

Medical Devices
November 14, 2005

Compex Technologies, Inc.

(CMPX - \$6.22)

Acquisition by Encore Medical announced.

HOLD

Financial Summary

Rev(mil)	2004	2005	2006E
Sep	\$19.2	\$21.7	\$27.6A
Dec	\$22.5	\$25.2	\$27.6E
Mar	\$21.7	\$22.9	\$26.0E
Jun	\$22.7	\$26.3	\$28.0E
FY	\$86.0	\$96.1	\$109.2E
P/Sales	0.9x	0.8x	0.7x

EPS	2004	2005	2006E
Sep	\$0.03	\$0.02	\$0.11A
Dec	\$0.10	\$0.08	\$0.09E
Mar	\$0.03	\$0.00	\$0.04E
Jun	\$0.08	\$0.10	\$0.09E
FY	\$0.24	\$0.20	\$0.33E
P/E	25.9x	31.1x	18.8x

Price:	\$6.22
52-Week Range:	\$5.75-\$3.06
Target:	na
Rating:	Hold
Shares Outstanding:	12.6 mil
Mkt. Capitalization:	\$78 mil
Ave. Volume:	37,700
Instit. Ownership:	39%
BV / Share:	\$4.78
Debt / Tot. Cap.:	5%
Est. LT EPS Growth:	10%

Company Description

Compex Technologies, Inc. designs, manufactures and markets pain management and rehabilitation products to patients that are prescribed by physicians. In addition, Compex sells products designed to enhance training and athletic performance directly to consumers. In the U. S. sales are principally made up of pain management and rehabilitation products with a smaller component of consumer products. Outside the U.S. sales are principally consumer oriented products.

Key Points:

- **CMPX has announced that its board of directors has approved an agreement to be acquired by Encore Medical Corporation (ENMC)** in an all stock transaction valued at approximately \$109 million. CMPX believes the transaction could be completed by March 2006.
- Under the terms of the agreement, CMPX will become a subsidiary of ENMC and ENMC will issue approximately 1.4 shares of its common stock (estimated at 19 million shares) for each share of common stock of CMPX, subject to adjustment as set forth in the agreement and approval by both CMPX and ENMC shareholders. Based on Friday's close for ENMC, **this valued CMPX at around \$7.20 per share.** However, ENMC shares have traded off on the announcement of the acquisition and at the current price of \$4.84, the deal is worth approximately \$6.70 per CMPX share.
- We understand that **the deal has a collar of \$6.50 to \$8.50**, i.e., ENMC can reduce the number of shares issued to CMPX shareholders if the equivalent value is above \$8.50 or must increase the number of shares if the value drops below \$6.50. According to CMPX management, CMPX can walk away from the deal if ENMC does not issue enough shares to meet the minimum value.
- **The transaction is subject to Hart-Scott-Rodino (HSR) review.** ENMC acquired EMPI Medical in October 2004. EMPI is believed to be the largest factor in the pain management and rehabilitation industry. We believe that CMPX ranks as number two in this business. R.S Medical, a private held enterprise, is also a significant player. We do not know how the FTC will look at the anti-trust implications of the deal. ENMC and CMPX will try to define the market as broadly as possible, i.e., all electro-stimulation. In that case the deal probably passes. However, if the FTC defines the market more narrowly to include only pain management and rehabilitation products, there may be significant risk to FTC approval and completion of the deal.
- In our opinion, shareholders of both companies are likely to approve the transaction since the price represents a significant premium over recent prices of CMPX stock.

Investment Recommendation:

Our rating on the shares is **HOLD**. Our interest in CMPX was originally stimulated by the potential that we saw in the extension of their electro stimulation product line into the consumer arena to enhance the growth rate and earnings power of the Company. We viewed the medical business as one of limited growth potential, but with high returns on investment that could generate cash flow to invest in other opportunities. Subsequently, the U.S. medical business has performed much better than expected, but the consumer business has been a negative for shareholder value.

Based on the 2004 acquisition of EMPI by ENMC, we had previously estimated that the core medical and European consumer businesses could be worth up to \$7.00 per share. Consequently, given the HSR risk, we would reevaluate our rating if the stock were trade above the \$6.50 collar.

