Initial Report

Investors should consider this report as only a single factor in making their investment decision.

Zynex, Inc.

Rating: Speculative Buy

Juan Noble

September 28, 2012

ZYXI $0.76 (ZYXI: OTC)

	2011A	*2012E*	*2013E*	*2014E*
Total revenues (in millions)	***$ 34.1***	***$ 40.9***	***$ 47.6***	***$ 56.1***
Earnings (loss) per share	***$ 0.05***	***$ 0.06***	***$ 0.07***	***$ 0.10***

52 - Week range	$1.01 – $ 0.55	Fiscal year ends:	December
Shares outstanding as of Aug. 13, 2012	31.1 million	Revenue/share (ttm)	$0.30
Approximate float	12.0 million	Price/Sales (ttm)	2.5X
Market Capitalization	$23.7 million	Price/Sales (2014)E	0.45X
Tangible Book value as of Jun. 30, 2012	$0.34	Price/Earnings (ttm)	11.9X
Price/Book	2.2X	Price/Earnings (2014)E	8.0X

Zynex, Inc., based in Lone Tree, Colorado, manufactures a line of electrotherapy devices that relieve pain while reducing reliance on drugs, and speeds rehabilitation and recovery of i mobility. The company also produces diagnostic devices and distributes electrotherapy systems manufactured by others. A substantial portion of revenue is recurring – device rentals and the sale of electrodes and batteries sent to patients using rented or purchased units.

Key Investment Considerations:

Initiating as Speculative Buy with a $1.10 (12-month) price target.

The rising prevalence of chronic pain associated with age-related illnesses should drive the growth in demand for Zynex's noninvasive electrotherapy technology, which treats a broad range of pain conditions.

The US electrotherapy market is projected to grow to $820 million by 2016, up from $600 million in 2012.

By expanding its sales force, adding new products, and increasing the number of its electrotherapy systems in service, Zynex increased its sales 44% annually from 2007 to 2011, significantly outpacing the US medical device market's 14.2% growth during the same period.

That growth rate will moderate as the company expands, but continued market penetration, new products, recent acquisitions, and overseas expansion should drive annual revenue gains of 15%+ during the next two to three years.

Due partly to a large recurring high-margin revenue stream, Zynex's gross margin of 80%+ is exceptionally high. As the company achieves better control of its operating expenses, leverage should significantly improve profitability.

For 2012 we project EPS of $0.06 on revenue of $40 million. Sales growth to an estimated $56 million by 2014 should drive EPS to $0.10 per share.

By our estimates, the company's borrowing facility will have to be expanded by mid-2013, as growth will increase financing needs beyond the limit of its current lending agreement.

See disclosures on pages 18 - 20

Investment Recommendation

Initiating as Speculative Buy with a $1.10 (12-month) price target.

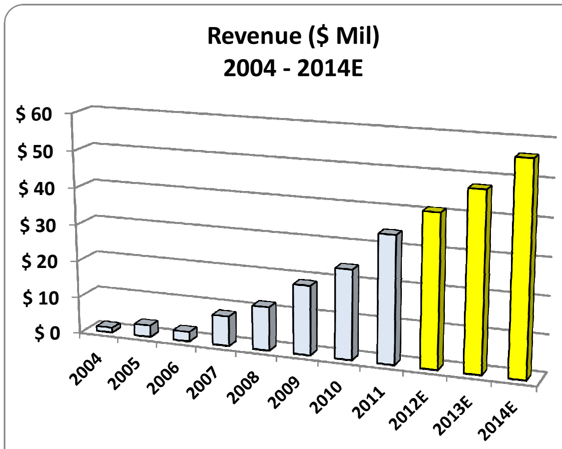
ZYXI is trading at 11.9X trailing EPS vs. the medical device industry's P-E of 15.6X on trailing 12-month earnings. We believe that within the next year, the stock will trade at around the same multiple on forward (2014) earnings. A 12X multiple on our 2014 EPS estimate of $0.10 per share, discounted by 7% to a year-ahead value, would value the stock at $1.10, implying stock price appreciation of 40% within the next 12 months.

ZYXI is a high-growth company that offers potentially attractive investment returns. But in our view, the stock's small float and low trading volume, a high concentration of stock ownership and potential difficulties relating to reimbursement make it suitable mainly for highly risk-tolerant investors

Overview

Zynex, Inc., headquartered in Lone Tree, Colorado, was founded in 1996 and became a publicly held company in 2004 through a reverse merger with a publicly held shell company. Zynex operated as a wholesaler of European-made electrotherapy devices until its first medical device was cleared by the Food and Drug Administration (FDA) in 1999. In 2003 Zynex's full line of electrotherapy devices and a stroke rehabilitation device were cleared by the FDA. In 2008 some of its major products were cleared for marketing in Europe.

Revenue has increased sharply, growing threefold in the last three years alone. Profitability, however, has been less consistent despite a gross margin that significantly exceeds the medical device industry's gross margin of 50%. Although Zynex has been profitable since 2007, net income has fluctuated widely due mainly to sharp swings in operating expenses.



Source: Company reports and Taglich Brothers estimates

By 2014, revenue should ramp to $56 million, driving earnings growth an average of 21% annually to $0.10 per share. Cash earnings through 2014 should remain strong but increases in working capital will require additional financing that, by 3Q13, is likely to exceed the limit of Zynex's current lending agreement.

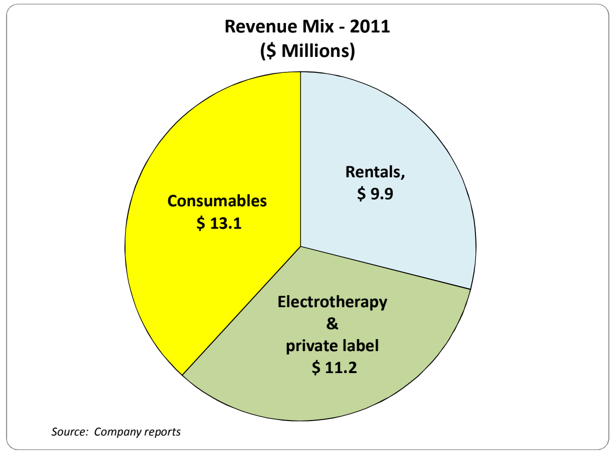
Zynex manufactures a line of pain management neuromodulator devices that reduce reliance on drugs and promotes rehabilitation and increased mobility. Zynex's non-invasive transcutaneous electrical nerve stimulation (TENS) and interferential current (IF) systems have been used to treat pain ranging from mild persistent problems such as sore muscles to acute postoperative pain.

The company's neuromuscular electrical stimulation (NMES) systems are used mainly by physical therapists to treat victims of trauma, stroke, or incidents that degrade muscle function, enabling stroke or spinal injury victims to regain lost mobility, functionality, speech, and memory.

In March 2012 Zynex expanded its product line with the acquisition a diagnostics business that manufactures electromyography (EMG) and photoelectric plethysmography (PPG) systems. The company's diagnostic devices are sold mainly overseas through distributors.

In addition to its own products, Zynex distributes private labeled electrical stimulation devices, electrodes and batteries produced by other US manufacturers. A substantial portion of revenue is recurring. Rentals and electrodes and batteries sold to patients using either rental or purchased units account for two-thirds of revenue.

