REFINITIV

DELTA REPORT

10-Q

ZYXI - ZYNEX INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	632
CHANGES	281
DELETIONS	167
ADDITIONS	184

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☐ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-38804

Zynex, Inc.

(Exact name of registrant as specified in its charter)

NEVADA	**90-0275169**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
9655 Maroon Cir. Englewood, CO	**80112**
(Address of principal executive offices)	**(Zip Code)**

(303) 703-4906

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	ZYXI	NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of July 26, 2023 October 26, 2023
Common Stock, par value $0.001	35,925,522 33,903,777

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ZYNEX, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ZYNEX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	June 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash	$ 58,749	$ 20,144
Accounts receivable, net	32,957	35,063
Inventory, net	14,325	13,484
Prepaid expenses and other	1,529	868
Total current assets	107,560	69,559
Property and equipment, net	2,373	2,175
Operating lease asset	10,923	12,841

Finance lease asset	211	270
Deposits	683	591
Intangible assets, net of accumulated amortization	8,616	9,067
Goodwill	20,401	20,401
Deferred income taxes	1,802	1,562
Total assets	$ 152,569	$ 116,466
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	5,930	5,601
Cash dividends payable	14	16
Operating lease liability	1,921	2,476
Finance lease liability	122	128
Income taxes payable	—	1,995
Current portion of debt	—	5,333
Accrued payroll and related taxes	6,108	5,537
Total current liabilities	14,095	21,086
Long-term liabilities:		
Long-term portion of debt, less issuance costs	—	5,293
Convertible senior notes, less issuance costs	57,155	—
Contingent consideration	6,900	10,000
Operating lease liability	12,020	13,541
Finance lease liability	132	188
Total liabilities	90,302	50,108
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of June 30, 2023 and December 31, 2022	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 41,639,575 issued and 36,014,243 outstanding as of June 30, 2023 41,658,132 issued and 36,825,081 outstanding as of December 31, 2022	36	39
Additional paid-in capital	82,888	82,431
Treasury stock of 5,151,913 and 4,253,015 shares at June 30, 2023 and December 31, 2022, respectively, at cost	(42,628)	(33,160)
Retained earnings	21,971	17,048
Total stockholders' equity	62,267	66,358
Total liabilities and stockholders' equity	$ 152,569	$ 116,466

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,517	$ 20,144
Short-term investments, net	9,924	—
Accounts receivable, net	33,288	35,063
Inventory, net	14,186	13,484
Prepaid expenses and other	3,008	868
Total current assets	102,923	69,559
Property and equipment, net	2,468	2,175
Operating lease asset	13,168	12,841
Finance lease asset	637	270
Deposits	409	591
Intangible assets, net of accumulated amortization	8,387	9,067
Goodwill	20,401	20,401

Deferred income taxes	3,036	1,562
Total assets	$ 151,429	$ 116,466
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	8,050	5,617
Operating lease liability	3,072	2,476
Finance lease liability	210	128
Income taxes payable	1,996	1,995
Current portion of debt	—	5,333
Accrued payroll and related taxes	6,515	5,537
Total current liabilities	19,843	21,086
Long-term liabilities:		
Long-term portion of debt, less issuance costs	—	5,293
Convertible senior notes, less issuance costs	57,375	—
Contingent consideration	—	10,000
Operating lease liability	15,154	13,541
Finance lease liability	475	188
Total liabilities	92,847	50,108
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 41,702,560 issued and 34,220,824 outstanding as of September 30, 2023 41,658,132 issued and 36,825,081 outstanding as of December 31, 2022	34	39
Additional paid-in capital	90,543	82,431
Treasury stock of 6,996,129 and 4,253,015 shares at September 30, 2023 and December 31, 2022, respectively, at cost	(57,560)	(33,160)
Retained earnings	25,565	17,048
Total stockholders' equity	58,582	66,358
Total liabilities and stockholders' equity	$ 151,429	$ 116,466

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ZYNEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 3	
	2023	2022	2023	2022	2023	2022	2023	2022
NET REVENUE								
Devices	$ 13,743	$ 9,505	$ 25,687	$ 16,230	$ 16,855	$ 11,349	$ 42,542	$ 27,57

Supplies	31,209	27,254	61,435	51,612	33,060	30,171	94,495	81,78
Total net revenue	44,952	36,759	87,122	67,842	49,915	41,520	137,037	109,36
COSTS OF REVENUE AND OPERATING EXPENSES								
Costs of revenue - devices and supplies	9,272	7,305	18,541	14,226	9,553	8,391	28,094	22,61
Sales and marketing	21,609	16,314	42,836	30,738	22,146	17,212	64,982	47,95
General and administrative	11,358	8,776	22,748	16,608	12,731	9,359	35,479	25,96
Total costs of revenue and operating expenses	42,239	32,395	84,125	61,572	44,430	34,962	128,555	96,53
Income from operations	2,713	4,364	2,997	6,270	5,485	6,558	8,482	12,82
Other income (expense)								
Gain on sale of fixed assets	—	—	2	—	37	—	39	—
Gain (loss) on change in fair value of contingent consideration	1,700	(100)	3,100	100	(245)	(100)	2,855	—
Interest expense, net	(317)	(115)	(401)	(239)	(327)	(106)	(728)	(34
Other income (expense), net	1,383	(215)	2,701	(139)	(535)	(206)	2,166	(34
Income from operations before income taxes	4,096	4,149	5,698	6,131	4,950	6,352	10,648	12,48
Income tax expense	742	803	775	1,408	1,356	1,479	2,131	2,88
Net income	$ 3,354	$ 3,346	$ 4,923	$ 4,723	$ 3,594	$ 4,873	$ 8,517	$ 9,59
Net income per share:								
Basic	$ 0.09	$ 0.09	$ 0.13	$ 0.12	$ 0.10	$ 0.13	$ 0.24	$ 0.2
Diluted	$ 0.09	$ 0.08	$ 0.13	$ 0.12	$ 0.10	$ 0.13	$ 0.23	$ 0.2

Weighted average basic shares outstanding	36,435	38,851	36,564	39,305	35,531	38,046	36,216	38,88
Weighted average diluted shares outstanding	37,061	39,893	37,249	40,367	36,103	38,865	36,866	39,72

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ZYNEX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

(unaudited)

	For the Six Months Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,923	$ 4,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,311	1,025
Amortization	620	461
Non-cash reserve charges	(91)	(9)
Stock-based compensation	967	1,124
Non-cash lease expense	(158)	237
Benefit for deferred income taxes	(240)	(392)
Gain on change in fair value of contingent consideration	(3,100)	(100)
Gain on sale of fixed assets	(2)	—
Change in operating assets and liabilities:		
Accounts receivable	2,106	808
Prepaid and other assets	(661)	(669)
Accounts payable and other accrued expenses	(1,172)	(1,020)
Inventory	(1,736)	(4,604)
Deposits	(92)	(6)
Net cash provided by operating activities	2,675	1,578
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(394)	(212)
Proceeds on sale of fixed assets	10	—
Net cash used in investing activities	(384)	(212)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on finance lease obligations	(62)	(58)
Cash dividends paid	(1)	(3,613)

Purchase of treasury stock	(9,468)	(10,655)
Proceeds from issuance of convertible senior notes, net of issuance costs	57,026	—
Proceeds from the issuance of common stock on stock-based awards	32	14
Principal payments on long-term debt	(10,667)	(2,667)
Taxes withheld and paid on employees' equity awards	(546)	(122)
Net cash provided by (used in) financing activities	36,314	(17,101)
Net increase (decrease) in cash	38,605	(15,735)
Cash at beginning of period	20,144	42,612
Cash at end of period	$ 58,749	$ 26,877
Supplemental disclosure of cash flow information:		
Cash paid on interest, net	$ (260)	$ (208)
Cash paid for rent	$ (2,378)	$ (1,965)
Cash paid for income taxes	$ (2,985)	(3,926)
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ —	$ 211
Vesting of restricted stock awards	$ (3)	$ —
Inventory transferred to property and equipment under lease	$ 894	$ 788
Capital expenditures not yet paid	$ 78	$ 48
Non-cash dividend adjustment	$ (1)	$ —

	For the Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,517	$ 9,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,984	1,590
Amortization	1,078	695
Non-cash reserve charges	(91)	65
Stock-based compensation	1,621	1,702
Non-cash lease expense	568	720
Benefit for deferred income taxes	(1,473)	(772)
Gain on change in fair value of contingent consideration	(2,855)	—
Gain on sale of fixed assets	(39)	—
Change in operating assets and liabilities:		
Short-term investments	(114)	—
Accounts receivable	1,775	282
Prepaid and other assets	(826)	(446)
Accounts payable and other accrued expenses	3,312	364
Inventory	(2,071)	(4,801)
Deposits	182	(6)
Net cash provided by operating activities	11,568	8,989
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(630)	(332)
Purchase of short-term investments	(9,810)	—
Proceeds on sale of fixed assets	50	—
Net cash used in investing activities	(10,390)	(332)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on finance lease obligations	(95)	(87)
Cash dividends paid	(1)	(3,613)
Purchase of treasury stock	(24,402)	(19,811)
Proceeds from issuance of convertible senior notes, net of issuance costs	57,018	—

Proceeds from the issuance of common stock on stock-based awards	33	27
Principal payments on long-term debt	(10,667)	(4,000)
Taxes withheld and paid on employees' equity awards	(691)	(253)
Net cash provided by (used in) financing activities	21,195	(27,737)
Net increase (decrease) in cash	22,373	(19,080)
Cash at beginning of period	20,144	42,612
Cash at end of period	$ 42,517	$ 23,532
Supplemental disclosure of cash flow information:		
Cash received (paid) on interest, net	$ 452	$ (317)
Cash paid for rent	$ (2,522)	$ (2,592)
Cash paid for income taxes	$ (3,541)	$ (5,028)
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 4,214	$ 211
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 464	$ —
Lease incentive	$ 1,400	$ —
Vesting of restricted stock awards	$ (3)	$ —
Inventory transferred to property and equipment under lease	$ 1,369	$ 1,191
Capital expenditures not yet paid	$ 101	$ 56
Non-cash dividend adjustment	$ (1)	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ZYNEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(unaudited)

