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Research Update

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

Zynex, Inc.

Rating: Speculative Buy

Juan Noble

ZYXI $0.58 (ZYXI: OTC)

April 3, 2013

	2011A	2012A	*2013E*	*2014E*
Total revenues (in millions)	$ 34.1	$ 40.0	***$ 43.1***	***$ 49.6***
Earnings (loss) per share	$ 0.05	$ 0.05	***$ 0.07***	***$ 0.09***

52 - Week range	$1.01 – $ 0.51	Fiscal year ends:	December
Shares outstanding as of Mar. 26, 2013	31.1 million	Revenue/share (ttm)	$1.27
Approximate float	12.0 million	Price/Sales (ttm)	0.5X
Market Capitalization	$18.1 million	Price/Sales (2014)E	0.4X
Tangible Book value as of Dec. 31, 2012	$0.37	Price/Earnings (ttm)	11.7X
Price/Book	1.6 X	Price/Earnings (2014)E	6.3X

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:

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

The rising prevalence of chronic pain associated with age-related illnesses should drive 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 sales increased 38% annually from 2007 to 2012, a period in which sales of the US medical device market were largely flat.

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 9% to 15% during the next two 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.

In 4Q12 *(results released Mar. 14, 2013)* ***Zynex earned $0.01 per share, on revenue of $10.6 million. We projected EPS of $0.02 per share on revenue of $11.4 million. In 2012 Zynex earned EPS of $0.05 on revenue of $40 million. In 2011 the company earned $0.05 per share on revenue of $34 million.***

For 2013 and 2014 we project 30%+ EPS gains on modest revenue growth as gross margins widen slightly and operating expenses are better leveraged.

See disclosures on pages 18 - 20

Investment Recommendation

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

ZYXI is trading at 11.7X trailing EPS vs. the medical device industry's P-E of 18.1X, reflecting a discount that arguably stems from ZYXI's small float and light trading volume. 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 $0.09 per share, discounted by 4.7% to a year-ahead value, would value the stock at $1.10, implying stock price appreciation of 80% 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 reimbursement difficulties make it suitable mainly for highly risk-tolerant investors

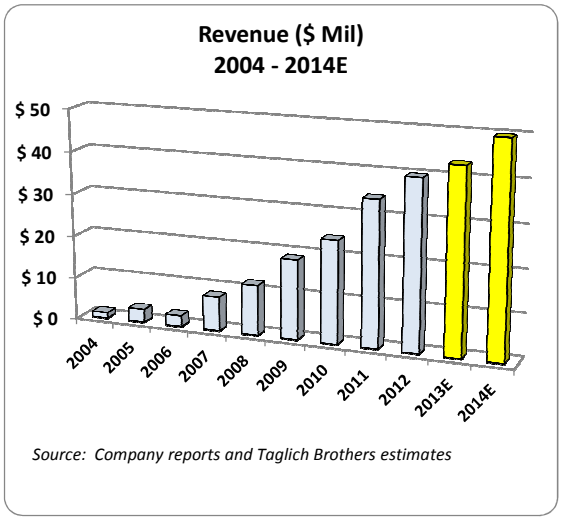
Recent Developments

Neurovirtual Marketing/Distribution Agreement On March 18, 2013 Zynex announced a marketing and distribution agreement with Neurovirtual (Doral, FL), a developer and global marketer of electroencephalography (EEG) and sleep diagnostic devices. Under the agreement Zynex has exclusive rights to sell, market and distribute Neurovirtual's EEG and sleep diagnostic devices in the US.

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. 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.



By 2014, revenue should ramp to $49.6 million, driving earnings growth an average of 21% annually to $0.09 per share.

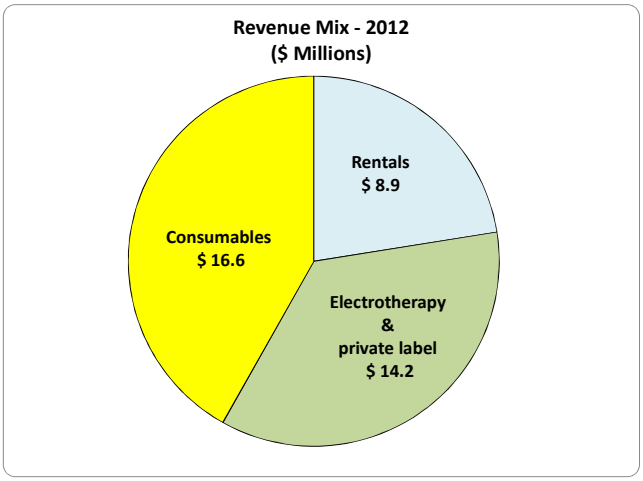
Zynex manufactures a line of pain management neuromodulator devices that reduce reliance on drugs and promotes rehabilitation and increased mobility. Zynex's non-invasive transcutaneous electrical nerve stimulation (TENS) and interferential current (IF) systems have been used to treat pain ranging from 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 $50 million, driven by increased market penetration, sustained demand for electrical stimulation pain management and rehabilitation technology, and the introduction of additional products. 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 has 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 years.

