

**Registered number: 03950696**

**CARESTREAM DENTAL LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**



22/7/2020  
176 Feb

**CARESTREAM DENTAL LIMITED**

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## **CARESTREAM DENTAL LIMITED**

### **COMPANY INFORMATION**

<b>Directors</b>	J L Guinn A Kinson R K Schmidt
<b>Company secretary</b>	Corporation Service Company (UK) Limited
<b>Registered number</b>	03950696
<b>Registered office</b>	25 Canada Square Level 37 London E14 5LQ
<b>Trading Address</b>	Wiltron House Rutherford Close Stevenage Hertfordshire SG1 2EF
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place Charing Cross London WC2N 6RH
<b>Bankers</b>	Citibank NA Citigroup Centre Canary Wharf 33C London E14 5LB

## CARESTREAM DENTAL LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their Strategic Report of Carestream Dental Limited (the "Company") for the year ended 31 December 2019.

#### Business review

The principal activities of the Company are the development, sale and support of dental software products and the sale and support of hardware equipment, including digital imaging products. The Company's strategy is to grow market share of software and imaging product by offering a full range of products and services and excellent customer service. There are a number of market segments, NHS, private dentistry and corporate groups and we aim to have products and services to suit all of these customers.

The profit for the financial year, after taxation, amounted to £2,782,722 (2018: £4,530,202). The directors haven't declared a dividend in 2019.

The net assets of the Company at 31 December 2019 were £11,024,472 (2018: £8,241,750).

#### Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Company are considered to relate to the dental industry environment and competition.

The economy has been fairly stable during 2019 and the dental industry continued to invest in new technology. The market for dental practice software is highly competitive and is moving towards cloud-based systems. Relationships with the large corporate groups continue to be strong.

However, due to the very high proportion of imported dental products, Brexit is regarded as a major risk factor for the foreseeable future. The depreciation of £- Sterling is putting pressure on import costs and prices.

The global pandemic has had an impact on the Company's subsidiary undertakings as explained in note 24 to the financial statements.

#### Financial key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that the analysis of the key KPIs of turnover and operating profit is adequate to understand the performance and development.

Turnover decreased from £15,189,984 in 2018, to £14,510,533 in 2019, a decrease of 4.5%.

Operating profit decreased by 20.7% year on year from £4,273,509 in 2018 to £3,388,142 in 2019.

This report was approved by the board and signed on its behalf by:



**A Kinson**  
Director

Date: 3 July 2020

## **CARESTREAM DENTAL LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present their annual report and the audited financial statements of Carestream Dental Limited (the "Company") for the year ended 31 December 2019.

#### **Principal activities**

The principal activities of the Company are the development, sale and support of dental software products and the sale and support of hardware equipment, including digital imaging products.

#### **Results and dividends**

The profit for the financial year amounted to £2,782,722 (2018: £4,530,202).

During the year a dividend of £Nil (2018: £Nil) was declared and paid. No final dividend is proposed.

#### **Directors**

The directors who served during the year and up to the date of signing of financial statements were:

J L Guinn  
A Kinson  
R K Schmidt

#### **Directors' qualifying third party indemnity provisions**

The Company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and remains in force as at the date of approving the Directors' Report.

#### **Future developments**

The directors intend to maintain and pursue the current strategy of the Company during the foreseeable future.

Refer to note 24 of the financial statements regarding the impact of Covid-19.

#### **Financial instruments**

The Company is financed by the Company's subsidiary undertakings and follows the Group management policies.

Details of the management and financing policies are included within the Carestream Dental Alpha Limited financial statements.

#### **Research and development activities**

We continue to invest in both the development of our existing products and in new software packages and services targeted at the dental industry. The directors regard the investment as essential in order to maintain the Company's position in the dental practice management market and to provide business growth.

## **CARESTREAM DENTAL LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Directors' confirmations**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Subsequent events**

Refer to note 24 of the financial statements for details of subsequent events.

#### **Independent auditors**

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier

This report was approved by the board and signed on its behalf by:



**A Kinson**  
Director

Date: 3 July 2020

## CARESTREAM DENTAL LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARESTREAM DENTAL LIMITED

## Report on the audit of the financial statements

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### Opinion

In our opinion, Carestream Dental Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements, which comprise: the Balance Sheet as at 31 December 2019; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

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### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## **CARESTREAM DENTAL LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARESTREAM DENTAL LIMITED (CONTINUED)**

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

##### ***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### ***Use of this report***

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



**CARESTREAM DENTAL LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARESTREAM DENTAL LIMITED  
(CONTINUED)**

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**Other required reporting**

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**Companies Act 2006 exception reporting**

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Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*Fong Johnson*

Fong Choo Johnson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
3 July 2020

**CARESTREAM DENTAL LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Note</b>	<b>2019 £</b>	<b>2018 £</b>
Turnover	<b>4</b>	<b>14,510,533</b>	15,189,984
Cost of sales		<b>(6,721,464)</b>	(6,678,169)
<b>Gross profit</b>		<b>7,789,069</b>	8,511,815
Administrative expenses		<b>(4,400,927)</b>	(4,238,306)
<b>Operating profit</b>	<b>5</b>	<b>3,388,142</b>	4,273,509
Interest receivable and similar income	<b>9</b>	-	63
<b>Profit before taxation</b>		<b>3,388,142</b>	4,273,572
Tax on profit	<b>10</b>	<b>(605,420)</b>	256,630
<b>Profit for the financial year</b>		<b>2,782,722</b>	4,530,202
<b>Total comprehensive income for the financial year</b>		<b>2,782,722</b>	4,530,202

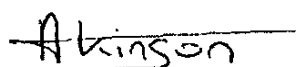
The notes on pages 11 to 26 form part of these financial statements.

**CARESTREAM DENTAL LIMITED**  
**REGISTERED NUMBER: 03950696**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2019**

	<b>Note</b>	<b>2019 £</b>	<b>2018 £</b>
<b>Fixed assets</b>			
Intangible assets	11	-	957
Tangible assets	12	319,980	239,399
		<u>319,980</u>	<u>240,356</u>
<b>Current assets</b>			
Stocks	13	224,334	267,773
Debtors	14	13,108,410	9,954,596
Cash at bank and in hand	15	159,441	549,047
		<u>13,492,185</u>	<u>10,771,416</u>
Creditors: amounts falling due within one year	16	(2,787,893)	(2,737,271)
<b>Net current assets</b>		<u>10,704,492</u>	<u>8,034,145</u>
<b>Total assets less current liabilities</b>		<u>11,024,472</u>	<u>8,274,501</u>
<b>Provisions for liabilities</b>			
Deferred taxation	17	-	(32,751)
<b>Net assets</b>		<u>11,024,472</u>	<u>8,241,750</u>
<b>Capital and reserves</b>			
Called up share capital	18	1,500,000	1,500,000
Profit and loss account	19	9,524,472	8,741,750
<b>Total shareholders' funds</b>		<u>11,024,472</u>	<u>8,241,750</u>

The financial statements on pages 8 to 26 were approved and authorised for issue by the board and were signed on its behalf by:



**A Kinson**  
**Director**

Date: 3 July 2020

The notes on pages 11 to 26 form part of these financial statements.

**CARESTREAM DENTAL LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Called up share capital</b>	<b>Profit and loss account</b>	<b>Total shareholders' funds</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>At 1 January 2018</b>	<b>1,500,000</b>	<b>2,211,548</b>	<b>3,711,548</b>
<b>Comprehensive income for the financial year</b>			
Profit for the financial year	-	<b>4,530,202</b>	<b>4,530,202</b>
<b>Total comprehensive income for the financial year</b>	-	<b>4,530,202</b>	<b>4,530,202</b>
<b>At 31 December 2018 and 1 January 2019</b>	<b>1,500,000</b>	<b>6,741,750</b>	<b>8,241,750</b>
<b>Comprehensive income for the financial year</b>			
Profit for the financial year	-	<b>2,782,722</b>	<b>2,782,722</b>
<b>Total comprehensive income for the financial year</b>	-	<b>2,782,722</b>	<b>2,782,722</b>
<b>At 31 December 2019</b>	<b>1,500,000</b>	<b>9,524,472</b>	<b>11,024,472</b>

The notes on pages 11 to 26 form part of these financial statements.

## **CARESTREAM DENTAL LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **1. General information**

Carestream Dental Limited (the "Company") is a private company, limited by shares, domiciled and incorporated in England. The Company's registered office is 25 Canada Square, Level 37, London, E14 5LQ and the registered number is 03950696.

The principal activities of the Company are the development, sale and support of dental software products and the sale and support of hardware equipment, including digital imaging products.

#### **2. Accounting policies**

##### **2.1 Basis of preparation of financial statements**

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006 as applicable to companies using FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied consistently throughout the year:

##### **2.2 Going concern**

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

##### **2.3 Financial reporting standard 102 - reduced disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

## **CARESTREAM DENTAL LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **2. Accounting policies (continued)**

##### **2.4 Turnover**

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

###### **Sale of goods**

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

###### **Rendering of services**

Turnover from a contract to provide services is recognised in the year in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting year can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

##### **2.5 Intangible assets**

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Computer software	-	3	years straight line
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## **CARESTREAM DENTAL LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **2. Accounting policies (continued)**

##### **2.6 Tangible assets**

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

The estimated useful lives range as follows:

Short-term leasehold property	-	5 years straight line
Fixtures and fittings	-	3 years straight line
Computer equipment	-	3 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

##### **2.7 Development costs**

Research and development costs are expensed to the Statement of Comprehensive Income as they do not meet the criteria for capitalisation under FRS 102.

##### **2.8 Stocks**

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each Balance Sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

##### **2.9 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### **2.10 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

## **CARESTREAM DENTAL LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **2. Accounting policies (continued)**

##### **2.11 Financial Instruments**

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting year for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **2.12 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.



**CARESTREAM DENTAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**2. Accounting policies (continued)**

**2.13 Foreign currency translation**

**Functional and presentation currency**

The Company's functional and presentational currency is GBP.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each year end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'interest receivable and similar income' or 'interest payable and similar expenses'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'administrative expenses'.

**2.14 Operating leases: the Company as lessee**

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

**2.15 Pensions**

**Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

**2.16 Interest income**

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

## CARESTREAM DENTAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 2. Accounting policies (continued)

##### 2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

##### 2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

## CARESTREAM DENTAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates.

The items in the financial statements where these judgments and estimates have been made include:

##### 3.1 Critical management judgement in applying accounting policies

In the process of applying the Company's accounting policies, management has made no judgements which they consider to be critical in terms of the effect on the amounts recognised in the financial statements.

##### 3.2 Key sources of estimation

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting year:

###### *(a) Determining net realisable value of inventories*

In determining the net realisable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Evidence may change after the reporting year and hence this could lead to a different assessment.