	Common Stock		Additional Paid-in	Treasury	Retained	Total Stockholders'
	Shares	Amount	Capital	Stock	Earnings	Equity
Balance at December 31, 2021	**39,737,890**	**41**	**80,397**	**(6,513)**	**—**	**73,925**
Exercised and vested stock-based awards	38,355	—	3	—	—	3
Stock-based compensation expense	—	—	589	—	—	589
Shares of common stock withheld to pay taxes on employees' equity awards	(10,873)	—	(76)	—	—	(76)
Stock dividend adjustments	11,444	—	—	—	—	—
Net income	—	—	—	—	1,377	1,377
Balance at March 31, 2022	**39,776,816**	**$ 41**	**80,913**	**$ (6,513)**	**$ 1,377**	**$ 75,818**

	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Exercised and vested stock-based awards	178,727	1	11	—	—	12
Stock-based compensation expense	—	—	535	—	—	535
Shares of common stock withheld to pay taxes on employees' equity awards	(47,603)	—	(47)	—	—	(47)
Purchase of treasury stock	(1,504,374)	(2)	—	(10,653)	—	(10,655)
Net income	—	—	—	—	3,346	3,346
Balance at June 30, 2022	**38,403,566**	**$ 40**	**$ 81,412**	**$ (17,166)**	**$ 4,723**	**$ 69,009**

	Common Stock		Additional	Treasury	Retained	Total
			Paid-in			Stockholders'
	Shares	**Amount**	**Capital**	**Stock**	**Earnings**	**Equity**
Balance at December 31, 2022	**36,825,081**	**39**	**82,431**	**(33,160)**	**17,048**	**66,358**
Exercised and vested stock-based awards	66,045	—	27	—	—	27
Stock-based compensation expense	—	—	307	—	—	307
Warrants exercised	10,000	—	—	—	—	—
Shares of common stock withheld to pay taxes on employees' equity awards	(22,387)	—	(422)	—	—	(422)
Purchase of treasury stock	(232,698)	—	—	(3,353)	—	(3,353)
Net income	—	—	—	—	1,569	1,569
Balance at March 31, 2023	**36,646,041**	**$ 39**	**$ 82,343**	**$ (36,513)**	**$ 18,617**	**$ 64,486**
Exercised and vested stock-based awards	45,626	—	9	—	—	9
Stock-based compensation expense	—	—	660	—	—	660
Shares of common stock withheld to pay taxes on employees' equity awards	(11,224)	(3)	(124)	—	—	(127)
Purchase of treasury stock	(666,200)	—	—	(6,115)	—	(6,115)
Net income	—	—	—	—	3,354	3,354
Balance at June 30, 2023	**36,014,243**	**$ 36**	**$ 82,888**	**$ (42,628)**	**$ 21,971**	**$ 62,267**

	Common Stock		Additional	Treasury	Retained	Total
			Paid-in			Stockholders'
	Shares	**Amount**	**Capital**	**Stock**	**Earnings**	**Equity**
Balance at December 31, 2021	**39,737,890**	**41**	**80,397**	**(6,513)**	**—**	**73,925**
Exercised and vested stock-based awards	38,355	—	3	—	—	3
Stock-based compensation expense	—	—	589	—	—	589
Shares of common stock withheld to pay taxes on employees' equity awards	(10,873)	—	(76)	—	—	(76)
Stock dividend adjustments	11,444	—	—	—	—	—
Net income	—	—	—	—	1,377	1,377
Balance at March 31, 2022	**39,776,816**	**$ 41**	**$ 80,913**	**$ (6,513)**	**$ 1,377**	**$ 75,818**
Exercised and vested stock-based awards	178,727	1	11	—	—	12
Stock-based compensation expense	—	—	535	—	—	535
Shares of common stock withheld to pay taxes on employees' equity awards	(47,603)	—	(47)	—	—	(47)
Purchase of treasury stock	(1,504,374)	(2)	—	(10,653)	—	(10,655)
Net income	—	—	—	—	3,346	3,346
Balance at June 30, 2022	**38,403,566**	**$ 40**	**$ 81,412**	**$ (17,166)**	**$ 4,723**	**$ 69,009**
Exercised and vested stock-based awards, net of tax	68,060	—	$ 13	$ —	$ —	13
Stock-based compensation expense	—	—	578	—	—	578
Shares of common stock withheld to pay taxes on employees' equity awards	(16,681)	—	(130)	—	—	(130)
Purchase of treasury stock	(987,451)	(1)	—	(9,155)	—	(9,156)
Net income	—	—	—	—	4,873	4,873
Balance at September 30, 2022	**37,467,494**	**$ 39**	**$ 81,873**	**$ (26,321)**	**$ 9,596**	**$ 65,187**

			Additional			Total

	Common Stock		Paid-in	Treasury	Retained	Stockholders'
	Shares	Amount	Capital	Stock	Earnings	Equity
Balance at December 31, 2022	**36,825,081**	**39**	**82,431**	**(33,160)**	**17,048**	**66,358**
Exercised and vested stock-based awards	66,045	—	27	—	—	27
Stock-based compensation expense	—	—	307	—	—	307
Warrants exercised	10,000	—	—	—	—	—
Shares of common stock withheld to pay taxes on employees' equity awards	(22,387)	—	(422)	—	—	(422)
Purchase of treasury stock	(232,698)	—	—	(3,353)	—	(3,353)
Net income	—	—	—	—	1,569	1,569
Balance at March 31, 2023	**36,646,041**	**$ 39**	**$ 82,343**	**$ (36,513)**	**$ 18,617**	**$ 64,486**
Exercised and vested stock-based awards	45,626	—	9	—	—	9
Stock-based compensation expense	—	—	660	—	—	660
Shares of common stock withheld to pay taxes on employees' equity awards	(11,224)	(3)	(124)	—	—	(127)
Purchase of treasury stock	(666,200)	—	—	(6,115)	—	(6,115)
Net income	—	—	—	—	3,354	3,354
Balance at June 30, 2023	**36,014,243**	**$ 36**	**$ 82,888**	**$ (42,628)**	**$ 21,971**	**$ 62,267**
Exercised and vested stock-based awards	69,915	—	1	—	—	1
Stock-based compensation expense	—	—	654	—	—	654
Shares of common stock withheld to pay taxes on employees' equity awards	(19,118)	—	(145)	—	—	(145)
Purchase of treasury stock	(1,844,216)	(2)	—	(14,932)	—	(14,934)
Escrow share lock-up adjustment	—	—	7,145	—	—	7,145
Net income	—	—	—	—	3,594	3,594
Balance at September 30, 2023	**34,220,824**	**$ 34**	**90,543**	**$ (57,560)**	**$ 25,565**	**$ 58,582**

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ZYNEX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Organization

Zynex, Inc. (a Nevada corporation) has its headquarters in Englewood, Colorado. The term "the Company" refers to Zynex, Inc. and its active and inactive subsidiaries. The Company operates in one primary business segment, medical devices which include electrotherapy and pain management products. As of June 30, 2023 September 30, 2023, the Company's only active subsidiaries are Zynex Medical, Inc. ("ZMI," a wholly-owned Colorado corporation) through which the Company conducts most of its operations, and Zynex Monitoring Solutions, Inc. ("ZMS," a wholly-owned Colorado corporation). ZMS has developed a fluid monitoring system which received approval by the U.S. Food and Drug Administration ("FDA") during 2020 and is still awaiting CE Marking in Europe. ZMS has achieved no revenues to date. The Company's inactive subsidiaries include Zynex Europe, Zynex NeuroDiagnostics, Inc. ("ZND," a wholly-owned Colorado corporation) and Pharmazy, Inc. ("Pharmazy", a wholly-owned Colorado Corporation). The Company's compounding pharmacy operated as a division of ZMI dba as Pharmazy through January 2016.

In December 2021, the Company acquired 100% of Kestrel Labs, Inc. ("Kestrel"), a laser-based, noninvasive patient monitoring technology company. Kestrel's laser-based products include the NiCO™ CO-Oximeter, a multi-parameter pulse oximeter, and HemeOx™, a total hemoglobin oximeter that enables continuous arterial blood monitoring. Both NiCO and HemeOx are yet to be presented to the FDA for market clearance. All activities related to Kestrel flow through the ZMS subsidiary.

Nature of Business

The Company designs, manufactures and markets medical devices that treat chronic and acute pain, as well as activate and exercise muscles for rehabilitative purposes with electrical stimulation. The Company's devices are intended for pain management to reduce reliance on medications and provide rehabilitation and increased mobility through the utilization of non-invasive muscle stimulation, electromyography technology, interferential current ("IFC"), neuromuscular electrical stimulation ("NMES") and transcutaneous electrical nerve stimulation ("TENS"). All the Company's medical devices are designed to be patient friendly and designed for home use. The devices are small, portable, battery operated and include an electrical pulse generator which is connected to the body via electrodes. All of the medical devices are marketed in the U.S. and are subject to FDA regulation and approval. All of the products require a physician's prescription before they can be dispensed in the U.S. The Company's primary product is the NexWave device. The NexWave is marketed to physicians and therapists by the Company's field sales representatives. The NexWave requires consumable supplies, such as electrodes and batteries, which are shipped to patients on a recurring monthly basis, as needed.

During the six nine months ended June 30, 2023 September 30, 2023 and 2022, the Company generated all of its revenue in North America from sales and supplies of its devices to patients and healthcare providers.

Unaudited Condensed Consolidated Financial Statements

The unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. A description of the Company's accounting policies and other financial information is included in the audited consolidated financial statements as filed with the SEC in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. Amounts as of December 31, 2022, are derived from those audited consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the annual audited financial statements, accounting policies and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2023 September 30, 2023 and the results of its operations and its cash flows for the periods presented. The results of operations for the six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results that may be achieved for a full fiscal year and cannot be used to indicate financial performance for the entire year.

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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Zynex, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant management estimates used in the preparation of the accompanying condensed consolidated financial statements are associated with the allowance for billing adjustments and uncollectible accounts receivable, the reserve for obsolete and damaged inventory, stock-based compensation, assumptions related to the valuation of contingent consideration, and valuation of long-lived assets and realizability of deferred tax assets.

Cash, Cash Equivalents, and Short-Term Investments

Cash equivalents consist of highly liquid investments with remaining maturities of three months or less at the date of purchase. We classify investments with maturities of greater than three months but less than one year as short-term investments. Short-term investments are classified as held-to-maturity as the Company has the positive intent and ability to hold the investments until maturity. Held-to-maturity investments are carried at amortized cost. Due to the short-term nature, the carrying amounts reported in the consolidated balance sheet approximate fair value.