For 2013 and 2014, we project revenue gains of 9% and 15%, respectively, to $43 million and $50 million. Gross margins will, by our estimates, remain largely flat but leveraging of operating expenses should increase operating income in 2013 and 2014 by 45% and 37 %, respectively. Operating margins should widen slightly, to 9.2% in 2013 and 11% in 2014, as expenses are better leveraged.

Lower borrowing needs should reduce 2013 interest expense by 5% to $412,000 and another 17% to $342,000 in 2014. Pretax and net income will rise by 53% in 2013, and 43% in 2014, with EPS increasing by 33% in 2013 (on a higher estimated effective income tax rate vs. 2012), and 39% in 2014.

Finances DSO improved slightly in 2012, as did inventory turnover. Turnover of inventory (which includes units held for rental) increased to from 1.4X to 1.2X. Inventory turnover slowed 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 is generally high, as the independent sales representatives maintain supplies that enable them to rapidly fill orders.

We project cash earnings for 2013 and 2014 of $2.6 million and $3.7 million, respectively. An increase in 2014 working capital stemming from a rise in receivables and inventory will partly offset cash earnings. Cash from operations , $2.7 million in 2013 and $2.5 million in 2014, will cover projected capital expenditures in both years. In 2013 cash flow should enable Zynex to reduce its borrowings and maintain an unchanged level of financing in

2014.. In 2013, cash will fall an estimated $120,000 to $703,000 at the end of the year. In 2014 cash will increase by $301,000 to $1 million as an additional $750,000 in borrowing is used to cover cash used in operations and capital expenditures.

2012 Fourth Quarter and Full-Year Results

In 4Q12, Zynex earned net income of $397,000, or $0.01 per share, on revenue of $10.6 million. We projected earnings of $0.02 per share on revenue of $11.4 million.

4Q revenue increased 9% to $10.1 million, driven by a 24% increase in sales of consumables to $4.8 million and an 11% rise in sales of electrotherapy products. Consumables sales increased due to the rise in the number of electrotherapy systems in service. The increase in product sales reflects higher orders and a shift in insurance reimbursement policy that increasingly favors the purchase rather than rental of equipment. Rental revenue dropped 15% to $2.1 million, a consequence of changes in reimbursement policy.

The gross margin for 4Q narrowed to 72.1% from 76.6% due mainly to compression in product sales margins to 75.7% from 79% attributed largely to charges against reserves that reduced revenue and receivables as adjustments relating to processing of electronic insurance claims with an updated (Version 5010) procedure. Due to gross margin compression, gross profit for 4Q increased only 3% despite the rise in revenue.

	Quarter ending Dec 31:				Year ending Dec 31:		
($ Thousands)	**2012A**	***2012E***	**2011**	**%+/-**	**2012**	**2011**	**%+/-**
Revenue							
Rental	2,137	*2,458*	2,515	(15%)	8,917	9,892	(10%)
Sales: electrotherapy/private label	3,689	*4,427*	3,335	11%	14,152	11,206	26%
consumables	4,768	*4,475*	3,843	24%	16,597	13,050	27%
Sales revenue	8,457	*8,902*	7,178	18%	30,749	24,256	27%
Total revenue	10,594	*11,359*	9,693	9%	39,666	34,148	16%
Cost of revenue							
Rental	473	*319*	651	(27%)	1,283	1,842	(30%)
Sales	2,482	*1,869*	1,614	54%	7,487	5,529	35%
Total	2,955	*2,189*	2,265	30%	8,770	7,371	19%
Gross profit	7,639	*9,170*	7,428	3%	30,896	26,777	15%
Operating expenses							
Sales/marketing	2,943	*3,930*	2,562	15%	13,340	9,340	43%
Reimbursement & billing	2,438	*2,385*	1,449	68%	8,944	7,969	12%
G&A	1,293	*1,363*	1,307	(1%)	4,702	4,278	10%
Engineering & operations	358	*398*	872	(59%)	1,173	2,089	(44%)
Total SG&A	7,032	*8,076*	6,190	14%	28,159	23,676	19%
Operating income	607	*1,094*	1,238	(51%)	2,737	3,101	(12%)
Interest income	3				3	1	NM
Interest expense	(142)	*(117)*	(235)	(40%)	(435)	(460)	(5%)
Other income (expense)	44			NM	31	2	NM
Pretax income	512	*977*	1,003	(49%)	2,336	2,644	(12%)
Income tax	(115)	*(391)*	(404)	(72%)	(788)	(1,080)	(27%)
Net income	397	*586*	599	(34%)	1,548	1,564	(1%)
Average shares outstanding	31,285	*32,750*	31,882		31,222	30,978	
Earnings (loss) per share	0.01	*0.02*	0.02	(32%)	0.05	0.05	(2%)
Margin Analysis							
Gross margin - total	72.1%	*80.7%*	76.6%		77.9%	78.4%	
Rental	77.9%	*87.0%*	74.1%		85.6%	81.4%	
Sales	75.7%	78.0%	79.0%		79.0%	78.9%	
SG&A	66.4%	*71.1%*	63.9%		71.0%	69.3%	
Sales/marketing	27.8%	*34.6%*	26.4%		33.6%	27.4%	
Reimbursement & billing	23.0%	*21.0%*	14.9%		22.5%	23.3%	
G&A	12.2%	*12.0%*	13.5%		11.9%	12.5%	
Engineering & operations	3.4%	*3.5%*	9.0%		3.0%	6.1%	
Operating income	5.7%	*9.6%*	12.8%		6.9%	9.1%	
Net income	3.7%	*5.2%*	6.2%		3.9%	4.6%	
Tax rate	(22.5%)	*(40.0%)*	(40.3%)		(33.7%)	(40.8%)	