Zynex's products are either purchased or rented on a monthly basis, mainly by patients, health care providers and distributors. Health insurers that cover patients generally determine, based on the anticipated time the device will be used, if devices will be rented or purchased. More than half of revenue consists of sales to patients covered by private health insurance plans. Patients also include Medicare and Medicaid beneficiaries. Returned rental units are refurbished and made available for future rentals. Rental margins and margins on consumables, typically around 80%, range significantly higher than the 50% margins on device sales.



At present, all of the company's revenue derives from electrotherapy systems but products that could potentially expand and diversify the company's target patient populations are in development. Zynex is developing electromyography (EMG), electroencephalography (EEG), sleep pattern, auditory and nerve conductivity neurological diagnosis devices for use in hospitals and clinics. Cardiac monitoring systems are also in development.

In the US, which accounts for most of its sales, the company sells its medical devices through a sales force of 200, two-thirds of whom are independent sales representatives. The remainder are in-house sales representatives, who have become an increasingly large proportion of the sales force. Overseas, Zynex has distributors in Canada, Australia, Southeast Asia, the United Arab Emirates, the Netherlands, and Germany. An international sales manager oversees distributors covering Asia and the Middle East.

Strategy

Zynex aims to increase market penetration by expanding its sales force, mainly through the recruitment of in-house sales representatives. In the US, the company covers 38 states through 200 sales representatives, up from 100 in December 2010. In-house sales representatives presently make up one-third of the sales force. Sales representatives also play a customer service role. They maintain consigned inventory to ensure rapid delivery and visit patients to train them in the use of their purchased or rented electrotherapy devices.

Market penetration gains are based in part on increases in electrotherapy systems in service, raising the demand for high-margin consumables such as electrodes and batteries.

Zynex now has 22 international distributors in Canada, Australia, Asia and the Middle East. In February 2012, the company formed a European subsidiary to focus on the European market, where several products have received regulatory clearance (CE mark) that could facilitate entry into other developed markets. The company plans to expand into new markets by developing new neurodiagnostic and cardiac monitoring products, and by making accretive acquisitions. In March 2012, Zynex acquired a device used by clinicians and therapists for surface electromyography (sEMG) muscle monitoring and rehabilitation.

To respond more effectively to fluctuating volume, minimize capital expenditures, and spread the risk of quality deficiencies and supply interruptions, Zynex maximizes its use of contract manufacturers, of which there are a large number of qualified ones available in the US and overseas. Despite reliance mainly on contractors to process the bulk of the company's manufacturing requirements, Zynex has expanded its in-house production capability for certain TENS units.

Most of the company's technology – TENS was developed 30 years ago – is not patent protected. To keep its product knowledge proprietary, Zynex internally develops software for all of its products. All products are tested in-house to ensure quality and patient safety, and reduce the cost of warranty expenses.

Projections

Operations By 2014, revenue should grow to an estimated $56 million, driven by increased market penetration and sustained demand for electrical stimulation pain management and rehabilitation technology. Despite competitive pressure in a market segment with largely comparable electrotherapy products, Zynex should maintain a high growth rate, albeit a more moderate one than the company achieved during the past five years.

By establishing a rental business and manufacturing most of the products it markets, Zynex earns exceptional manufacturing margins that significantly exceed that of the industry. High gross margins are also supported by distribution of third-party manufacturers' consumables, mainly electrodes and batteries, that account for 40% of revenue (vs. 8% for the TENS segment of the neuromodulator market). But sales and marketing expenses have cut deeply into operating income. By using a large sales force rather than distributors, the company has achieved significantly better market penetration and rapid revenue gains but has done so at a high cost reflected in its sales and marketing expense margins.

Pricing pressure from competing products and resistance from health insurers could limit pricing flexibility, potentially narrowing margins. Sales and marketing expense margins have been persistently high and have widened in recent quarters, constraining profit gains. The company's difficulty in adapting to new electronic claims filing processes has resulted in some reimbursement losses and significantly slowed collections, increasing financing needs sharply during the past year and a half. But despite competitive pressure and reimbursement difficulties, revenue gains should drive strong earnings growth during the next two to three years.

For 2012 we project a profit of $1.8 million, or $0.06 per share, on revenue of $41 million. Sales should rise 20%, led by product sales. The gross margin will widen to 80% from 78.4% due mainly to rental revenue gains and margin improvement. Sales and gross margin gains will increase gross profit by 22% to $32.7 million. Operating expenses will increase an estimated 24% to $29.3 million due mainly to a 52% rise in sales and marketing expenses to $14.2 million. The operating expense margin will widen to 71.6% from 69.3%, compressing the operating margin to 8.4% from 9.1%. With no leveraging of operating expenses, operating income will rise only 11% to $3.4 million.

Our 2012 estimates do not reflect the potential impact of a pending $2.5 million litigation settlement, a liability that would be covered by the company's insurers.

Despite higher average debt balances in 2012, interest expense will drop 21% to $355,000, due to easier comparisons with 2011 interest expense, which included a $139,000 debt extinguishment charge. Excluding that 2011 charge, interest expense will increase an estimated 14%.

Pretax income will rise an estimated 16% to $3.1 million, with net income and earnings per share showing a comparable growth rate.

For 2013 and 2014, we project revenue gains of 16% and 18%, respectively, to $47.6 million and $56.1 million. Gross margins will, by our estimates, remain largely flat but leveraging of operating expenses should increase operating income in both years by more than 20%. Operating margins should widen slightly, to 9% in 2013 and 10.3% in 2014, as sales and marketing expense margins narrow due to economies achieved as the proportion of higher-cost independent representatives in the sales force diminishes.

Due to heavier borrowing, 2013 interest expense will increase by 27% to $450,000, and rise another 7% to $480,000 in 2014. Pretax and net income will rise by 20% in 2013, and 36% in 2014, with EPS increasing at comparable rates.

By our estimates, in 3Q13 peak quarterly borrowings will slightly exceed the $7 million lending limit under the agreement with Doral Healthcare Finance, requiring Zynex to ask for a waiver or an amendment before the agreement expires in December 2014.

<u>Finances</u> Trading asset turnover has been slow, requiring the use of increased bank borrowing. DSO has been around 115 for the past year and a half. In the same period, turnover of inventory (which includes units held for rental) has slowed from 1.6X to 1.2X. Inventory is generally high, as the independent sales representatives maintain supplies that enable them to rapidly fill orders. Inventory turnover slowed further in the aftermath of the September 2011 launch of NexWave, a pain management/muscle rehabilitation device which was placed in distribution channels in preparation for its release. Inventory turnover should increase during the next year as NexWave inventories are sold.

Estimated 2012 cash earnings of $2.7 million will be offset by a $3.6 million increase in working capital stemming from a rise in receivables and inventory, offset partly by increases in payables and accruals. Cash of $815,000 used in operations and capital expenditures of $1.4 million for rental equipment will be covered by $3 million in additional borrowing. Cash will increase by $315,000 to $1.1 million at the end of 2012.

Cash earnings for 2013 and 2014 of $2.7 million and $3.7 million, respectively, will be offset, as in 2012, by increases in working capital driven mainly by increases in receivables and inventory. Cash from operations - $1.5 million in 2013 and $1.7 million in 2014 - will fall short of capital expenditures in both years. With additional borrowing of $500,000 in 2013, cash will increase an estimated $226,000 to $1.3 million at the end of the year. In 2014 cash will increase by $518,000 to $1.8 million as an additional $750,000 in borrowing is used to cover cash used in operations and capital expenditures.