Accounts Receivable, Net

The Company's accounts receivable represent unconditional rights to consideration and are generated when a patient receives one of the Company's devices, related supplies or complementary products. In conjunction with fulfilling the Company's obligation to deliver a product, the Company invoices the patient's third-party payer and/or the patient. Billing adjustments represent the difference between the list price and the reimbursement rates set by third-party payers, including Medicare, commercial payers and amounts billed directly to the patient. Specific amounts, if uncollected over a period of time, may be written-off after several appeals, which in some cases may take longer than twelve months. Substantially all of the Company's receivables are due from patients with commercial or government health plans and workers compensation claims with a smaller portion related to private pay individuals, attorney, and auto claims. The Company maintains a constraint for third-party payer refund requests, deductions and adjustments. See Note 15 – Concentrations for discussion of significant customer accounts receivable balances.

Inventory, Net

Inventories are stated at the lower of cost or net realizable value. Cost is computed using standard costs, which approximates actual costs on an average cost basis.

The Company monitors inventory for turnover and obsolescence and records losses for excess and obsolete inventory, as appropriate. The Company provides reserves for estimated excess and obsolete inventories based upon assumptions about future demand. If future demand is less favorable than currently projected by management, additional inventory write-downs may be required.

Long-lived Assets

The Company records intangible assets based on estimated fair value on the date of acquisition. Long-lived assets consist of net property and equipment and intangible assets. The finite-lived intangible assets are patents and are amortized on a straight-line basis over the estimated lives of the assets.

The Company assesses impairment of long-lived assets when events or changes in circumstances indicates that their carrying value amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: (i) significant decreases in

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the market price of the asset; (ii) significant adverse changes in the business climate or legal or regulatory factors; (iii) or, expectations that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

If the estimated future undiscounted cash flows, excluding interest charges, from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Useful lives of finite-lived intangible assets by each asset category are summarized below:

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	Estimated Useful Lives in years
Patents	11

Goodwill

Goodwill is recorded as the difference between the fair value of the purchase consideration and the estimated fair value of the net identifiable tangible and intangible assets acquired.

Goodwill is not subject to amortization but is subject to impairment testing in the future. testing. The Company utilized utilizes the simplified test for goodwill impairment. The amount recognized for impairment is equal to the difference between the carrying value and the asset's fair value. The valuation methods used in the quantitative fair value assessment was a discounted cash flow method and required management to make certain assumptions and estimates regarding certain industry trends and future profitability of our reporting units. The Company tests more frequently if indicators are present or changes in circumstances suggest that impairment may exist. These indicators include, among others, declines in sales, earnings or cash flows, or the development of a material adverse change in the business climate. The Company assesses goodwill for impairment at the reporting unit level. The estimates of fair value and the determination of reporting units requires management judgment.

Revenue Recognition

Revenue is derived from sales and leases of the Company's electrotherapy devices and sales of related supplies and complementary products. Device sales can be in the form of a purchase or a lease. Supplies needed for the device can be set up as a recurring shipment or ordered through the customer support team or online store as needed. The Company recognizes revenue when the performance obligation has been met and the product has been transferred to the patient, in the amount that reflects the consideration the Company expects to receive. In general, revenue from sales of devices and supplies is recognized once the product is delivered to the patient, which is when the performance obligation has been met and the product has been transferred to the patient.

Sales of devices and supplies are primarily shipped directly to the patient, with a small amount of revenue generated from sales to distributors. In the healthcare industry there is often a third party involved that will pay on the patients' behalf for purchased or leased devices and supplies. The terms of the separate arrangement impact certain aspects of the contracts, with patients covered by third party payers, such as contract type, performance obligations and transaction price, but for purposes of revenue recognition the contract with the customer refers to the arrangement between the Company and the patient. The Company does not have any material deferred revenue in the normal course of business as each performance obligation is met upon delivery of goods to the patient. There are no substantial costs incurred through support or warranty obligations.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides a breakdown of disaggregated net revenues for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 related to devices accounted for as purchases subject to Accounting Standards Codification ("ASC") 606 – "Revenue from Contracts with Customers" ("ASC 606"), leases subject to ASC 842 – "Leases" ("ASC 842"), and supplies (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Device revenue								
Purchased	$ 4,781	$ 2,268	$ 9,422	$ 4,457	$ 7,022	$ 2,900	$ 16,444	$ 7,357
Leased	8,962	7,237	16,265	11,773	9,833	8,449	26,098	20,222
Total device revenue	$ 13,743	$ 9,505	$ 25,687	$ 16,230	$ 16,855	$ 11,349	$ 42,542	$ 27,579
Supplies revenue	31,209	27,254	61,435	51,612	33,060	30,171	94,495	81,783
Total revenue	$ 44,952	$ 36,759	$ 87,122	$ 67,842	$ 49,915	$ 41,520	$ 137,037	$ 109,362

Revenues are estimated using the portfolio approach by third-party payer type based upon historical rates of collection, aging of receivables, trends in historical reimbursement rates by third-party payer types, and current relationships and experience with the third-party payers, which includes estimated constraints for third-party payer refund requests, deductions and adjustments. Inherent in these estimates is the risk that they will have to be revised as additional information becomes available and constraints are released. Specifically, the complexity of third-party payer billing arrangements and the uncertainty of reimbursement amounts for certain products from third-party payers or unanticipated requirements to refund payments previously received may result in adjustments to

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ZYNEX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

amounts originally recorded. Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price using the expected amount method. These adjustments to transaction price are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Due to continuing changes in the healthcare industry and third-party payer reimbursement, it is possible the Company's forecasting model to estimate collections could change, which could have an impact on the Company's results of operations and cash flows. Any differences between estimated and actual collectability are reflected in the period in which received. Historically these differences have been immaterial, and the Company has not had a significant reversal of revenue from prior periods.

The Company monitors the variability and uncertain timing over third-party payer types in the portfolios. If there is a change in the Company's third-party payer mix over time, it could affect net revenue and related receivables. The Company believes it has a sufficient history of collection experience to estimate the net collectible amounts by third-party payer type. However, changes to constraints related to billing adjustments and refund requests have historically fluctuated and may continue to fluctuate significantly from quarter to quarter and year to year.

Leases

The Company determines if an arrangement is a lease at inception or modification of a contract.

The Company recognizes finance and operating lease right-of-use assets and liabilities at the lease commencement date based on the estimated present value of the remaining lease payments over the lease term. For the finance leases, the Company uses the implicit rate to determine the present value of future lease payments. For operating leases that do not provide an implicit rate, the Company uses incremental borrowing rates to determine the present value of future lease payments. The Company includes options to extend or terminate a lease in the lease term when it is reasonably certain to exercise such options. The Company recognizes leases with an initial term of 12 months or less as lease expense over the lease term and those leases are not recorded on the Company's condensed consolidated balance sheets. For additional information on the leases where the Company is the lessee, see Note 13- 14 - Leases.

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A significant portion of device revenue is derived from patients who obtain devices under month-to-month lease arrangements where the Company is the lessor. Revenue related to devices on lease is recognized in accordance with ASC 842. Using the guidance in ASC 842, the Company concluded the transactions should be accounted for as operating leases based on the following criteria below:

- The lease does not transfer ownership of the underlying asset to the lessee by the end of the lease term.
- The lease does not grant the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is month to month, which does not meet the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
- There is no residual value guaranteed and the present value of the sum of the lease payments does not equal or exceed substantially all of the fair value of the underlying asset
- The underlying asset is expected to have alternative uses to the lessor at the end of the lease term.

Lease commencement occurs upon delivery of the device to the patient. The Company retains title to the leased device and those devices are classified as property and equipment on the balance sheet. Since the leases are month-to-month and can be returned by the patient at any time, revenue is recognized monthly for the duration of the period in which the patient retains the device.

Debt Issuance Costs

Debt issuance costs are costs incurred to obtain new debt financing. Debt issuance costs are presented in the accompanying condensed consolidated balance sheets as a reduction in the carrying value of the debt and are accreted to interest expense using the effective interest method.

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ZYNEX, INC.

Stock-based Compensation

The Company accounts for stock-based compensation through recognition of the cost of employee services received in exchange for an award of equity instruments, which is measured based on the grant date fair value of the award that is ultimately expected to vest during the period. The stock-based compensation expenses are recognized over the period during which an employee is required to provide service in exchange for the award (the requisite service period, which in the Company's case is the same as the vesting period). For awards subject to the achievement of performance metrics, stock-based compensation expense is recognized when it becomes probable that the performance conditions will be achieved over the respective performance period.

Segment Information

The Company defines operating segments as components of the business enterprise for which separate financial information is reviewed regularly by the chief operating decision-makers to evaluate performance and to make operating decisions. The Company has identified our Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer as our Chief Operating Decision-Makers ("CODM").

The Company currently operates business as one operating segment which includes two revenue types: Devices and Supplies.

Income Taxes

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying condensed consolidated balance sheets, as well as operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that these benefits will not be realized.

Tax benefits are recognized from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position.

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The Inflation Reduction Act ("IRA") was enacted into law on August 16, 2022. Included in the IRA was a provision to implement a 15% corporate alternative minimum tax on corporations whose average annual adjusted financial statement income during the most recently completed three year period exceeds $1 billion. This provision is effective for tax years beginning after December 31, 2022. We are in the process of evaluating the provisions of the IRA, but we do not currently believe the IRA will have a material impact on our reported results, cash flows or financial position when it becomes effective.

Recent Accounting Pronouncements

On October 9, 2023, the Financial Accounting Standards Board ("FASB") issued ASU ("Accounting Standards Update") 2023-06 which amends the disclosure or presentation requirements related to various subtopics in the FASB ASC. The amendments in ASU 2023-06 modify the disclosure or presentation requirements of a variety of Topics in the ASC. Certain of the amendments represent clarifications to or technical corrections of the current requirements. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all entities, if by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity. Management has evaluated is evaluating the impacts of the recently issued accounting pronouncements and ASU.

Management does not believe that any of these other recently issued accounting pronouncements will have a material impact on the Company's consolidated financial statements.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, Fair Value Measurements ("ASC 820") states that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tiered fair value hierarchy, which prioritizes which inputs should be used in measuring fair value, is comprised of: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than quoted prices in active markets that are observable either directly or indirectly and (Level III) unobservable inputs for which there is little or no market data. The fair value hierarchy requires the use of observable market data when available in determining fair value.

The Company's asset and liability classified financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities, and contingent consideration. The carrying amounts of financial instruments, including cash and equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short maturities. The Company measures its long-term debt at book value which approximates fair value as the long-term debt bears market rates of interest. The valuation policies are determined by management, and the Company's Board of Directors is informed of any policy change.