Source: Company reports and Taglich Brothers estimates

Operating expenses increased 14% to $7 million, reflecting mainly a 68.8% increase in reimbursement & billing expenses to $2.4 million and a 15% increase in sales/marketing expenses to $2.9 million.

As the increase in operating expenses exceeded gross profit gains, operating income fell 51% to $607,000 and the operating margin for 4Q narrowed to 5.7% from 12.8%. Non-operating expenses decreased 60% to $95,000, reflecting a 40% drop in interest expenses to $142,000. Due to reduced operating income, 4Q pretax income fell 49% to $512,000. The effective income tax rate for 4Q dropped to 22.5% from 40.3% so net income dropped at a more moderate rate (32%) to $397,000.

In 2012, revenue increased 16% to $40 million but net income was flat at $1.5 million, or $0.05 per share, a consequence mainly of a sharp rise in operating expenses. Prescriptions for electrotherapy products increased 27%, driving a 26% gain in electrotherapy devices and a 27% increase in consumables sales. 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.
The gross margin for the year narrowed to 77.9% from 78.4% due to a revenue mix tilt to product sales, which earn lower margins than rentals. Operating expenses increased 19% to $28.2 million due mainly to a 42% rise in sales/marketing expenses to $13.3 million stemming from an increase in sales commissions and the fixed salary expenses associated with newly hired direct field sales employees.

Reimbursement & billing expenses were up 12% to $8.9 million due to the addition of employees to cope with a larger volume of transactions and increase cash collections from third party payors. G&A expenses increased 10% to $4.7 million due to staff increases needed to support a larger volume of business.
As the increase in operating expenses outpaced gross profit gains, the operating margin for 2012 narrowed to 6.9% from 9.1% and operating profit dropped 12% to $2.7 million. Non-operating expenses for the year decreased 12% to $401,000 due to a slight decrease in interest expenses and a $30,000 gain in other income. Interest for the year was actually higher but compared favorably to 2011's due to a debt extinguishment charge in the prior year.

Due mainly to the drop in operating income, 2012 pretax income declined 12% to $2.3 million but earnings per share were flat due to a reduction in the effective income tax rate.

Finances Zynex is moderately leveraged, with approximately 46% 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 (tangible) stockholders' equity.

In 4Q12 cash earnings of $926,000 were partly offset by a $605,000 increase in working capital stemming from decreases in payables and accruals, and an increase in receivables, partly offset by a reduction in inventory. Cash of $321,000 from operations fell short of capital expenditures for rental equipment and repayment of bank borrowings, reducing cash by $20,000 to $823,000 at the end of the quarter.

2012 cash earnings of $3.3 million were offset by a $4.1 million increase in working capital stemming mainly from increases in receivables and inventory. Cash of $879,000 used in operations and expenditures for an acquisition and equipment were largely offset by an additional $2.6 million in bank borrowing. Cash increased by $34,000 to $823,000 as of December 31, 2012.

