

REFINITIV

## DELTA REPORT

### 10-Q

ZYXI - ZYNEX INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 761

█ CHANGES 200

█ DELETIONS 290

█ ADDITIONS 271

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**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: **September 30, 2023** **March 31, 2024**

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 <u>October 26, 2023</u> <u>April 26, 2024</u>
Common Stock, par value \$0.001	<u>33,903,777</u> <u>31,775,183</u>

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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)

	September 30, 2023 (unaudited)	December 31, 2022	March 31, 2024 (unaudited)	December 31, 2023
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 42,517	\$ 20,144	\$ 32,861	\$ 44,579
Short-term investments, net	9,924	—		
Accounts receivable, net	33,288	35,063	25,439	26,838
Inventory, net	14,186	13,484	15,476	13,106
Prepaid expenses and other	3,008	868	4,213	3,332
Total current assets	102,923	69,559	77,989	87,855
Property and equipment, net	2,468	2,175	3,234	3,114

Operating lease asset	13,168	12,841	11,857	12,515
Finance lease asset	637	270	537	587
Deposits	409	591	409	409
Intangible assets, net of accumulated amortization	8,387	9,067	7,932	8,158
Goodwill	20,401	20,401	20,401	20,401
Deferred income taxes	3,036	1,562	3,866	3,865
<b>Total assets</b>	<b>\$ 151,429</b>	<b>\$ 116,466</b>	<b>\$ 126,225</b>	<b>\$ 136,904</b>

LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	8,050	5,617	10,325	8,433
Operating lease liability	3,072	2,476	3,881	3,729
Finance lease liability	210	128	183	196
Income taxes payable	1,996	1,995	637	633
Current portion of debt	—	5,333		
Accrued payroll and related taxes	6,515	5,537	6,729	5,541
<b>Total current liabilities</b>	<b>19,843</b>	<b>21,086</b>	<b>21,755</b>	<b>18,532</b>
Long-term liabilities:				
Long-term portion of debt, less issuance costs	—	5,293		
Convertible senior notes, less issuance costs	57,375	—	57,839	57,605
Contingent consideration	—	10,000		
Operating lease liability	15,154	13,541	13,184	14,181
Finance lease liability	475	188	347	457
<b>Total liabilities</b>	<b>92,847</b>	<b>50,108</b>	<b>93,125</b>	<b>90,775</b>
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		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of March 31, 2024 and December 31, 2023			—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 42,048,385 issued and 31,879,892 outstanding as of March 31, 2024. 41,980,166 issued and 32,933,776 outstanding as of December 31, 2023.			32	33
Additional paid-in capital	90,543	82,431	91,259	90,878
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)		
Treasury stock of 9,666,879 and 8,545,044 shares at March 31, 2024 and December 31, 2023, respectively, at cost			(84,981)	(71,562)
Retained earnings	25,565	17,048	26,790	26,780
<b>Total stockholders' equity</b>	<b>58,582</b>	<b>66,358</b>	<b>33,100</b>	<b>46,129</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 151,429</b>	<b>\$ 116,466</b>	<b>\$ 126,225</b>	<b>\$ 136,904</b>

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)**  
(b unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
	NET REVENUE					
Devices	\$ 16,855	\$ 11,349	\$ 42,542	\$ 27,579	\$ 14,025	\$ 11,944
Supplies	33,060	30,171	94,495	81,783	32,506	30,226
Total net revenue	49,915	41,520	137,037	109,362	46,531	42,170
<b>COSTS OF REVENUE AND OPERATING EXPENSES</b>						
Costs of revenue - devices and supplies	9,553	8,391	28,094	22,617	9,298	9,269
Sales and marketing	22,146	17,212	64,982	47,950	23,380	21,227
General and administrative	12,731	9,359	35,479	25,967	13,328	11,390
Total costs of revenue and operating expenses	44,430	34,962	128,555	96,534	46,006	41,886
Income from operations	5,485	6,558	8,482	12,828	525	284
Other income (expense)						
Gain on sale of fixed assets	37	—	39	—	—	2
Gain (loss) on change in fair value of contingent consideration	(245)	(100)	2,855	—	—	—
Gain on change in fair value of contingent consideration	—	—	—	—	—	1,400
Interest expense, net	(327)	(106)	(728)	(345)	(512)	(84)
Other income (expense), net	(535)	(206)	2,166	(345)	(512)	1,318
Income from operations before income taxes	4,950	6,352	10,648	12,483	13	1,602
Income tax expense	1,356	1,479	2,131	2,887	3	33
Net income	\$ 3,594	\$ 4,873	\$ 8,517	\$ 9,596	\$ 10	\$ 1,569
Net income per share:						
Basic	\$ 0.10	\$ 0.13	\$ 0.24	\$ 0.25	\$ 0.00	\$ 0.04
Diluted	\$ 0.10	\$ 0.13	\$ 0.23	\$ 0.24	\$ 0.00	\$ 0.04
Weighted average basic shares outstanding	35,531	38,046	36,216	38,881	32,344	36,694
Weighted average diluted shares outstanding	36,103	38,865	36,866	39,729	32,827	37,442

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 Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	\$ 8,517	\$ 9,596	\$ 10	\$ 1,569
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	1,984	1,590	638	615
Amortization	1,078	695	461	229
Non-cash reserve charges	(91)	65	—	408
Stock-based compensation	1,621	1,702	734	307
Non-cash lease expense	568	720	(187)	(272)
Benefit for deferred income taxes	(1,473)	(772)	(1)	8
Gain on change in fair value of contingent consideration	(2,855)	—	—	(1,400)
Change in fair value of contingent consideration	—	—	—	(2)
Gain on sale of fixed assets	(39)	—	—	—
Change in operating assets and liabilities:				
Short-term investments	(114)	—	—	—
Accounts receivable	1,775	282	1,399	2,596
Prepaid and other assets	(826)	(446)	(813)	(1,262)
Accounts payable and other accrued expenses	3,312	364	2,709	369
Inventory	(2,071)	(4,801)	(2,882)	(1,139)
Deposits	182	(6)	—	(92)
Net cash provided by operating activities	11,568	8,989	2,068	1,934
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment	(630)	(332)	(153)	(184)
Purchase of short-term investments	(9,810)	—	—	—
Proceeds on sale of fixed assets	50	—	—	10
Net cash used in investing activities	(10,390)	(332)	(153)	(174)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Payments on finance lease obligations	(95)	(87)	(123)	(31)
Cash dividends paid	(1)	(3,613)	(3)	—
Purchase of treasury stock	(24,402)	(19,811)	(13,280)	(3,353)
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	13	27
Principal payments on long-term debt	(10,667)	(4,000)	—	(1,333)
Taxes withheld and paid on employees' equity awards	(691)	(253)	(240)	(422)
Net cash provided by (used in) financing activities	21,195	(27,737)	(13,633)	(5,112)
Net cash used in financing activities	—	—	—	—
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	(11,718)	(3,352)
Net decrease in cash	—	—	44,579	20,144
Cash and cash equivalents at beginning of period	—	—	—	—