###### *(b) Estimating useful lives of property, plant and equipment*

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Based on management's assessment as at 31 December 2019, there is no change in estimated useful lives of those assets in use during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

#### 4. Turnover

The whole of the turnover is attributable to the development, sale and support of dental software products and the sale and support of hardware equipment, including digital imaging products.

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	14,149,377	15,018,219
Rest of the world	361,156	171,765
	<u>14,510,533</u>	<u>15,189,984</u>

**CARESTREAM DENTAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**5. Operating profit**

The operating profit is stated after charging/(crediting):

	2019 £	2018 £
Research & development charged as an expense	1,184,974	1,241,783
Depreciation of tangible assets - note 12	211,097	165,063
Amortisation of intangible assets - note 11	957	1,103
Exchange differences	204,381	(21,309)
Operating lease rentals	167,741	149,126
Defined contribution pension cost	238,962	235,467
	<u>238,962</u>	<u>235,467</u>

**6. Auditors' remuneration**

	2019 £	2018 £
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	50,129	48,600
	<u>50,129</u>	<u>48,600</u>
<b>Fees payable to the Company's auditors in respect of:</b>		
All other services	2,000	1,900
	<u>2,000</u>	<u>1,900</u>

**CARESTREAM DENTAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**7. Employees and directors**

Staff costs, including directors' remuneration, were as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Wages and salaries	<b>5,165,034</b>	<b>4,787,642</b>
Social security costs	<b>564,832</b>	<b>529,971</b>
Other pension costs	<b>238,962</b>	<b>235,467</b>
	<b><u>5,968,828</u></b>	<b><u>5,553,080</u></b>

The average monthly number of employees, including the directors, during the year was as follows:

	<b>2019</b>	<b>2018</b>
	<b>Number</b>	<b>Number</b>
Administration	<b>14</b>	<b>17</b>
Selling and Distribution	<b>98</b>	<b>82</b>
Production	<b>23</b>	<b>24</b>
	<b><u>135</u></b>	<b><u>123</u></b>

**CARESTREAM DENTAL LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019****8. Directors' remuneration**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Salary, bonus and benefits	<b>442,618</b>	452,043
Defined benefit contributions	<b>15,070</b>	31,768
	<b><u>457,688</u></b>	<b><u>483,811</u></b>

During the year retirement benefits were accruing to 3 directors (2018: 3) in respect of defined contribution pension scheme.

The remuneration of J Guinn is paid by Carestream Dental Technology Topco Limited, a subsidiary incorporated in the U.K, and recharged to Carestream Dental LLC, a subsidiary incorporated in Georgia USA. J Guinn provides services to the Company and to a number of subsidiaries in the Group. Her remuneration is deemed to be attributable to her services provided to the subsidiaries and accordingly, the above details include her remuneration.

The remuneration of A Kinson is paid by Carestream Dental Technology Topco Limited, a subsidiary incorporated in the UK. A Kinson provides services to the Company and to a number of subsidiaries in the Group. Her remuneration is deemed to be attributable to her services provided to the subsidiaries and accordingly, the above details include her remuneration.

The remuneration of R Schmidt is paid by Carestream Dental Limited and recharged to Carestream Dental Technology Topco Limited, a subsidiary incorporated in the U.K. Accordingly, the above details include his remuneration.

**Highest paid director**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Salary, bonus and benefits	<b>199,765</b>	219,039
Defined benefit contributions	<b>2,449</b>	16,674
	<b><u>202,214</u></b>	<b><u>235,713</u></b>

**9. Interest receivable and similar income**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Bank interest receivable	<b>-</b>	63

**CARESTREAM DENTAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**10. Tax on profit**

	2019 £	2018 £
<b>Corporation tax</b>		
Current tax on profits for the financial year	669,338	-
Adjustments in respect of prior years	-	(286,270)
<b>Total current tax</b>	<u>669,338</u>	<u>(286,270)</u>
<b>Deferred tax</b>		
Adjustments in respect of prior year - note 17	(38,327)	29,640
Origination and reversal of timing differences	(25,591)	-
<b>Total deferred tax</b>	<u>(63,918)</u>	<u>29,640</u>
<b>Total tax charge/(credit) for the financial year</b>	<u><u>605,420</u></u>	<u><u>(256,630)</u></u>

**Factors affecting tax charge/(credit) for the year**

The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £	2018 £
Profit before taxation	<u>3,388,142</u>	<u>4,273,572</u>
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	643,747	811,979
<b>Effects of:</b>		
Adjustments in respect of prior years - deferred tax	(38,327)	29,640
Adjustments in respect of prior years - current tax	-	(286,270)
Group relief	-	(811,979)
<b>Total tax charge/(credit) for the financial year</b>	<u><u>605,420</u></u>	<u><u>(256,630)</u></u>

**Factors that may affect future tax charges**

Changes to the UK Corporation tax rates were substantively enacted on 7 September 2016 to reduce the main rate of Corporation tax to 17% from 1 April 2020. Subsequent to the balance sheet date, a further change was substantively enacted on 17 March 2020 to maintain the rate at 19%.

**CARESTREAM DENTAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**11. Intangible assets**

	<b>Computer software £</b>
<b>Cost</b>	
At 1 January 2019	<b>271,717</b>
At 31 December 2019	<b>271,717</b>
<b>Accumulated amortisation</b>	
At 1 January 2019	<b>270,760</b>
Charge for the year	<b>957</b>
At 31 December 2019	<b>271,717</b>
<b>Net book value</b>	
At 31 December 2019	<b>-</b>
At 31 December 2018	<b>957</b>



**CARESTREAM DENTAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**12. Tangible assets**

	Short-term leasehold property £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 January 2019	309,374	282,670	547,738	1,149,782
Additions	-	-	313,026	313,026
Disposals	-	(85,469)	(255,862)	(341,321)
At 31 December 2019	309,374	207,201	604,912	1,121,487
<b>Accumulated depreciation</b>				
At 1 January 2019	151,926	290,808	487,649	910,383
Charge for the year	87,375	1,862	121,860	211,097
Disposals	-	(85,469)	(234,504)	(319,973)
At 31 December 2019	239,301	207,201	355,005	801,507
<b>Net book value</b>				
At 31 December 2019	70,073	-	249,907	319,980
At 31 December 2018	157,448	1,862	80,089	239,399

**13. Stocks**

	2019 £	2018 £
Finished goods and goods for resale	224,334	267,773

Stock recognised in cost of sales during the year as an expense was £2,413,516 (2018: £2,681,485).

An impairment loss of £25,070 (2018: £4,937) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

**CARESTREAM DENTAL LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019****14. Debtors**

	2019 £	2018 £
Trade debtors	1,652,703	2,129,946
Amounts owed by group undertakings	10,294,515	6,855,148
Other debtors	393,527	230,883
Tax recoverable	514,481	582,174
Deferred taxation	31,167	-
Prepayments and accrued income	222,037	156,865
	<u>13,108,410</u>	<u>9,954,596</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand with no date for repayment.

**15. Cash at bank and in hand**

	2019 £	2018 £
Cash at bank and in hand	<u>159,441</u>	<u>549,047</u>

**16. Creditors: amounts falling due within one year**

	2019 £	2018 £
Trade creditors	482,901	517,543
Amounts owed to group undertakings	182,967	297,232
Other taxation and social security	803,803	321,410
Accruals and deferred income	1,318,022	1,601,086
	<u>2,787,693</u>	<u>2,737,271</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand with no date for repayment.

# CARESTREAM DENTAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 17. Deferred taxation

	2019 £
At beginning of year	(32,751)
Charged to Statement of Comprehensive Income - note 10	63,918
<b>At end of year</b>	<b><u>31,167</u></b>

The deferred taxation balance is made up as follows:

	2019 £	2018 £
Accelerated capital allowances	(48,395)	(49,705)
Short term timing differences	79,562	16,954
	<b><u>31,167</u></b>	<b><u>(32,751)</u></b>

### 18. Called up share capital

	2019 £	2018 £
<b>Allotted, called up and fully paid</b>		
1,500,000 (2018: 1,500,000) Ordinary shares of £1 (2018: £1) each	<b><u>1,500,000</u></b>	<b><u>1,500,000</u></b>

The Ordinary shareholders carry full voting rights as well as rights to dividend distribution and resolution for winding up of the Company.

### 19. Reserves

#### Profit and loss account

The profit and loss account includes all current and prior year retained profits and losses.

### 20. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions paid by the Company to the fund and amount to £238,962 (2018: £235,467).

## CARESTREAM DENTAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 21. Commitments under operating leases

At 31 December the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	189,579	164,260
Later than 1 year and not later than 5 years	32,287	189,290
	<u>221,866</u>	<u>353,550</u>

#### 22. Related party transactions

As a wholly owned subsidiary of Carestream Dental Alpha Limited the Company has taken advantage of the exemption under FRS 102 Section 33 from disclosing related party transactions with other wholly owned group entities.

#### 23. Ultimate parent undertaking and controlling party

The Company's immediate parent company is Carestream Dental Technology Parent Limited, a company incorporated in the United Kingdom. Carestream Dental Alpha Limited is the parent of the smallest and largest group to consolidate these financial statements and these consolidated financial statements can be obtained from 25 Canada Square, Level 37, London, E14 5LQ.

The Company's ultimate parent undertaking is Carestream Dental Alpha Limited, a company incorporated in the Cayman Islands. The Company's ultimate controlling party is CD&R Cobra Holdings, L.P.

#### 24. Subsequent events

Subsequent to year end, a novel strain of coronavirus named COVID-19 caused a worldwide pandemic disrupting supply chains and sales across a range of industries, including the dental industry. Starting in early March, the COVID-19 outbreak has resulted in worldwide temporary dentist office closures as mandated by a variety of health and government officials. These recent developments have resulted in a material amount of decreased net sales, profitability, and operating cash flows beginning in March 2020. The Company's management expects these reduced levels of performance to continue in the near term primarily due to delays in large scale dental equipment purchases and reduced service revenues resulting from the dental office closures. In response, the wider Carestream Dental Group has temporarily closed its primary manufacturing facility in France, introduced temporary employee furloughs for the second quarter of 2020, and significantly reduced other operating expenses such as travel, hiring new staff and third-party contractor spending.

The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Company's customers, employees and vendors. Other risks, depending on the duration and spread of the outbreak, include adverse impacts to receivable credit losses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Company expects this matter to negatively impact financial performance in 2020 and possibly beyond, the related financial impact and duration cannot be reasonably estimated at this time.