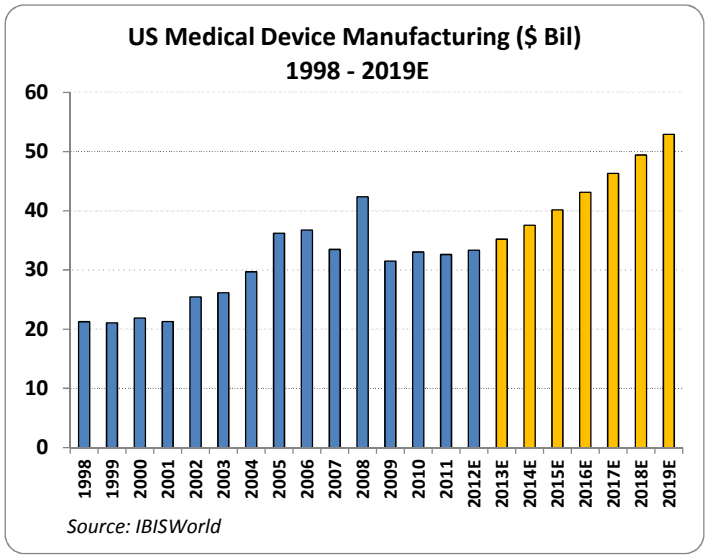
Credit Facility Under a December 2011 loan agreement with Doral Healthcare Finance, Zynex has an asset-backed revolving credit facility of up to $7 million at a variable interest rate equal to the LIBOR rate or 3% per annum + 3.75%, whichever is greater. The agreement matures on December 19, 2014.

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 December 31, 2012, $5.9 million was outstanding under the agreement and $1.1 million was available for borrowing.

As of December 31, 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 December 31, 2012, the company was in compliance with the financial covenants.

The US Medical Device Market

The US medical device manufacturing market for 2012 is estimated by IBISWorld at $33.4 billion, a figure projected to grow 6.8% a year to $53 billion by 2018. Between 1998 and 2006 the industry's CAGR was 4% but growth slowed dramatically in 2009 as a consequence of the recession. Despite the non-cyclical character of medical devices, industry growth slowed as hospital held equipment purchases in abeyance and patients deferred elective medical procedures. 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.

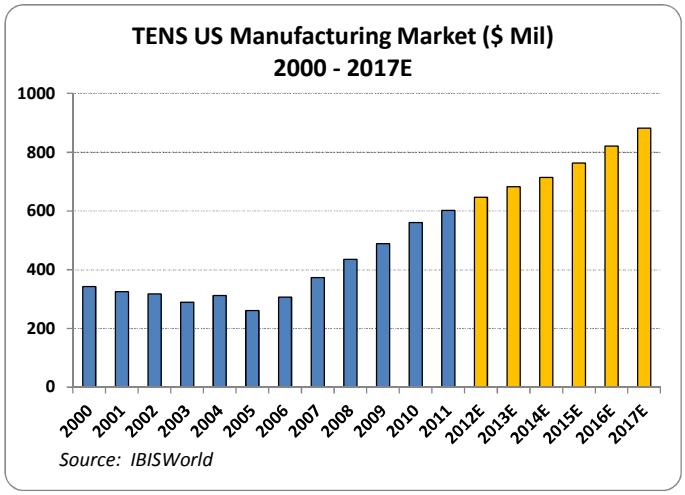


With the aging of the population, the prevalence of age-related disease – cancer, cardiovascular disorders, stroke, diabetes, and degenerative spinal disorders – is expected to rise significantly, increasing the demand for pharmaceutical- and device-based therapy. Technological advances in device design, 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. Despite recent legislation that could tighten regulation, and more restrictive reimbursement by public and private payors, growth is expected to average 6.8% a year through 2019.

Neromodulation Devices 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).

The US TENS market grew an average of 5.4% a year between 2000 and 2012. By IBISWorld's estimates, the US market for TENS in 2012 was $646 million, a figure that will increase an average of 6.4% annually to $882 million by 2017. However, growth could be constrained by the same regulatory factors that influence the broader medical device industry.



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 9) 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.

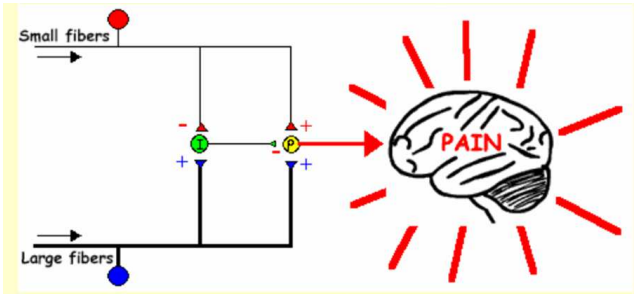
Electrotherapy devices are generally small, portable (hand-held in many cases), and relatively inexpensive. The TENS unit illustrated at right (not a Zynex product) is fairly typical. There are TENS systems that retail on the Internet for as little as $30.

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.



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

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.

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.

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.

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.