Cash and cash equivalents at end of period					\$ 32,861	\$ 16,792
<b>Supplemental disclosure of cash flow information:</b>						
Cash received (paid) on interest, net		\$ 452	\$ (317)			
Cash paid on interest, net				\$ 238	\$ (90)	
Cash paid for rent		\$ (2,522)	\$ (2,592)	\$ (1,056)	\$ (1,382)	
Cash paid for income taxes		\$ (3,541)	\$ (5,028)			
<b>Supplemental disclosure of non-cash investing and financing activities:</b>						
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)	\$ —			
Treasury stock not yet paid				\$ (140)	\$ —	
Excise tax accrual				\$ (126)	\$ —	
Inventory transferred to property and equipment under lease		\$ 1,369	\$ 1,191	\$ 511	\$ 438	
Capital expenditures not yet paid		\$ 101	\$ 56	\$ 44	\$ 77	
Prepaid expenses not yet paid				\$ 69	\$ —	
Non-cash dividend adjustment		\$ (1)	\$ —	\$ (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)

	Additional						Total			Additional			
	Common Stock		Paid-in	Treasury	Retained	Stockholders'	Common Stock		Paid-in	Treasury	Stock	Capital	Stock
	Shares	Amount	Capital	Stock	Earnings	Equity	Shares	Amount	Capital	Stock	Capital	Stock	
<b>Balance at December 31, 2021</b>	<b>39,737,890</b>	<b>41</b>	<b>80,397</b>	<b>(6,513)</b>	<b>—</b>	<b>73,925</b>							
<b>Balance at December 31, 2022</b>							<b>36,825,081</b>	<b>\$ 39</b>	<b>\$ 82,431</b>	<b>\$ (33,160)</b>	<b>\$ (33,160)</b>	<b>\$ (33,160)</b>	<b>\$ (33,160)</b>
Exercised and vested stock-based awards	38,355	—	3	—	—	3	66,045	—	27	—			
Stock-based compensation expense	—	—	589	—	—	589	—	—	—	307	—		
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							
<b>Balance at March 31, 2022</b>	<b>39,776,816</b>	<b>\$ 41</b>	<b>\$ 80,913</b>	<b>\$ (6,513)</b>	<b>\$ 1,377</b>	<b>\$ 75,818</b>							
Exercised and vested stock-based awards	178,727	1	11	—	—	12							

Stock-based compensation expense	—	—	535	—	—	535	—	—	—
Warrants exercised							10,000	—	—
Shares of common stock withheld to pay taxes on employees' equity awards	(47,603)	—	(47)	—	—	(47)	(22,387)	—	(422)
Purchase of treasury stock	(1,504,374)	(2)	—	(10,653)	—	(10,655)	(232,698)	—	(3,353)
Net income	—	—	—	—	3,346	3,346	—	—	—
<b>Balance at June 30, 2022</b>	<b>38,403,566</b>	<b>\$ 40</b>	<b>\$ 81,412</b>	<b>\$ (17,166)</b>	<b>\$ 4,723</b>	<b>\$ 69,009</b>			
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			
<b>Balance at September 30, 2022</b>	<b>37,467,494</b>	<b>\$ 39</b>	<b>\$ 81,873</b>	<b>\$ (26,321)</b>	<b>\$ 9,596</b>	<b>\$ 65,187</b>			
<b>Balance at March 31, 2023</b>					<b>36,646,041</b>	<b>\$ 39</b>	<b>\$ 82,343</b>	<b>\$ (36,513)</b>	

	Additional					Stockholders' Equity	Additional					Stockholders' Equity
	Common Stock		Paid-in Capital	Treasury Stock	Retained Earnings		Common Stock		Paid-in Capital	Treasury Stock	Retained Earnings	
	Shares	Amount					Shares	Amount				
<b>Balance at December 31, 2022</b>	<b>36,825,081</b>	<b>39</b>	<b>82,431</b>	<b>(33,160)</b>	<b>17,048</b>	<b>66,358</b>						
<b>Balance at December 31, 2023</b>							<b>32,933,776</b>	<b>\$ 33</b>	<b>\$ 90,878</b>	<b>\$ (71,562)</b>	<b>\$ 26,780</b>	<b>\$ 46,129</b>
Exercised and vested stock-based awards	66,045	—	27	—	—	27	70,992	—	13	—	—	13
Stock-based compensation expense	—	—	307	—	—	307	—	—	734	—	—	734
Warrants exercised	10,000	—	—	—	—	—	20,000	—	—	—	—	—
Shares of common stock withheld to pay taxes on employees' equity awards	(22,387)	—	(422)	—	—	(422)	(23,041)	—	(240)	—	—	(240)
Purchase of treasury stock	(232,698)	—	—	(3,353)	—	(3,353)	(1,121,835)	(1)	—	(13,419)	—	(13,420)
Excise tax on net treasury stock purchases							—	—	(126)	—	—	(126)
Net income	—	—	—	—	1,569	1,569	—	—	—	—	10	10
<b>Balance at March 31, 2023</b>	<b>36,646,041</b>	<b>\$ 39</b>	<b>\$ 82,343</b>	<b>\$ (36,513)</b>	<b>\$ 18,617</b>	<b>\$ 64,486</b>						
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						
<b>Balance at June 30, 2023</b>	<b>36,014,243</b>	<b>\$ 36</b>	<b>\$ 82,888</b>	<b>\$ (42,628)</b>	<b>\$ 21,971</b>	<b>\$ 62,267</b>						
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
<b>Balance at September 30, 2023</b>	<b>34,220,824</b>	<b>\$ 34</b>	<b>90,543</b>	<b>\$ (57,560)</b>	<b>\$ 25,565</b>	<b>\$ 58,582</b>
<b>Balance at March 31, 2024</b>	<b>31,879,892</b>	<b>\$ 32</b>	<b>\$ 91,259</b>	<b>\$ (84,981)</b>	<b>\$ 26,790</b>	<b>\$ 33,100</b>

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 **September 30, 2023** **March 31, 2024**, 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 **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, 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** **December 31, 2023**. Amounts as of **December 31, 2022**, **December 31, 2023** 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** **December 31, 2023**.