2012 Six-Month Results

In the first half of 2012, the company earned a profit of $793,000, or $0.03 per share, on revenue of $19 million. In the year-earlier period, ZYXI earned $0.01 per share on revenue of $15 million. Revenue increased 26% due to a 52% rise in sales of electrotherapy and other private-label products, and a 35% increase in sales of consumables. Those gains were offset in part by an 8% decline in rental revenue.

Sales growth was due mainly to a 47% increase in prescriptions for electrotherapy products, a 35% gain in consumables revenue stemming from the increase in the number of electrotherapy units in service, and a shift in revenue mix to sales vs. rentals. These revenue gains were driven in part by an increase in the number of sales representatives to 200 as of mid-2012 from 175 a year earlier and 100 as of December 2010.

Revenue gains were curtailed to some extent by difficulties relating to HIPAA-mandated (Health Insurance Portability and Accountability Act of 1996) adoption of revised codes used in reimbursement coding insurance claims, and a Department of Health and Human Services (HHS) ruling that requires processing of electronic health care insurance claims with an updated (Version 5010) processing procedure. The HIPAA standards require a higher level of detail and specificity that have proven difficult to adapt to. The conversion to Version 5010 has slowed processing of electronic claims and has added to the difficulty in obtaining reimbursement.

SG&A expenses increased 26% to $14 million due mainly to a 74% rise in sales and marketing expenses to $6.9 million. The increase in sales and marketing reflects commissions paid on sharply increased sales, and expansion of the sales force by recruitment of in-house sales represenatives. G&A expenses increased 18% to $2.2 million due to higher administrative costs related to the increase in the volume of business and the addition of regulatory personnel.

The increases in sales and marketing and G&A were partly offset by slight reductions in reimbursement and billing and engineering and operations expenses. Reimbursement and billing expenses dropped 7% to $4.1 million due to a reduction in staff and easier comparisons with the year-earlier period, during which the company incurred severance costs due to the retirement of a senior employee. Engineering and operations declined 16% to $662,000 due to the reclassification of some R&D expenses as cost of goods sold.

Due to gross profit gains and leveraging of expenses, the operating margin widened to 7.5% from 5.1%. As a result, operating income almost doubled. So did pretax and net income, which increased to $1.2 million and $793,000, respectively.

Finances Zynex is moderately leveraged, with approximately 43% of tangible assets financed with (tangible) stockholders' equity. The balance sheet is much less leveraged now. At the end of 2009, 63% of tangible assets were financed with stockholders' equity.

In the first half of 2012 cash earnings of $1.5 million were offset by a $2.5 million increase in working capital stemming from increases in receivables and inventory. Cash of $1 million used in operations and expenditures for an acquisition and equipment were largely offset by an additional $1.9 million in bank borrowing. During the first half of the year, cash dropped by $166,000 to $623,000 as of June 30, 2012.

Credit Facility Under a December 2011 loan agreement with Doral Healthcare Finance, Zynex has an asset-backed revolving credit facility of up to $7 million at a variable interest rate equal to the LIBOR rate or 3% per annum + 3.75%, whichever is greater. The agreement matures on December 19, 2014.

	Six months ending June 30:		
($ Thousands)	**2012**	**2011**	**%+/-**
Revenue			
Rental	4,499	4,895	(8.1%)
Sales: electrotherapy/private label pdts	6,680	4,370	52.9%
consumables	7,791	5,763	35.2%
Sales revenue	14,471	10,133	42.8%
Total revenue	18,970	15,028	26.2%
Cost of revenue			
Rental	531	726	(26.9%)
Sales	3,068	2,445	25.5%
Total	3,599	3,171	13.5%
Gross profit	15,371	11,857	29.6%
SG&A expenses			
Sales/marketing	6,903	3,966	74.1%
Reimbursement & billing	4,144	4,443	(6.7%)
G&A	2,244	1,903	17.9%
Engineering & operations	662	785	(15.7%)
Total SG&A	13,953	11,097	25.7%
Operating income	1,418	760	86.6%
Interest income		1	NM
Interest expense	(174)	(138)	26.1%
Other income (expense)	(7)	2	NM
Pretax income	1,237	625	97.9%
Income tax	(444)	(251)	76.9%
Net income	793	374	112.0%
Average shares outstanding	31,143	30,957	
Earnings (loss) per share	0.03	0.01	110.8%
Margin Analysis			
Gross margin - total	81.0%	78.9%	
Rental	88.2%	85.2%	
Sales	54.1%	44.1%	
SG&A	73.6%	73.8%	
Sales/marketing	36.4%	26.4%	
Reimbursement & billing	21.8%	29.6%	
G&A	11.8%	12.7%	
Engineering & operations	3.5%	5.2%	
Operating income	7.5%	5.1%	
Net income	4.2%	2.5%	
Tax rate	(35.9%)	(40.2%)	

Source: Company reports

The company may terminate the agreement at any time prior to the maturity date upon 30 days' notice and upon full payment of all outstanding obligations. If Zynex terminates the agreement after December 19, 2012 but before the maturity date, the company must pay a specified early termination fee. As of June 30, 2012, $5.2 million was outstanding under the agreement and $1.8 million was available for borrowing.

As of June 30, 2012, the effective interest rate under the agreement was 9% (7% interest rate and 2% fees). The agreement contains restrictive and financial covenants for asset-backed credit facilities. As of June 30, 2012, the company was in compliance with the financial covenants.

The US Medical Device Market

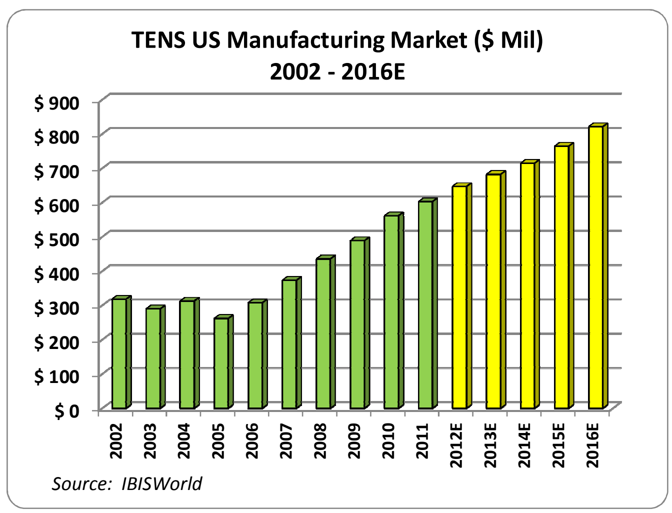
The US medical device market is estimated by IBISWorld at $64.7 billion in 2012, a figure projected to grow 6.5% a year to $94 billion by 2018. Between 1998 and 2006 the industry grew at a snail's pace but growth accelerated sharply, averaging 16% a year through 2011. Future growth will be driven mainly by demographic trends, technological innovation and extension of health coverage by the Patient Protection and Affordable Care Act (PPACA) to up to 36 million previously uninsured patients by 2019.

With the aging of the population, the prevalence of age-related disease – cancer, cardiovascular disorders, stroke, diabetes, and degenerative spinal disorders – is expected to rise significantly, increasing the demand for pharmaceutical- and device-based therapy. Technological advances in device design, as seen earlier in cardiac rhythm management, coronary revascularization devices, spinal implants, orthopedic prostheses, and neuromodulation systems, will also drive the growth in demand.