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, which reported FY2011 neuromodulation revenue of $1.7 billion (FY ending April 2012) and St. Jude Medical, which reported 2012 neuromodulation revenue of $423 million. DJO Global's Recovery Science business, which includes direct competitor EMPI, reported 2011 revenue (latest released) of $343 million.

Neuromodulation revenue of Medtronic and St. Jude Medical, the high end of the market, were up 7% and 1% 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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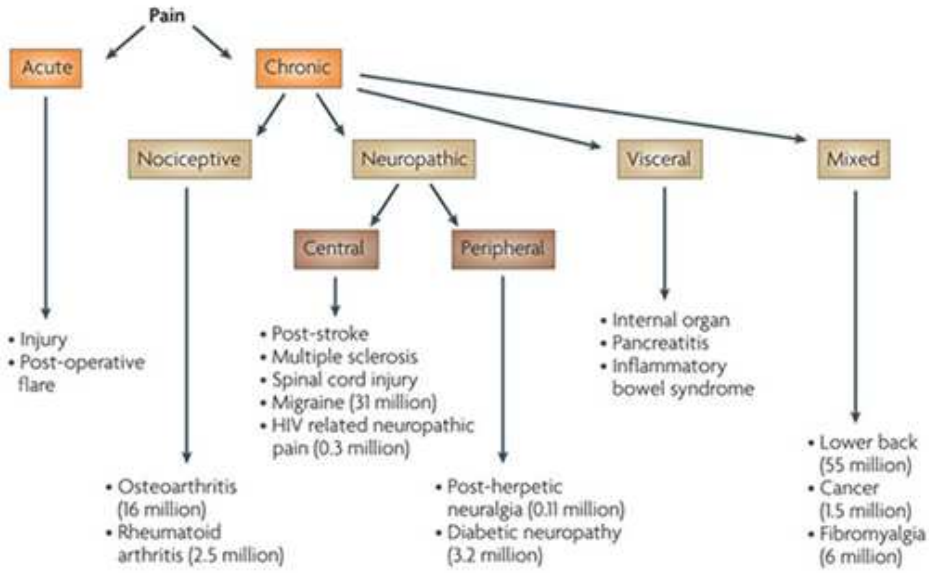
Patient population estimates by the Neuropathic Pain Network, MediZine and the American Cancer Society point to a combined US neuropathic and oncologic pain patient population of almost 8 million; we would estimate the worldwide figure at twice that number. Discounting the estimated global total by 25% to account for an overlap between neuropathic and oncologic pain patients, the estimated market would be around 12 million worldwide.



The chart above, 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.

Risks

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

Regulatory/Legal 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. The medical device industry has lobbied the US Senate in an effort to repeal or modify legislated fees. While that effort has had some initial success, the outcome is uncertain.

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 review of the billings in question, and the sums refunded have been largely immaterial. Potential for refunds underlies some revenue uncertainty. Potential for refunds underlies some 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 27% of net accounts receivable as of September 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 8,600 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.

Zynex, Inc.

Annual Income Statements
($ 000)
2010A –2014E

	2010A	2011A	2012A	2013E	2014E
Revenue					
Rental	8,533	9,892	8,917	9,113	9,703
Sales	15,552	24,256	30,749	33,944	39,932
Total	24,085	34,148	39,666	43,057	49,636
Cost of revenue					
Rental	802	1,842	1,283	1,325	1,424
Sales	4,400	5,529	7,487	7,305	8,430
Total	5,202	7,371	8,770	8,630	9,853
Gross profit	18,883	26,777	30,896	34,427	39,782
SG&A expenses					
Sales/marketing	6,331	9,340	13,340	14,959	17,102
Reimbursement & billing	6,261	7,969	8,944	9,115	9,927
G&A	3,246	4,278	4,702	5,083	5,808
Engineering & operations	1,484	2,089	1,173	1,292	1,489
Total SG&A	17,322	23,676	28,159	30,448	34,327
Operating income	1,561	3,101	2,737	3,979	5,456
Interest income	5	1			
Interest expense	(215)	(460)	(435)	(412)	(342)
Other income (expense)	(16)	2	31		
Pretax income	1,335	2,644	2,336	3,567	5,114
Income tax	(985)	(1,080)	(788)	(1,427)	(2,046)
Net income	350	1,564	1,548	2,140	3,068
Average shares outstanding	30,705	30,978	31,222	32,375	33,375
Earnings (loss) per share	0.01	0.05	0.05	0.07	0.09
Margin Analysis					
Gross margin - total	78.4%	78.4%	77.9%	80.0%	80.1%
Rental	90.6%	81.4%	85.6%	85.5%	85.3%
Sales	71.7%	77.2%	75.7%	78.5%	78.9%
SG&A					
Sales/marketing	26.3%	27.4%	33.6%	34.7%	34.5%
Reimbursement & billing	26.0%	23.3%	22.5%	21.2%	20.0%
G&A	13.5%	12.5%	11.9%	11.8%	11.7%
Engineering & operations	6.2%	6.1%	3.0%	3.0%	3.0%
Total SG&A	71.9%	69.3%	71.0%	70.7%	69.2%
Operating income	6.5%	9.1%	6.9%	9.2%	11.0%
Net income	1.5%	4.6%	3.9%	5.0%	6.2%
Tax rate	(73.8%)	(40.8%)	(33.7%)	(40.0%)	(40.0%)