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 **September 30, 2023** **March 31, 2024** and the results of its operations and its cash flows for the periods presented. The results of operations for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** 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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### **ZYNEX, INC.** **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### **(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** **Primarily** all of the Company's receivables are due from patients with commercial or government health plans and **workers** **worker's** 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** **14** – 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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#### ZYNEX, INC. NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

the market price of the asset; (ii) significant adverse changes in the business climate or legal or regulatory factors; or (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:

	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. The Company 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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### ZYNEX, INC. NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides a breakdown of disaggregated net revenues for the three and nine months ended **September 30, 2023** **March 31, 2024** 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):

Device revenue	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Purchased	\$ 7,022	\$ 2,900	\$ 16,444	\$ 7,357	\$ 6,515	\$ 4,642
Leased	9,833	8,449	26,098	20,222	7,510	7,302
<b>Total device revenue</b>	<b>\$ 16,855</b>	<b>\$ 11,349</b>	<b>\$ 42,542</b>	<b>\$ 27,579</b>	<b>\$ 14,025</b>	<b>\$ 11,944</b>
Supplies revenue	33,060	30,171	94,495	81,783	32,506	30,226
<b>Total revenue</b>	<b>\$ 49,915</b>	<b>\$ 41,520</b>	<b>\$ 137,037</b>	<b>\$ 109,362</b>	<b>\$ 46,531</b>	<b>\$ 42,170</b>

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, **allowance for uncollectible accounts**, and **billing allowance** 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, If initial estimates are updated, these changes are accounted for as increases or decreases in the transaction price. Assuming the underlying performance obligation to which the change in price relates has already been satisfied, those changes in transaction price are immediately recognized as increases or decreases in revenue (not credit losses (bad debt expense)) in the period in which the estimate changes.** Additionally, 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 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 payment is 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 quarter-to-quarter and year to year 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 14 13 - Leases.

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### ZYNEX, INC. NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 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.

#### 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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### **ZYNEX, INC.** **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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 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.** during the period ended March 31, 2024.

#### **Recent Accounting Pronouncements**

**On October 9, 2023, In October 2023,** the Financial Accounting Standards Board ("FASB") issued ASU ("Accounting Standards Update") 2023-06, **which amends "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative" ("ASU 2023-06").** This ASU incorporates certain SEC disclosure or presentation requirements **related to various subtopics in** into the FASB ASC. The amendments in the ASU 2023-06 **modify the are expected to clarify or improve disclosure or and presentation requirements of a variety of ASC Topics, in the ASC. Certain of the amendments represent clarifications allow users to or technical corrections of the current requirements. For more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the ASC with the SEC's regulations.** The ASU has an unusual effective date and transition requirements since it is contingent on future SEC rule setting. If the SEC fails to enact required changes by June 30, 2027, this ASU is not effective for any entities. Early adoption is not permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

**In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): "Improvements to Reportable Segment Disclosures" ("ASU 2023-07") to update reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses and for entities required information used to file or furnish financial statements assess segment performance. This update is effective beginning 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, Company's 2024 fiscal year annual reporting period, with early adoption prohibited. permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.**

In December 2023, the FASB issued ASU 2023-09, "Improvements to Income Tax Disclosures" ("ASU 2023-09") to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid. This ASU applies to all entities subject to income taxes. This ASU will be effective for public companies for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02 "Codification Improvements – Amendments to Remove References to the Concepts Statements." This amendments to the Codification that remove references to various Concepts Statement. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2024. For all other 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 amendments are effective for fiscal years beginning after December 15, 2025. Early application of the related amendment will be removed from the Codification and will not become effective amendments in this update is permitted for all entities, for any entity. Management fiscal year or interim period for which financial statements have not yet been issued (or made available for issuance). If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impacts impact that the adoption of the recently issued ASU, this standard will have on its consolidated financial statements.

Management does not believe that any 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 fair value which approximates fair book 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.

During Authoritative guidance defines fair value as the year ended December 31, 2022 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 Company did not have any cash equivalents or short-term investments. measurement date. 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): guidance establishes a hierarchy for inputs used in

September 30, 2023					
	Investment		Cash and		Short
	Cost	Gains	Fair Value	Cash Equivalents	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

**ZYNEX, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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:

- (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.

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

Level II: 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 III: 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 Company classified its contingent consideration liability in connection with the acquisition of Kestrel within Level 3 as factors used to develop the estimated fair value are unobservable inputs that are not supported by market activity.

The contingent consideration related to Kestrel was valued at \$9.7 million using a Monte Carlo simulation as of December 22, 2021. As of December 31, 2022 and March 31, 2023, the value of contingent consideration was estimated at \$10.0 million and \$8.6 million, respectively. An adjustment of \$1.4 million during the quarter ended March 31, 2023 was recorded as a gain on change in fair value of contingent consideration in the Company's Consolidated Statements of Income. 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. December 31, 2023. See Note 6 - Business Combinations for additional details on the removal of contingent consideration during the quarter year ended September 30, 2023 December 31, 2023. Contingent consideration was fully removed during the year ended December 31, 2023 and there was no contingent consideration during the three months ended March 31, 2024. The following table sets forth presents the Company's financial liabilities that were accounted for at fair value on a summary recurring basis prior to December 31, 2023, which were included within Level III of changes in the contingent consideration fair value hierarchy for the nine months quarter ended September 30, 2023 (in thousands) March 31, 2023:

	Contingent Consideration	Contingent Consideration
Balance as of December 31, 2022	\$ 10,000	\$ 10,000
Change in fair value of contingent consideration	(2,855)	(1,400)
Escrow share adjustment	(7,145)	
Balance as of September 30, 2023	<u>\$ —</u>	
Balance as of March 31, 2023	\$ 8,600	

**(4) INVENTORY**

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Raw materials	\$ 3,408	\$ 3,506	\$ 4,296	\$ 4,601
Work-in-process	1,419	1,205	1,535	530

Finished goods	8,573	7,750	7,357	6,929
Inventory in transit	1,054	1,291	2,588	1,346
	\$ 14,454	\$ 13,752	\$ 15,776	\$ 13,406
Less: reserve	(268)	(268)	(300)	(300)
	<u>\$ 14,186</u>	<u>\$ 13,484</u>	<u>\$ 15,476</u>	<u>\$ 13,106</u>

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**ZYNEX, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(5) PROPERTY AND EQUIPMENT**

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Property and equipment				
Office furniture and equipment	\$ 3,190	\$ 2,819	\$ 2,907	\$ 2,768
Assembly equipment	212	110	314	178
Vehicles	151	203	75	75
Leasehold improvements	1,173	1,173	1,832	1,174
Leased devices	1,332	1,162	910	796
Capital projects	234	—	128	869
	<u>\$ 6,292</u>	<u>\$ 5,467</u>	<u>\$ 6,166</u>	<u>\$ 5,860</u>
Less accumulated depreciation	(3,824)	(3,292)	(2,932)	(2,746)
	<u>\$ 2,468</u>	<u>\$ 2,175</u>	<u>\$ 3,234</u>	<u>\$ 3,114</u>

Total depreciation expense related to our property and equipment was \$0.2 million and \$0.1 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Depreciation expense for the nine months ended September 30, 2023 and 2022, was \$0.6 million and \$0.5 million, respectively, 2023.