Gains could potentially be offset in part by more stringent regulatory 510(k) review mandated by the Food and Drug Administration Reform Act of 2012, and pressure on pricing and industry profits as the PPACA goes into effect. The law will require all medical device manufacturers to pay, starting in 2013, 2.3% of the sales price of a device as an industry fee. Because of the impact of recent legislation, and more restrictive reimbursement by public and private payors, growth is expected to slow to 6.5% a year through 2018, down from average annual growth of 16% from 2006 to 2011.

<u>Neromodulation Devices</u> This $6.5 billion segment of the US medical device market encompasses a wide range of devices that intervene in neural pathways to reduce pain and disorders stemming from illness and trauma that have impaired the central nervous system in some fashion. The neuromodulation segment includes electrotherapeutic devices, which apply an electrical impulse to an affected part of the anatomy. TENS systems fall within this group (which also includes cardiac rhythm management devices and other devices).

By IBISWorld's estimates, the US market for TENS is $602 million, a figure that will increase an average of 6.4% annually, the same growth rate it projects for the entire US medical device industry, to $821 million by 2016. The US TENS market grew an average of 14% a year between 2006 and 2011.



The higher prevalence of age-related disease and health disorders stemming from the growth in the elderly segment of the population will result in an increase in the number of patients suffering from chronic pain, driving growth in the demand for minimally invasive electrotherapy. Growing demand will drive the increase in prescriptions written by physical therapists and other clinicians, while Medicare and Medicaid coverage will ease patients' purchases of pain management devices.

Cost advantages to patients stemming from the wider availability of electrotherapy systems in the over the counter market and the reduced cost of smaller handheld systems should support the growth in patient demand. Over the counter purchases do not require a prescription, saving patients the expense of an office visit, and the lower cost of small units make them more attractively priced, provided they can deliver the same power of larger units. By IBISWorld's estimates, smaller and "mini' electrotherapy devices account for almost half of the TENS industry's sales.

Zynex's Electrical Nerve Stimulation Technology and its Product Line

Zynex's principal products include pain management, rehabilitation and diagnostic technologies, some of them bundled in combination systems. In addition to the electrical nerve stimulation and diagnostic systems (table on page 8) that it manufactures, the company manufactures private label systems such as an electrical stimulator that manages female urinary incontinence and an electronic drug delivery device. Single-use supplies such as electrodes and batteries account for a sizable proportion of revenue.

Electrotherapy devices are generally small, portable (hand-held in many cases), and relatively inexpensive. The TENS unit illustrated at right (not a Zynex product) is fairly typical. There are TENS systems that retail on the Internet for as little as $29.


Source: Physiomed

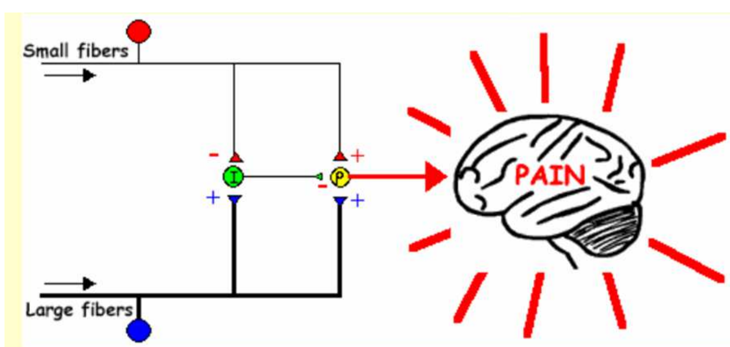
Pain Mangement Electrical stimulation systems, also known as neurostimulation devices, range from Medtronic's PrimeAdvanced® and Restore™ implantables to the ubiquitous TENS (transcutaneous electrical nerve stimulation) system. TENS reduces pain by electrically stimulating nerve fibers that interfere with pain signals and by stimulating the production of pain-relieving endomorphins. Common pain relief applications for TENS include back and neck, RSD (complex regional pain syndrome), arthritis, shoulder pain, neuropathies, and other acute and chronic pain.

TENS therapy is delivered through a small, external portable battery-powered generator from which electrical impulses are coursed through electrodes placed on the skin, either directly over the painful area or at certain points along the nerve pathway.

The mechanism of action of TENS is explained by the gate-control theory (Melzack and Wall, 1965), illustrated at the right, as follows: in the absence of stimuli, both large and small nerve fibers are quiet and the inhibitory interneuron (I) blocks the signal in the projection neuron (P) that connects to the brain. The "gate is closed", so there is no pain sensed.

With non-painful stimuli, mainly the large nerve fibers are activated. Activation of the large nerve fibers also activates the projection neuron (P), but it also activates the inhibitory interneuron (I) which then blocks the signal in the projection neuron (P) that connects to the brain. The gate remains closed so there is no pain sensed.

With pain stimulation, small nerve fibers become active, activating the projection neurons (P) and blocking the inhibitory interneuron (I). Because activity of the inhibitory interneuron is blocked, it cannot block the output of the projection neuron that connects with the brain. So the gate is "open", and the brain senses pain. TENS aims to stimulate the large diameter nerve fibers, closing the gate and reducing pain.



I = "Inhibitory Interneuron"; P = "Projection Neuron"
- = inhibition (blocking); + = excitation (activation)
Source: Eric H. Chudler

The sensation produced by the electrical stimulation appears to "override" the pain messages and may stimulate the body to produce its own natural morphine-like substance, which minimizes pain.

Since it was developed more than 30 years ago TENS has been used to treat almost every type of pain, from mild persistent problems such as sore muscles to acute postoperative pain. Its most common use, however, has been in the treatment of chronic low-back pain, an application in which the American Academy of Neurology now says TENS is ineffective. Whether TENS suppresses or overrides pain signals, stimulates production of natural pain relieving chemicals, or is merely a placebo effect, it has provided pain relief in many cases. Its broad acceptance is based in part on its benign side effects profile. TENS is non-addictive, non-sedative, and can be used indefinitely without the problems associated with prolonged use of some pain medications.

Zynex's pain management technologies include interferential (IF) current, which manages pain by a mechanism similar to TENS. Low-frequency electrical impulses directed at affected tissues intersect below the skin and induce the secretion of endorphins. IF penetrates tissue more deeply than TENS, achieving greater patient comfort and increased circulation. IF is often used to treat spasms, ligament sprains and strained muscles.

Rehabilitation Neuromuscular electrical stimulation (NMES) systems deliver electrical impulses to the surface over targeted muscles through electrodes. These electrical impulses cause muscles to contract as a form of exercise or physical therapy. NMES is used mainly by physical therapist to treat victims of trauma, stroke, or incidents that degrade muscle function. NEMS is also to diagnose the performance of nerves and muscles, and measure improvement after treatment.

NEMS is used in cases of chronic neuromuscular disorders such as cerebral palsy, spina bifida, club foot and some nonprogressive myopathies. It is also applied to healthy muscle to strengthen or maintain muscle mass during periods of enforced inactivity, increase range of motion, improve voluntary muscle control, and temporarily reduce spasticity.

PAIN MANAGEMENT/REHABILITATION	
TENS	TruWave ValuTENS (private label)
MNES	E-Wave
Combination:	
IF and NMES	IF 8000 and IF 8100
TENS, NMES and IF	NexWave, TruWave Plus
TENS and NMES	InWave
DIAGNOSTICS	
Electromyography	NM 900 NeuroSys/3 System
Photoelectric plethysmograph	MEDAC Sys/3 System

Source: Zynex, Inc.