# Carestream Dental Alpha Limited

Consolidated Financial Statements  
December 31, 2019 and 2018

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**Carestream Dental Alpha Limited**  
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**December 31, 2019 and 2018**

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## **Report to Independent Auditors**

To the Board of Directors of  
Carestream Dental Alpha Limited

We have audited the accompanying consolidated financial statements of Carestream Dental Alpha Limited and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carestream Dental Alpha Limited and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue in 2019. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

Atlanta, Georgia  
June 10, 2020



**Carestream Dental Alpha Limited**  
**Consolidated Balance Sheets**  
**December 31, 2019 and 2018**

<i>(in thousands of dollars)</i>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 26,880	\$ 23,310
Accounts receivable, net	67,086	71,431
Inventories, net	29,233	24,924
Other current assets	17,095	23,700
Total current assets	140,294	143,365
Property, plant and equipment, net	24,857	28,347
Goodwill	482,738	472,381
Deferred close asset, net	-	9,012
Intangible assets, net	237,679	280,638
Other long-term assets, net	3,182	5,760
Deferred income tax asset	3,608	3,340
Total assets	<u>\$ 892,358</u>	<u>\$ 942,843</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts payable	\$ 24,014	\$ 33,393
Accrued liabilities	48,720	46,467
Contract liabilities	31,802	44,567
Current portion of long-term debt	1,420	1,565
Current portion of pension liability	687	415
Total current liabilities	106,643	126,407
Long-term debt, less current portion	516,641	531,054
Other long-term liabilities	18,941	5,485
Deferred income tax liabilities	23,942	33,853
Pension	17,569	18,655
Total liabilities	683,736	715,454
Commitments and contingencies		
Shareholders' equity		
Contributed capital	312,447	312,447
Additional paid in capital	10,443	7,717
Accumulated deficit	(99,786)	(81,266)
Accumulated other comprehensive loss	(14,482)	(11,509)
Total shareholders' equity	208,622	227,389
Total liabilities and shareholders' equity	<u>\$ 892,358</u>	<u>\$ 942,843</u>

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

**Carestream Dental Alpha Limited**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2019 and 2018**

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<i>(in thousands of dollars)</i>	<b>2019</b>	<b>2018</b>
Net sales	\$ 416,915	\$ 392,001
Cost of goods sold	<u>178,996</u>	<u>173,620</u>
Gross profit	237,919	218,381
Selling, general and administrative expenses	137,591	135,080
Amortization of intangibles	47,931	47,257
Transaction costs	497	4,015
Research and development costs	<u>32,316</u>	<u>34,120</u>
Operating income (loss)	19,584	(2,091)
Interest expense, net	42,258	40,866
Other (income) loss, net	<u>(580)</u>	<u>100</u>
Loss before income taxes	(22,094)	(43,057)
Income tax (benefit) expense	<u>(3,574)</u>	<u>1,695</u>
Net loss	<u>\$ (18,520)</u>	<u>\$ (44,751)</u>

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

**Carestream Dental Alpha Limited**  
**Consolidated Statements of Comprehensive Loss**  
**Years Ended December 31, 2019 and 2018**

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<i>(in thousands of dollars)</i>	<b>2019</b>	<b>2018</b>
Net loss	<u>\$ (18,520)</u>	<u>\$ (44,751)</u>
Other comprehensive (loss) income, net of tax		
Foreign currency translation adjustments, net	(2,464)	(13,425)
Defined benefit pension plan, net	<u>(509)</u>	<u>323</u>
Total other comprehensive loss, net of tax	<u>(2,973)</u>	<u>(13,102)</u>
Comprehensive loss	<u>\$ (21,493)</u>	<u>\$ (57,853)</u>

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

**Carestream Dental Alpha Limited**  
**Consolidated Statements of Shareholders' Equity**  
**Years Ended December 31, 2019 and 2018**

	Contributed Capital	Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
<i>(in thousands of dollars)</i>					
<b>Balances at December 31, 2017</b>	\$ 312,447	\$ -	\$ 1,593	\$ (36,515)	\$ 277,525
Net loss	-	-	-	(44,751)	(44,751)
Foreign currency translation adjustment, net of tax expense of \$0	-	-	(13,425)	-	(13,425)
Defined benefit plan, net of tax expense of \$196	-	-	323	-	323
Director and employee stock purchases	-	4,855	-	-	4,855
Stock compensation expense	-	2,862	-	-	2,862
<b>Balances at December 31, 2018</b>	<b>312,447</b>	<b>7,717</b>	<b>(11,509)</b>	<b>(81,266)</b>	<b>227,389</b>
Net loss	-	-	-	(18,520)	(18,520)
Foreign currency translation adjustment, net of tax expense of \$0	-	-	(2,464)	-	(2,464)
Defined benefit plan, net of tax expense of \$153	-	-	(509)	-	(509)
Director and employee stock purchases	-	440	-	-	440
Stock compensation expense	-	2,286	-	-	2,286
<b>Balances at December 31, 2019</b>	<b>\$ 312,447</b>	<b>\$ 10,443</b>	<b>\$ (14,482)</b>	<b>\$ (99,786)</b>	<b>\$ 208,622</b>

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

**Carestream Dental Alpha Limited**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

(in thousands of dollars)

	2019	2018
<b>Cash flows from operating activities</b>		
Net loss	\$ (18,520)	\$ (44,751)
Adjustments to reconcile net loss to cash provided by (used in) by operating activities		
Depreciation	9,646	5,783
Amortization of intangibles	47,931	47,257
Amortization of debt issuance costs	2,585	2,464
Allowance for doubtful accounts	120	257
Provision for excess and obsolete inventory	727	(27)
Loss on the disposal of property, plant and equipment	79	
Foreign currency exchange loss	537	283
Stock compensation expense	2,286	2,862
Deferred income taxes	(10,534)	(4,715)
Change in operating assets and liabilities, net of acquired amounts		
Accounts receivable, net	5,930	(13,803)
Inventories, net	(4,710)	(3,200)
Other current assets	6,557	505
Trade accounts payable	(9,184)	1,824
Accrued liabilities	179	(32,823)
Contract liabilities	(1,503)	10,130
Other	1,531	889
Total adjustments	52,177	17,686
Net cash provided by (used in) operating activities	33,657	(27,065)
<b>Cash flows from investing activities</b>		
Cash (paid) received from operations of deferred close jurisdictions	(622)	7,639
Purchases of property, plant and equipment	(5,527)	(13,291)
Purchase of Swissmeda, net of cash acquired	(6,633)	-
Net cash used in investing activities	(12,782)	(5,652)
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(3,750)	(3,750)
Borrowings on revolving credit facility	33,000	20,000
Repayment of revolving credit facility	(46,000)	(7,000)
Equity contribution from indirect parent	440	4,855
Bank overdraft	-	(1,297)
Net cash (used in) provided by financing activities	(16,310)	12,808
Effect of exchange rate changes on cash and cash equivalents	(995)	(468)
Net increase (decrease) in cash and cash equivalents	3,570	(20,377)
<b>Cash and cash equivalents</b>		
Beginning of year	23,310	43,687
End of year	\$ 26,880	\$ 23,310
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 39,709	\$ 38,561
Cash paid for income taxes	3,288	3,909
Acquisition of property, plant and equipment in accounts payable and accruals	216	1,102
Leasehold improvements acquired through lessor incentives	-	3,726
Net assets acquired through conveyance of deferred close jurisdictions	7,170	17,341

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

# Carestream Dental Alpha Limited

## Notes to Consolidated Financial Statements

### December 31, 2019 and 2018

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*(in thousands of dollars except share prices)*

#### 1. Introduction and Background

Carestream Dental Alpha Limited ("Dental" or "the Company") sells digital products, including, intra-oral cameras and imaging equipment, intra-oral x-ray generators, extra-oral imaging systems, CAD/CAM restorations, practice management software products and equipment aftermarket services. Dental's products are manufactured in China and France and are marketed and sold globally.

Dental is a Cayman Island legal entity formed on April 18, 2017 by an affiliate of Clayton Dubilier & Rice, LLC ("CD&R") to acquire the dental digital business of Carestream Health, Inc. ("Health"). CD&R owns 75% of the Company and 25% is owned by HCare CSD Holdings Ltd. ("HCare"), which is owned by Hillhouse Fund III and CareCapital. CD&R and HCare represent the owners of the Company as it relates to equity contributions and control of the business.

Dental, a private limited company incorporated under the laws of the Cayman Islands, issued 50,000 ordinary shares of \$1 in the capitalization of the Company to Carestream Dental Alpha Limited LP.

The Company entered into a stock and asset purchase agreement on April 7, 2017 with Health, whereby the dental business was acquired through a combination of stock acquisitions and asset acquisitions, and an assumption by the Company of certain related liabilities, in each case as of the transaction date, September 1, 2017.

As part of the acquisition of Dental, the transfer of the assets and assumption of the liabilities of the business in certain jurisdictions anticipated in the stock and asset purchase agreement did not close as of the transaction date. In many of these jurisdictions, the business was required to possess certain government regulatory approvals, permits or licenses in order to legally own and operate the business and its assets. To ensure the proper transfer of ownership, the closing of the transaction in these jurisdictions was deferred. These jurisdictions are referred to as "deferred closing" jurisdictions. Separate transitional agreements for the deferred closing jurisdictions were put in place to define the roles and obligations of Dental and Health, until the transaction was able to close and transfer to the Company. As of September 1, 2017, Dental became entitled to the net economic benefit generated through the operations in these deferred closing jurisdictions, which was settled in cash payments each month. As of March 1, 2019, all deferred closing entities were closed and legal ownership transferred to the Company.

#### 2. Significant Accounting Policies

##### **Basis for Presentation of the Consolidated Financial Statements**

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), and consolidate all assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries, majority-owned subsidiaries over which the Company exercises control, and entities in which the Company has a controlling financial interest or is deemed to be the primary beneficiary. All material intercompany transactions and balances have been eliminated.

The purchase price paid for the deferred close jurisdictions is classified and accounted for under the "Deposit Method" if the associated consideration paid to Health was refundable, or if the title to the underlying assets and liabilities of the jurisdictions had not been acquired. For deferred close

## **Carestream Dental Alpha Limited**

### **Notes to Consolidated Financial Statements**

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jurisdictions where assets had been acquired, primarily the customer relationships, a portion of the consideration paid to Health was recorded as an intangible asset, and the remaining portion was recorded under the Deposit Method.

Deferred close jurisdictions for which the allocated purchase price was refundable are presented in the consolidated financial statements in the deferred close asset, net on the Consolidated Balance Sheets only, representing the initial consideration paid, adjusted for the impact of net economic benefit of the jurisdictions determined between Health and Dental each reporting period. The net economic benefit represents the profit or loss generated by these deferred close jurisdictions, and any associated change in working capital. Economic benefit amounts were settled in cash within 30 days of the applicable month to which the activity related.