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**ZYNEX, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Total depreciation expense related to devices out on lease was \$0.5 million and \$0.3 million \$0.4 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Depreciation expense related to devices out on lease was \$1.4 million and \$1.0 million for the nine months ended September 30, 2023 and 2022, respectively, 2023. 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.

#### **(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 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 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 the Device in the United States. The other half of the Escrow Shares 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 were recalculated at **September 30, 2022** **March 31, 2023**, and are included in the calculation of diluted earnings per **share for September 30, 2022** **share**. No additional calculation was required at **September 30, 2023** **March 31, 2024**, as the Escrow Shares were released from escrow, and the shares are included in the Company's calculation of basic earnings per share.

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**

#### **(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 March 31, 2024, 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 **September 30, 2023** **March 31, 2024**.

	<b>Weighted-</b>	<b>Weighted-</b>
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	Average				Average			
	Gross		Remaining		Gross		Remaining	
	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Life (in years)	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Life (in years)
Acquired patents at December 31, 2022	\$ 10,000	\$ (933)	\$ 9,067	10.00				
Acquired patents at December 31, 2023					\$10,000	\$ (1,842)	\$ 8,158	9.00
Amortization expense		(680)	(680)			(226)	(226)	
Acquired patents at September 30, 2023	\$ 10,000	\$ (1,613)	\$ 8,387	9.23				
Acquired patents at March 31, 2024					\$10,000	\$ (2,068)	\$ 7,932	8.73

The following table summarizes the estimated future amortization expense to be recognized over the remainder of 2023, 2024, next five fiscal years, and periods thereafter:

	December 31, (in thousands)
	(in thousands)
October 1, 2023 through December 31, 2023	229
2024	911
April 1, 2024 through December 31, 2024	684
2025	908
2026	908
2027	908
2028	911
Thereafter	4,523
Total future amortization expense	\$ 8,387 \$ 7,932

#### (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	
	Net income	Basic weighted average shares outstanding	Net income	Basic weighted average shares outstanding
<b>Basic earnings per share</b>				
Net income	\$ 3,594	\$ 35,531	\$ 4,873	\$ 38,046
Basic weighted average shares outstanding				
	\$ 8,517	\$ 36,216	\$ 9,596	\$ 38,881
Basic earnings per share	\$ 0.10	\$ 0.24	\$ 0.13	\$ 0.25
<b>Diluted earnings per share</b>				
Net income	\$ 3,594	35,531	4,873	38,046
Weighted average shares outstanding				
	\$ 8,517	\$ 36,216	\$ 9,596	\$ 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	\$ 0.23	\$ 0.13	\$ 0.24

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For the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2023, equity grants of 92,000 shares of common stock, respectively, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive. 2023 are as follows (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2024	2023
<b>Basic earnings per share</b>		
Net income	\$ 10	\$ 1,569
Basic weighted average shares outstanding	32,344	36,694
 Basic earnings per share	 \$ 0.00	 0.04
 <b>Diluted earnings per share</b>	     \$ 10	     1,569
Net income	32,344	36,694
Weighted average shares outstanding	483	748
Effect of dilutive securities - options and restricted stock	32,827	37,442
 Diluted weighted-average shares outstanding	     \$ 0.00	     0.04
 Diluted earnings per share		

For the three and nine months ended September 30, 2022 March 31, 2024, equity grants of 6,000 and 22,000 shares 7,000 of common stock, respectively, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive.

For the three and nine months ended September 30, 2023 March 31, 2024, conversion options to purchase 5.6 million and 3.0 million shares respectively, of common stock resulting from the 2023 Convertible Senior Notes, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive (see Note 10 – Convertible Senior Notes).

**(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 nine months ended September 30, 2023 and 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.

**(10) (9) 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. As of December 31, 2023 and March 31, 2024, unamortized issuance costs of \$2.4 million and \$2.2 million, respectively, were included on the Company's Condensed Consolidated Balance Sheets.

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.

Holders ~~may convert~~ could have converted their 2023 Convertible Senior Notes at their option prior to the close of business on the business day preceding ~~September 30, 2023~~ March 31, 2024, 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.

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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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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** **2024** and next **three** **two** fiscal years until maturity in May 2026.

	(In thousands)	(In thousands)
October 1, 2023 through December 31, 2023	\$ 1,592	
2024	3,050	\$ 3,000
2025	3,042	3,000
2026	1,508	1,500

#### **(11) (10) 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**, **March 31, 2024** and **2023**, no stock option awards were granted under the 2017 Stock Plan. At **March 31, 2024**, the Company had 0.3 million stock options outstanding and 0.3 million exercisable under the following plans:

<u>Plan Category</u>	<u>Outstanding Number of Options</u>	<u>Exercisable Number of Options</u>
	(in thousands)	(in thousands)
2005 Stock Option Plan	1	1
2017 Stock Option Plan	341	341
<b>Total</b>	<b>342</b>	<b>342</b>

During the three months ended **March 31, 2024**, 67,000 shares of restricted stock 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** **March 31, 2023**, 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:

<u>Plan Category</u>	<u>Outstanding</u>	<u>Exercisable</u>
	<u>Number of Options</u>	<u>Number of Options</u>
	<u>Outstanding Number of Options</u>	<u>Exercisable Number of Options</u>
	(in thousands)	(in thousands)
2005 Stock Option Plan	211	211
2017 Stock Option Plan	351	351
<b>Total</b>	<b>562</b>	<b>562</b>

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 62,000 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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The following summarizes stock-based compensation expenses recorded in the condensed consolidated statements of income (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023		2022		2024	
	2023	2022	2023	2022	2024	2023
Cost of Revenue	\$ 10	\$ 13	\$ 26	\$ 40	\$ 8	\$ 8
Sales and marketing expense	53	16	182	130	160	61
General, and administrative	591	549	1,413	1,532	566	238
Total stock based compensation expense	\$ 654	\$ 578	\$ 1,621	\$ 1,702		
Total stock-based compensation expense					\$ 734	\$ 307

The Company received proceeds of \$0.1 million related to option exercises during the three and nine months ended September 30, 2023. The Company received proceeds of \$0.1 million related to option exercises during each of the three March 31, 2024 and nine months ended September 30, 2022. No stock option awards were granted by the Company during the three and nine months ended September 30, 2023.