Compex Technologies, Inc.
Summary Income Statement and Balance Sheet
Fiscal Year ends 6/30

\$ in '000 except EPS	<u>FY 03</u>	<u>Sep-03</u>	<u>Dec-03</u>	<u>Mar-04</u>	<u>Jun-04</u>	<u>FY 04</u>	<u>Sep-05</u>	<u>Dec-05</u>	<u>Mar-05</u>	<u>Jun-05</u>	<u>FY 05</u>	<u>Sep-05A</u>	<u>Dec-05E</u>	<u>Mar-06E</u>	<u>Jun-06E</u>	<u>FY 06 E</u>
Revenues																
U. S. Medical		\$7,947	\$9,023	\$8,754	\$8,600	\$34,346	\$8,305	\$9,912	\$9,400	\$11,700	\$39,317	\$12,600	\$12,699	\$12,110	\$14,755	\$52,164
Consumer Europe	19,364	5,162	6,581	6,305	\$7,296	\$25,324	5,879	6,676	5,500	6,691	\$24,746	4,844	4,900	5,000	5,000	\$19,744
Consumer U.S.		49	220	149	\$374	\$792	\$925	\$1,524	\$1,086	\$715	\$4,250	\$3,500	\$2,750	\$1,750	\$1,000	\$9,000
Accessories & Supp.	25,579	5,997	6,641	6,444	\$6,418	\$25,498	\$6,545	\$7,100	\$6,900	\$7,200	\$27,745	\$6,700	\$7,250	\$7,150	\$7,200	\$28,300
Total Revenues	\$75,460	\$19,156	\$22,465	\$21,652	\$22,688	\$85,960	\$21,654	\$25,212	\$22,902	\$26,306	\$96,058	\$27,644	\$27,599	\$26,010	\$27,955	\$109,208
Cost of Sales	22,578	6,437	7,161	7,081	7,757	28,436	6,914	8,467	7,853	7,710	30,944	9,138	9,108	8,713	9,365	\$36,324
Gross Profit	\$52,882	\$12,719	\$15,304	\$14,571	\$14,931	\$57,525	\$14,740	\$16,745	\$15,049	\$18,596	\$65,114	\$18,506	\$18,491	\$17,297	\$18,590	\$72,884
Research and Develop.	2,123	628	647	780	500	2,554	723	657	635	483	2,498	540	650	640	500	\$2,330
Sales and Marketing		8,135	8,770	9,305	9,587	35,797	9,844	10,343	10,536	10,816	41,539	11,350	11,400	11,500	11,600	\$45,850
Gen'l and Admin.	42,170	3,268	3,719	3,700	3,475	14,163	3,745	3,933	3,753	5,010	16,441	4,020	4,100	4,000	4,250	\$16,370
Operating Expenses	\$44,293	\$12,031	\$13,136	\$13,785	\$13,562	\$52,514	\$14,311	\$14,934	\$14,924	\$16,309	\$60,477	\$15,909	\$16,150	\$16,140	\$16,350	\$64,549
Operating Profit	\$8,589	\$687	\$2,169	\$786	\$1,369	\$5,010	\$429	\$1,811	\$125	\$2,288	\$4,637	\$2,597	\$2,341	\$1,157	\$2,240	\$8,335
Other Income (Exp.)	(319)	(98)	(121)	(71)	(143)	(\$433)	(49)	(89)	(93)	(155)	(\$386)	(227)	(230)	(230)	(230)	(\$917)
Pretax Income	\$8,270	\$589	\$2,048	\$715	\$1,226	\$4,577	\$380	\$1,722	\$32	\$2,132	\$4,251	\$2,370	\$2,111	\$927	\$2,010	\$7,418
Taxes	3,308	235	819	286	187	\$1,527	151	684	14	856	\$1,705	1,018	908	398	864	\$3,189
Net Income	\$4,962	\$354	\$1,229	\$429	\$1,039	\$3,050	\$229	\$1,038	\$18	\$1,276	\$2,546	\$1,352	\$1,203	\$528	\$1,146	\$4,229
Earnings Per Share	\$0.45	\$0.03	\$0.10	\$0.03	\$0.08	\$0.24	\$0.02	\$0.08	\$0.00	\$0.10	\$0.20	\$0.11	\$0.09	\$0.04	\$0.09	\$0.33
Fully Diluted Shares	11,069	11,800	12,593	13,265	13,049	12,684	13,021	12,913	12,892	12,620	12,853	12,592	12,750	12,750	12,750	12,711
Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross Margin	70.1%	66.4%	68.1%	67.3%	65.8%	66.9%	68.1%	66.4%	65.7%	70.7%	67.8%	66.9%	67.0%	66.5%	66.5%	66.7%
Operating Expenses	58.7%	62.8%	58.5%	63.7%	59.8%	61.1%	66.1%	59.2%	65.2%	62.0%	63.0%	57.6%	58.5%	62.1%	58.5%	59.1%
Operating Margin	11.4%	3.6%	9.7%	3.6%	6.0%	5.8%	2.0%	7.2%	0.5%	8.7%	4.8%	9.4%	8.5%	4.4%	8.0%	7.6%
Pretax Margin	11.0%	3.1%	9.1%	3.3%	5.4%	5.3%	1.8%	6.8%	0.1%	8.1%	4.4%	8.6%	7.6%	3.6%	7.2%	6.8%
Tax Rate	40.0%	39.9%	40.0%	40.0%	15.3%	33.4%	39.7%	39.7%	43.8%	40.1%	40.1%	43.0%	43.0%	43.0%	43.0%	43.0%
Net Margin	6.6%	1.8%	5.5%	2.0%	4.6%	3.5%	1.1%	4.1%	0.1%	4.9%	2.6%	4.9%	4.4%	2.0%	4.1%	3.9%