During the year ended December 31, 2022 the Company did not have any cash equivalents or short-term investments. The following table shows the Company's cash, cash equivalents and short-term investments by significant investment category as of September 30, 2023 (in thousands):

	September 30, 2023				
	Cost	Investment Gains	Fair Value	Cash and Cash Equivalents	Short Term Investments
Cash (1)	12,579	-	12,579	12,579	-
U.S. Treasury Securities (2)	39,446	416	39,862	29,938	9,924
Total	52,025	416	52,441	42,517	9,924

(1) Level I fair value estimates are based on observable inputs such as quoted prices in active markets.

(2) Level II fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The fair value of acquisition-related contingent consideration was based on a Monte Carlo model prior to September 30, 2023 which was included in Level III of the fair value hierarchy. See Note 6 - Business Combinations for additional details on the removal of contingent consideration during the quarter ended September 30, 2023. The following table sets forth a summary of changes in the contingent consideration for the nine months ended September 30, 2023 (in thousands):

	Contingent Consideration
Balance as of December 31, 2022	$ 10,000
Change in fair value of contingent consideration	(2,855)
Escrow share adjustment	(7,145)
Balance as of September 30, 2023	$ —

(3) (4) INVENTORY

The components of inventory are as follows (in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Raw materials	$ 3,998	$ 3,506	$ 3,408	$ 3,506
Work-in-process	785	1,205	1,419	1,205
Finished goods	7,724	7,750	8,573	7,750
Inventory in transit	2,086	1,291	1,054	1,291
	$ 14,593	$ 13,752	$ 14,454	$ 13,752
Less: reserve	(268)	(268)	(268)	(268)
	$ 14,325	$ 13,484	$ 14,186	$ 13,484

(4) (5) PROPERTY AND EQUIPMENT

The components of property and equipment are as follows (in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Property and equipment				
Office furniture and equipment	$ 3,105	$ 2,819	$ 3,190	$ 2,819
Assembly equipment	141	110	212	110
Vehicles	203	203	151	203
Leasehold improvements	1,173	1,173	1,173	1,173
Leased devices	1,289	1,162	1,332	1,162
Capital projects	137	—	234	—
	$ 6,048	$ 5,467	$ 6,292	$ 5,467
Less accumulated depreciation	(3,675)	(3,292)	(3,824)	(3,292)
	$ 2,373	$ 2,175	$ 2,468	$ 2,175

Total depreciation expense related to our property and equipment was $0.2 million and $0.1 million for the three months ended June 30, 2023 September 30, 2023 and 2022. 2022, respectively. Depreciation expense for the six month periods nine months ended June 30, 2023 September 30, 2023 and 2022, was $0.4 million. $0.6 million and $0.5 million, respectively.

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Total depreciation expense related to devices out on lease was $0.5 million and $0.4 million $0.3 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Depreciation expense related to devices out on lease was $0.9 million $1.4 million and $0.7 million $1.0 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Depreciation on leased units is reflected on the income statement as cost of revenue.

The Company monitors devices out on lease for potential loss and places an estimated reserve on the net book value based on an analysis of the number of units which are still with patients for which the Company cannot determine the current status.

(5)(6) BUSINESS COMBINATIONS

On December 22, 2021, the Company and its wholly-owned subsidiary Zynex Monitoring Solutions, Inc., entered into a Stock Purchase Agreement (the “Agreement”) with Kestrel and each of the shareholders of Kestrel (collectively, the “Selling Shareholders”). Under the Agreement, the Selling Shareholders agreed to sell all of the outstanding common stock of Kestrel (the “Kestrel Shares”) to the Company. The consideration for the Kestrel Shares consisted of $16.1 million cash and 1,467,785 shares of the Company’s common stock (the “Zynex Shares”). All of the Zynex Shares were subject to a lockup lock-up agreement for a period of one year from the closing date under the Agreement (the “Closing Date”). The Agreement provides the Selling Shareholders with piggyback registration rights. 978,524 of the Zynex Shares were deposited in escrow (the “Escrow Shares”). The number of Escrow Shares were subject to adjustment on the one-year anniversary of the Closing Date (or in connection with any Liquidation Event (as defined in the Agreement) that occurs prior to such anniversary date) based on the number of shares equal to $10.0 million divided by a 30-day volume weighted average closing price of the Company’s common stock. The Escrow Shares were adjusted on the anniversary date, which resulted in the cancellation of 156,673 Escrow Shares. Half of the Escrow Shares will were to be released on submission of a dossier on a laser-based photoplethysmographic device (the “Device”) to the FDA for permission to market and sell

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the Device in the United States. The other half of the Escrow Shares will were to be released upon determination by the FDA that the Device can be marketed and sold in the United States.

On July 27, 2023, the Company, ZMS, Kestrel, and the Selling Shareholders, entered into an amendment to the Stock Purchase Agreement (the “Amendment”). The parties entered into the Amendment to modify certain terms of the Agreement related to the conditions to be satisfied for the release of the Escrow Shares to the Selling Shareholders. The Escrow Shares were released from escrow, simultaneously, the selling stockholders entered into a lock-up agreement. The lock-up agreement includes two lock-up periods which release certain restrictions on the Selling Shareholders on December 31, 2023 and June 30, 2024, respectively.

The amount of escrow shares Escrow Shares were recalculated at June 30, 2022 September 30, 2022, and are included in the calculation of diluted earnings per share for June 30, 2022 September 30, 2022. No additional calculation was required for the Escrow Shares at June 30, 2023 September 30, 2023, as the Escrow Share number was finalized on the anniversary date, Shares were released from escrow, and the shares are included in the Company’s calculation of basic earnings per share. The maximum amount of Zynex Shares that may be released are limited to 19.9% of the total number of common shares and total voting power of common shares of the Company (see Note 14 - Fair Value Measurements for more information regarding this liability).

The acquisition of Kestrel has been accounted for as a business combination under ASC 805 – “Business Combinations” (“ASC 805”). Under ASC 805, assets acquired, and liabilities assumed in a business combination must be recorded at their fair values as of the acquisition date.

(7) GOODWILL AND OTHER INTANGIBLE ASSETS

During the year ended December 31, 2021 the Company completed the acquisition of Kestrel, which resulted in Goodwill of $20.4 million (see Note 6 – Business Combinations).

As of September 30, 2023, there was no change in the carrying amount of goodwill, and there were no impairment indicators of the Company’s net asset value.

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ZYNEX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(6) GOODWILL AND OTHER INTANGIBLE ASSETS

During the year ended December 31, 2021 the Company completed the acquisition of Kestrel, which resulted in goodwill of $20.4 million (see Note 5 – Business Combinations).

As of June 30, 2023, there was no change in the carrying amount of goodwill, and there were no impairment indicators of the Company's net asset value.

The following table provides the summary of the Company's intangible assets as of June 30, 2023 September 30, 2023.

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Life (in years)
Acquired patents at December 31, 2022	$ 10,000	$ (933)	$ 9,067	10.00	$10,000	$ (933)	$ 9,067	10.00
Amortization expense		(451)	(451)			(680)	(680)	
Acquired patents at June 30, 2023	$ 10,000	$ (1,384)	$ 8,616	9.48				
Acquired patents at September 30, 2023					$10,000	$ (1,613)	$ 8,387	9.23

The following table summarizes the estimated future amortization expense to be recognized over the remainder of 2023, next five fiscal years, and periods thereafter:

	(In thousands)	December 31, (In thousands)
July 1, 2023 through December 31, 2023	458	
October 1, 2023 through December 31, 2023		229
2024	911	911
2025	908	908
2026	908	908
2027	908	908
Thereafter	4,523	4,523
Total future amortization expense	$ 8,616	$ 8,387

(7) (8) EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding and the number of dilutive potential common share equivalents during the period. Dilution resulting from stock-based compensation plans is determined using the treasury stock method and dilution resulting from the 2023 Convertible Senior Notes is determined using the if-converted method. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential common shares outstanding would be anti-dilutive.

The calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2023 and 2022 are as follows (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic earnings per share				
Net income	$ 3,594	$ 4,873	$ 8,517	$ 9,596
Basic weighted average shares outstanding	35,531	38,046	36,216	38,881
Basic earnings per share	$ 0.10	0.13	0.24	0.25
Diluted earnings per share				
Net income	$ 3,594	4,873	8,517	9,596
Weighted average shares outstanding	35,531	38,046	36,216	38,881
Effect of dilutive securities - options and restricted stock	572	819	650	848
Diluted weighted-average shares outstanding	36,103	38,865	36,866	39,729
Diluted earnings per share	$ 0.10	0.13	$ 0.23	$ 0.24

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ZYNEX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The calculation of basic and diluted earnings per share for the three and six months ended June 30, 2023 and 2022 are as follows (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Basic earnings per share				
Net income	$ 3,354	$ 3,346	$ 4,923	$ 4,723
Basic weighted average shares outstanding	36,435	38,851	36,564	39,305
Basic earnings per share	$ 0.09	0.09	0.13	0.12
Diluted earnings per share				
Net income	$ 3,354	3,346	4,923	4,723
Weighted average shares outstanding	36,435	38,851	36,564	39,305
Effect of dilutive securities - options and restricted stock	626	1,042	685	1,062
Diluted weighted-average shares outstanding	37,061	39,893	37,249	40,367
Diluted earnings per share	$ 0.09	0.08	$ 0.13	$ 0.12

For the three and six nine months ended June 30, 2023 September 30, 2023, equity grants of 39,000 92,000 and 21,000 34,000 shares of common stock, respectively, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive.

For the three and six nine months ended June 30, 2022 September 30, 2022, equity grants of 293,000 6,000 and 341,000 22,000 shares of common stock, respectively, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive.

For the three and six nine months ended June 30, 2023 September 30, 2023, conversion options to purchase 3.2 million 5.6 million and 1.6 million 3.0 million shares, respectively, resulting from the 2023 Convertible Senior Notes, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive (see Note 9 10 – Convertible Senior Notes).

(8)(9) NOTES PAYABLE

The Company entered into a loan agreement (the "Loan Agreement") with Bank of America, N.A. (the "Bank") in December 2021. Under this Loan Agreement, the Bank extended two facilities to the Company. Specified assets were pledged as collateral. One facility was a line of credit in the amount of $4.0 million available until December 1, 2024 (the "Facility 1"). Interest on Facility 1 was due on the first day of each month beginning January 1, 2022. The interest rate was an annual rate equal to the sum of (i) the greater of the BSBY Daily Floating Rate or (ii) the Index Floor (as defined in the Loan Agreement), plus 2.00%. The Company did not utilize the facility during the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022. During May 2023, the facility was terminated.