A summary of stock option activity under all equity compensation plans for the nine months ended September 30, 2023 March 31, 2024, is presented below:

	Weighted-Average		Weighted-Average		Weighted-Average		Weighted-Average	
	Number of Shares (in thousands)	Exercise Price	Remaining Term (Years)	Intrinsic Value (in thousands)	Number of Shares (in thousands)	Exercise Price	Remaining Term (Years)	Intrinsic Value (in thousands)
Outstanding at December 31, 2022	793	\$ 2.67	5.03	\$ 8,908				
Outstanding at December 31, 2023					349	\$ 1.82	4.12	\$ 3,163
Granted	—	\$ —			—	\$ —	—	—
Forfeited	(206)	\$ 6.30			—	\$ —	—	—
Exercised	(25)	\$ 5.36			(7)	\$ 2.46	—	—
Outstanding at September 30, 2023	562	\$ 1.22	2.80	\$ 3,807				
Outstanding at March 31, 2024					342	\$ 1.81	3.85	\$ 3,614
Exercisable at September 30, 2023	562	\$ 1.22	2.80	\$ 3,807				
Exercisable at March 31, 2024					342	\$ 1.81	3.85	\$ 3,614

A summary of restricted stock award activity under all equity compensation plans for the nine months ended September 30, 2023 March 31, 2024, is presented below:

	Number of Shares (in thousands)		Number of Shares (in thousands)	
	Weighted Average Grant Date Fair Value		Weighted Average Grant Date Fair Value	
	Shares	Grant Date Fair Value	Shares	Grant Date Fair Value
Granted but not vested at December 31, 2022	431	\$ 11.92		
Outstanding at December 31, 2023			502	\$ 10.73
Granted	223	9.88	67	11.68
Forfeited	(11)	11.71	(3)	12.55
Vested	(157)	11.90	(65)	12.09
Granted but not vested at September 30, 2023	486	\$ 11.82		

As of **September 30, 2023** **March 31, 2024**, the Company had approximately **\$4.5 million** **\$4.4 million** of unrecognized compensation expense related to stock options and restricted stock awards that will be recognized over a weighted average period of approximately **2.4** **2.3** years.

**(12) (11) 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.

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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.

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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.** \$2.6 million.

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 **September 30, 2023**, **September 13, 2023**, the Company purchased 1,242,892 shares of its common stock for \$10.0 million or an average price of \$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, October 19, 2023, the Company purchased 667,524 shares of its common stock for \$5.6 million or an average price of \$8.36 per share, which completed this program.

On November 1, 2023, the Company announced that its Board of Directors approved a program to repurchase up to \$20.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through October 31, 2024. From the inception of the plan through December 31, 2023, the Company purchased 1,012,200 shares of its common stock for \$9.6 million or an average price of \$9.47 per share. During the quarter ended March 31, 2024, the Company purchased 821,000 shares of common stock for \$10.4 million or an average price of \$11.73, which completed this program.

On March 4, 2024, the Company announced that its Board of Directors approved a program to repurchase up to \$20.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through March 4, 2025. From the inception of the plan through March 31, 2024, the Company purchased 234,015 shares of its common stock for \$3.0 million or an average price of \$12.83 per share.

#### Warrants

A summary of stock warrant activity for the nine months ended September 30, 2023 March 31, 2024 is presented below:

	Weighted				Weighted					
	Number of Warrants (in thousands)		Average Exercise Price	Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)	Number of Warrants (in thousands)		Average Exercise Price	Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
	Weighted	Average	Remaining	Intrinsic	Weighted	Average	Remaining	Intrinsic		
	Warrants (in thousands)	Exercise Price	Life (Years)	Value (in thousands)	Warrants (in thousands)	Exercise Price	Life (Years)	Value (in thousands)		
Outstanding and exercisable at December 31, 2022										
	99	\$ 2.39	1.76	\$ 1,140						
Outstanding and exercisable at December 31, 2023										
Granted	—	\$ —	—	—	—	\$ —	—	—	—	
Exercised	(8)	\$ 2.27	—	—	(16)	\$ 2.27	—	—	—	
Forfeited (1)	(2)	\$ —	—	—	(4)	\$ —	—	—	—	
Outstanding and exercisable at September 30, 2023										
	89	\$ 2.41	1.02	\$ 497						
Outstanding and exercisable at March 31, 2024										
	60	\$ 2.48	0.52	\$ 593						

(1) Warrants were exercised under a net exercise provision in the warrant agreement. As a result, approximately 4,000 warrants were forfeited in lieu of cash payment for shares during the three months ended March 31, 2024.

#### (13) (12) 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, the tax impact of the change in fair value of contingent consideration, and true ups related to the filed tax return. For the three months ended September 30, 2023 and 2022 March 31, 2024 discrete items adjusted were \$1.1 million and \$0.2 million, respectively. For the nine months ended September 30, 2023 and 2022 discrete items adjusted were (\$2.1) million and (\$0.2) million, respectively. At September 30, 2023 and 2022, the Company is estimating an

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adjusted were minimal. For the three months ended March 31, 2023 discrete items adjusted were \$1.5 million. At March 31, 2024, the Company is estimating an annual effective tax rate of approximately 25% and 23%, respectively. As of March 31, 2023 the Company estimated an annual effective tax rate of approximately 25%. 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 20% 23% and 23% 2% for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The decrease in the Company's effective income tax rate for the nine months ended September 30, 2023 compared to the same period in 2022, is discrete items, primarily related to the tax impact of discrete stock option exercises were minimal for the three months ending March 31, 2024. Discrete items in particular related to the tax impact of the change in fair value of contingent consideration recorded during and stock option exercises were \$0.4 million for the year three months ended March 31, 2023, which is not expected to be taxable. The are recognized as a benefit against income tax expense. For the three months ended March 31, 2024 and 2023, the Company recorded an income tax expense of \$1.4 million approximately \$3,000 and \$2.1 million for the three and nine months ended September 30, 2023, respectively, and an income tax expense of \$1.5 million and \$2.9 million for the three and nine months ended September 30, 2022, \$33,000, respectively.

Taxes of \$3.5 million and \$5.0 million No taxes were paid during the nine three months ended September 30, 2023 March 31, 2024 and 2022, respectively, 2023.