Source: Company reports and Taglich Brothers estimates

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

	1Q12A	2Q12A	3Q12A	4Q12A	**2012A**	1Q13E	2Q13E	3Q13E	4Q13E	**2013E**	1Q14E	2Q14E	3Q14E	4Q14E	2014E
Revenue															
Rental	2,062	2,437	2,281	2,137	**8,917**	2,227	2,193	2,395	2,297	**9,113**	2,338	2,413	2,575	2,378	**9,703**
Sales: electrotherapy/private label pdts	3,058	3,622	3,783	3,689	**14,152**	3,670	4,346	4,540	4,427	**16,982**	4,404	5,216	5,448	5,312	**20,379**
consumables	3,824	3,967	4,038	4,768	**16,597**	3,833	4,251	4,508	4,371	**16,962**	4,382	4,958	5,214	4,998	**19,553**
Total sales	6,882	7,589	7,821	8,457	**30,749**	7,502	8,597	9,047	8,797	**33,944**	8,786	10,174	10,662	10,311	**39,932**
Total revenue	8,944	10,026	10,102	10,594	**39,666**	9,729	10,791	11,442	11,095	**43,057**	11,124	12,587	13,237	12,688	**49,636**
Cost of revenue															
Rental	258	273	279	473	**1,283**	334	285	407	299	**1,325**	327	362	354	380	**1,424**
Sales	1,555	1,513	1,937	2,482	**7,487**	1,575	1,891	1,990	1,847	**7,305**	1,889	2,137	2,239	2,165	**8,430**
Total	1,813	1,786	2,216	2,955	**8,770**	1,910	2,177	2,398	2,146	**8,630**	2,216	2,498	2,593	2,546	**9,853**
Gross profit	7,131	8,240	7,886	7,639	**30,896**	7,820	8,614	9,045	8,949	**34,427**	8,908	10,088	10,644	10,143	**39,782**
SG&A expenses															
Sales/marketing	3,095	3805	3,497	2,943	**13,340**	3,405	3,744	3,970	3,839	**14,959**	3,849	4,342	4,534	4,377	**17,102**
Reimbursement & billing	2,034	2047	2,425	2,438	**8,944**	2,116	2,266	2,403	2,330	**9,115**	2,225	2,517	2,647	2,538	**9,927**
G&A	1,183	1127	1,099	1,293	**4,702**	1,168	1,268	1,316	1,331	**5,083**	1,335	1,510	1,535	1,427	**5,808**
Engineering & operations	333	329	153	358	**1,173**	292	324	343	333	**1,292**	334	378	397	381	**1,489**
Total SG&A	6,645	7,308	7,174	7,032	**28,159**	6,981	7,602	8,032	7,833	**30,448**	7,742	8,748	9,113	8,723	**34,327**
Operating income	486	932	712	607	**2,737**	839	1,012	1,012	1,116	**3,979**	1,165	1,340	1,530	1,419	5,456
Interest income				3	**3**										
Interest expense	(93)	(81)	(119)	(142)	**(435)**	(102)	(105)	(107)	(97)	**(412)**	(85)	(85)	(85)	(85)	**(342)**
Other income (expense)		(7)	(6)	44	**31**										
Pretax income	393	844	587	512	**2,336**	737	907	905	1,018	**3,567**	1,080	1,255	1,445	1,334	**5,114**
Income tax	(73)	(371)	(229)	**(115)**	**(788)**	(295)	(363)	(362)	(407)	**(1,427)**	(432)	(502)	(578)	(534)	**(2,046)**
Net income	320	473	358	397	**1,548**	442	544	543	611	**2,140**	648	753	867	800	**3,068**
Average shares outstanding	31,037	31,249	31,317	31,285	**31,222**	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	0.01	0.01	**0.05**	0.01	0.02	0.02	0.02	**0.07**	0.02	0.02	0.03	0.02	**0.09**
Margin Analysis															
Gross margin - total	79.7%	82.2%	78.1%	72.1%	**77.9%**	80.4%	79.8%	79.0%	80.7%	**80.0%**	80.1%	80.2%	80.4%	79.9%	**80.1%**
Rental	87.5%	88.8%	87.8%	77.9%	**85.6%**	85.0%	87.0%	83.0%	87.0%	**85.5%**	86.0%	85.0%	86.3%	84.0%	**85.3%**
Sales	77.4%	80.1%	75.2%	70.7%	**75.7%**	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%	71.0%	66.4%	**71.0%**	71.8%	70.5%	70.2%	70.6%	**70.7%**	69.6%	69.5%	68.9%	68.8%	**69.2%**
Sales/marketing	34.6%	38.0%	34.6%	27.8%	**33.6%**	35.0%	34.7%	34.7%	34.6%	**34.7%**	34.6%	34.5%	34.3%	34.5%	**34.5%**
Reimbursement & billing	22.7%	20.4%	24.0%	23.0%	**22.5%**	21.8%	21.0%	21.0%	21.0%	**21.2%**	20.0%	20.0%	20.0%	20.0%	**20.0%**
G&A	13.2%	11.2%	10.9%	12.2%	**11.9%**	12.0%	11.8%	11.5%	12.0%	**11.8%**	12.0%	12.0%	11.6%	11.3%	**11.7%**
Engineering & operations	3.7%	3.3%	1.5%	3.4%	**3.0%**	3.0%	3.0%	3.0%	3.0%	**3.0%**	3.0%	3.0%	3.0%	3.0%	**3.0%**
Operating income	5.4%	9.3%	7.0%	5.7%	**6.9%**	8.6%	9.4%	8.8%	10.1%	**9.2%**	10.5%	10.7%	11.6%	11.2%	**11.0%**
Net income	3.6%	4.7%	3.5%	3.7%	**3.9%**	4.5%	5.0%	4.7%	5.5%	**5.0%**	5.8%	6.0%	6.5%	6.3%	**6.2%**
Tax rate	(18.6%)	(44.0%)	(39.0%)	(22.5%)	**(33.7%)**	(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)
2010A –2014E