The other facility extended by the Bank to the Company was a fixed rate term loan in the amount of up to $16.0 million (the "Facility 2"). Facility 2 was entered into and funded in conjunction with the purchase of Kestrel Labs at an interest rate equal to 2.8% per year. The Company had to pay interest on the first day of each month which began January 1, 2022 and the Company also repaid the principal amount in equal installments of $444,444 per month. All unpaid interest and principal on Facility 2 was fully paid off and the Facility was terminated during May 2023.

(9)(10) CONVERTIBLE SENIOR NOTES

In May 2023, the Company issued $52.5 million aggregate principal amount of 5.00% Convertible Senior Notes due May 15, 2026 (the "2023 Convertible Senior Notes"). In May 2023, the Company issued an additional $7.5 million aggregate principal amount of the 2023 Convertible Senior Notes upon the exercise by the initial purchasers of their over-allotment option.

Interest on the 2023 Convertible Senior Notes is payable semiannually in arrears, beginning November 15, 2023. The 2023 Convertible Senior Notes will mature on May 15, 2026, unless earlier converted or repurchased, and are redeemable at the option of the Company on or after May 20, 2025. The 2023 Convertible Senior Notes are direct, unsecured, and unsubordinated obligations of the Company, ranking equally with all of the Company's other unsecured and unsubordinated indebtedness from time to time outstanding, and are effectively subordinated to all secured indebtedness of the Company.

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Holders may convert their 2023 Convertible Senior Notes at their option prior to the close of business on the business day preceding September 30, 2023, but only under the following circumstances: during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least twenty trading days (whether or not consecutive) during the period of thirty consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day as determined by the Company; during the five business day period after any ten consecutive trading day period (the "Measurement Period") in which the trading price per $1,000 principal amount of 2023 Convertible Senior Notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price of the common stock and the conversion rate on each such trading day; or upon the occurrence of certain corporate events specified in the indenture governing the 2023 Convertible Senior Notes.

On or after February 15, 2026, a holder may convert all or any portion of its 2023 Convertible Senior Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions.

The Company will settle conversions of the 2023 Convertible Senior Notes by paying cash up to the aggregate principal amount of the 2023 Convertible Senior Notes to be converted and paying or delivering, as the case may be, cash, shares of common stock or a

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ZYNEX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

combination of cash and shares of common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 2023 Convertible Senior Notes being converted. The 2023 Convertible Senior Notes are initially convertible at a rate of 92.8031 shares of common stock per $1,000 principal amount converted, which is approximately equal to $10.78 per share of common stock. The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a make-whole fundamental change, which includes certain change in control transactions, the approval by Zynex's stockholders of any plan or proposal for the liquidation or dissolution of Zynex and certain de-listing events with respect to Zynex's common stock, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares of common stock for conversions in connection with the make-whole fundamental change.

Upon the occurrence of a fundamental change, holders of the 2023 Convertible Senior Notes may require the Company to purchase all or a portion of their 2023 Convertible Senior Notes, in principal amounts equal to $1,000 or an integral multiple thereof, for cash at a price equal to 100% of the principal amount of the 2023 Convertible Senior Notes to be purchased plus any accrued and unpaid interest.

The following table summarizes the minimum interest payments over the remainder of 2023 and next three fiscal years until maturity in May 2026.

	(In thousands)	(In thousands)
July 1, 2023 through December 31, 2023	$ 1,592	
October 1, 2023 through December 31, 2023		$ 1,592
2024	3,050	3,050
2025	3,042	3,042
2026	1,508	1,508

(10)(11) STOCK-BASED COMPENSATION PLANS

In June 2017, our stockholders approved the 2017 Stock Incentive Plan (the "2017 Stock Plan") with a maximum of 5,500,000 shares reserved for issuance. Awards permitted under the 2017 Stock Plan include: Stock Options and Restricted Stock. Awards issued under the 2017 Stock Plan are at the discretion of the Board of Directors. As applicable, awards are granted with an exercise price equal to the closing price of our common stock on the date of grant and generally vest over four years. Restricted Stock Awards are issued to the recipient upon grant and are not included in outstanding shares until such vesting and issuance occurs.

During the three and nine months ended September 30, 2023, no stock option awards were granted under the 2017 Stock Plan. During the three months ended September 30, 2022 no stock option awards were granted under the 2017 Stock Plan. During the nine months ended September 30, 2022, 200,000 stock option awards were granted under the 2017 Stock Plan. At September 30, 2023, the Company had 0.6 million stock options outstanding and 0.6 million exercisable under the following plans:

Plan Category	Outstanding Number of Options Outstanding Number of Options (in thousands)	Exercisable Number of Options Exercisable Number of Options (in thousands)
2005 Stock Option Plan	211	211
2017 Stock Option Plan	351	351
Total	562	562

During the three and nine months ended September 30, 2023, 86,000 and 223,000 shares of restricted stock were granted under the 2017 Stock Plan, respectively. During the three and nine months ended September 30, 2022, 50,000 and 143,000 shares of restricted stock were granted to the Board of Directors and management under the 2017 Stock Plan, respectively. The fair market value of restricted shares for share-based compensation expensing is equal to the closing price of our common stock on the date of grant. The vesting on restricted stock awards typically occur quarterly over three years for the Board of Directors and quarterly or annually over two to four years for management.

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During the three and six months ended June 30, 2023, no stock option awards were granted under the 2017 Stock Plan. During the three and six months ended June 30, 2022, 200,000 stock option awards were granted under the 2017 Stock Plan. At June 30, 2023, the company had 0.6 million stock options outstanding and 0.6 million exercisable under the following plans:

Plan Category	Outstanding Number of Options (in thousands)	Exercisable Number of Options (in thousands)
2005 Stock Option Plan	211	211
2017 Stock Option Plan	351	350
Total	562	561

During the three and six months ended June 30, 2023, 72,000 and 134,000 shares of restricted stock were granted under the 2017 Stock Plan, respectively. During the three and six months ended June 30, 2022, 45,000 and 93,000 shares of restricted stock were granted to the Board of Directors and management under the 2017 Stock Plan, respectively. The fair market value of restricted shares for share-based compensation expensing is equal to the closing price of our common stock on the date of grant. The vesting on restricted stock awards typically occur quarterly over three years for the Board of Directors and quarterly or annually over two to four years for management.

The following summarizes stock-based compensation expenses recorded in the condensed consolidated statements of income (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Cost of Revenue	$ 7	$ 12	$ 15	$ 27	$ 10	$ 13	$ 26	$ 40
Sales and marketing expense	69	55	130	114	53	16	182	130
General, and administrative	584	468	822	983	591	549	1,413	1,532
Total stock based compensation expense	$ 660	$ 535	$ 967	$ 1,124	$ 654	$ 578	$ 1,621	$ 1,702

The Company received proceeds of $0.1 million related to option exercises during the three and six nine months ended June 30, 2023 September 30, 2023. The Company received proceeds of $0.1 million related to option exercises during each of the three and six nine months ended June 30, 2022 September 30, 2022. No stock option awards were granted by the Company during the three and six nine months ended June 30, 2023 September 30, 2023.

A summary of stock option activity under all equity compensation plans for the six nine months ended June 30, 2023 September 30, 2023, is presented below:

	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	793	$ 2.67	5.03	$ 8,908	793	$ 2.67	5.03	$ 8,908
Granted	—	$ —			—	$ —		
Forfeited	(206)	$ 6.30			(206)	$ 6.30		
Exercised	(25)	$ 5.38			(25)	$ 5.36		
Outstanding at June 30, 2023	562	$ 1.23	3.05	$ 4,701				
Outstanding at September 30, 2023					562	$ 1.22	2.80	$ 3,807
Exercisable at June 30, 2023	561	$ 1.21	3.04	$ 4,699				
Exercisable at September 30, 2023					562	$ 1.22	2.80	$ 3,807

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ZYNEX, INC.

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A summary of restricted stock award activity under all equity compensation plans for the six nine months ended June 30, 2023 September 30, 2023, is presented below:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Granted but not vested at December 31, 2022	431	$ 11.92	431	$ 11.92
Granted	134	10.81	223	9.88
Forfeited	(4)	12.65	(11)	11.71
Vested	(88)	12.14	(157)	11.90
Granted but not vested at June 30, 2023	473	$ 11.56		
Granted but not vested at September 30, 2023			486	$ 11.82

As of June 30, 2023 September 30, 2023, the Company had approximately $4.5 million of unrecognized compensation expense related to stock options and restricted stock awards that will be recognized over a weighted average period of approximately 2.3 2.4 years.

(11) (12) STOCKHOLDERS' EQUITY

Treasury Stock

On April 11, 2022, the Company's Board of Directors approved a program to repurchase up to $10.0 million of its common stock at prevailing market prices either in the open market or through privately negotiated transactions through April 11, 2023. From the inception of the plan through May 31, 2022 the Company purchased 1,419,874 shares of its common stock for $10.0 million or an average price of $7.04 per share which completed this program.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On June 9, 2022, the Company's Board of Directors approved a program to repurchase up to $10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through June 9, 2023. From the inception of the plan through October 4, 2022, the Company purchased 1,091,604 shares of its common stock for $10.0 million for an average price of $9.06 per share which completed this program.

On October 31, 2022, the Company's Board of Directors approved a program to repurchase up to $10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through October 31, 2023. From the inception of the plan through December 31, 2022, the Company purchased 495,138 shares of its common stock for $6.6 million or an average price of $13.43 per share. From the inception of the plan through March 31, 2023, the Company purchased 727,836 shares of its common stock for $10 million or an average price of $13.74 per share which completed this program.

On May 10, 2023, the disinterested members of the Board of Directors and Audit Committee approved the purchase of 300,000 shares of the Company's common stock from Thomas Sandgaard, Chairman, President, Chief Executive Officer and Principal Executive Officer, at the closing market price on May 10, 2023 of $9.61 per share for $2.9 million. See Note 17 - Related Parties for additional information.

On June 13, 2023, the disinterested members of the Board of Directors and Audit Committee approved the purchase of 300,000 shares of the Company's common stock from Thomas Sandgaard, Chairman, President, Chief Executive Officer and Principal Executive Officer, at the closing market price on June 13, 2023, of $8.62 per share for $2.6 million. See Note 17 - Related Parties for additional information.

On June 13, 2023, the Company's Board of Directors approved a program to repurchase up to $10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through June 13, 2024. From the inception of the plan through June September 30 2023, the Company purchased 66,200 1,242,892 shares of its common stock for $0.6 million $10.0 million or an average price of $9.76 $8.05 per share, which completed this program.

