

# Syneron Medical Reports 2005 Second Quarter Results

## Company confirms recent increase in revenue guidance to \$84-85m for 2005

YOKNEAM, ISRAEL--(MARKET WIRE)--Aug 4, 2005 --

### Highlights of second quarter 2005:

- Total revenues grew over 50%.
- Over 400 units were sold in the second quarter, raising the world wide installed base to over 3000 units.
- FDA cleared the VelaSmooth(TM) and granted the device a new product code, confirming its unique position in the aesthetic device market.
- Investment in dental laser market opens new strategic business opportunities for Syneron.

Syneron Medical Ltd. (NasdaqNM:[ELOS](#) - [News](#)), an innovator in the development, marketing and sales of elos(TM) combined-energy medical aesthetic devices, today reported revenues of \$20.1 million for its second quarter of 2005, a 50.6% increase from \$13.4 million reported in the second quarter of 2004. The increase in revenues was attributable to strong sales across all platforms and the introduction of new platforms: the Comet(TM) system for fast hair removal toward the end of the first quarter of 2005 and the VelaSmooth(TM) system for reduction in the appearance of cellulite at the end of the second quarter of 2005. Gross margins in the second quarter of 2005 were 86.8%. Second quarter operating income grew 40.1% on a proforma basis (excluding expenses for the Thermage settlement) to \$8.9 million, from \$6.3 million in the second quarter of 2004. Second quarter 2005 net income was \$9.2 million proforma, a 43.7% rise compared to the 6.4 million net income reported in Q2 2004. On a US GAAP basis, including the costs of the Thermage settlement, operating income for the second quarter of 2005 was \$6.5 million, with net income of \$6.9 million. Earnings per diluted share, on a proforma basis for the second quarter of 2005, were \$0.34, while on a GAAP basis, earnings per diluted share were \$0.25.

R&D expenditure rose to \$1.3 million, equivalent to 6.2% of revenues in the second quarter of 2005 compared to \$0.5 million, or 3.8% of revenues in the second quarter of 2004. The higher R&D expenditure reflects the continued investment of Syneron in the development of new products and applications, such as non-invasive fat treatment, as well as the expansion of our elos technology product line into applications performed by (non-MD) professionals specializing in aesthetic treatments.

Selling and marketing expenses rose 39.7% to \$6.6 million, compared to 4.7 million in Q2 2004. Approximately \$0.6 million of the increased selling and marketing expenditures were spent on preparations for the launch of the VelaSmooth, including clinical studies, the establishment of three training centers, development of training courses and promotional and marketing materials.

The Thermage settlement resulted in a one-time charge to Syneron of \$2.37 million for legal and settlement expenses. The settlement removed all future legal liabilities or costs to Syneron and gave Syneron a license to relevant Thermage patents, while securing Syneron's exclusive patent rights over its proprietary elos technology.

"Robust sales in the second quarter were driven by a strong sales effort to get the products out to new customers' world wide," commented Moshe Mizrahy, CEO of Syneron. "Sales rose strongly across all markets for Syneron. North America accounted for \$12 million, or 59% of total sales, with \$8.1, or 41% of sales outside North America. Looking to new future markets, in the second quarter we initiated strategic partnerships in China, India and Russia, with the view of establishing a strong position for Syneron in three emerging markets for aesthetic devices which have enormous growth potential.

"We are confirming the increase in our revenue guidance to \$84-85 million from \$78-80 million, which we announced on June 30," said Mr. Mizrahy. "This increase in guidance was based on our initial assessment of sales for the Vela, which is showing very strong demand worldwide."

Continuing on Syneron's growth plans, Dr. Shimon Eckhouse, Chairman of Syneron, said, "Our business strategy is driven by an effort to utilize our technologies and market position in new and innovative applications, while maintaining our commitment to the levels of profitability we have obtained as a result of the elos technology. The increase in R&D and the investment in the dental

laser venture are the first steps in the evolution of Syneron from a company focused on doctors dealing with aesthetic facial and skin treatments to a company developing products for a broader market base. Our business strategy consists of four central components: strengthening our leadership position in our core business of FotoFacial RF skin treatment; establishing a new segment in the medical aesthetic field for body shaping and body sculpturing treatments; developing a complete product line for the spa and the Non-MD professionals; and developing a complete dental laser line of products through our Light Instruments investment."