Deferred close jurisdictions for which the allocated purchase price was not refundable are presented in the Consolidated Balance Sheets in the deferred close asset, net at their respective acquisition date estimated fair values, while any change in working capital for such jurisdictions results in an adjustment to the deferred close asset. The net economic benefit related to profit and loss of each reporting period for these deferred close jurisdictions with Health is fully included in the consolidated financial statements in the Consolidated Statements of Operations.

#### **Use of Estimates**

The preparation of financial statements in conformity with 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 year end, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### **Business Combinations**

The Company accounts for business combinations using the acquisition method by recognizing all assets acquired and liabilities assumed at the acquisition date estimated fair values, except as noted for the deferred close jurisdictions above. Goodwill, as of the acquisition date, is measured as the excess of consideration transferred over the net of the acquisition date estimated fair values of the assets acquired and liabilities assumed. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company's estimates may be subject to revision following the acquisition date. Certain adjustments to the preliminary estimates of fair values of the assets and liabilities made subsequent to the acquisition date, but within the measurement period, which is one year or less, are recorded as adjustments to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments arising from new facts and circumstances are recorded to the Consolidated Statements of Operations.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less at the date of acquisition. Cash equivalents are stated at amortized cost, which approximates fair value. The Company limits its credit exposure to any one major institution. The Company had bank overdrafts at December 31, 2019 and 2018 of \$0 and \$7, respectively, which represents credit balances in accounts to be funded at a later date and are classified in accounts payable on the Consolidated Balance Sheets.

# Carestream Dental Alpha Limited

## Notes to Consolidated Financial Statements

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#### **Foreign Currency**

For certain operations outside the U.S., the local currency is the functional currency under ASC 830. The financial statements for these operations are translated into U.S. dollars as follows: assets and liabilities at year-end exchange rates; income, expenses and cash flows at average exchange rates; and contributed shareholders' equity at historical exchange rates. For these operations, the resulting translation adjustment is recorded as a component of accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets.

Monetary assets and liabilities not in functional currency are re-measured at year-end exchange rates, while the related revenue, expense, and gain and loss accounts are re-measured at average exchange rates. Nonmonetary assets and liabilities, and the related revenue, expense, and gain and loss accounts not in functional currency are re-measured at historical rates. Remeasurement of the assets and liabilities of these operations are included in net loss in the accompanying Consolidated Statements of Operations.

Foreign exchange losses arising from transactions denominated in a currency, other than the functional currency of the entity involved, were \$(537) and \$(283) for years ended December 31, 2019 and 2018, respectively, and are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

#### **Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value hierarchy consists of three levels to prioritize the inputs used in valuations, as defined below:

- Level 1    Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2    Observable quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices included within Level 1.
- Level 3    Unobservable inputs for the asset or liability.

Financial assets and liabilities, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are recorded on the balance sheet at their respective net carrying values, which approximate fair value due to their short-term nature.

Debt is measured and presented at amortized cost on the Consolidated Balance Sheets. Refer to Note 10.

The plan assets and benefit obligation of the Defined Benefit plans are subject to fair value measurement. The plan sponsor performs an analysis of these assets and liabilities on a recurring basis to assess the nature of the inputs used to determine fair value. Refer to Note 15, Retirement Plans for information regarding the fair value of pension plan assets and liabilities under the Defined Benefit plans.



# Carestream Dental Alpha Limited

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#### **Concentration of Credit Risk and Significant Customers**

Financial instruments that potentially subject Dental to significant concentrations of credit risk consist principally of receivables. Such receivables arise from sales to numerous customers in a variety of markets and geographies around the world. Receivables arising from these sales are generally not collateralized. The Company performs ongoing credit evaluations of its customers' financial conditions and maintains reserves for potential credit losses.

There were no customers who represented more than 10% of the Company's total revenue for the years ended December 31, 2019 and 2018, respectively. There was one customer who represented approximately 10% and 18% of the Company's net trade receivables at December 31, 2019 and 2018, respectively. The Company limits credit risk by minimizing significant credit risk with any one customer.

#### **Inventories**

Inventories are stated at the lower of cost or net realizable value. The cost of Dental's inventories is determined by the average cost method. The carrying value of inventories are reduced for excess, obsolete or slow-moving inventories based on changes in customer demand, technology developments or other economic factors.

#### **Debt Issuance Costs**

Debt issuance costs associated with the revolver were \$1,047 and \$1,440 at December 31, 2019 and 2018, respectively, and are recorded in other long term-assets on the Consolidated Balance Sheets. These costs are amortized using the straight-line method. Amortization of revolver issuance costs is included in interest expense, net on the Consolidated Statements of Operations and was \$393 for each of the years ended December 31, 2019 and 2018.

Debt issuance costs associated with the term loans are amortized using the effective interest rate method, over the term of the related debt (Note 10). Debt issuance costs net of amortization were \$13,501 and \$15,693 at December 31, 2019 and 2018, respectively. Amortization of debt issuance costs is included in interest expense, net on the Consolidated Statements of Operations and was \$2,192 and \$2,071 for the years ended December 31, 2019 and 2018, respectively.

#### **Property, Plant and Equipment, Net**

Property plant and equipment acquired in acquisitions are recorded at the estimated fair value. All other property, plant and equipment are recorded at cost, net of accumulated depreciation. Dental calculates depreciation expense using the straight-line method over the assets' estimated useful lives, which are as follows:

	Years
Machinery and equipment	3–6
Leasehold improvements	7–11

Maintenance and repairs are expensed as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is recorded in earnings from operations.

# Carestream Dental Alpha Limited

## Notes to Consolidated Financial Statements

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#### **Intangible Assets**

Intangible assets are recorded at estimated fair value if acquired in an acquisition, or cost if acquired otherwise, net of accumulated amortization. Dental calculates amortization expense using the straight-line method over the assets' estimated useful lives, which are as follows:

	<b>Years</b>
Customer relationships	6–12
Trademarks/tradenames	3–20
Developed technology	4–9

#### **Impairment of Long-Lived Assets**

Dental reviews the carrying value of long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Dental assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the "asset group") and, secondly, by estimating the undiscounted future cash flows directly associated with and which are expected to arise from the use of, and eventual disposition of, such asset group.

If the carrying value of the asset group exceeds the estimated undiscounted cash flows, Dental records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. Dental determines fair value through quoted market prices in active markets or, if quoted market prices are unavailable, through the performance of internal analyses of discounted cash flows or external appraisals.

In connection with the assessment of recoverability of long-lived assets and ongoing strategic review of the business and operations, Dental continually reviews the remaining useful lives of its long-lived assets. If this review indicates the remaining useful life of a long-lived asset has been reduced, Dental will adjust the depreciation on that asset to facilitate full cost recovery over its revised estimated remaining useful life.

#### **Goodwill**

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired. Goodwill is not amortized but is assessed for impairment each year at October 1 and when events or circumstances change in a way to indicate there has been a potential decline in the estimated fair value of a reporting unit. Dental has the option to perform a qualitative assessment to determine if it is more likely than not the estimated fair value of a reporting unit has declined below carrying value. This assessment considers various financial, macroeconomic, industry, and reporting unit specific qualitative factors. A reporting unit is defined as an operating segment or one level below an operating segment. Dental has two reporting units, consisting of software services and equipment, and has elected to make October 1 the annual impairment assessment date. Based on the results of reviews performed, no impairment loss was recognized in the results of operations for the years ended December 31, 2019 and 2018.

#### **Retirement Plans**

Dental sponsors several defined benefit plans around the world. Information included in Note 15 reflects the eight largest plans, which make up substantially all of the defined benefit plan obligations, while the smaller plans are accounted for on a cash basis, as the difference to apply

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the accrual method is insignificant. The most significant plans are a Support Fund plan in Germany and the Top Hat and Retirement Indemnity Trophy plans in France. The majority of the smaller plans are termination indemnity plans or statutorily required plans. Retirement benefits are generally based on contractual agreements that provide for benefit formulas using years of service and/or compensation prior to retirement. Dental's funding policy is to contribute amounts sufficient to meet minimum funding standards based upon local law.

For the employees who participate in the Plans sponsored by Dental, Dental recognizes a liability only for any required contributions to the Plans that are accrued and unpaid at the balance sheet date in accordance with US GAAP. Dental does not record an asset or liability to recognize the funded status of the Plans.

#### **Lease Obligations**

Dental evaluates each lease for classification as either a capital lease or an operating lease. The Company performs this evaluation at the inception of the lease and upon any significant modification impacting the terms and conditions. For arrangements that are classified as capital leases, the Company records a capital asset for the leased equipment along with a corresponding capital lease obligation in an amount equal to the lesser of the present value of the minimum lease payments to be made over the life of the lease at the beginning of the lease term, or the fair value of the leased property.

Once placed in service, the capital asset is amortized on a straight-line basis as a charge to expense over the lesser of the lease term or the economic life of the leased property. Operating lease arrangements are recorded to expense as incurred on a straight-line basis.

#### **Revenue**

Revenue is recognized in accordance with Accounting Standards Codification Topic 606 ("ASC 606"). To recognize revenue, the Company does the following:

- Identifies the contract(s) with a customer;
- Identifies the performance obligations in the contract;
- Determines the transaction price;
- Allocates the transaction price to the performance obligations in the contract; and
- Recognizes revenue when, or as, the entity satisfies a performance obligation.

The Company generates revenue from the sale of dental equipment, extended equipment warranties and practice management software products and services. Provisions for discounts, rebates to customers, customer returns and other variable consideration are included in the transaction price at contract inception by estimating the most-likely-amount based upon historical data and estimates provided for in the period in which the related sales are recognized. The Company does not have any transactions that include a material financing component.

Revenue generated from the sale of equipment is recognized when control transfers to the customer. Depending on the terms of the contract, this may occur at the time of delivery or

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shipment. Revenue generated from the sale of extended warranties is recognized straight-line over the contract term, which range from one to five years.

Revenue generated from the sale of software licenses is recognized when products are shipped to customers or made available electronically. Revenue derived from post-contract customer support, including annual support and/or training, is generally recognized over time using time elapsed as the input method that best depicts the transfer of control to the customer. Revenue generated from the sale of software as a service contracts is recognized on a straight-line basis over the contract term, which generally range from one to three years.

Revenue generated from other sources including equipment repairs and related services is recognized when the related product revenue is recognized or when the services are provided. The Company applies the practical expedient to treat shipping and handling activities performed after the customer obtains control as fulfillment activities, rather than a separate performance obligation in the contract.

Sales taxes, value add taxes and other taxes collected concurrently with revenue-producing activities are excluded from revenue.

Certain revenue is generated from bundled arrangements that include multiple distinct performance obligations which are accounted for separately. When software products are sold together with related services (i.e., training and technical support), revenue is allocated based on the relative stand-alone selling prices of the goods or services ("SSP"). Other bundled arrangements also include elements that consist primarily of equipment and the related services. If an observable selling price is not available (i.e., the goods or services are not sold separately), the Company uses the adjusted market approach or cost-plus approach to estimate the standalone selling price.