On September 11, 2023, the Company's Board of Directors approved a program to repurchase up to $10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through September 13, 2024. From the inception of the plan through September 30 2023, the Company purchased 667,524 shares of its common stock for $5.6 million or an average price of $8.36 per share.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Warrants

A summary of stock warrant activity for the six nine months ended June 30, 2023 September 30, 2023 is presented below:

	Number of	Weighted Average	Weighted Average Remaining	Aggregate Intrinsic	Number of	Weighted Average	Weighted Average Remaining	Aggregate Intrinsic

	Warrants (in thousands)	Exercise Price	Contractual Life (Years)	Value (in thousands)	Warrants (in thousands)	Exercise Price	Contractual Life (Years)	Value (in thousands)
Outstanding and exercisable at December 31, 2022	99	$ 2.39	1.76	$ 1,140	99	$ 2.39	1.76	$ 1,140
Granted	—	$ —			—	$ —		
Exercised	(8)	$ 2.27			(8)	$ 2.27		
Forfeited	(2)	$ —			(2)	$ —		
Outstanding and exercisable at June 30, 2023	89	$ 2.41	1.27	$ 639				
Outstanding and exercisable at September 30, 2023					89	$ 2.41	1.02	$ 497

(12)(13) INCOME TAXES

The income tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, primarily related to excess tax benefits or expense from stock option exercises, and the tax impact of the change in fair value of contingent consideration. consideration, and true ups related to the filed tax return. For the three months ended June 30, 2023 September 30, 2023 and 2022 discrete items adjusted were ($1.6) million $1.1 million and ($0.9) million, $0.2 million, respectively. For the six nine months ended June 30, 2023 September 30, 2023 and 2022 discrete items adjusted were ($3.1) 2.1) million and ($0.4) 0.2) million, respectively. At June 30, 2023 September 30, 2023 and 2022, the Company is estimating an

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annual effective tax rate of approximately 27% 25% and 25% 23%, respectively. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to various factors.

The provision for income taxes is recorded at the end of each interim period based on the Company's best estimate of its effective income tax rate expected to be applicable for the full fiscal year. The Company's effective income tax rate was 14% 20% and 23% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The decrease in the Company's effective income tax rate for the six nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022, is primarily relate related to the tax impact of discrete items, in particular the change in fair value of contingent consideration recorded during the current quarter year which is not expected to be taxable. The Company recorded income tax expense of $0.7 million $1.4 million and $0.8 million $2.1 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, and income tax expense of $0.8 million $1.5 million and $1.4 million $2.9 million for the three and six nine months ended June 30, 2022 September 30, 2022, respectively.

Taxes of $3.0 million $3.5 million and $3.9 million $5.0 million were paid during the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

(13)(14) LEASES

The Company categorizes leases at their inception as either operating or financing leases. Leases include various office and warehouse facilities which have been categorized as operating leases while certain equipment is leased under financing leases.

During February 2023, the Company entered into a lease agreement for approximately 41,427 square feet of office space for the operations of ZMS in Englewood, CO. The lease commences on July 1, 2023 and runs through December 31, 2028. At the expiration of the lease term the Company has the option to renew the lease for one additional five year period. The Company is entitled to rent abatements for the first six months of the lease and tenant improvement allowances. Payments based on the initial rate of $24.75 per square foot begin in January 2024. The price per square foot increases by an additional $0.50 during each subsequent twelve-month period of the lease after the abatement period. The Upon lease commencement, the Company anticipates the recognition of a recorded an operating lease liability of $4.2 million related to the lease during the Company's third quarter of 2023, which is excluded from the future minimum lease payments table below. $4.2 million and a corresponding right-of-use asset for $2.8 million.

The Company's operating leases do not provide an implicit rate, and therefore the Company uses its incremental borrowing rate as the discount rate when measuring the lease liability. The incremental borrowing rate represents an estimate of the interest rate the Company would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease. The Company's weighted average borrowing rate was determined to be 3.99% 4.75% for its operating lease liabilities. The Company's equipment lease agreements have a weighted average rate of 9.40% 3.03% which was used to measure its finance lease liability. The weighted average remaining lease term was 4.55 years and 2.23 4.09 years for operating and finance leases, respectively, as of June 30, 2023 September 30, 2023.

As of September 30, 2023, the maturities of the Company's future minimum lease payments were as follows (in thousands):

	Operating Lease Liability	Finance Lease Liability
October 1, 2023 through December 31, 2023	$ 533	$ 37
2024	4,511	209
2025	4,632	169
2026	4,428	108
2027	4,237	93
2028	2,172	93
Total undiscounted future minimum lease payments	$ 20,513	$ 709
Less: difference between undiscounted lease payments and discounted lease liabilities:	(2,287)	(24)
Total lease liabilities	$ 18,226	$ 685

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ZYNEX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2023, the maturities of the Company's future minimum lease payments were as follows (in thousands):

	Operating Lease Liability	Finance Lease Liability
July 1, 2023 through December 31, 2023	$ 677	$ 76
2024	3,571	116
2025	3,586	76
2026	3,362	15
2027	3,150	—
2028	1,064	—
Total undiscounted future minimum lease payments	$ 15,410	$ 283
Less: difference between undiscounted lease payments and discounted lease liabilities:	(1,469)	(29)
Total lease liabilities	$ 13,941	$ 254

The components of lease expenses were as follows:

	Three Months Ended June 30,	Six Months Ended June 30,	Three Months Ended September 30,	Nine Months Ended September 30,

	2023	2022	2023	2022	2023	2022	2023	2022
Lease cost:								
Operating lease cost:								
Total operating lease expense	$ 1,121	$ 1,113	$ 2,242	$ 2,219	$ 889	$ 1,125	$ 3,131	$ 3,344
Finance lease cost:								
Total amortization of leased assets	29	29	59	59	37	30	96	89
Interest on lease liabilities	7	9	14	19	5	9	19	28
Total net lease cost	$ 1,157	$ 1,151	$ 2,315	$ 2,297	$ 931	$ 1,164	$ 3,246	$ 3,461

For the three months ended June 30, 2023 September 30, 2023 and 2022, $0.1 million $0.8 million and $0.2 million, respectively, of operating lease costs were incurred at the Company's manufacturing and warehouse facility and were included in cost of sales. For the three and six months ended June 30, 2023 and 2022, $1.0 million and $2.0 million, respectively, of operating lease costs were included in selling, general and administrative expenses on the condensed consolidated statement of income. For the nine months ended September 30, 2023 and 2022, $2.9 million and $3.1 million, respectively, of operating lease costs were included in selling, general and administrative expenses on the condensed consolidated statement of income. All other operating lease costs were incurred at the Company's manufacturing and warehouse facility and were included in cost of sales for the three and nine months ended September 30, 2023 and 2022.

(14) FAIR VALUE MEASUREMENTS

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The Company's asset and liability classified financial instruments include cash, accounts receivable, accounts payable, accrued liabilities, and contingent consideration. The carrying amounts of financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short maturities. The Company measures its long-term debt at book value which approximates fair value as the long-term debt bears market rates of interest. The fair value of acquisition-related contingent consideration is based on a Monte Carlo model. The valuation policies are determined by management, and the Company's Board of Directors is informed of any policy change.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on reliability of the inputs as follows:

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Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to Zynex for identical assets or liabilities;

Level 2: Inputs include quoted prices for similar assets and liabilities in active or inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs that are supported by little or no market activity.

The Company's assets and liabilities which are measured at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The Company's policy is to recognize transfers in and/or out of fair value hierarchy as of the date in which the event or change in circumstances caused the transfer. The Company has consistently applied the valuation techniques discussed below in all periods presented.

The following table presents Company's financial liabilities that were accounted for at fair value on a recurring basis as of June 30, 2023, by level within the fair value hierarchy:

		Fair Value Measurements at June 30, 2023		
	Fair Value at June 30, 2023	Quoted Priced in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Contingent consideration	$ 6,900	$ —	$ —	$ 6,900
Total	$ 6,900	$ —	$ —	$ 6,900

The following table sets forth a summary of changes in the contingent consideration for the three months ended June 30, 2023 (in thousands):

	Contingent Consideration
Balance as of December 31, 2022	$ 10,000
Change in fair value of contingent consideration	(3,100)
Balance as of June 30, 2023	$ 6,900

(15) CONCENTRATIONS

For the three months ended June 30, 2023 September 30, 2023, the Company sourced approximately 24% 57% of the supplies for its electrotherapy products from two four significant vendors. For the same period in 2022, the Company sourced approximately 58% 39% of the supplies for its electrotherapy products from four two significant vendors.

For the six nine months ended June 30, 2023 September 30, 2023, the Company sourced approximately 26% 47% of supplies for its electrotherapy products from two four significant vendors. For the same period in 2022, the Company sourced approximately 53% 33% of supplies for its electrotherapy products from four two significant vendors.

At June 30, 2023 September 30, 2023, the Company had no receivables from any third-party payers that made up over 10% of the net accounts receivable balance. At December 31, 2022, the Company had receivables from one third-party payer which made up approximately 14% of the net accounts receivable balance.

(16) COMMITMENTS AND CONTINGENCIES

See Note 13 14 for details regarding commitments under the Company's long-term leases.

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From time to time, the Company may become party to litigation and other claims in the ordinary course of business. To the extent that such claims and litigation arise, management would accrue the estimated exposure for such events when losses are determined to be both probable and estimable. On occasion, the Company engages outside counsel related to a broad range of topics including employment law, third-party payer matters, intellectual property and regulatory and compliance matters.

The Company is currently not a party to any material pending legal proceedings that would give rise to potential loss contingencies.

(17) RELATED PARTIES

On May 10, 2023, the disinterested Board and Audit Committee approved the purchase of 300,000 common shares of ZYXI from Mr. Sandgaard, Chairman, President, Chief Executive Officer and Principal Executive Officer, at the closing market price on May 10, 2023 of $9.61 per share, resulting in a total transactional value of $2,883,000.

On June 13, 2023, the disinterested Board and Audit Committee approved the purchase of 300,000 common shares of ZYXI from Mr. Sandgaard at the closing market price on June 13, 2023, of $8.62 per share, resulting in a total transactional value of $2,586,000.

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At the time of each aforementioned transactions, the disinterested Board and Audit Committee Members deemed it to be in the best interest of The Company to purchase the shares as they believe the current market price for the Company's stock is undervalued and the Company's cash position is such that the purchase of shares from Mr. Sandgaard is a good use of the Company's funds at the time of each transaction. For each transaction, the following impacts were discussed before approval of the sale:

(i) the Company's cash position and capital needs for its continuing operations; (ii) the alternative uses for the cash used to purchase the Sandgaard Shares, including repayment of outstanding indebtedness; (iii) the possible effect on earnings per share and book value per share; (iv) and the potential effect of the trading of the Company's shares, if Mr. Sandgaard were to sell the shares in the open market.