Diagnostics Electromyography (EMG) tests the electrical activity of muscles to assess their health and the nerves that control them. EMG is often performed in tandem with nerve conduction studies. Detecting abnormal electrical activity in the muscles or nerves can help clinicians diagnose injuries or other disorders, such as nerve compression or injury (as in carpal tunnel syndrome), nerve root injury, and others, including alcoholic neuropathy, cervical spondylosis, and femoral nerve dysfunction. A very thin needle electrode inserted through the skin into the muscle detects electrical activity, which is displayed on a monitor, and may be heard through a speaker.

Photoelectric plethysmography (PPG) measures the intensity of light reflected from the skin surface and the red cells below to determine the blood volume of the target. That measurement enables a physician to determine erythrocyte volume and oxygen saturation. The diagnostic procedure utilizes a photosensitive cell to measure light reflected or passed through the tissue segment where a monitor is positioned. In a common application, the PPG sensor is placed over a fingertip. With each heartbeat, a surge of blood is forced through the vascular system, expanding the capillaries in the finger, changing the amount of electrical current that is translated into a signal. PPG can be used to assess the condition of patients suffering from hypertension, migraine headache or Raynaud's Disease.

In another application, PPG measures and records ear opacity through a tiny phototube and lamp clipped to the ear, measuring of the fullness of blood vessels. A PPG can be worn by aircraft pilots during high-altitude flights to signal oxygen insufficiency.

Competition

Zynex's competitors include large broad-line medical device manufacturers with substantial neurostimulation businesses, including Medtronic and St. Jude Medical, which reported 2011 neuromodulation revenue of $1.7 billion (FY ending April 2012) and $418 million, respectively. DJO Global's Recovery Science business, which includes direct competitor EMPI, reported 2011 revenue of $343 million.

Neuromodulation revenue of Medtronic and St. Jude Medical, the high end of the market, were up 7% and 10% respectively. DJO's recovery science 2011 revenue was flat. Aside from the larger competitors in this industry segment, there are more than 40 US manufacturers of electrotherapy devices, most of which carry a wide variety of products sold to the physical therapy market. IBISWorld's TENS market data imply an average annual revenue of around $15 million per TENS manufacturer, making Zynex among the largest in this niche.

Competition is based on price, which is important to patients, clinicians and insurers. As all TENS devices perform the same function, based on largely dated technology, and are produced by a large number of manufacturers, they increasingly trade as commodities. Differentiating technology can also be an advantage. Despite limited potential for innovation in TENS devices, manufacturers try to differentiate their products. TENS systems are commonly differentiated by being bundled with another pain management modality, just as Zynex combines TENS with NMS and IF. Product innovations may make systems easier for untrained patients to use at home, or be mainly cosmetic, but in a commoditized market, novel features can underlie a slight competitive edge even if they do not enhance functionality.

Huge Patient Population

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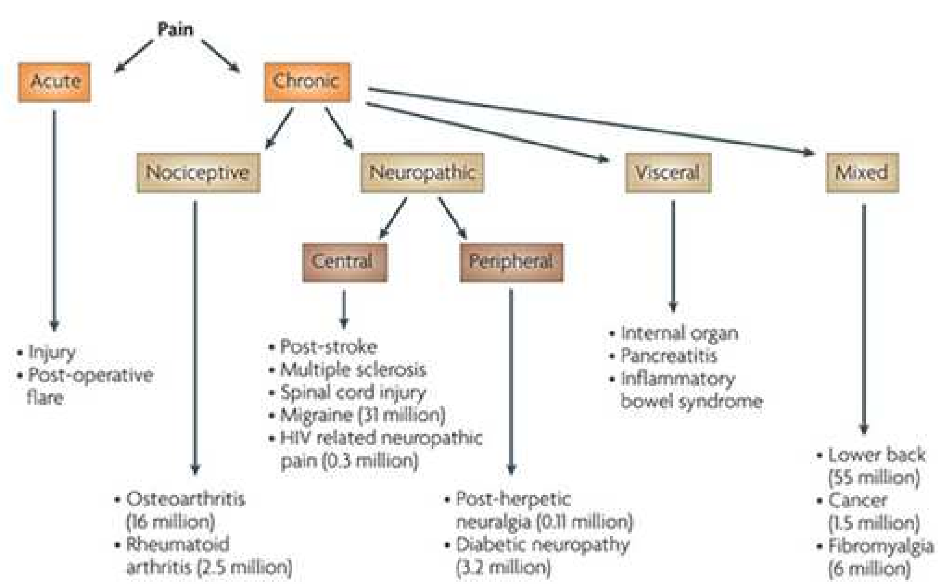
Patient population estimates by the Neuropathic Pain Network, MediZine and the American Cancer Society point to a combined US neuropathic and oncologic pain patient population of almost 8 million; we would estimate the worldwide figure at twice that number. Discounting the estimated global total by 25% to account for an overlap between neuropathic and oncologic pain patients, the estimated market would be around 12 million worldwide. The chart on the following page, compiled by Nature Reviews (August 2010) using data from the CDC, National Center for Health Statistics, and a number of medical foundations, shows the magnitude and breakdown of the potential market for pain management treatments.



Neuropathic Pain The Neuropathic Pain Network estimates that 1.5% of the US population − 4.6 million people − suffers from neuropathic pain. Research firm WWMR estimates that by 2018, there will be six million people in the US suffering from major neuropathic pain, a complex, chronic pain state that frequently accompanied by tissue injury and characterized by numbness, a shooting, stinging or burning pain, and a tingling or shock-like sensation. With neuropathic pain, the nerve fibers themselves may be damaged, dysfunctional or injured, sending incorrect signals to other pain centers. The impact of nerve fiber injury includes a change in nerve function both at the site of injury and areas around the injury. Neuropathic pain diagnoses can be difficult to confirm, as there are no objective means of determining pain source, location, duration and intensity. But widely recognized causes include alcoholism, amputation, fibromyalgia, back, leg, and hip problems, chemotherapy, diabetes, facial nerve problems (trigeminal neuralgia), HIV infection or AIDS, multiple sclerosis, shingles and spine surgery. Neuropathic pain often responds poorly to standard pain treatments and may become more intense over time, potentially causing serious disability.

Oncologic Pain MediZine's Healthcom-munities.com points to studies showing that 30% of all cancer patients experience pain, with severity increasing as the disease progresses. An estimated 90% of patients with advanced cancer suffer severe pain. The American Cancer Society reported US cancer prevalence at 11 million in 2006. Extrapolating from the number of 2009 US cancer deaths, we surmise that of those 11 million, at least 565,000 are advanced or late-stage cases, of whom 510,000 are suffering severe pain. Cancer-related pain is either acute or chronic, each type being either tumor- or therapy-related. Acute pain stemming from tumor growth is best relieved by removing or reducing the tumor surgically or with radiation. The duration and intensity of acute pain caused by cancer therapy is predictable, as it ends when the treatment is over.

Chronic pain caused by tumor growth worsens as the disease progresses. Efforts to reduce chronic pain include removal or reduction of the tumor, analgesic drugs, neurosurgical anesthetic blocks and behavioral management. Examples of chronic cancer pain associated with therapy are pain after mastectomies or limb amputation. An increasing percentage of cancer patients suffer from chronic pain; an estimated one fourth of chronic cancer pain patients are referred to pain clinics.