Analyst Certification:

I, **Ernest Andberg**, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

Important Disclosures:

The analyst or any member of his/her household **does not** hold a long or short position, options, warrants, rights or futures of this security in their personal account(s).

As of the end of the month preceding the date of publication of this report, Feltl & Co. **did not** beneficially own 1% or more of any class of common equity securities of the subject company.

There **is not** any actual material conflict of interest that either the analyst or Feltl and Company is aware of.

The analyst **has not** received any compensation for any investment banking business with this company in the past twelve months and **does not** expect to receive any in the next three months.

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Strong Buy: The stock is expected to have total return potential of at least 30%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.

Buy: The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.

Hold: The stock is expected to have total return potential of less than 15%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.

Sell: Expect a negative total return. Current positions may be used as a source of funds.

Ratings Distribution for Feltl and Company

Rating	Number of Stocks	Percent of Total	----- Investment Banking -----	
			Number of Stocks	Percent of Rating category
SB/Buy	28	65%	1	4%
Hold	13	30%	1	8%
Sell	2	5%	0	0%
	43	100%	2	5%

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.

COMPEX TECHS

621 Days



Date	Nature of Report	Rating	Price Target
8/15/03	Coverage Initiated	Buy	n.a.
02/09/05	Update	Buy	n.a.
04/29/05	Update Rating Reduced	Hold	n.a.
05/06/05	Update	Hold	n.a.
09/08/05	Update	Hold	n.a.
11/04/05	Update	Hold	n.a.
11/14/05	Update	Hold	n.a.

Felt & Company **does** make a market in the subject security at the date of publication of this report. As a market maker, Felt & Co. could act as principal or agent with respect to the purchase or sale of those securities.

Price Target Methodology:

We do not have a price target on CMPX shares.

Risks to Achievement of Estimates:

The risks in our analysis are principally related to the Company's ability to continue to profitably grow its pain management and rehabilitation businesses while investing in the new consumer products oriented opportunity. This will entail a significant upfront commitment of capital in terms of marketing expenses without a certainty of return.

Medical products are a highly regulated industry. While Compex and its partners have had a good track record with the FDA, a change in the regulatory environment could affect the timing of new product approvals. In addition, reimbursement in the medical arena, as opposed to consumer, is subject to controls by Medicare and private insurers. Adverse reimbursement decisions could impact sales opportunities.

Medical device companies are subject to strict "good manufacturing practices" review and product recalls. Problems with these regulations or a recall of a product could negatively impact sales.

Compex may have to raise additional capital to continue its acquisition strategies. There is no guarantee that such capital will be available when needed or at a reasonable price.

Readers should recognize that the risks outlined above do not represent a comprehensive list of all risk factors that may impact on the Company reaching our revenue and EPS targets.

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Other public companies mentioned in this report:

Encore Medical Corporation (ENMC \$4.84 – not rated)

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