**(14) (13) 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 commenced 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. Upon lease commencement, the Company recorded an operating lease liability of \$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 4.75% 4.80% for its operating lease liabilities. The Company's equipment lease agreements have a weighted average rate of 3.03% 2.83% which was used to measure its finance lease liability. The weighted average remaining lease term was 4.55 4.08 years and 4.09 3.73 years for operating and finance leases, respectively, as of September 30, 2023 March 31, 2024.

As of September 30, 2023 March 31, 2024, the maturities of the Company's future minimum lease payments were as follows (in thousands):

	Operating Lease Liability	Finance Lease Liability	Operating Lease Liability	Finance Lease Liability
October 1, 2023 through December 31, 2023	\$ 533	\$ 37		
2024	4,511	209		
April 1, 2024 through December 31, 2024			3,454	82
2025	4,632	169	4,632	169
2026	4,428	108	4,428	108
2027	4,237	93	4,237	93
2028	2,172	93	2,172	93
Thereafter			—	—
Total undiscounted future minimum lease payments	\$ 20,513	\$ 709	\$ 18,923	\$ 545
Less: difference between undiscounted lease payments and discounted lease liabilities:	(2,287)	(24)	(1,858)	(15)
<b>Total lease liabilities</b>	<b>\$ 18,226</b>	<b>\$ 685</b>	<b>\$ 17,065</b>	<b>\$ 530</b>

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The components of lease expenses were as follows:

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
<b>Lease cost:</b>						
Operating lease cost:						
Total operating lease expense	\$ 889	\$ 1,125	\$ 3,131	\$ 3,344	\$ 894	\$ 1,121
Finance lease cost:						
Total amortization of leased assets	37	30	96	89	50	30
Interest on lease liabilities	5	9	19	28	4	7
Total net lease cost	\$ 931	\$ 1,164	\$ 3,246	\$ 3,461	\$ 948	\$ 1,158

For the three months ended **September 30, 2023** **March 31, 2024** and **2022**, \$0.8 million and \$1.0 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** **March 31, 2024** and **2022**.

#### **(15) (14) CONCENTRATIONS**

For the three months ended **September 30, 2023** **March 31, 2024**, the Company sourced approximately 57% 29% of the supplies for its electrotherapy products from **four** two significant vendors. For the same period in **2022**, the Company sourced approximately 39% of the supplies for its electrotherapy products from **two** significant vendors.

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

At **September 30, 2023**, **March 31, 2024** and **December 31, 2023** the Company had no gross 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) (15) COMMITMENTS AND CONTINGENCIES**

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

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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**ZYNEX, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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) (16) SUBSEQUENT EVENTS**

There were no subsequent events identified through **October 26, 2023** April 30, 2024.

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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** **includes** statements of our expectations, intentions, plans, and beliefs that are forward-looking, such as constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Nonetheless, it is important for an investor to understand that these statements relating involve risks and uncertainties. These statements relate to **plans** for the discussion of our business strategies and our expectations concerning future **organic growth** operations, margins, profitability, liquidity, and other business development activities, **capital resources** as well as **the impact** analyses and other information that are based on forecasts of **reimbursement trends**, **future results** and **estimates** of amounts not yet determinable. We have used words such as "may" "will" "should" "expect" "intend" "plan" "anticipate" "believe" "think" "estimate" "seek" "expect" "predict" "could" "project" "potential" and other **capital spending** similar terms and **financing sources**. Such **phrases**, including references to assumptions, in this report to identify forward-looking information involves **important** statements. These forward-looking statements are

made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties, risks, and uncertainties factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could significantly affect anticipated cause our actual results in the future and, accordingly, such results may to differ materially from those matters expressed in any or implied by these 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.

statements. 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 2023 Annual Report on Form 10-K and subsequently filed reports, which have previously been filed with the Securities and Exchange Commission.

Such risks and other factors also include those listed in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "Form 10-K"), which we filed with the U.S. Securities and Exchange Commission ("SEC") on March 12, 2024, and our other filings with the SEC. When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and the documents incorporated by reference. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this report as a result of new information, future events or developments, except as required by applicable laws and regulations.

The information and financial data discussed below is derived from our condensed consolidated financial statements for the quarterly period ended March 31, 2024, and 2023. The condensed consolidated financial statements of the Company were prepared and presented in accordance with generally accepted accounting principles in the United States. The information and financial data discussed below is only a summary and was prepared to provide a historical and narrative discussion of our financial condition and results of operations through the eyes of management and should be read in conjunction with the historical financial statements and related notes of the Company contained elsewhere in this Quarterly Report on Form 10-Q and with the annual audited consolidated financial statements, and notes to consolidated financial statements, included in the Form 10-K and subsequently filed reports, which have previously been filed with the SEC.

## 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 September 30, 2022 March 31, 2024, 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 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 U.S. FDA for market clearance. All activities related to Kestrel flow through our ZMS subsidiary.

The term "the Company" refers When used in this quarterly report, the terms the "Company," "Zynex", "we," "us," "ours," and similar terms refer to Zynex, Inc., a Nevada corporation, and its our wholly owned active subsidiaries, ZMI and inactive subsidiaries.ZMS.

## RESULTS OF OPERATIONS

### Summary

Net revenue was \$49.9 million \$46.5 million and \$41.5 million \$42.2 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and \$137.0 million and \$109.4 million for the nine months ended September 30, 2023 and 2022, 2023, respectively. Net revenue increased 20% and 25% for the three and 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 in 2022. Net income was \$3.6 million 10% for the three months ended September 30, 2023 March 31, 2024. For the three months ended March 31, 2024, device orders increased 23% from the same period in 2023. Net income was \$10,000 for the three months ended March 31, 2024 compared with \$4.9 million net income of \$1.6 million during the same period in 2022. Net income was \$8.5 million for the nine months ended September 30, 2023 compared with \$9.6 million during the same period in 2022, 2023. Cash provided by operating activities was \$11.6 million \$2.1 million during the nine three months ended September 30, 2023 March 31, 2024 compared with \$9.0 million \$1.9 million during the same period in 2022, 2023. Working capital was \$83.1 million \$56.2 million and \$48.5 million \$69.3 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, 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 \$8.4 million \$4.4 million or 20% 10% to \$49.9 million \$46.5 million for the three months ended September 30, 2023 March 31, 2024, from \$41.5 million \$42.2 million for the same period in 2022. Net revenue increased \$27.7 million or 25% to \$137.0 million for 2023. For the nine three months ended September 30, 2023, from \$109.4 million for the same period in 2022. For both the three and nine months ended September 30, 2023 March 31, 2024, the growth in net revenue from the same periods period in 2022, 2023 is primarily related to a 39% and 49% 23% growth in device orders respectively, during the three months ended March 31, 2024 and a 43% growth in device orders during the year ended December 31, 2023, 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 \$5.5 million \$2.1 million or 49% 17% to \$16.9 million \$14.0 million for the three months ended September 30, 2023 March 31, 2024, from \$11.3 million \$11.9 million for the same period in 2022, 2023.