There is no specific hierarchy for the use of these methods, but the estimated selling price reflects management's best estimate of what the selling prices of each deliverable would be if it were sold regularly on a standalone basis taking into consideration the cost structure of our business, technical skills required, customer location and other market conditions.

See Note 4 for additional disclosures of disaggregated net sales.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable consist principally of trade receivables from customers and are generally uncollateralized and due within 30 days. The Company maintains an allowance for doubtful accounts for accounts receivable deemed uncollectible. In assessing the adequacy of the allowance for doubtful accounts, management considers a number of factors, including the aging of the accounts receivable balances, historical collection experience, and each customer's individual ability to meet its financial obligations to the Company. If the financial condition of the Company's customers were to deteriorate, resulting in an inability to make payments, additional allowances may be required. Bad debt expense related to allowances for doubtful accounts is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

**Contract Assets**

Contract assets include amounts related to any conditional right to consideration for work completed but not billed as of the reporting date and generally represent amounts owed to the Company by customers, but not yet billed (earned but not billed). Contract assets are transferred

## **Carestream Dental Alpha Limited**

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to accounts receivable when the right becomes unconditional. As of December 31, 2019 and 2018 there were no contract asset balances.

#### **Contract Liabilities**

Contract liabilities are comprised of advance payments and upfront payments for service arrangements provided over time. Contract liabilities are transferred to revenue once the performance obligation has been satisfied. The Company's contract liability balance as of December 31, 2019 and 2018 was \$44,359 and \$44,567, respectively. Contract liabilities that are expected to be settled in twelve months of the balance sheet date are included in contract liabilities and obligations beyond twelve months of the balance sheet date are included in other long-term liabilities.

#### **Warranties**

Dental offers standard warranties in connection with the sale of equipment. The standard warranty period for most equipment is one to two years. Warranty costs are accrued in accordance with ASC 460 "Guarantees". Warranty obligations are estimated and recorded as an accrued liability at the time of sale. Warranty obligations that are expected to be settled in twelve months of the balance sheet date are included in accrued liabilities and obligations beyond twelve months of the balance sheet date are included in other long-term liabilities.

#### **Cost of Goods Sold**

Cost of goods sold represents the costs incurred to provide the Company's goods and services to customers. The costs of goods are principally comprised of materials, labor and overhead costs related to manufacturing of dental equipment and distribution costs. The costs of services primarily include labor for repairs and maintenance of hardware and equipment, as well as various customer support for users of the Company's software products and related licenses. Additionally, depreciation related to machinery and equipment used in the production of inventory and customer support efforts is also included as a component of cost of goods sold on the Consolidated Statements of Operations.

#### **Shipping and Handling Costs**

For the years ended December 31, 2019 and 2018, approximately \$5,483 and \$5,765, respectively, of shipping and handling costs include transportation to customers, duty and brokerage, and are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

#### **Interest Expense, Net**

Interest expense, net is comprised of interest expense incurred on the Company's debt and capital leases, amortization of debt issuance costs and debt discounts, and interest earned on the Company's cash and cash equivalents. The Company's interest expense, net for the years ended December 31, 2019 and 2018 was \$42,258 and \$40,866, respectively, on the Consolidated Statements of Operations.

#### **Research and Development Costs**

Research and development costs, which include costs in connection with new product development, fundamental and exploratory research, process improvement, product use technology and product accreditation, are charged to operations in the period in which they are incurred. The Company's research and development costs for the years ended December 31, 2019 and 2018 were \$32,316 and \$34,120, respectively, on the Consolidated Statements of Operations.

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#### **Transaction Costs**

In a business combination, transaction related costs are expensed as incurred and not included in the total consideration transferred for acquisition method accounting. These costs are primarily comprised of various legal and consulting fees, and other related costs necessary to affect the business combination. Transaction costs for the years ended December 31, 2019 and 2018 were \$497 and \$4,015, respectively, on the Consolidated Statements of Operations.

#### **Advertising**

Advertising costs are expensed as incurred and included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. Advertising expenses amounted to \$11,690 and \$10,369, respectively, for the years ended December 31, 2019 and 2018.

#### **Income Taxes**

Deferred income tax assets and liabilities are recognized for the income tax consequences attributable to operating loss carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which temporary differences are expected to be recovered or settled. Valuation allowances are recorded against deferred tax assets when there are not expected sources of future taxable income sufficient to conclude it is more likely than not that the benefit of the deferred tax assets will be realized. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date.

Dental reports a liability or reduction of deferred tax assets for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Related interest and penalties, if any, are recognized in income tax expense.

Dental has recorded deferred income and withholding taxes (net of tax credits, as applicable) on outside basis differences in foreign operations. Other than for the US jurisdiction, China, and for other basis differences in all jurisdictions, Dental has determined the unremitted earnings of its operations outside of the UK are not indefinitely reinvested for the years ended December 31, 2019 and 2018, and accordingly, has recognized corresponding deferred tax liabilities on the underlying taxable temporary differences

#### **Stock Compensation Plans**

##### ***Carestream Dental Alpha Limited Equity Incentive Plan***

On March 20, 2018, the Board of Directors (the "Board") of the Company approved the Carestream Dental Alpha Limited Equity Incentive Plan ("MEP") and approved various grant options. The MEP is offered to certain employees of Dental selected by the Board and certain nonemployee board members of Carestream Dental Holdings Limited, the parent of the Company ("Holdings Board"). The Company issued a total of 4,321,631 shares of common stock under the MEP.

The MEP allows for the granting of employee stock purchase plan ("ESPP") awards, which represent the right for an employee to purchase a pre-approved number of shares of the Company, and stock options. Grants of equity-based awards under the MEP and approval for key employees or certain Holdings Board members to receive stock-based compensation are both approved in advance by the Board, and are subject to such terms and conditions as the Board may determine,

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including in respect of vesting and forfeiture, subject to certain limitations provided in the MEP. Equity-based awards under the MEP may carry dividend equivalent rights, pursuant to which notional dividends accumulate on unvested equity awards and are paid, in cash, upon vesting.

During the years ended December 31, 2019 and 2018, the Company awarded stock options and ESPP awards to its employees and Holdings Board directors under the MEP. ESPP awards granted in 2018 entitle recipients the ability to purchase shares in the Company at the price of \$10 per share, which is the same price Clayton Dubilier & Rice Cobra Holdings, L.P. and Hillhouse Fund III, L.P. ("the Investors") paid to capitalize the Company. Awards granted in subsequent years are set with a purchase price equal to the most recent equity valuation approved by the Board. The shares are of the same class held by Carestream Dental Alpha, LP in which the Investors, affiliates of CD&R and Hillhouse, hold equity. The exercise price of options is also set with the same values as purchased shares. Except under certain termination conditions, including change in control provisions, options granted to key employees will have the vesting period of five years with the vesting of 20% on the anniversaries of the Grant Date. Options that have not vested prior to an employee's termination of employment will be cancelled and forfeited. The options have a 10-year term and expire on the 10th anniversary of the date granted.

If an award under the MEP is forfeited, expired, terminated or otherwise lapses, the related shares of the Company common stock underlying that award will again become available for issuance. Shares withheld by the Company to pay employee taxes, or which are withheld by or tendered to the Company to pay exercise price of stock options (or are repurchased from an option holder by the Company with proceeds from the exercise of stock options) are not available for reissuance.

#### **Recently Adopted Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", Accounting Standards Codification ("ASC") 606 ("ASC 606"). Subsequent to the issuance of ASC 606, the FASB clarified the guidance through several Accounting Standard Updates; hereinafter the collection of revenue guidance is referred to as "ASC 606". The core principle of ASC 606 is revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2019, the Company adopted ASC 606 using the modified retrospective method. Results for reporting periods beginning January 1, 2019 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historical accounting under ASC 605, Revenue Recognition. The Company applied the requirements of the new standard only to contracts that were not completed as of the adoption date. There was no impact to the year ended December 31, 2019 of applying ASC 606. There was no cumulative effect adjustment with the adoption at January 1, 2019.

### **3. Business Combinations**

As discussed in Note 1, Introduction and Background, on September 1, 2017, Dental entered into an agreement to acquire certain assets and assumed the related liabilities, in addition to the capital stock and other equity interests, which were part of the oral health division of Health.

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During 2019 and 2018, Dental legally closed on various deferred close jurisdiction entities that were acquired on September 1, 2017. The following table summarizes the incremental impact of the acquisitions during the years ended December 31, 2019 and 2018:

	2019	2018
Current assets	\$ 3,488	\$ 10,258
Property, plant, and equipment	688	402
Intangible assets	460	2,070
Goodwill	6,327	9,106
Other assets	-	166
Current liabilities	(3,631)	(4,446)
Other liabilities	(162)	(215)
	<u>\$ 7,170</u>	<u>\$ 17,341</u>

During 2019 and 2018, the Company completed certain fair value measurements of assets and liabilities acquired in the 2017 business combination and 2018 and 2019 deferred closings, and subsequently finalized the valuation of the assets and liabilities as measurement period adjustments. The following table summarizes the impact of measurement period adjustments for the years ended December 31, 2019 and 2018:

	2019	2018
Accounts receivable	\$ (1,833)	\$ -
Inventory	(542)	(1,707)
Property, plant, and equipment	-	398
Other assets	96	1,156
Accrued liabilities	(714)	743
Deferred revenue	-	386
Deferred income tax liability	-	7,510
	<u>\$ (2,993)</u>	<u>\$ 8,486</u>

**Swissmeda AG Acquisition**

On April 1, 2019, the Company acquired all of the assets of Swissmeda AG ("Swissmeda"), a privately held software provider of dental implant guides. The acquisition was made to expand the Company's digital dental offerings globally. The fair value of consideration transferred was \$8,115, which included a working capital settlement of \$1,315. The purchase price net of cash acquired of \$1,482 resulted in a final purchase price of \$6,633.

The acquisition was accounted for as a business combination, in accordance with ASC 805, which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired as goodwill.

The transaction included potential future payments to the former shareholders based upon achievement of certain revenue results thru 2022. The fair value of this contingent consideration



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was not material in the determination of the purchase price allocation. See Note 12 for discussion regarding other commitments entered into with the former owner.

The following table summarizes the major classes of assets acquired and liabilities assumed as of the acquisition date, April 1, 2019:

Current assets	\$	3,018
Property, plant, and equipment		16
Goodwill		2,667
Intangible assets		4,880
Current liabilities		(1,905)
Deferred tax liabilities		(561)
		<u>8,115</u>
Cash acquired		<u>(1,482)</u>
Net purchase price	\$	<u>6,633</u>

Of the goodwill recorded, no amount is deductible for income tax purposes. The Swissmeda goodwill represents strategic and synergistic benefits that are expected to be realized from the acquisition. These benefits include a comprehensive portfolio of complementary digital offerings and revenue synergy opportunities in the United States, the Company's largest geographic market.