(18) SUBSEQUENT EVENTS

No There were no subsequent events identified through July 27, 2023 October 26, 2023.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Notice Regarding Forward-Looking Statements

This quarterly report contains statements that are forward-looking, such as statements relating to plans for future organic growth and other business development activities, as well as the impact of reimbursement trends, other capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks include the ability to engage effective sales representatives, the need to obtain U.S. Food and Drug Administration ("FDA") clearance and Certificate European ("CE") marking of new products, the acceptance of new products as well as existing products by doctors and hospitals, our dependence on the reimbursement from insurance companies for products sold or leased to our customers, acceptance of our products by health insurance providers for reimbursement, larger competitors with greater financial resources, the need to keep pace with technological changes, our dependence on third-party manufacturers to produce key components of our products on time and to our specifications, implementation of our sales strategy including a strong direct sales force, the impact of COVID-19 on our business, and other risks described herein and in our Annual Report on Form 10-K for the year ended December 31, 2022.

These interim financial statements and the information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the annual audited consolidated financial statements, and notes to consolidated financial statements, included in the Company's 2022 Annual Report on Form 10-K and subsequently filed reports, which have previously been filed with the Securities and Exchange Commission.

General

Zynex, Inc. (a Nevada corporation) has its headquarters in Englewood, Colorado. We operate in one primary business segment, medical devices which include electrotherapy and pain management products. As of June 30, 2022 September 30, 2022, the Company's only active subsidiaries are Zynex Medical, Inc. ("ZMI," a wholly-owned Colorado corporation) through which the Company conducts most of its operations, and Zynex Monitoring Solutions, Inc. ("ZMS," a wholly-owned Colorado corporation). The Company's inactive subsidiaries include Zynex Europe, Zynex NeuroDiagnostics, Inc. ("ZND," a wholly-owned Colorado corporation) and Pharmazy, Inc. ("Pharmazy", a wholly-owned Colorado Corporation), which were incorporated in June 2015. The Company's compounding pharmacy operated as a division of ZMI dba as Pharmazy through January 2016.

In December 2021, the Company acquired 100% of Kestrel Labs, Inc. ("Kestrel"), a laser-based, noninvasive patient monitoring technology company. Kestrel's laser-based products include the NiCOTM CO-Oximeter, a multi-parameter pulse oximeter, and HemeOxTM, a total hemoglobin oximeter that enables continuous arterial blood monitoring. Both NiCO and HemeOx are yet to be presented to the U.S. FDA for market clearance. All activities related to Kestrel flow through our ZMS subsidiary.

The term "the Company" refers to Zynex, Inc. and its active and inactive subsidiaries.

On June 15, 2023, Zynex, Inc entered into an investor relations consulting agreement with MZHCI, LLC.

RESULTS OF OPERATIONS

Summary

Net revenue was $45.0 million $49.9 million and $36.8 million $41.5 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and $87.1 million $137.0 million and $67.8 million $109.4 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Net revenue increased 22% 20% and 28% 25% for the three and six-month nine months ended September 30, 2023, respectively. For both the three and nine months ended September 30, 2023, device orders increased 39% and 49%, respectively, from the same periods ended June 30, 2023, respectively. in 2022. Net income was $3.4 million $3.6 million for the three months ended June 30, 2023 September 30, 2023 compared with $3.3 million $4.9 million during the same period in 2022. Net income was $4.9 million $8.5 million for the six nine months ended June 30, 2023 September 30, 2023 compared with $4.7 million $9.6 million during the same period in 2022. Cash provided by operating activities was $2.7 million $11.6 million during the six nine months ended June 30, 2023 September 30, 2023 compared with $1.6 million $9.0 million during the same period in 2022. Working capital was $93.5 million $83.1 million and $48.5 million as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

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Net Revenue

Net revenues are comprised of device and supply sales, constrained by estimated third-party payer reimbursement deductions. The reserve for billing allowance adjustments and allowance for uncollectible accounts are adjusted on an ongoing basis in conjunction with the processing of third-party payer insurance claims and other customer collection history. Product device revenue is primarily comprised of sales and rentals of our electrotherapy products and also includes complementary products such as our cervical traction, lumbar support and hot/cold therapy products.

Supplies revenue is primarily comprised of sales of our consumable supplies to patients using our electrotherapy products, consisting primarily of surface electrodes and batteries. Revenue related to both devices and supplies is reported net, after adjustments for estimated third-party payer reimbursement deductions and estimated allowance for uncollectible accounts. The deductions are known throughout the healthcare industry as billing adjustments whereby the healthcare insurers unilaterally reduce the amount they reimburse for our products as compared to the sales prices charged by us. The deductions from gross revenue also take into account the estimated denials, net of resubmitted billings of claims for products placed with patients which may affect collectability. See our Significant Accounting Policies in Note 2 to the condensed financial statements for a more complete explanation of our revenue recognition policies.

We occasionally receive, and expect to continue to receive, refund requests from insurance providers relating to specific patients and dates of service. Billing and reimbursement disputes are very common in our industry. These requests are sometimes related to a few patients and other times include a significant number of refund claims in a single request. We review and evaluate these requests and determine if any refund is appropriate. We also review claims that have been resubmitted or where we are pursuing additional reimbursement from that insurance provider. We frequently have significant offsets against such refund requests which may result in amounts that are due to us in excess of the amounts of refunds requested by the insurance providers. Therefore, at the time of receipt of such refund requests we are generally unable to determine if a refund request is valid.

Net revenue increased $8.2 million $8.4 million or 22% 20% to $45.0 million $49.9 million for the three months ended June 30, 2023 September 30, 2023, from $36.8 million $41.5 million for the same period in 2022. Net revenue increased $19.3 million $27.7 million or 28% 25% to $87.1 million $137.0 million for the six nine months ended June 30, 2023 September 30, 2023, from $67.8 million $109.4 million for the same period in 2022. For both the three and six-month periods nine months ended June 30, 2023 September 30, 2023, the growth in net revenue from the same periods in 2022 is primarily related to a 51% 39% and 55% 49% growth in device orders, respectively, which resulted from a larger customer base and led to increased sales of consumable supplies.

Device Revenue

Device revenue is related to the sale or lease of our products. Device revenue increased $4.2 million $5.5 million or 45% 49% to $13.7 million $16.9 million for the three months ended June 30, 2023 September 30, 2023, from $9.5 million $11.3 million for the same period in 2022.

Device revenue increased $9.5 million $15.0 million or 58% 54% to $25.7 million $42.5 million for the six nine months ended June 30, 2023 September 30, 2023, from $16.2 million $27.6 million for the same period in 2022.

For both the three and six-month periods nine months ended June 30, 2023 September 30, 2023, the growth in net revenue from the same periods in 2022 is primarily related to a 51% 39% and 55% 49% growth in device orders, respectively.

Supplies Revenue

Supplies revenue is related to the sale of supplies, primarily electrodes and batteries, for our electrotherapy products. Supplies revenue increased $3.9 million $2.9 million or 15% 10% to $31.2 million $33.1 million for the three months ended June 30, 2023 September 30, 2023, from $27.3 million $30.2 million for the same period in 2022.

Supplies revenue increased $9.8 million $12.7 million or 19% 16% to $61.4 million $94.5 million for the six nine months ended June 30, 2023 September 30, 2023, from $51.6 million $81.8 million for the same period in 2022.

The increase in supplies revenue is primarily related to an increased customer base from increased device sales orders in 2022 and 2023.

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Operating Expenses

Cost of Revenue – Devices and Supplies

Cost of Revenue – devices and supplies consist primarily of device and supply costs, facilities, operations labor and overhead, shipping and depreciation. Cost of revenue for the three months ended June 30, 2023 September 30, 2023 increased 27% $1.2 million or 14% to $9.3 million $9.6 million from $7.3

million $8.4 million from the same period in 2022. As a percentage of revenue, cost of revenue – devices and supplies increased decreased to 21% 19% from 20% for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Cost of revenue for the six nine months ended June 30, 2023 September 30, 2023 increased 30% $5.5 million or 24% to $18.5 million $28.1 million from $14.2 million $22.6 million for the same period in 2022. As a percentage of revenue, cost of revenue – device and supply remained flat at 21% for the six nine months ended June 30, 2023 September 30, 2023 and 2022.

The increase in cost of revenue – devices and supplies, in the three and six month periods ending June 30, 2023 nine months ended September 30, 2023, is due to increased volumes related to higher revenue.

Sales and Marketing Expense

Sales and marketing expenses primarily consist of employee-related costs, including commissions and other direct costs associated with these personnel including travel expenses and marketing campaign and related expenses.

Sales and marketing expense for the three months ended June 30, 2023 September 30, 2023 increased 32% $4.9 million or 29% to $21.6 million $22.1 million from $16.3 million $17.2 million for the same period in 2022. The increase in sales and marketing expense is primarily due to increased commission and incentive pay from increased orders, increased headcount of our sales force, and rising wages in the U.S. due to a very competitive job market. As a percentage of revenue, sales and marketing expense increased to 48% 44% from 44% 41% for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, primarily due to the aforementioned expenses, offset by increased revenue.

Sales and marketing expense for the six nine months ended June 30, 2023 September 30, 2023 increased 39% $17.0 million or 36% to $42.8 million $65.0 million from $30.7 million $48.0 million for the same period in 2022. The increase in sales and marketing expense is primarily due to increased commission and incentive pay from increased orders, and inflation and rising wages in the U.S. due to a very competitive job market. As a percentage of revenue, sales and marketing expense increased to 49% 47% from 45% 44% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The increase as a percentage of revenue is primarily due to the additional expenses noted above, slightly offset by the increase in revenue during the period.

General and Administrative Expense

General and administrative expenses primarily consist of employee-related costs, and other direct costs associated with these personnel including facilities and travel expenses and professional fees, depreciation and amortization. General and administrative expense for the three months ended June 30, 2023 September 30, 2023 increased 29% $3.4 million or 36% to $11.4 million $12.7 million from $8.8 million $9.4 million for the same period in 2022. The increase in general and administrative expense for the three months is primarily due to increased compensation and benefit expense related to headcount growth at ZMS and within the billing departments, and professional fees due to additional external resources and additional compliance fees related to Section 404(b) of the Sarbanes-Oxley Act of 2002. As a percentage of revenue, general and administrative expense increased to 25% increased to 26% for the three months ended June 30, 2023 September 30, 2023 from 24% 23% for the same period in 2022. The increase as a percentage of revenue is primarily due to the items noted above, partially offset by the increase in revenue during the period.