Syneron's financial position remains strong. At June 30, 2005, the cash position was \$104.5 million compared with \$93.4 million on December 31, 2004. Shareholders' equity increased to \$110.4 million from \$94.4 at year-end 2004.

#### Conference call

Syneron Management will host a conference call to discuss the results and quarterly highlights at 10:00am ET today, August 4, 2005. Investors and other interested parties may access a live webcast through Syneron's web site at [www.syneron.com](http://www.syneron.com). Please login at least 10 minutes prior to the conference call in order to download the applicable audio software. Following the conclusion of the call, a replay of the webcast will be available within 24 hours at the Company's web site.

#### About Syneron

Syneron Medical Ltd. (NasdaqNM:[ELOS](#) - [News](#)) manufactures and distributes medical aesthetic devices that are powered by the proprietary, patented elos combined-energy technology of Bi-Polar Radio Frequency and Light. The Company's innovative elos technology provides the foundation for highly effective, safe and cost-effective systems that enable physicians to provide advanced solutions for a broad range of medical-aesthetic applications including hair removal, wrinkle reduction, rejuvenating the skin's appearance through the treatment of superficial benign vascular and pigmented lesions, and the treatment of acne, leg veins and cellulite. Founded in 2000, the corporate, R&D, and manufacturing headquarters for Syneron Medical Ltd. is located in Israel. Syneron has offices and distributors throughout the world (<http://syneron.com/locations.html>), including North American Headquarters in Canada, European Headquarters in Germany, and Asia-Pacific Headquarters in Hong Kong, which provide sales, service and support. Additional information can be found at [www.syneron.com](http://www.syneron.com).

#### Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Specifically, statements concerning Syneron's expectations regarding financial results for the 2005 fiscal year, as well as expectations regarding our ability to continue to grow and maintain leadership in the aesthetic industry, to establish a strong position in the emerging markets for aesthetic devices in China, India, and Russia, and the growth potential for those markets are forward-looking statements within the meaning of the safe harbor provisions of the Act. Forward-looking statements are based on management's current, preliminary expectations and are subject to risks and uncertainties, which may cause Syneron's actual results to differ materially from the statements contained herein. Syneron's second quarter financial results, as discussed in this release, are unaudited. Estimates of year-end financial results are subject to a number of assumptions regarding the future operation of Syneron's business. Undue reliance should not be placed on forward-looking statements, especially guidance on future financial performance, which speaks only as of the date such statements are made. Syneron undertakes no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after the date they were made, or to reflect the occurrence of unanticipated events.

For more information, please contact Moshe Mizrahy, CEO of Syneron Medical Ltd., at +972 4 909-6349, email: [moshem@syneron.com](mailto:moshem@syneron.com), or David Schlachet, CFO at +972 4 909-6376, email: [davids@syneron.com](mailto:davids@syneron.com).

Syneron, the Syneron logo, elos, Comet, and VelaSmooth are trademarks of Syneron Medical Ltd. and may be registered in certain jurisdictions. Elos (Electro-Optical Synergy) is a proprietary technology of Syneron Medical. All other names are the property of their respective owners.

## SYNERON MEDICAL LTD.

CONSOLIDATED STATEMENT OF OPERATIONS  
U.S. dollars in thousands except per share data

	Three month ended June 30,	
	2005	2004
	----- PRO FORMA	----- US GAAP
	-----	-----
Revenues	\$20,132	\$13,367
Cost of goods sold	2,658	1,409
	-----	-----
Gross profit	17,474	11,958
	-----	-----
Operating expenses		
Research and development	1,256	506
Selling and marketing	6,615	4,736
General and administrative	751	396
	-----	-----
Total operating expenses	8,622	5,638
	-----	-----
Operating income	8,852	6,320
Financial income, net	494	235
	-----	-----
Income before taxes on income	9,346	6,555
Taxes on income	100	120
	-----	-----
Net income	\$ 9,246	\$ 6,435
	=====	=====
Basic net earnings per share	\$ 0.38	\$ 0.39
	=====	=====
Diluted net earnings per share	\$ 0.34	\$ 0.30
	=====	=====
Weighted average number of shares used in per share calculations (in thousands):		
Basic	24,634	16,534
	=====	=====
Diluted	27,555	21,113
	=====	=====