	2010A	2011A	2012A	2013E	2014E
ASSETS					
Current assets					
Cash + equivalents	602	789	823	703	1,004
Accts receivable	7,309	10,984	12,224	13,754	15,856
Inventory	3,641	4,556	6,160	6,392	7,038
Prepaid expenses	145	293	243	228	263
Deferred tax asset	794	1,384	1,855	1,775	2,030
Other	41	42	57	50	50
Total	12,532	18,048	21,362	22,903	26,241
Fixed assets (net)	2,906	3,422	3,851	5,376	6,798
Deposits	174	170	171	175	175
Deferred financing fees	89	145	98	150	150
Intangibles			203	155	107
Goodwill			251	251	251
TOTAL ASSETS	15,701	21,785	25,936	29,009	33,722
LIABILITIES AND EQUITY					
Current liabilities					
Line of credit	1,270	3,289	5,906	5,000	5,000
Notes & other obligations - curr	93	131	144	140	140
Accts pay	1,313	2,189	2,057	2,877	3,284
Accruals	1,552	2,276	1,430	2,735	3,093
Income taxes payable	1,103	1,567	2,164	1,855	2,659
Deferred rent	221	296	371	325	325
Contingencies - curr			21	25	25
Total	5,552	9,748	12,093	12,957	14,526
Notes & other obligations (less curr)	327	258	114	200	200
Deferred rent	1,452	1,156	785	1,000	1,000
Deferred tax liability	188	483	786	500	500
Warranty liability			20	20	20
Contingencies - less curr			83	120	120
Shareholders' equity	8,182	10,140	12,055	14,213	17,355
TOTAL LIABILITIES AND EQUITY	15,701	21,785	25,936	29,010	33,723