General and administrative expense for the six nine months ended June 30, 2023 September 30, 2023 increased $9.5 million or 37% to $22.7 million $35.5 million from $16.6 million $26.0 million for the same period in 2022. The increase in general and administrative expense for the six nine months is primarily due to increased compensation and benefit expense related to headcount growth at ZMS and within the billing departments, and increased professional and legal service expenses. As a percentage of revenue, general and administrative expense increased to 26% for the six nine months ended June 30, 2023 September 30, 2023 from 24% for the same period in 2022. The increase as a percentage of revenue is primarily due to the aforementioned expenses, partially offset by the increase in revenue during the period.

Income Taxes

The provision for income taxes is recorded at the end of each interim period based on the Company's best estimate of its effective income tax rate expected to be applicable for the full fiscal year. The Company's effective income tax rate was 18% 27% and 14% 20% for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. Discrete items, primarily related to the tax impact of the change in fair value of contingent consideration, of ($1.6) million and ($3.1) million for the three and six months ended June 30, 2023, respectively, are

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value of contingent consideration, of $(0.2) million and $2.9 million for the three and nine months ended September 30, 2023, respectively, are recognized as a benefit against income tax expense. For the three and six nine months ended June 30, 2023 September 30, 2023 the Company recorded an income tax expense of approximately $0.7 million $1.4 million and $0.8 million $2.1 million, respectively. The Company recorded income tax expense of $0.8 million $1.5 million and $1.4 million $2.9 million for the three and six nine months ended June 30, 2022 September 30, 2022, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations, debt and equity transactions. At June 30, 2023 September 30, 2023, our principal source of liquidity was $58.7 million $42.5 million in cash and $33.0 million cash equivalents, $9.9 million in short-term investments and $33.3 million in accounts receivable.

Net cash provided by operating activities for the six nine months ended June 30, 2023 September 30, 2023 was $2.7 million $11.6 million compared with net cash provided by operating activities of $1.6 million $9.0 million for the six nine months ended June 30, 2022 September 30, 2022. The increase in cash provided by operating activities for the six nine months ended June 30, 2023 September 30, 2023 was primarily due to an increase in net income as well as a decrease in the receivables balance. balance and a decrease in inventory. The increase was partially offset by the change in fair value of contingent consideration.

Net cash used in investing activities for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was $0.4 million $10.4 million and $0.2 million $0.3 million, respectively. Cash used in investing activities for the six nine months ended June 30, 2023 September 30, 2023 was primarily related to the purchase of short-term investments, and purchases of property and equipment related to the build out of our facility for the operations of ZMS, and the purchase of computer equipment. ZMS. Cash used in investing activities for the six nine months ended June 30, 2022 September 30, 2022 was primarily related to the purchase of leasehold improvements for the operations of the ZMS Boulder location and the purchase of computer equipment.

Net cash provided by financing activities for the six nine months ended June 30, 2023 September 30, 2023 was $36.3 million $21.2 million compared with net cash used in financing activities of $17.1 million $27.7 million for the same period in 2022. Net cash provided by financing activities for the six nine months ended June 30, 2023 September 30, 2023 was primarily due to the $57.0 million in net proceeds from the issuance of the 2023 Convertible Senior Notes, offset by purchases of $24.4 million in treasury stock, and principal payments and termination of payments on long-term debt. debt totaling $10.7 million. Net cash used in financing activities for the six nine months ended June 30, 2022 September 30, 2022 was primarily due to purchases of $19.8 million in treasury stock, payment payments of $3.6 million for cash dividends in January 2022, and principal payments on long-term debt. debt totaling $4.0 million.

We believe our cash and cash equivalents, together with anticipated cash flow from operations will be sufficient to meet our working capital, and capital expenditure requirements for at least the next twelve months. In making this assessment, we considered the following:

- Our cash and cash equivalents balance at June 30, 2023 September 30, 2023 of $58.7 million $42.5 million;
- Our working capital balance of $93.5 million $83.1 million;
- Our projected income and cash flows for the next 12 months.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

Please refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and Note 2 to the consolidated financial statements located within our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on March 14, 2023.

COVID-19 UPDATE

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged and spread to other countries, including the United States. In March 2020, the World Health Organization declared COVID-19 as a pandemic (the “COVID-19 pandemic”). The COVID-19 pandemic, including multiple variants, resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business interruptions and other measures.

Although the World Health Organization declared an end to the COVID-19 pandemic on May 5, 2023, we continue to actively monitor the impact of COVID-19. While the Company did not incur significant disruptions to its operations during the three and nine months ended June 30, 2023 September 30, 2023 from COVID-19, the full extent of COVID-19 on our operations and the markets we serve remains uncertain and will depend largely on future developments related to COVID-19, including infection rates increasing or returning in various

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geographic areas, variations of COVID-19, actions by government authorities to contain the outbreak or treat its impact, such as reimposing previously lifted measures or putting in place additional restrictions, and the widespread distribution and acceptance of an effective vaccine, among other things. Future developments regarding COVID-19 and its effects cannot be accurately predicted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

N/A.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as amended, or the Exchange Act, as of June 30, 2023 September 30, 2023. Based on management's review, with participation of our Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended June 30, 2023 September 30, 2023, our disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting as described below.

Material Weakness in Internal Control

We identified a material weakness related to Information Technology General Controls (ITGCs) that were not designed and operating effectively to ensure (i) appropriate segregation of duties was in place to perform program changes and (ii) the activities of individuals with access to modify data and make program changes were appropriately monitored. Business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

The material weakness identified above did not result in any material misstatements in our financial statements or disclosures, and there were no changes to previously released financial results. Our management concluded that the consolidated financial statements included in the Annual Report on Form 10-K, present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

The effectiveness of our internal control over financial reporting as of December 31, 2022, has been audited by Marcum LLP as stated in their report, which is included in Item 8 of the Annual Report on Form 10-K.

Remediation Plan

Our management is committed to maintaining a strong internal control environment. In response to the identified material weakness above, management will take comprehensive actions to remediate the material weakness in internal control over financial reporting. We are in the process of developing and implementing remediation plans to address the material weakness described above.

Changes in Internal Control over Financial Reporting

Except for the items referred to above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2023 September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Inherent Limitation on the Effectiveness of Internal Control

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by

management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with

policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on March 14, 2023 and our Quarterly Report on Form 10-Q for the period ended March 31, 2023 filed with the SEC on April 27, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, AND USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Items 2(a) and 2(b) are not applicable.

(c) Stock Repurchases.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	In Thousands Maximum Value of Shares That May Yet Be Purchased Under the Plan	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	In Thousands Maximum Value of Shares That May Yet Be Purchased Under the Plan
April 1 - May 31, 2023								
July 1 - August 31, 2023								
Share repurchase program (1)	300,000	$ 9.61	300,000	—	619,216	$ 8.24	685,416	4,253
June 1 - June 30, 2023								
September 1 - September 30, 2023								
Share repurchase program (1)					557,476	$ 8.62	1,242,892	—
Share repurchase program (2)	300,000	$ 8.62	300,000	—	667,524	$ 8.36	667,524	4,420
Share repurchase program (3)	66,200	$ 9.76	66,200	9,354				
Quarter Total								
Share repurchase program (1)	300,000	$ 9.61	300,000	—	1,176,692	$ 8.42	1,242,892	—
Share repurchase program (2)	300,000	$ 8.62	300,000	—	667,524	$ 8.36	667,524	4,420
Share repurchase program (3)	66,200	$ 9.76	66,200	9,354				

(1) On May 10, 2023, the disinterested Board and Audit Committee approved the purchase of 300,000 shares of the Company's common stock from Thomas Sandgaard, Chief Executive Officer, at the closing market price on May 10, 2023 of $9.61 per share.

(2) On June 13, 2023, the disinterested Board and Audit Committee approved the purchase of 300,000 shares of the Company's common stock from Thomas Sandgaard, Chief Executive Officer, at the closing market price on June 13, 2023, of $8.62 per share.

(3) Shares were purchased through the Company's publicly announced share repurchase program dated June 13, 2023. The program was fully utilized during the Company's third quarter.

(2) Shares were purchased through the Company's publicly announced share repurchase program dated September 11, 2023. The program expires on June 13, 2024 September 13, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Description
4.1 10.1	Indenture, Amendment to Stock Purchase Agreement by and among Kestrel Labs, Inc., Zynex Monitoring Solutions Inc., Zynex, Inc. and Selling Shareholders named herein dated as of May 9, 2023, between Zynex, Inc. and U.S. Bank Trust Company, National Association, as trustee. July 27, 2023 (incorporated by reference to Exhibit 4.1 of 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 9, 2023 July 31, 2023)
4.2	Form of certificate representing the 5.00% Convertible Senior Notes due 2023 (included as Exhibit A to Exhibit 4.1)
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB *	XBRL Taxonomy Label Linkbase Document
101.PRE *	XBRL Presentation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZYNEX, INC.

/s/ Daniel J. Moorhead

Dated: July 27, 2023 October 26, 2023

Daniel J. Moorhead
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 31.1

CERTIFICATION

I, Thomas Sandgaard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zynex, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 27, 2023 October 26, 2023

/s/ THOMAS SANDGAARD

Thomas Sandgaard
Chairman, President, Chief Executive Officer and Principal Executive Officer

Exhibit 31.2

CERTIFICATION

I, Daniel J. Moorhead, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zynex, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 27, 2023 October 26, 2023

/s/ Daniel J. Moorhead
Daniel J. Moorhead
Chief Financial Officer and Principal Financial and Accounting Officer

Exhibit 32.1

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

The undersigned hereby certifies, for the purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Zynex, Inc. ("Zynex"), that to his knowledge:

1. This Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Zynex for the period covered by this Report.

Dated: July 27, 2023 October 26, 2023

/s/ Thomas Sandgaard

Thomas Sandgaard
Chairman, President, Chief Executive Officer and Principal Executive Officer

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Exhibit 32.2

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

The undersigned hereby certifies, for the purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Zynex, Inc. ("Zynex"), that to his knowledge:

1. This Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Zynex for the period covered by this Report.

Dated: July 27, 2023 October 26, 2023

/s/ Daniel J. Moorhead

Daniel J. Moorhead
Chief Financial Officer and Principal Financial and Accounting Officer

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