	Six month ended June 30,		Year ended December 31,
	2005	2004	2004
	PRO FORMA	US GAAP	US GAAP
	-----	-----	-----
Revenues	\$ 38,641	\$ 25,497	\$ 57,918
Cost of goods sold	5,239	2,849	6,914
	-----	-----	-----
Gross profit	33,402	22,648	51,004
	-----	-----	-----
Operating expenses			
Research and development	2,247	1,153	3,078
Selling and marketing	12,465	9,191	19,625
General and administrative	1,467	639	2,725
	-----	-----	-----
Total operating expenses	16,179	10,983	25,428
	-----	-----	-----
Operating income	17,223	11,665	25,576
Financial income, net	848	398	2,384
	-----	-----	-----
Income before taxes on income	18,071	12,063	27,960
Taxes on income	200	165	620
	-----	-----	-----
Net income	\$ 17,871	\$ 11,898	\$ 27,340
	=====	=====	=====
Basic net earnings per share	\$ 0.74	\$ 0.70	\$ 1.45
	=====	=====	=====
Diluted net earnings per share	\$ 0.65	\$ 0.55	\$ 1.14
	=====	=====	=====
Weighted average number of shares used in per share calculations (in thousands):			
Basic	24,131	16,974	18,917
	=====	=====	=====
Diluted	27,418	21,604	24,083
	=====	=====	=====

	Three month ended	
	June 30,	
	2005	2004
	-----	-----
	US GAAP	US GAAP
	-----	-----
Revenues	\$20,132	\$13,367
Cost of goods sold	2,658	1,409
	-----	-----
Gross profit	17,474	11,958
	-----	-----
Operating expenses		
Research and development	1,256	506
Selling and marketing	6,615	4,736
General and administrative	751	396
Other expenses*	2,370	-
	-----	-----
Total operating expenses	10,992	5,638
	-----	-----
Operating income	6,482	6,320
Financial income, net	494	235
	-----	-----
Income before taxes on income	6,976	6,555
Taxes on income	100	120
	-----	-----
Net income	\$ 6,876	\$ 6,435
	=====	=====
Basic net earnings per share	\$ 0.28	\$ 0.39
	=====	=====
Diluted net earnings per share	\$ 0.25	\$ 0.30
	=====	=====
Weighted average number of shares used in per share calculations (in thousands):		
Basic	24,634	16,534
	=====	=====
Diluted	27,555	21,113
	=====	=====

	Six month ended June 30,		Year ended December 31,
	2005	2004	2004
	US GAAP	US GAAP	US GAAP
Revenues	\$ 38,641	\$ 25,497	\$ 57,918
Cost of goods sold	5,239	2,849	6,914
Gross profit	33,402	22,648	51,004
Operating expenses			
Research and development	2,247	1,153	3,078
Selling and marketing	12,465	9,191	19,625
General and administrative	1,467	639	2,725
Other expenses*	3,494	-	-
Total operating expenses	19,673	10,983	25,428
Operating income	13,729	11,665	25,576
Financial income, net	848	398	2,384
Income before taxes on income	14,577	12,063	27,960
Taxes on income	200	165	620
Net income	\$ 14,377	\$ 11,898	\$ 27,340
Basic net earnings per share	\$ 0.60	\$ 0.70	\$ 1.45
Diluted net earnings per share	\$ 0.52	\$ 0.55	\$ 1.14
Weighted average number of shares used in per share calculations (in thousands):			
Basic	24,131	16,974	18,917
Diluted	27,418	21,604	24,083

\* - Including one-time expenses related to the Thermage settlement and secondary offering.

SYNERON MEDICAL LTD.  
CONSOLIDATED BALANCE SHEETS  
U.S. dollars in thousands

	June 30, 2005	December 31, 2004
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,662	\$ 12,468
Short-term deposits	59,984	57,893
Marketable securities	21,851	23,071
Trade receivables	12,197	8,628
Other accounts receivables and prepaid expenses	2,461	1,532
Inventories	3,816	3,134
	-----	-----
Total current assets	122,971	106,726
	-----	-----
LONG-TERM ASSETS		
Severance pay fund	242	196
Long-term loans and others	532	28
Long-term trade receivables	-	754
Property and equipment, net	1,058	842
	-----	-----
Total long-term assets	1,832	1,820
	-----	-----
OTHER ASSET	1,321	1,000
	-----	-----
Total assets	\$ 126,124	\$ 109,546
	=====	=====
CURRENT LIABILITIES		
Trade payables	\$ 2,278	\$ 1,520
Other current liabilities	9,188	10,135
	-----	-----
Total current liabilities	11,466	11,655
	-----	-----
LONG-TERM LIABILITIES		
Deferred revenues	3,982	3,276
Accrued severance pay	262	214
	-----	-----
Total long-term liabilities	4,244	3,490
	-----	-----
Total shareholders' equity	110,414	94,401
	-----	-----
Total liabilities and shareholders' equity	\$ 126,124	\$ 109,546
	=====	=====