A Wide Spectrum of Pain Treatments

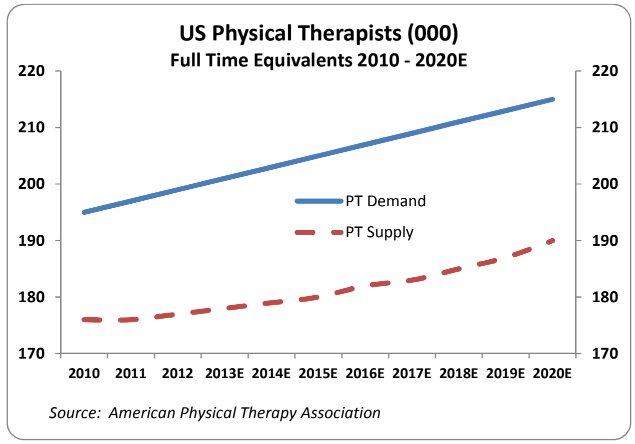
An August 2009 report by Global Market Research Information Network reported a worldwide 2008 pain management market of $19.1 billion, of which pharmaceuticals accounted for $17.6 billion. Devices accounted for $1.48 billion. Both segments of the market are projected to grow at a CAGR of around 11.5% through 2013, at which point the market should total $33 billion. A more recent report (2011) by research firm Global Industry Analysts projected the worldwide pain management market at $60 billion by 2015.

The neuropathic and oncologic pain patient populations overlap to a degree but estimates of each run into the millions. For neuropathic pain, analgesics are always the first course of action, but generally neuropathic pain does not respond well to drug therapy. When pharmaceuticals are ineffective, pain specialists may attempt invasive or implantable device therapies to effectively manage the pain. Electrical stimulation of the nerves, a non-invasive approach, can offer significant relief.

Around 70% to 90% of a cancer patient's pain can be controlled using a combination of non-opiates, opiates, and adjuvant drugs (anticonvulsants and antidepressants). In 10% to 20% of cancer pain cases, anesthetics and neurosurgical procedures are used to manage somatic and visceral pain, both of which tend to be localized and well characterized. Cancer pain management procedures include neurostimulation, specifically transcutaneous electrical nerve stimulation. Acupuncture, either traditional or more recent variants such as laser acupuncture and percutaneous electrical nerve stimulation (PENS), is also used for the relief of cancer pain. Less well known procedures include diathermy, the use of a high-frequency current to generate heat and stimulate blood flow in a specific part of the body, and cryotherapy, which dulls pain with cold, e.g. ice packs.

Physical Therapists – A Major Channel

IBISWorld estimates that one-third of the TENS device industry's sales are to physical therapists. Retail pharmacists and drugstores account for almost as large a market for the TENS industry. The physical therapy services industry is projected to grow from $28 billion in 2012 to $36.8 billion in 2018, its growth fueled by the same factors driving the demand for medical devices – demographic trends, a higher prevalence of chronic pain and debilitating conditions relating to age-related diseases, and the expansion in healthcare coverage. The spectrum of services rendered by the physical therapy industry applies largely to more vulnerable elderly patients; only 15% (sports and pediatric) clearly does not.



As the demand for physical therapy increases during the next eight years, so should the number of therapists. However, the American Physical Therapy Association (APTA) observes that barring a change in therapist attrition rates or greater demand driven by broader than expected health coverage, the number of physical therapists (full time equivalents) in practice will exceed the available number by around 12% during the years ahead, potentially a factor that could constrain electrotherapy device sales to this market. If current attrition rates abate through 2018, the number of physical therapists in practice should match the number needed. If PPACA extends healthcare coverage to more patients than the number currently estimated by APTA, demand for physical therapist is likely to exceed the number in practice by a wider margin.

Management

The following are the company's principal operating officers. As of March 26, 2012 Thomas Sandgaard owned 56.8% of outstanding shares. Anthony Scalese owned less than one percent. Officers and directors as a group owned 60.2%.

Thomas Sandgaard Founded the company in 1996. CEO since inception. Prior to 1996 held middle and senior management positions in international sales and distribution, technology transfers, mergers and acquisitions and marketing with ITT, Siemens and Philips Telecom. Electrical engineering degree from Odense Teknikum, (Denmark). MBA from the Copenhagen Business School (Denmark).

Anthony Scalese Appointed chief financial officer September 2010. More than 15 years of experience in accounting, finance and operations, mainly in the technology and healthcare industries. From 2000 to 2010, various positions to CFO of Qualmark Corporation, a global manufacturer of durability testing equipment. Previously with Coram Healthcare (now Apria Healthcare) and Foundation Health Systems (now Healthnet). BS Business Administration (Accounting), Colorado State University. MBA, University of Colorado. Certified Public Accountant (Colorado).

Risks

In our view, these are the principal risks underlying the stock:

<u>Regulatory/Legal</u> Zynex's devices must be cleared for US marketing by the FDA, mostly through the 510(k) review process, a relatively low regulatory hurdle that requires the company to demonstrate that a product under review is substantially equivalent to a similar device on the market (predicate device) before 1976. Devices sold in in the European Union (EU) must be CE (Conformite Europeenne) marked, showing that it meets EU health, safety, and environmental requirements.

The Patient Protection and Affordable Care Act (PPACA) of 2010, which must be fully implemented by 2019 contains provisions that will increase pressure on pricing and require medical device manufacturers to pay fees on their sales.

Intervening Technnology Zynex's technology is protected by trademarks and trade secrets, rather than patents. While the company keeps it software proprietary by developing and maintaining it internally, competitors could potentially develop more effective devices.

Reimbursement Applications for reimbursement are subject to disputes which can result in carriers' requests for refunds of previously paid claims. Refunds are frequently offset after the company's review of the billings in question, and the sums refunded have been largely immaterial. But the potential for refunds underlies a degree of revenue uncertainty.

Reimbursement requests filed electronically must meet the more detailed requirements of a new coding system and be submitted under a revised processing system. Difficulty in conforming to the new requirements could result in delays or failure to secure reimbursement for products sold to health insurance pan beneficiaries.

Concentration of Receivables One private health insurance carrier accounted for 29% of net accounts receivable as of June 30, 2012. If this carrier proved to be especially problematical, reimbursements might be lost or delayed.

Competition The market for electrotherapy devices is fragmented and highly competitive. TENS and interferential current technologies have been on the market for more than 30 years and these devices increasingly tend to trade as commodities with limited pricing flexibility.

Concentration of stock ownership Thomas Sandgaard owns 57% of ZYXI shares. This concentration of ownership gives him disproportionate influence over management actions, potentially leading to decisions that may not be in the best interest of the stockholders at large.

Potential Dilution The sale of common shares to raise capital would dilute the ownership interests of current shareholders.

Microcap Concerns Shares of ZYXI have risks common to the stocks of other microcap (which we define as market capitalizations of $250 million or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The company has approximately 12 million shares in the float. Average daily volume is 5,100 shares.