Device revenue increased \$15.0 million or 54% to \$42.5 million for For the nine three months ended September 30, 2023, from \$27.6 million for the same period in 2022.

For both the three and nine months ended September 30, 2023 March 31, 2024, the growth in net revenue from the same periods period in 2022, 2023 is primarily related to a 39% and 49% 23% growth in device orders, respectively, orders.

### **Supplies Revenue**

Supplies revenue is related to the sale of supplies, primarily electrodes and batteries, for our electrotherapy products. Supplies revenue increased **\$2.9 million** **\$2.3 million** or **10% 8%** to **\$33.1 million** **\$32.5 million** for the three months ended **September 30, 2023** **March 31, 2024**, from \$30.2 million for the same period in **2022**.

Supplies revenue increased **\$12.7 million** or **16%** to **\$94.5 million** for the nine months ended September 30, 2023, from **\$81.8 million** for the same period in **2022**, **2023**.

The increase in supplies revenue is primarily related to an increased customer base from increased device orders in **2022** **2023** and **2023**, **Q1 2024**.

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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 **September 30, 2023** increased **\$1.2 million** or **14%** to **\$9.6 million** from **\$8.4 million** **March 31, 2024** remained flat at **\$9.3 million** from the same period in **2022**, **2023**. As a percentage of revenue, cost of revenue – devices and supplies decreased to **19% 20%** from **20% 22%** for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively.

Cost of revenue for the nine months ended September 30, 2023 increased **\$5.5 million** or **24%** to **\$28.1 million** from **\$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 nine months ended September 30, 2023 and **2022**.

The increase decrease in cost of revenue – devices and supplies **in as percentage of revenue** for the three and nine months ended **September 30, 2023**, **March 31, 2024** compared to the same period in **2023** is due to increased volumes **related and expanding our supplier portfolio mix**, both of which have allowed us to **higher revenue negotiate lower costs**.

#### **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 **September 30, 2023** **March 31, 2024** increased **\$4.9 million** **\$2.2 million** or **29% 10%** to **\$22.1 million** **\$23.4 million** from **\$17.2 million** **\$21.2 million** for the same period in **2022**, **2023**. The increase in sales and marketing expense is primarily due to increased commission and incentive pay from increased orders, increased wages from increased headcount **of in our sales force, operations department, and increases due to** rising wages in the U.S. due to a very competitive job market. As a percentage of revenue, sales and marketing expense **increased to 44%** from **41% remained flat at 50%** for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively, **2023**, primarily due to the aforementioned expenses, offset by increased revenue.

Sales and marketing expense for the nine months ended September 30, 2023 increased **\$17.0 million** or **36%** to **\$65.0 million** from **\$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 **47%** from **44%** for the nine months ended 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 **September 30, 2023** **March 31, 2024** increased **\$3.4 million** **\$1.9 million** or **36% 17%** to **\$12.7 million** **\$13.3 million** from **\$9.4 million** **\$11.4 million** for the same period in **2022**, **2023**. The increase in general and administrative expense for the three months ended **March 31, 2024** is primarily due to increased compensation and benefit expense related to headcount growth **at within the reimbursement departments, 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, corporate office**. As a percentage of revenue, general and administrative expense increased to **increased to 26% 29%** for the three months ended **September 30, 2023** **March 31, 2024** from

23% 27% for the same period in 2022, 2023. 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 nine months ended September 30, 2023 increased \$9.5 million or 37% to \$35.5 million from \$26.0 million for the same period in 2022. The increase in general and administrative expense for the 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 nine months ended 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 27% 23% and 20% 2% for the three and nine months ended September 30, 2023, March 31, 2024 and 2023, respectively. Discrete items, primarily related to the tax impact of stock option exercises were minimal for the three months ending March 31, 2024. Discrete items related to the tax impact of the change in fair

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value of contingent consideration of \$(0.2) million and \$2.9 million stock option exercises were \$0.4 million for the three and nine months ended September 30, 2023 March 31, 2023, respectively, which are recognized as a benefit against income tax expense. For the three and nine months ended September 30, 2023 March 31, 2024 and 2023, the Company recorded an income tax expense of approximately \$1.4 million \$3,000 and \$2.1 million, respectively. The Company recorded an income tax expense of \$1.5 million and \$2.9 million for the three and nine months ended September 30, 2022, \$33,000, respectively.

#### LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations, debt and equity transactions. At September 30, 2023 March 31, 2024, our principal source of liquidity was \$42.5 million \$32.9 million in cash and cash equivalents \$9.9 million in short-term investments and \$33.3 million \$25.4 million in accounts receivable.

Net cash provided by operating activities for the nine three months ended September 30, 2023 March 31, 2024 was \$11.6 million \$2.1 million compared with net cash provided by operating activities of \$9.0 million \$1.9 million for the nine three months ended September 30, 2022 March 31, 2023. The increase in cash provided by operating activities for the nine three months ended September 30, 2023 March 31, 2024 was primarily due to a decrease in the receivables balance and a decrease in an

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increase in inventory, accounts payable. The increase was partially offset by the change decrease in fair value of contingent consideration, net income for the quarter ended March 31, 2024 compared to the same period in 2023.

Net cash used in investing activities for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 was \$10.4 million and \$0.3 million, respectively, \$0.2 million. Cash used in investing activities for the nine three months ended September 30, 2023 March 31, 2024 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. Cash used in

investing activities for the **nine** **three** months ended **September 30, 2022** **March 31, 2023** was primarily related to the purchase of **leasehold improvements** for the operations of the **ZMS** **Boulder** **location** **property** and the **purchase of computer equipment**.