Source: Company reports and Taglich Brothers estimates

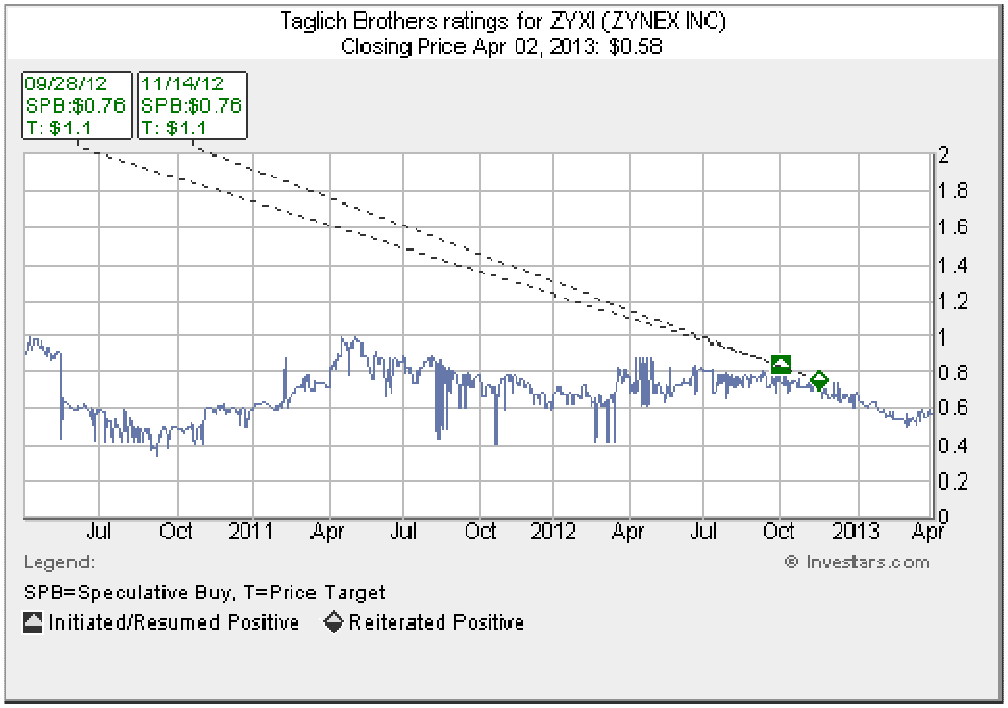
Zynex, Inc.

Annual Cash Flow Statements
($ 000)
2010A –2014E

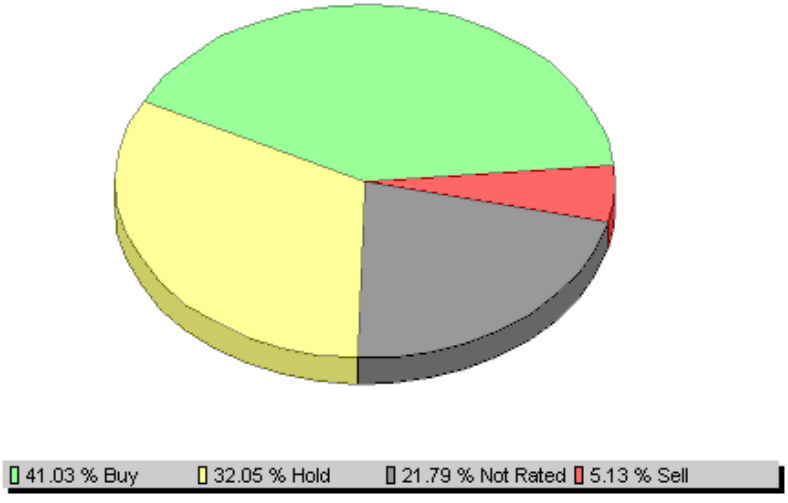
	2010A	2011A	4Q12A	2012A	2013E	2014E
Operating activities			(quarter only)			
Net Income	350	1,564	397	1,548	2,140	3,068
Depreciation/ amortization	774	806	217	864	485	627
Accretion of contingency consideration			(45)	(31)		
Provision for losses - accts rec	317	1,190	160	485	320	320
Amortization of intangibles			15	48	48	48
Amortization - financing fees	71	91	13	50		
Stock based compensation - employees	267	267	16	166	180	180
Stock based compensation for services	79	79		20		
Provision for obsolete inventory	23	149	345	573		
Deferred rent	1,129	(221)	(74)	(296)	(300)	(300)
Net loss - disposal of equipment	18					
Deferred tax benefit	(281)	(295)	(118)	(168)	(240)	(240)
Gain on value of derivative liability						
Changes in working capital	(3,412)	(3,992)	(605)	(4,138)	68	(1,213)
Net cash from operations	(665)	(362)	321	(879)	2,701	2,491
Investing activities						
Deposits						
Proceeds on lease termination	108					
Cash paid for domain name				(18)		
Cash paid for acquisition				(245)		
Expenditures for rental equip/inventory	(672)	(1,267)	(139)	(1,321)	(1,775)	(2,050)
Net - investing activities	(564)	(1,267)	(139)	(1,584)	(1,775)	(2,050)
Financing activities						
Decrease in overdraft						
Net change - line of credit	1,270	2,019	(171)	2,617	(906)	
Deferred financing fees	(120)	(147)		(2)		
Payments - capital lease obligations	(182)	(104)	(34)	(131)	(140)	(140)
Proceeds - issuance of stock		48	3	13		
Repayment of shareholder loans						
Net cash from financing	968	1,816	(202)	2,497	(1,046)	(140)
Net change in cash	(261)	187	(20)	34	(120)	301
Cash - beginning	863	602	843	789	823	703
Cash - ending	602	789	823	823	703	1,004

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	1	14
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.

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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.