Miscellaneous Risks The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Annual Income Statements
($ 000)
2009A –2014E

	2009A	2010A	2011A	2012E	2013E	2014E
Revenue						
Rental	10,534	8,533	9,892	10,246	11,782	13,550
Sales	8,147	15,552	24,256	30,614	35,774	42,546
Total	18,681	24,085	34,148	40,859	47,556	56,095
Cost of revenue						
Rental	1,564	802	1,842	1,451	1,710	2,006
Sales	2,229	4,400	5,529	6,701	7,700	8,980
Total	3,793	5,202	7,371	8,152	9,410	10,985
Gross profit	14,888	18,883	26,777	32,707	38,146	45,110
SG&A expenses						
Sales/marketing	4,475	6,331	9,340	14,232	16,531	19,379
Reimbursement & billing	3,236	6,261	7,969	8,678	9,987	11,491
G&A	2,328	3,246	4,278	4,937	5,707	6,656
Engineering & operations	1,035	1,484	2,089	1,428	1,664	1,814
Total SG&A	11,074	17,322	23,676	29,274	33,889	39,339
Operating income	3,814	1,561	3,101	3,433	4,257	5,770
Interest income	4	5	1			
Interest expense	(165)	(215)	(460)	(355)	(450)	(480)
Other income (expense)	(1)	(16)	2	(7)		
Pretax income	3,652	1,335	2,644	3,071	3,807	5,291
Income tax	(1,441)	(985)	(1,080)	(1,234)	(1,523)	(2,116)
Net income	2,211	350	1,564	1,837	2,284	3,174
Average shares outstanding	30,374	30,705	30,978	31,384	32,375	33,375
Earnings (loss) per share	0.07	0.01	0.05	0.06	0.07	0.10
Margin Analysis						
Gross margin - total	79.7%	78.4%	78.4%	80.0%	80.2%	80.4%
Rental	85.2%	90.6%	81.4%	85.8%	85.5%	85.2%
Sales	72.6%	71.7%	77.2%	78.1%	78.5%	78.9%
SG&A						
Sales/marketing	24.0%	26.3%	27.4%	34.8%	34.8%	34.5%
Reimbursement & billing	17.3%	26.0%	23.3%	21.2%	21.0%	20.5%
G&A	12.5%	13.5%	12.5%	12.1%	12.0%	11.9%
Engineering & operations	5.5%	6.2%	6.1%	3.5%	3.5%	3.2%
Total SG&A	59.3%	71.9%	69.3%	71.6%	71.3%	70.1%
Operating income	20.4%	6.5%	9.1%	8.4%	9.0%	10.3%
Net income	11.8%	1.5%	4.6%	4.5%	4.8%	5.7%
Tax rate	(39.5%)	(73.8%)	(40.8%)	(40.2%)	(40.0%)	(40.0%)

Source: Company reports and Taglich Brothers estimates

Quarterly Income Statements
($ Thousands)
2012E - 2014E

	1Q12A	2Q12A	3Q12E	4Q12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E
Revenue															
Rental	2,062	2,437	2,854	2,892	10,246	2,371	2,803	3,282	3,326	11,782	2,727	3,223	3,775	3,825	13,550
Sales: electrotherapy/private label pdts	3,058	3,622	3,851	3,669	14,200	3,670	4,346	4,621	4,402	17,040	4,404	5,216	5,546	5,283	20,447
consumables	3,824	3,967	4,359	4,264	16,414	3,927	4,647	5,137	5,023	18,734	4,635	5,485	6,058	5,920	22,098
Total sales	6,882	7,589	8,210	7,933	30,614	7,596	8,993	9,759	9,426	35,774	9,038	10,701	11,604	11,203	42,546
Total revenue	8,944	10,026	11,064	10,825	40,859	9,967	11,796	13,041	12,752	47,556	11,765	13,924	15,379	15,028	56,095
Cost of revenue															
Rental	258	273	428	492	1,451	356	364	558	432	1,710	382	483	528	612	2,006
Sales	1,555	1,513	1,888	1,745	6,701	1,595	1,979	2,147	1,979	7,700	1,943	2,247	2,437	2,353	8,980
Total	1,813	1,786	2,316	2,237	8,152	1,951	2,343	2,705	2,412	9,410	2,325	2,731	2,965	2,965	10,985
Gross profit	7,131	8,240	8,748	8,588	32,707	8,017	9,453	10,336	10,340	38,146	9,440	11,193	12,413	12,063	45,110
SG&A expenses															
Sales/marketing	3,095	3805	3,651	3,681	14,232	3,489	4,105	4,525	4,412	16,531	4,071	4,818	5,306	5,185	19,379
Reimbursement & billing	2,034	2047	2,323	2,273	8,678	2,093	2,477	2,739	2,678	9,987	2,471	2,785	3,230	3,006	11,491
G&A	1,183	1127	1,328	1,299	4,937	1,196	1,415	1,565	1,530	5,707	1,412	1,671	1,845	1,728	6,656
Engineering & operations	333	329	387	379	1,428	349	413	456	446	1,664	412	453	461	488	1,814
Total SG&A	6,645	7,308	7,689	7,632	29,274	7,127	8,410	9,285	9,066	33,889	8,365	9,726	10,842	10,407	39,339
Operating income	486	932	1,058	957	3,433	890	1,043	1,051	1,273	4,257	1,075	1,467	1,571	1,656	5,770
Interest income															
Interest expense	(93)	(81)	(86)	(95)	(355)	(109)	(109)	(113)	(117)	(450)	(117)	(119)	(119)	(123)	(480)
Other income (expense)		(7)			(7)										
Pretax income	393	844	972	862	3,071	780	933	937	1,156	3,807	958	1,348	1,452	1,533	5,291
Income tax	(73)	(371)	(428)	(362)	(1,234)	(312)	(373)	(375)	(462)	(1,523)	(383)	(539)	(581)	(613)	(2,116)
Net income	320	473	544	500	1,837	468	560	562	694	2,284	575	809	871	920	3,174
Average shares outstanding	31,037	31,249	31,500	31,750	31,384	32,000	32,250	32,500	32,750	32,375	33,000	33,250	33,500	33,750	33,375
Earnings (loss) per share	0.01	0.02	0.02	0.02	0.06	0.01	0.02	0.02	0.02	0.07	0.02	0.02	0.03	0.03	0.10
Margin Analysis															
Gross margin - total	79.7%	82.2%	79.1%	79.3%	80.0%	80.4%	80.1%	79.3%	81.1%	80.2%	80.2%	80.4%	80.7%	80.3%	80.4%
Rental	87.5%	88.8%	85.0%	83.0%	85.8%	85.0%	87.0%	83.0%	87.0%	85.5%	86.0%	85.0%	86.0%	84.0%	85.2%
Sales	77.4%	80.1%	77.0%	78.0%	78.1%	79.0%	78.0%	78.0%	79.0%	78.5%	78.5%	79.0%	79.0%	79.0%	78.9%
SG&A	74.3%	72.9%	69.5%	70.5%	71.6%	71.5%	71.3%	71.2%	71.1%	71.3%	71.1%	69.9%	70.5%	69.3%	70.1%
Sales/marketing	34.6%	38.0%	33.0%	34.0%	34.8%	35.0%	34.8%	34.7%	34.6%	34.8%	34.6%	34.6%	34.5%	34.5%	34.5%
Reimbursement & billing	22.7%	20.4%	21.0%	21.0%	21.2%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	20.0%	21.0%	20.0%	20.5%
G&A	13.2%	11.2%	12.0%	12.0%	12.1%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%	11.9%
Engineering & operations	3.7%	3.3%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.3%	3.0%	3.3%	3.2%
Operating income	5.4%	9.3%	9.6%	8.8%	8.4%	8.9%	8.8%	8.1%	10.0%	9.0%	9.1%	10.5%	10.2%	11.0%	10.3%
Net income	3.6%	4.7%	4.9%	4.6%	4.5%	4.7%	4.7%	4.3%	5.4%	4.8%	4.9%	5.8%	5.7%	6.1%	5.7%
Tax rate	(18.6%)	(44.0%)	(44.0%)	(42.0%)	(40.2%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)	(40.0%)

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.