**4. Revenue from Contracts with Customers**

**Disaggregation of Net Sales**

The following table disaggregates the Company's net sales by major product lines and by timing of revenue recognition.

	Year Ended December 31, 2019		
	Equipment	Software	Total
Point in time	\$ 283,579	\$ 23,221	\$ 306,799
Over time	<u>28,797</u>	<u>81,319</u>	<u>110,116</u>
	<u>\$ 312,375</u>	<u>\$ 104,540</u>	<u>\$ 416,915</u>

**5. Accounts Receivable, Net**

Trade receivables as of December 31, 2019 and 2018 were \$67,086 and \$71,431, net of allowance for doubtful accounts of \$3,245 and \$1,292, respectively. Included in the total net receivable balance are \$2,915 and \$3,285 for customer rebates expected to be settled through customer deductions in lieu of cash payments as of December 31, 2019 and 2018, respectively.

**6. Inventories, Net**

During the years ended December 31, 2019 and 2018, the Company recognized aggregate reductions in the carrying value of \$727 and \$(27), respectively, related to inventories identified for obsolescence.

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	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Finished goods	\$ 19,565	\$ 15,571
Work in process	3,628	3,447
Raw materials	6,040	5,906
Total inventories	<u>\$ 29,233</u>	<u>\$ 24,924</u>

**7. Property, Plant and Equipment, Net**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Machinery and equipment	\$ 31,112	\$ 27,108
Leasehold improvements	10,639	5,814
Construction-in-progress	203	2,846
	<u>41,954</u>	<u>35,768</u>
Less: Accumulated depreciation	<u>(17,097)</u>	<u>(7,421)</u>
Property, plant and equipment, net	<u>\$ 24,857</u>	<u>\$ 28,347</u>

Depreciation expense for Dental was \$9,646 and \$5,783 for the years ended December 31, 2019 and 2018, respectively, and is included in cost of goods sold and selling, general and administrative expenses on the Consolidated Statements of Operations.

**8. Goodwill and Other Intangible Assets**

As described in Note 3, *Business Combinations*, the portion of the purchase price in excess of the estimated fair value of assets acquired and liabilities assumed as of the acquisition date, represents goodwill.

Total goodwill and change in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 were as follows:

<b>Balances at December 31, 2017</b>	<b>\$ 479,028</b>
Prior acquisition conveyance	9,106
Measurement period adjustments	(8,486)
Currency translation adjustment	<u>(7,267)</u>
<b>Balances at December 31, 2018</b>	<b>472,381</b>
Prior acquisition conveyance	6,327
Measurement period adjustments	2,993
Swissmeda acquisition	2,667
Currency translation adjustment	<u>(1,630)</u>
<b>Balances at December 31, 2019</b>	<b><u>\$ 482,738</u></b>

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There was no impairment of goodwill or other intangible assets for the years ended December 31, 2019 and 2018.

A schedule of activity for the definite lived intangible assets by major category for 2019 and 2018 is as follows:

	<b>Customer Relationship</b>	<b>Developed Technology</b>	<b>Trademark/ Trade Names</b>	<b>Total</b>
<b>Balances at December 31, 2017</b>	\$ 138,683	\$ 172,760	\$ 17,477	\$ 328,920
Additions	2,070	-	-	2,070
Amortization	(14,248)	(32,071)	(938)	(47,257)
Currency translation	(619)	(2,236)	(240)	(3,095)
<b>Balances at December 31, 2018</b>	125,886	138,453	16,299	280,638
Additions	4,460	800	80	5,340
Amortization	(14,790)	(32,191)	(950)	(47,931)
Currency translation	(73)	(265)	(30)	(368)
<b>Balances at December 31, 2019</b>	<u>\$ 115,483</u>	<u>\$ 106,797</u>	<u>\$ 15,399</u>	<u>\$ 237,679</u>
Weighted avg remaining amortization years	8.69	3.96	17.71	

Amortization expense related to intangible assets was \$47,931 and \$47,257 for the years ended December 31, 2019 and 2018 on the Consolidated Statements of Operations, respectively.

Estimated future amortization expense related to intangible assets at December 31, 2019 is as follows:

2020	\$ 48,226
2021	47,719
2022	41,317
2023	22,360
2024	17,173
Thereafter	60,884
	<u>\$ 237,679</u>

**9. Accrued Liabilities**

The components of accrued liabilities as of December 31, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Accrued employment-related liabilities	\$ 21,879	\$ 21,649
Income taxes payable and other accrued taxes	4,715	1,130
Local non-income taxes	6,215	3,784
Accrued warranty obligations	2,024	2,291
Other	13,887	17,613
	<u>\$ 48,720</u>	<u>\$ 46,467</u>

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The other component above consists of other miscellaneous current liabilities that, individually, are less than 5% of the total current liabilities in the Consolidated Balance Sheets.

#### 10. Debt

On September 1, 2017, the Company executed a First Lien Credit Agreement (the "First Lien Credit Agreement") which provides the Company with access to a \$80,000 revolving credit facility (the "First Lien Revolving Facility") and a \$375,000 term loan facility (the "First Lien Term Loans"). The Company also executed a Second Lien Credit Agreement dated September 1, 2017 (the "Second Lien Credit Agreement") which provides the Company with access to a \$165,000 term loan facility (the "Second Lien Term Loans"). There are no third-party guarantors of the Company's debt holdings. Additionally, the Company was in compliance with all debt covenant requirements as of December 31, 2019 and 2018.

The obligations under the First Lien Credit Facility are collateralized by substantially all of the assets of Carestream Dental Technology Parent Limited, a wholly owned subsidiary of the Company, and the subsidiary guarantors and the capital stock of Carestream Dental Technology Parent Limited held by Carestream Dental Technology Holdings 2 Limited. The First Lien Credit Facility is senior to all junior lien debt and unsecured debt. The obligations under the Second Lien Credit Facility are collateralized by substantially the same collateral as under the First Lien and the liens are subordinated to the liens collateralizing the First Lien Obligations, subject to the provisions of the Base Intercreditor Agreement. The Obligations under the Second Lien Credit Facility are senior to the Borrower's unsecured debt.

##### **Revolving Credit Facility**

The First Lien Revolving Facility matures on September 1, 2022. Any loans under the facility can be Eurodollar Loan, ABR Loan, BA Equivalent Loan, or Canadian Prime Rate Loan. Each Eurodollar Loan bears interest at a per annum rate equal to the Adjusted LIBOR Rate plus the Applicable Margin (initially equal to 3.25% per annum). Each ABR Loan bears interest at a per annum rate equal to the Alternate Base Rate plus Applicable Margin (initially equal to 2.75% per annum). Each BA Equivalent Loan bears interest at a per annum rate equal to the BA Rate plus Applicable Margin (initially equal to 3.75% per annum). Each Canadian Prime Rate Loan bears interest at a per annum rate equal to the Canadian Prime Rate plus Applicable Margin (initially equal to 2.75% per annum). As of December 31, 2019, there were no outstanding borrowings under the revolving line of credit. As of December 31, 2018, the Company had \$13,000 outstanding which was classified in long-term debt in the Consolidated Balance Sheets.

##### **First Lien Term Loans**

The First Lien Term Loans mature on September 1, 2024. Any loans under the facility can be Eurodollar Loan or ABR Loan. Each Eurodollar Loan bears interest at a per annum rate equal to the Adjusted LIBOR Rate plus the Applicable Margin (initially equal to 3.25% per annum). Each ABR Loan bears interest at a per annum rate equal to the Alternate Base Rate plus Applicable Margin (initially equal to 2.25% per annum). Upon execution, the Company has drawn down the full amount on the term loan facility under the First Lien Credit Agreement.

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**Second Lien Term Loans**

The Company also executed a Second Lien Credit Agreement dated September 1, 2017 (the "Second Lien Credit Agreement") which matures on September 1, 2025. Each Eurodollar Loan bears interest at a per annum rate equal to the Adjusted LIBOR Rate plus Applicable Margin (equal to 8% per annum) and each ABR Rate Loan bears interest at a per annum rate equal to the Alternate Base Rate plus Applicable Margin (equal to 7% per annum). Upon execution, the Company has drawn down the full amount on the term loan facility under the Second Lien Credit Agreement.

Long-term debt as of December 31, 2019 and 2018 was comprised of the following:

	2019	2018
First Lien term loans	\$ 366,563	\$ 370,313
Second Lien term loan	165,000	165,000
First Lien revolver	-	13,000
Carrying value of long-term debt	<u>531,563</u>	<u>548,313</u>
Unamortized debt issuance cost on First Lien term loan	7,426	8,859
Unamortized debt issuance cost on Second Lien term loan	6,075	6,834
Less: total unamortized debt issuance cost	<u>13,501</u>	<u>15,693</u>
Less: Current portion of debt - principal	3,750	3,758
Less: Current portion of debt - debt issuance costs	<u>(2,330)</u>	<u>(2,193)</u>
Less: Total current portion	<u>1,420</u>	<u>1,565</u>
Long term debt obligation	<u>\$ 516,641</u>	<u>\$ 531,054</u>
Debt issuance cost - First Lien revolver	<u>\$ 1,047</u>	<u>\$ 1,440</u>

Aggregate minimum principal maturities on long-term debt as of December 31, 2019 were as follows:

	Minimum Principal Maturities		
	First Lien Term Loans	Second Lien Term Loans	Total
2020	\$ 3,750	\$ -	\$ 3,750
2021	3,750	-	3,750
2022	3,750	-	3,750
2023	3,750	-	3,750
2024	351,563	-	351,563
Thereafter	-	165,000	165,000
	<u>\$ 366,563</u>	<u>\$ 165,000</u>	<u>\$ 531,563</u>

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**11. Operating Leases**

Rent expense, including operating expenses, totaled \$4,281 and \$5,014 for the years ended December 31, 2019 and 2018, respectively. Minimum lease commitments, based on contractually-required cash payments, under noncancelable leases as of December 31, 2019 are as follows:

	<b>Amount</b>
2020	\$ 3,618
2021	3,185
2022	3,036
2023	2,777
2024	2,065
Thereafter	7,290

The Company has no lease commitments beyond 2029.

**12. Commitments and Contingencies**

**Legal and Regulatory Matters**

Dental is involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of its business, including actions with respect to contracts, intellectual property, product liability and employment.

Many of Dental's products are subject to regulation by governmental authorities in the U.S. and other markets. These authorities, including the U.S. Food and Drug Administration, require extensive testing of new products prior to sale and have jurisdiction over the safety, efficacy and manufacturing of products, as well as product labeling and marketing. In most cases, significant resources must be spent to bring a new product to market in compliance with these regulations. The regulation of medical devices, both in the U.S. and in other markets, has historically been subject to change. Delays in the regulatory approval process may result in delays in coming to market with new products and extra costs to satisfy regulatory requirements.

