer. However, they seem to be particularly effective with pain conditions that present with a sympathetic bias.

We have perceived increasing interest in STS technology in the workers compensation market. Workers' compensation carriers in several states have adopted or are considering offering an STS trial program to their clients. We believe 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.

The development of the STS technology as an effective weapon in the treatment of chronic pain remains one of our strategic objectives. We continue to receive reports of chronic pain sufferers who have attained significant, if not total, relief from their pain even after years of suffering. While the potential for a non-invasive, non-addictive, safe alternative for the treatment of chronic pain would seem to be vast, the realities of accessing that market will demand vigilance over the coming years to fully exploit that potential.

Another important part of our strategic plan is the expansion of worldwide marketing efforts, particularly into the European Community. In March 2001, our Salt Lake operation, where all electrotherapy, ultrasound, STS devices and

Synergie products are manufactured, was designated an ISO 9001 certified facility. With this designation, we 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.

To take full advantage of the opportunities of the aesthetics market, we will continue to refine our efforts to establish effective distribution for our line of aesthetic products. Our 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 and direct sales. 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 two years, we have allocated resources to enhance our presence in the e-business arena. We have undertaken to improve the appearance and application of our corporate website and we are 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 this fiscal year. Our website may be viewed at www.dynatronics.com. This reference to our 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 our resources in the following areas:

- Reinforce our position in the physical medicine market through an aggressive research and development campaign that will result in the introduction of several new products.

- Continue implementation of our "Back to Basics" program which evaluates ways to improve margins and competitive pricing through strategic manufacturing processes and alliances as well as controlling expenses.

- Maximize sales of the Dynatron STS technology 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. This includes conducting additional research and other related activities to obtain broader support from the medical and insurance communities.

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

- Expand distribution of both rehabilitation and aesthetic products internationally.

- Apply e-commerce solutions to improving overall performance.

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 States have had 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 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;

- 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;

Item 3. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer/Chief Financial Officer and Chief Accounting Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-14(c) and 15d-14(c)) as of a date within 90 days before the filing date of this quarterly report. Based on that evaluation, they have concluded that our current disclosure controls and procedures are effective in providing the material information required to be disclosed in the reports we file or submit under the Exchange Act.

Changes in Internal Controls. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

PART II. OTHER INFORMATION

Nasdaq Listing Maintenance Requirements. On July 29, 2002, we received notice from The Nasdaq Stock Market that for 30 trading days the price of our common stock had closed below the minimum $1.00 per share bid price required for

continued listing on the Nasdaq SmallCap Market by Marketplace Rule 4450(a)(5). Under Marketplace Rule 4450(c)(2), we will be provided approximately one year, or until July 27, 2003, to regain compliance with the $1.00 minimum bid price requirement. We can regain compliance with the minimum bid price requirement if, at any time before July 27, 2003, the bid price of our common stock closes at $1.00 per share or more for a minimum of 10 consecutive trading days. Should we fail to regain compliance, Nasdaq stated that it would provide us with written notification that our common stock will be delisted from the Nasdaq SmallCap Stock Market. Removal of our common stock from listing on the Nasdaq Stock Market would likely have an adverse impact on the trading price and liquidity of our common stock.

Item 6. Exhibits and Report on Form 8-K.

(a) Exhibits

99.1 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K. None.

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 11/13/02

s/ Kelvyn H. Cullimore, Jr.

Kelvyn H. Cullimore, Jr.
President and Chief Executive Officer
duly authorized officer)

Date 11/13/02

/s/ Terry M. Atkinson

Terry M. Atkinson
Controller
(Chief Accounting Officer)

CERTIFICATIONS

I, Kelvyn H. Cullimore, Jr. certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dynatronics Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary

to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Kelvyn H. Cullimore, Jr.

Kelvyn H. Cullimore, Jr.
President and Chief Executive Officer

I, Terry M. Atkinson certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dynatronics Corporation;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the `registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Terry M. Atkinson

Terry M. Atkinson
Controller
(Chief Accounting Officer)

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EXHIBIT 99.1

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

In connection with the Quarterly Report of Dynatronics Corporation on Form 10-QSB for the period ending September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kelvyn H. Cullimore, Jr., Chief Executive Officer and Terry M. Atkinson, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Kelvyn H. Cullimore, Jr.

Kelvyn H. Cullimore, Jr.
President and Chief Executive Officer
Dynatronics Corporation

/s/ Terry M. Atkinson

Terry M. Atkinson
Controller
(Chief Accounting Officer)