Annual Balance Sheets
($ 000)
2009A –2014E

	2009A	2010A	2011A	2Q12A	2012E	2013E	2014E
ASSETS							
Current assets							
Cash + equivalents	863	602	789	623	1,104	1,330	1,847
Accts receivable	5,039	7,309	10,984	12,143	13,052	15,192	17,919
Inventory	2,140	3,641	4,556	6,554	6,794	6,971	7,847
Prepaid expenses	139	145	293	202	217	252	297
Deferred tax asset	864	794	1,384	1,469	1,732	2,040	2,404
Other	77	41	42	44	50	50	50
Total	9,122	12,532	18,048	21,035	22,899	25,784	30,315
Fixed assets (net)	2,612	2,906	3,422	3,684	4,207	5,489	6,903
Deposits	166	174	170	168	175	175	175
Deferred financing fees	30	89	145	123	150	150	150
Intangibles				233	209	161	113
Goodwill				251	251	251	251
TOTAL ASSETS	11,930	15,701	21,785	25,494	27,431	31,598	37,543
LIABILITIES AND EQUITY							
Current liabilities							
Line of credit		1,270	3,289	5,201	6,250	6,750	7,500
Notes & other obligations - curr	95	93	131	139	140	140	140
Accts pay	1,127	1,313	2,189	2,705	2,717	3,137	3,662
Accruals	1,214	1,552	2,276	2,356	2,620	3,031	3,523
Income taxes payable	905	1,103	1,567	1,739	1,604	1,980	2,751
Deferred rent		221	296	334	325	325	325
Contingencies - curr				21	25	25	25
Total	3,341	5,552	9,748	12,495	13,656	15,362	17,901
Notes & other obligations (less curr)	20	327	258	187	200	200	200
Deferred rent	544	1,452	1,156	970	1,000	1,000	1,000
Deferred tax liability	539	188	483	511	500	500	500
Warranty liability				20	20	20	20
Contingencies - less curr				120	120	120	120
Shareholders' equity	7,486	8,182	10,140	11,191	11,935	14,395	17,802
TOTAL LIABILITIES AND EQUITY	11,930	15,701	21,785	25,494	27,431	31,598	37,543

Source: Company reports & Taglich Brothers estimates

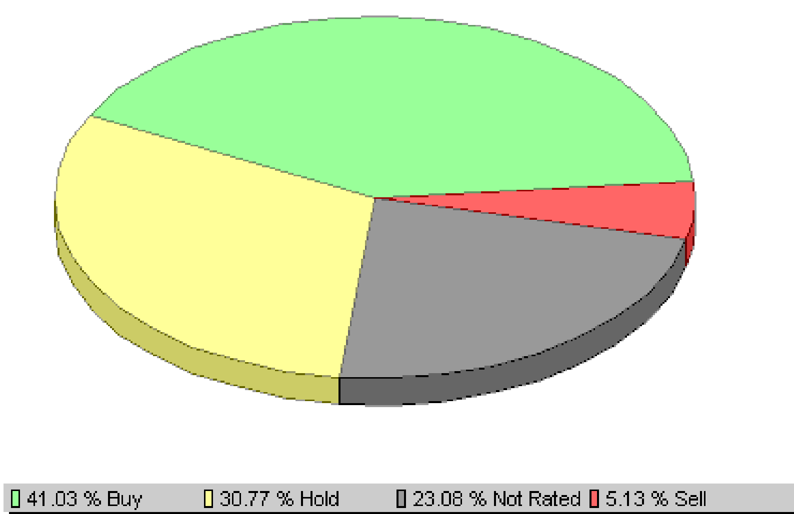
Annual Cash Flow Statements
($ 000)
2009A –2014E

	2009A	2010A	2011A	1H12A	2012E	2013E	2014E
Operating activities							
Net Income	2,382	350	1,564	793	1,837	2,284	3,174
Depreciation/ amortization	677	774	806	432	634	494	636
Accretion of contingency consideration				6	6		
Provision for losses - accts rec	149	317	1,190	158	318	320	320
Amortization of intangibles				18	42	48	48
Amortization - financing fees	61	71	91	24	24		
Stock based compensation - employees	169	267	267	90	180	180	180
Stock based compensation for services	188	79	79				
Provision for obsolete inventory	267	23	149	190	190		
Deferred rent	44	1,129	(221)	(148)	(298)	(300)	(300)
Net loss - disposal of equipment		18					
Deferred tax benefit	(105)	(281)	(295)	(57)	(177)	(240)	(240)
Gain on value of derivative liability	(171)						
Changes in working capital	(13)	(3,412)	(3,992)	(2,548)	(3,570)	(1,145)	(1,861)
Net cash from operations	3,648	(665)	(362)	(1,042)	(815)	1,641	1,958
Investing activities							
Deposits	11						
Proceeds on lease termination		108					
Cash paid for domain name				(18)	(18)		
Cash paid for acquisition				(245)	(245)		
Expenditures for rental equip/inventory	(955)	(672)	(1,267)	(718)	(1,443)	(1,775)	(2,050)
Net - investing activities	(944)	(564)	(1,267)	(981)	(1,706)	(1,775)	(2,050)
Financing activities							
Decrease in overdraft	(113)						
Net change - line of credit	(1,781)	1,270	2,019	1,912	2,961	500	750
Deferred financing fees	(30)	(120)	(147)	(2)	(2)		
Payments - capital lease obligations	(37)	(182)	(104)	(63)	(133)	(140)	(140)
Proceeds - issuance of stock	145		48	10	10		
Repayment of shareholder loans	(25)						
Net cash from financing	(1,841)	968	1,816	1,857	2,836	360	610
Net change in cash	863	(261)	187	(166)	315	226	518
Cash - beginning	0	863	602	789	789	1,104	1,330
Cash - ending	863	602	789	623	1,104	1,330	1,847

Source: Company reports and Taglich Brothers estimates

Price Chart

Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	4
Hold		
Sell		
Not Rated		

Important Disclosures

At this writing, none of Taglich Brothers' affiliates, officers, directors or stockholders, or any member of their families have a position in the stock of Zynex, Inc. Taglich Brothers, Inc. does not have an investment banking relationship with Zynex, Inc. and was not a manager or co-manger of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In September 2012 the company paid an initial monetary engagement fee of US$4,500 to Taglich Brothers, Inc. representing payment for the first three months of creation and dissemination of research reports, after which the company will pay Taglich Brothers, Inc. a monetary fee of US$1,500 per month for a minimum of three more months for such services.

General Disclosures

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Analyst Certification

I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public companies mentioned in this report

ITT Corporation	(NYSE: ITT)	Qualmark	(OTC: QMRK)
Koninklijke Philips Electronics NV	(NYSE: PHG)	Siemens AG	(NYSE: SI)
Medtronic	(NYSE: MDT)	St. Jude Medical	(NYSE: STJ)

Meaning of Ratings

Buy - the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy - We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical "buy" recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral - We will remain neutral pending certain developments.

Underperform - We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell - We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Dropping Coverage – we have discontinued research coverage due to the acquisition of the company, termination of research services, non-payment for such services, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.