Net cash **provided by** **used in** financing activities for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** was **\$21.2 million** **\$13.6 million** compared with net cash used in financing activities of **\$27.7 million** **\$5.1 million** for the same period in **2022**, **2023**. Net cash provided by financing activities for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** was primarily due to **\$57.0 million** in net proceeds from the issuance of the 2023 Convertible Senior Notes, offset by purchases of **\$24.4 million** **\$13.3 million** in treasury stock, and principal payments and termination payments on long-term debt totaling **\$10.7 million** stock. Net cash used in financing activities for the **nine** **three** months ended **September 30, 2022** **March 31, 2023** was primarily due to purchases of **\$19.8 million** **\$3.4 million** in treasury stock, **payments of \$3.6 million** for cash dividends in January **2022**, and principal payments on long-term debt totaling **\$4.0 million** **\$1.3 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 **September 30, 2023** **March 31, 2024** of **\$42.5 million** **\$32.9 million**;
- Our working capital balance of **\$83.1 million** **\$56.2 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** **December 31, 2023**, filed with the Securities and Exchange Commission on **March 14, 2023** **March 12, 2024**.

#### **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.

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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 **September 30, 2023** **March 31, 2024** 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 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*

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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 **September 30, 2023** **March 31, 2024**). 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 **September 30, 2023** **March 31, 2024**, 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 is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material weakness related misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in "Management's Annual Report on Internal Control Over Financial Reporting":

It was determined that as of December 31, 2023, the Company's primary change management controls were not designed and implemented effectively to ensure IT program and data changes affecting the Company's financial IT applications and underlying accounting records, are identified, tested, authorized and implemented appropriately to validate that data produced by its relevant IT system(s) were complete and accurate. Other Information Technology General Controls, (ITGCs) automated process-level controls, and manual controls that are dependent upon the information derived from such financially relevant systems were not designed and operating effectively also determined to ensure (i) appropriate segregation be ineffective as a result 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. such deficiency. Business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. impacted;

Ineffective design and implementation of controls over the valuation of accounts receivable to properly address the risk of material misstatement.

The material weakness weaknesses 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** **December 31, 2023**, 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 **September 30, 2023** **March 31, 2024** 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

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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.

[Table of Contents](#)**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** **December 31, 2023** filed with the SEC on **March 14, 2023** **March 12, 2024**.

**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	In Thousands Maximum Value
	Purchased as		Part of a Publicly Announced		May Yet Be Purchased Under the Plan	
	Total Number of Shares	Average Price	Part of a Publicly Announced	May Yet Be Purchased Under the Plan		
	Purchased	Share	Plan	Plan		
July 1 - August 31, 2023						
Share repurchase program (1)	619,216	\$ 8.24	685,416	4,253		
September 1 - September 30, 2023						
Share repurchase program (1)	557,476	\$ 8.62	1,242,892	—		
Share repurchase program (2)	667,524	\$ 8.36	667,524	4,420		
Quarter Total						
Share repurchase program (1)	1,176,692	\$ 8.42	1,242,892	—		
Share repurchase program (2)	667,524	\$ 8.36	667,524	4,420		

On November 1, 2023, the Company announced that its board of directors had approved a repurchase program of up to \$20.0 million of the Company's common stock (the "November 2023 Repurchase Program") beginning on November 1, 2023, and continuing through the earlier of October 31, 2024, or when all \$20.0 million worth of shares have been repurchased. The program was fully utilized during the Company's first quarter.

On February 29, 2024, the Company announced that its board of directors had approved a repurchase program of up to \$20.0 million of the Company's common stock (the "March 2024 Repurchase Program") beginning on March 4, 2024, and continuing through the earlier of March 4, 2025, or when all \$20.0 million worth of shares have been repurchased.

Under the Company's repurchase programs, the Company may repurchase its common stock from time to time in open market and negotiated transactions. Repurchases will be made subject to market conditions, available liquidity, cash flow, applicable legal requirements, and other factors. The specific prices, numbers of shares, and timing of purchase transactions will be determined by the Company from time to time. The repurchase programs do not obligate the Company to acquire any particular amount of common stock and may be suspended or discontinued at any time. The repurchase programs are intended to comply with Rule 10b-18 promulgated under the Securities Exchange Act of 1934.

The following table sets forth a summary of the Company's purchases of common stock during the first quarter of 2024 pursuant to the Company's authorized share repurchase programs:

Period	Total Number of Shares Purchased as of Shares That				In Thousands May Yet Be Purchased Under the Plan
	Total	Average	Part of a Publicly Announced Plan	May Yet Be Purchased Under the Plan	
	Number of Shares Purchased	Price Paid Per Share	Publicly Announced Plan	May Yet Be Purchased Under the Plan	
	Purchased	Share	Plan	Plan	
January 1 - January 31, 2024					
Share repurchase program (1)	458,000	\$ 10.90	1,470,200	5,426	
February 1 - February 29, 2024					
Share repurchase program (1)	363,000	\$ 12.58	1,833,200	859	
March 1 - March 31, 2024					
Share repurchase program (1)	66,820	\$ 12.86	1,900,020	—	
Share repurchase program (2)	234,015	\$ 12.83	234,015	16,997	
Quarter Total					
Share repurchase program (1)	887,820	\$ 11.73	1,900,020	—	
Share repurchase program (2)	234,015	\$ 12.83	234,015	16,997	

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- (1) Shares were purchased through the Company's publicly announced share repurchase program dated June 13, 2023, November 2023 Repurchase Program. The program was fully utilized during the Company's third first quarter.
- (2) Shares were purchased through the Company's publicly announced share repurchase program dated September 11, 2023, March 2024 Repurchase Program. The program expires on September 13, 2024, March 4, 2025, or upon reaching \$20.0 million of repurchases.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. MINE SAFETY DISCLOSURES

**ITEM 5. OTHER INFORMATION****None. Rule 10b5-1 Trading Arrangement**

During the three months ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

[Table of Contents](#)**ITEM 6. EXHIBITS**

Exhibit Number	Description
10.1	<a href="#">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 July 27, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2023)</a>
31.1*	<a href="#">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</a>
31.2*	<a href="#">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</a>
32.1**	<a href="#">Certification of Chief Executive Officer and Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">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</a>
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

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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: **October 26, 2023** April 30, 2024

\_\_\_\_\_  
Daniel J. Moorhead

Chief Financial Officer

(Principal Financial and Accounting Officer)

**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: **October 26, 2023** April 30, 2024

/s/ THOMAS SANDGAARD

Thomas Sandgaard

Chairman, President, Chief Executive Officer and Principal Executive Officer

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**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: **October 26, 2023** **April 30, 2024**

/s/ Daniel J. Moorhead

Daniel J. Moorhead

Chief Financial Officer and Principal Financial and Accounting Officer

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**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 **September 30, 2023** **March 31, 2024** (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: **October 26, 2023** **April 30, 2024**

/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 **September 30, 2023** **March 31, 2024** (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: **October 26, 2023** April 30, 2024

/s/ Daniel J. Moorhead

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Daniel J. Moorhead

Chief Financial Officer and Principal Financial and Accounting Officer

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