SYNERON MEDICAL LTD.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
U.S. dollars in thousands

	Three month ended June 30,	
	2005	2004
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 6,876	\$ 6,435
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and Amortization	138	39
Accrued severance pay, net	(14)	-
Increase in short-term and long-term trade receivables	(104)	(1,518)
Decrease (increase) in other accounts receivables and prepaid expenses	(346)	246
Increase in inventories	(198)	(591)
Increase (decrease) in trade payables	93	129
Increase (decrease) in other current liabilities	(7,100)	581
Decrease in long-term litigation settlement fee	-	(783)
Loss (gain) on available for sale securities	(48)	(154)
Stock-based compensation	37	36
Increase in deferred revenues	195	1,764
Loss on sales of property and equipment	-	-
	-----	-----
Net cash provided by (used in) operating activities	(471)	6,184
	-----	-----
<b>CASH FLOW FROM INVESTMENTING ACTIVITIES</b>		
Investment in short-term deposits	(1,694)	-
Purchase of available-for-sale securities	(161)	(6,143)
Proceeds from sale of available-for-sale securities	675	1,281
Payment for acquisition of long-term loans and others	(1)	(8)
Proceeds from long term loans and others	-	(17)
Purchase of property and equipment	(166)	(87)
Purchase of other assets	(30)	-
	-----	-----
Net cash used in investing activities	(1,377)	(4,974)
	-----	-----
Proceeds from issuance of ordinary and preferred shares, net	-	-
Exercise of options	-	-
Repurchase of preferred A shares from shareholders	-	-
	-----	-----
Net cash provided by (used in) financing activities	-	-
	-----	-----
Increase (decrease) in cash and cash equivalents	(1,848)	1,210
Cash and cash equivalents at the beginning of the period	24,510	3,976
	-----	-----
Cash and cash equivalents at the end of the period	\$22,662	\$ 5,186
	=====	=====



	Six month ended June 30,		Year ended December 31,
	2005	2004	2004
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$14,377	\$11,898	\$ 27,340
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and Amortization	266	57	143
Accrued severance pay, net	2	4	3
Increase in short-term and long-term trade receivables	(2,815)	(2,066)	(4,049)
Decrease (increase) in other accounts receivables and prepaid expenses	(194)	(177)	(575)
Increase in inventories	(682)	(402)	(1,647)
Increase (decrease) in trade payables	758	48	(688)
Increase (decrease) in other current liabilities	(1,547)	(990)	389
Decrease in long-term litigation settlement fee	-	(783)	(900)
Loss (gain) on available for sale securities	181	95	(396)
Stock-based compensation	74	73	148
Increase in deferred revenues	1,317	2,011	2,843
Loss on sales of property and equipment	12	-	3
	-----	-----	-----
Net cash provided by (used in) operating activities	11,749	9,768	22,614
	-----	-----	-----
<b>CASH FLOW FROM INVESTMENTING ACTIVITIES</b>			
Investment in short-term deposits	(2,091)	-	(56,873)
Purchase of available-for-sale securities	(323)	(12,409)	(17,759)
Proceeds from sale of available-for-sale securities	1,325	1,927	6,116
Payment for acquisition of long-term loans and others	(2,004)	(8)	(13)
Proceeds from long term loans and others	765	-	-
Purchase of property and equipment	(349)	(159)	(484)
Purchase of other assets	(466)	-	(1,000)
	-----	-----	-----
Net cash used in investing activities	(3,143)	(10,649)	(70,013)
	-----	-----	-----
Proceeds from issuance of ordinary and preferred shares, net	1,588	149	53,851
Exercise of options	-	-	98
Repurchase of preferred A shares from shareholders	-	(235)	(235)
	-----	-----	-----
Net cash provided by (used in) financing activities	1,588	(86)	53,714
	-----	-----	-----
Increase (decrease) in cash and cash equivalents	10,194	(967)	6,315
Cash and cash equivalents at the beginning of the period	12,468	6,153	6,153
	-----	-----	-----
Cash and cash equivalents at the end of the period	\$22,662	\$5,186	\$12,468
	=====	=====	=====

Source: Syneron Medical