There are no other matters pending representing contingent losses that Dental expects to be material in relation to Dental's business, financial position, results of operations or cash flows.

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**Other Commitments and Contingencies**

Dental has unconditional purchase obligations with several companies, which provide the Company with products and services to be used in its normal operations. Contractually required total future commitments as of December 31, 2019 are as follows:

	<b>Amount</b>
2020	\$ 6,369
2021	826
2022	447
2023	-
2024	-
Thereafter	-
	<u>\$ 7,642</u>

The Company entered into compensation arrangements with a former owner of Swissmeda which provides future cash payments contingent upon maintaining two years of employment and Swissmeda reaching certain future revenue levels. For the year ended December 31, 2019, \$975 was recorded in other long-term liabilities and selling, general and administrative expenses related to these arrangements. The potential maximum future cash payment under the arrangements is \$4,530 in the years 2021 through 2023.

**13. Indemnifications**

Dental issues indemnifications in certain instances and in the ordinary course of business with its customers, suppliers, service providers and business partners. The Company believes that any potential costs incurred to settle claims related to these indemnifications are immaterial to Dental's financial position, results of operations and cash flows. There were no accruals arising from indemnifications as of December 31, 2019 and 2018.

**14. Income Taxes**

The components of the income/(loss) before income taxes for the years ended December 31, 2019 and 2018, and the related provision for income taxes were categorized by jurisdictions as follows:

	<b>2019</b>	<b>2018</b>
<b>Income/(losses) before provision for income taxes</b>		
United Kingdom	\$ 11,415	\$ (7,184)
Outside United Kingdom	<u>(33,509)</u>	<u>(35,873)</u>
	<u>\$ (22,094)</u>	<u>\$ (43,057)</u>

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The provision for (benefit from) income taxes for the years ended December 31, 2019 and 2018, was categorized by jurisdiction as follows:

	2019	2018
<b>(Benefit from) provision for income taxes</b>		
Current		
United Kingdom	\$ 1,268	\$ 417
Outside United Kingdom	5,692	5,993
	<u>6,960</u>	<u>6,410</u>
Deferred		
United Kingdom	(303)	(280)
Outside United Kingdom	(10,231)	(4,435)
	<u>(10,534)</u>	<u>(4,715)</u>
Total (benefit from) provision for income taxes	<u>\$ (3,574)</u>	<u>\$ 1,695</u>

Dental is legally formed in the United Kingdom ("UK") and is therefore subject to a statutory rate of 19 percent. The reconciling items between income tax computed at the UK statutory rate and the (provision for) or benefit from income taxes for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
UK statutory rate	19.0 %	19.0 %
Foreign rate differential	8.8	1.4
Losses not benefitted	(14.4)	(23.6)
US tax reform	-	1.3
Change in French tax law	0.4	0.3
Nondeductible transaction costs	-	1.1
Provision to return adjustments	1.3	(7.2)
R&D credit	1.2	1.8
Other	(0.1)	2.0
Benefit from (provision for) income taxes	<u>16.2 %</u>	<u>(3.9)%</u>

The Company operates in locations outside the UK, including the US and France, which have higher statutory rates than the UK, resulting in a benefit to the income tax provision of 8.8 percent and 1.4 percent for the years ended December 31, 2019 and 2018, respectively.

Losses incurred in certain jurisdictions, predominantly one of the two US filing jurisdictions, are not currently benefitted through the recording of valuation allowance, as it is not more likely than not the associated deferred tax asset will be realized in the foreseeable future. For the years ended December 31, 2019 and December 31, 2018, this resulted in a detriment of 14.4 percent and 23.6 percent, respectively.



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In connection with provision to return the Company performed a reconciliation of the tax accounts for the French and UK subsidiaries acquired in stock acquisitions. These entities filed on a calendar year rather than short period basis for 2017 and not all information was available to perform the account reconciliation until after the tax returns were filed for 2017, and the final return was filed in December 2018 for the UK. This return to provision reconciliation resulted in expense of 7.2 percent for the year ended December 31, 2018.

The significant components of deferred income tax assets and liabilities at December 31, 2019 and 2018 were as follows:

	2019	2018
<b>Deferred tax assets</b>		
Net operating loss carryforward	\$ 1,488	\$ 1,965
Interest related carryforward	15,631	11,247
Property, plant and equipment	772	604
Deferred compensation	1,783	1,351
Other	1,501	2,136
Intangibles	611	479
Contract liabilities	2,652	-
Pension related liabilities	4,757	4,929
Total deferred tax assets	<u>29,195</u>	<u>22,711</u>
Valuation allowance	<u>(19,222)</u>	<u>(16,106)</u>
Net deferred tax assets	<u>9,973</u>	<u>6,605</u>
<b>Deferred tax liabilities</b>		
Intangibles	(28,670)	(34,091)
Contract liabilities	-	(925)
Other	<u>(1,637)</u>	<u>(2,102)</u>
Total deferred tax liabilities	<u>(30,307)</u>	<u>(37,118)</u>
Net deferred tax liabilities	<u>\$ (20,334)</u>	<u>\$ (30,513)</u>

Dental subsidiaries in the US contributed their operating assets and liabilities to a captive partnership in 2018, including the related tax basis differences for those assets, which are included in the deferred tax table above.

Dental has non-U.K. operating losses of \$5,073 for which \$2,545 do not expire and \$2,528 expire starting in 2026. Losses incurred in certain jurisdictions, are not currently benefited, as it is not more likely than not the associated deferred tax asset will be realized in the foreseeable future.

Dental has performed an assessment of positive and negative evidence with respect to the realization of deferred tax assets. This assessment included an evaluation of taxable income in prior carryback years, expected reversals of deferred income tax assets and liabilities, tax planning strategies, and estimates of projected future taxable income. Dental's valuation allowance was \$19,222 and \$16,106 as of December 31, 2019 and 2018, respectively.

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#### **Unrecognized Tax Benefits**

As of December 31, 2019 and 2018, no uncertain tax positions have been recorded. Interest and penalties related to the settlement of uncertain tax positions, if any, will be reflected in income tax expense. The Company did not recognize any interest or penalties associated with unrecognized tax benefits in the accompanying consolidated financial statements. The Company does not expect any material changes to the unrecognized benefits within 12 months of the reporting date.

Dental files income tax returns in the UK and in numerous jurisdictions outside of the UK. Dental is subject to HMRC and non-U.K. tax authority examinations by tax authorities for the periods ending December 31, 2013 through December 31, 2019. At December 31, 2019 and 2018 there are no ongoing tax authority examinations.

The stock and asset purchase agreement Dental entered into on April 7, 2017 with Health contains a three-year indemnification from Health to Dental for all income taxes prior to September 1, 2017. The agreement is designed to transfer certain tax risks economically to the indemnifying party and the indemnified party would separately account for the tax uncertainty and any receivable under the indemnity in the balance sheet, statement of operations and statement of cash flows. That is, the primary obligor on the tax position would account for the uncertain tax position in accordance with ASC 740 without considering potential recoveries through an indemnification arrangement.

#### **Effects of the US Tax Cuts and Jobs Act**

In connection with the Tax Cuts and Jobs Act of 2017 ("TCJA"), Dental recorded provisional amounts attributable to the re-measurement of deferred taxes assets and liabilities from a 35 percent tax rate to the new 21 percent tax rate in 2017 and adjusted to record additional benefit of \$580 in 2018. The Tax Act also enhanced and extended the option to claim accelerated depreciation. Dental elected to not take this, and has not estimated any accelerated deduction for 2019 or 2018.

The Tax Act revised and broadened the existing interest expense limitation rules within Section 163(j), as modified for tax years beginning after December 31, 2017, to generally limit net business interest expense deductions to 30% of adjusted EBITDA. The Company has significant net interest expense in the US filing groups subject to Section 163(j) limitation resulting in deferred tax assets which were subject to a full valuation allowance as the Company expected to be in this limitation for the foreseeable future. For one US Group the Company reassessed the ability to realize the assets in 2019 and released the valuation allowance. For the years ended December 31, 2019 and 2018 the Company had valuation allowance of \$11,121 and \$9,021, respectively, related to interest expense limitations under Section 163(j).

Dental assessed other significant provisions of Tax Act including Global Intangible Low-Taxed Income (GILTI) and base erosion anti-abuse tax ("BEAT"), concluding that these do not have a material impact based on the current structure. Dental will continue to review and evaluate information as to the impact of the GILTI tax, and therefore will not make a policy election on how to account for GILTI (as part of deferred taxes or as a period expense) until it has evaluated the necessary information. Accordingly, no amounts related to GILTI are included within deferred taxes.

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**Effects of Tax Legislation in 2020 related to COVID-19**

Dental treated tax legislation passed in 2020 related to COVID-19 pandemic as a subsequent event (conditions that did not exist at the date of the balance sheet) and thus has not included the impacts in these financial statements (more details regarding the subsequent event and the nature of the pandemic are included in Note 19). There were significant changes related to the UK and US that would impact the 2019 tax amounts which the Company estimated for disclosure in these consolidated financial statements. The UK Budget in March 2020 suspended the scheduled reduction in the corporate tax rate from 19% to 17% indefinitely which the Company estimates would result in an increase to deferred tax liabilities of approximately \$270 with a corresponding increase to tax expense. The US enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act in response to the COVID-19 pandemic, which includes changes to net operating loss use and carryback as well as modifying Section 163(j) limitation to 50% of adjusted EBITDA through 2020. The Company estimates that the CARES provisions would have reduced current US tax payable by approximately \$1,650 in 2019 and increased the deferred tax liability approximately \$1,120 with the difference being a change in the valuation allowance. The Company has not evaluated the potential impacts of the CARES Act provisions on its valuation allowance assessment in the US.

**15. Retirement Plans**

As discussed in Note 2, Significant Accounting Policies, certain of Dental's employees outside of the U.S. participate in defined benefit pension plans (the "Plans") sponsored by Dental.

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The measurement date used to determine the pension obligation is December 31. Information regarding the funded and unfunded status is as follows:

	2019	2018
<b>Change in benefit obligation</b>		
Projected benefit obligation at beginning of period	\$ 20,334	\$ 20,248
Acquisition of deferred entity	260	207
Service cost	561	924
Interest cost	245	249
Plan amendments	(3,516)	(173)
Benefit payments	(222)	(48)
Actuarial loss (gain)	4,645	(251)
Plan curtailments	(2,293)	-
Foreign currency exchange rate changes	(487)	(822)
Projected benefit obligation at end of period	<u>19,527</u>	<u>20,334</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of period	1,264	1,247
Acquisition of deferred entity	-	32
Actual return on plan assets	34	34
Employer contributions	222	48
Benefit payments	(222)	(48)
Foreign currency exchange rate changes	(27)	(49)
Fair value of plan assets at end of period	<u>1,271</u>	<u>1,264</u>
Funded status at end of period	<u>\$ 18,256</u>	<u>\$ 19,070</u>

During 2019, a French government law change impacted one of the Company's benefit plans by ceasing future service years' credit to employees' pension benefits. The impact of this change was recorded as a plan amendment and recorded to prior service cost in accumulated other comprehensive loss. The following is a schedule of all activity in accumulated other comprehensive loss for 2019 and 2018:

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	2019	2018
<b>Accumulated other comprehensive loss at beginning of period</b>	<b>\$ (565)</b>	<b>\$ (1,022)</b>
Changes in accumulated other comprehensive income (loss)		
Prior service credit - current year	3,840	168
Actuarial (loss) gain - current year	(4,648)	289
Reclassifications out of accumulated other comprehensive income (loss)		
Curtailment/settlement gain	113	-
Amortization of prior service cost	(4)	-
Total change in other comprehensive loss	(699)	457
<b>Accumulated other comprehensive loss at end of period</b>	<b>\$ (1,264)</b>	<b>\$ (565)</b>
<b>Amount recognized in accumulated other comprehensive loss</b>		
Actuarial loss	\$ (5,143)	\$ (733)
Prior service credit	3,879	168
<b>Total accumulated other comprehensive loss at end of period</b>	<b>\$ (1,264)</b>	<b>\$ (565)</b>
<b>Amounts recognized in the consolidated balance sheets</b>		
Current liabilities	\$ 687	\$ 415
Noncurrent liabilities	17,569	18,655
<b>Funded status at end of period</b>	<b>\$ 18,256</b>	<b>\$ 19,070</b>

The accumulated benefit obligation as of December 31, 2019 and 2018 was as follows:

	2019	2018
Accumulated benefit obligation	<u>\$ 16,729</u>	<u>\$ 15,273</u>

The weighted-average assumptions used to determine the accrued benefit obligation amounts as of the end of 2019 were as follows:

Discount rate	0.97 %
Salary increase rate	1.87 %

The components of net periodic pension (income) expense for the Dental Plans in 2019 and 2018 were as follows:

	2019	2018
Operating - Service cost	\$ 561	\$ 924
Nonoperating		
Interest cost	245	249
Expected return on plan assets	(37)	(40)
Amortization of prior service cost	(4)	-
Curtailment gain, net of recognized actuarial losses	(1,665)	-
Net periodic pension (income) cost	<u>\$ (900)</u>	<u>\$ 1,133</u>

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The nonoperating components of net periodic pension expense have been included as part of other (income) loss in the Consolidated Statements of Operations. The Company froze one of its defined benefit plans during 2019 and as a result a plan curtailment was recorded. The impact is included in other (income) loss.

The estimated actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic pension expense over the next fiscal year is \$655. The prior year service credit that will be amortized from accumulated other comprehensive loss into net periodic pension expense over the next fiscal year is \$772.

The weighted-average assumptions used to determine net periodic pension expense were as follows:

Discount rate	1.55 %
Salary increase rate	2.15
Expected long-term rate of return on plan assets	0.83

The expected return on plan assets for Dental Plans that are funded was 0.83% and 0.72% for 2019 and 2018, respectively. In evaluating the expected return on plan assets, the Company considered its historical assumptions compared with actual results, an analysis of current market conditions, asset allocations and the views of advisors.

The asset allocations and expected return on plan assets are individually set to provide for benefits included in the projected benefit obligation within each country's legal investment constraints. Due to the diverse nature of the Dental Plans, there are no target allocations. All of the plan assets are with insurance companies in order to provide for the long-term liabilities while maintaining sufficient liquidity to pay current benefits.

Insurance contracts are designed to fund participants' expected benefits, and in certain circumstances provide a return if the performance of underlying assets exceed a benchmark. Valuations are obtained from the insurance brokers, which typically represents significant unobservable data. As such, these investments are classified as Level 3 assets within the fair value hierarchy.

Additional contributions of \$582 are expected to be made to the Dental Plans in 2020.

The following pension benefit payments, which reflect expected future service, are expected to be paid:

	<b>Amount</b>
2020	\$ 687
2021	469
2022	467
2023	569
2024	553
2025-2029	4,244

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**Defined Contribution Plans**

Dental also maintains defined contribution savings plans in various countries. The total matching and discretionary contribution expense to Dental related to the plans for the years ended December 31, 2019 and 2018 was \$1,868 and \$2,146, respectively.

**16. Stock-Based Compensation Plans**

**Nonemployee Director Incentive Plan**

The Company offers equity-based awards to Holdings Board nonemployee directors under the MEP. During the years ended December 31, 2019 and 2018, The Company issued a total of 50,000 and 100,000 shares, respectively, through the ESPP. During the year ended December 31, 2018, The Company granted a further 205,000 stock options. The stock options are vested over five years from the grant date provided the grantee remains a Holdings Board member on the relevant vesting date. During the year ended December 31, 2019, 1,924 restricted stock units were awarded and vest three years from the grant date.

**Stock Options**

As the grants were approved during 2019 and 2018, and are not retroactive to September 1, 2017, any applicable stock related compensation expense has been recorded in 2019 and 2018.

The fair value of stock options was estimated using the Black-Scholes option pricing model. The following is a summary of the average assumptions used in this model for the stock options granted:

	2019	2018
<b>Summary of Assumptions</b>		
Volatility (as a percentage)	50.35 %	49.00 %
Expected term (in years)	5.348	6.196
Strike Price	\$ 10.00	\$ 10.00
Risk-free interest rate	2.25 %	2.75 %
Expected dividend yield	-	-
Weighted average estimated fair value	\$ 5.22	\$ 5.04

The vesting of stock options is contingent upon the employee's continued employment. As of December 31, 2019, the Company assumed for purposes of the award's fair value that such conditions would be met in full prior to such date. The Company utilized the simplified method for the expected term calculations. At the time of grant, the Company did not have historical exercises on which to base its own estimate. Additionally, exercise data relating to employees of comparable companies was not easily obtainable. Furthermore, because the Company did not have historical stock prices for a period at least equal to the expected term, the Company estimated volatility using an average mean consisting of historical peer group volatility. The contractual term for exercising the options is ten years.

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The following table summarizes stock option activity. None of the outstanding options were exercisable as of December 31, 2019 and 2018.

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Fair Value</b>
<b>December 31, 2017</b>	-	\$ -	\$ -
Granted	2,242,919	10.00	11,304
Forfeited	<u>(101,353)</u>	10.00	<u>(507)</u>
<b>December 31, 2018</b>	2,141,566	10.00	10,797
Granted	233,153	10.45	1,218
Forfeited	<u>-</u>	-	<u>-</u>
<b>December 31, 2019</b>	<u>2,374,719</u>	\$ 10.05	<u>\$ 12,015</u>

No options were exercised during the years ended December 31, 2019 and 2018. The number of options vested as of December 31, 2019 and 2018 was 841,171 and 412,464, respectively. The cumulative total grant date fair value of options vested for the year ended December 31, 2019 was \$5,124.

The total future compensation cost related to nonvested awards as of December 31, 2019 is \$6,888. The future compensation cost is expected to be recognized over 3 years on a weighted average basis.

**Employee Stock Purchase Plan**

The Company offers ESPP under the MEP for key Dental employees pre-approved by the Board that allows the purchase of shares.

The following table summarizes employee stock purchase plan activities under the MEP for the period indicated:

	<b>2019</b>	<b>2018</b>
Weighted average price per share	\$ 10.14	\$ 10.00
Management Equity Plan (MEP) shares granted	3,250	387,903
BOD Directors shares granted	50,000	100,000
Management Equity Plan (MEP) shares repurchased	<u>(10,000)</u>	<u>-</u>
	<u>\$ 43,250</u>	<u>\$ 487,903</u>



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**17. Accumulated Other Comprehensive Income (Loss)**

The components of Accumulated Other Comprehensive Income (Loss) as of December 31, 2019 and 2018 were as follows:

	2019	2018
Foreign currency translation adjustment, net of tax expense of \$0	\$ (13,604)	\$ (11,140)
Defined benefit plan, net of tax expense of \$153 and \$196	(878)	(369)
	<u>\$ (14,482)</u>	<u>\$ (11,509)</u>

**18. Related Party Transactions**

An affiliate of CD&R indirectly owns 75% of the Company and HCare owns 25% of the Company. The Company entered into a consulting agreement with CD&R, whereby CD&R provides various support and consulting services to enhance the operational and financial performance of the Company. The fees and expenses paid for these services were \$1,758 and \$1,681 for the years ended December 31, 2019 and 2018, respectively.

There were no related party transactions between Dental and HCare during the years ended December 31, 2019 and 2018.

**19. Subsequent Events**

Management has evaluated events occurring subsequent to December 31, 2019 through June 10, 2020, which is the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the financial statements. There were no items identified for recognition or disclosure except for the following:

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily.

These recent developments have resulted in the Company experiencing a material amount of decreased net sales, profitability, and operating cash flows beginning in March 2020. Management expects these reduced levels of performance to continue in the near term primarily due to delays in large scale dental equipment purchases and reduced service revenues resulting from the dental office closures. In response, the Company has temporarily closed its primary manufacturing facility in France, introduced temporary employee furloughs and significantly reduced other operating expenses such as travel, hiring new staff and third-party contractor spending. The extent of the impact of COVID-19 on the Company's operational and financial performance and debt covenant compliance will depend on certain developments, including the duration and spread of the outbreak, and the impact on the Company's customers, employees and vendors, and borrowing levels under the Company's available credit facilities. Other risks, depending on the duration and spread of the outbreak, could include adverse impacts to intangible asset values, receivable credit

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losses and increased restructuring costs. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Company expects this matter to have a material adverse impact on financial performance in 2020 and possibly beyond, the related financial impact and duration cannot be reasonably estimated at this time.

At December 31, 2019 the Company had \$29,173 of working capital, including \$26,880 of cash and cash equivalents, and \$80,000 of availability under its revolving credit facility. As of June 10, 2020, the issuance date of the Consolidated Financial Statements for the fiscal year ended December 31, 2019, the Company currently expects that these sources of liquidity and cash expected to be provided by operating activities through June 10, 2021 will be sufficient to fund operating expenses and other expenditure requirements, and comply with debt covenants through June 10, 2021. However, should the Company not comply with its debt covenants, such noncompliance could constitute an event of default which, without any amendment or waiver, could then trigger various remedies available to the lenders, including limitations on the availability of borrowings under the revolver, acceleration of the payment of outstanding debt amounts, or other actions as outlined in the credit agreements.