

SIRONA DENTAL SYSTEMS, INC.

Form 10-Q

July 31, 2009

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2009

or

**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-22673

**Sirona Dental Systems, Inc.**

(Exact name of registrant as specified in charter)

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>11-3374812</b> (I.R.S. Employer Identification No.)
<b>30-30 47<sup>th</sup> Avenue, Suite 500,</b> <b>Long Island City, New York</b> (Address of principal executive offices)	<b>11101</b> (Zip Code)
<b>Registrant's telephone number, including area code: (718) 482-2011</b>	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

As of July 29, 2009, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 54,944,955.

**Table of Contents**

**SIRONA DENTAL SYSTEMS, INC.**

**FORM 10-Q**

**FOR THE THREE MONTHS ENDED JUNE 30, 2009**

**Index**

	<b>Page</b>
<b>Part I. <u>Financial Information (Unaudited)</u></b>	<b>3</b>
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of June 30, 2009 and September 30, 2008</u>	3
<u>Condensed Consolidated Income Statements for the three months and nine months ended June 30, 2009 and 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2009 and 2008</u>	5
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	32
<b>Part II. <u>Other Information</u></b>	<b>33</b>
Item 1. <u>Legal Proceedings</u>	33
Item 1A. <u>Risk Factors</u>	33
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 3. <u>Defaults upon Senior Securities</u>	33
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	33
Item 5. <u>Other Information</u>	33
Item 6. <u>Exhibits</u>	33
<u>Signatures</u>	34
Certifications	

**Table of Contents****PART I FINANCIAL INFORMATION (UNAUDITED)****ITEM 1. FINANCIAL STATEMENTS****SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2009 (unaudited)</b>	<b>September 30, 2008</b>
	<b>\$ 000s (except per share amounts)</b>	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 134,135	\$ 149,663
Restricted cash	886	934
Accounts receivable, net of allowance for doubtful accounts of \$2,089 and \$1,741, respectively	101,656	80,319
Inventories, net	77,878	77,733
Deferred tax assets	15,728	12,199
Prepaid expenses and other current assets	17,572	21,407
Income tax receivable	5,881	12,505
<b>Total current assets</b>	<b>353,736</b>	<b>354,760</b>
Property, plant and equipment, net of accumulated depreciation and amortization of \$63,674 and \$47,992, respectively	98,342	100,134
Goodwill	675,250	683,075
Investments	1,584	1,584
Intangible assets, net of accumulated amortization of \$298,980 and \$246,539, respectively	453,391	514,601
Other non-current assets	2,883	3,661
Deferred tax assets	847	1,190
<b>Total assets</b>	<b>\$ 1,586,033</b>	<b>\$ 1,659,005</b>
<b>LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 36,803	\$ 39,803
Short-term debt and current portion of long-term debt	5,929	9,093
Income taxes payable	10,464	4,544
Deferred tax liabilities	197	1,650
Accrued liabilities and deferred income	94,199	85,309
<b>Total current liabilities</b>	<b>147,592</b>	<b>140,399</b>
Long-term debt	457,672	544,350
Deferred tax liabilities	159,244	174,420
Other non-current liabilities	8,480	11,489
Pension related provisions	47,181	47,378
Deferred income	72,500	80,000
<b>Total liabilities</b>	<b>892,669</b>	<b>998,036</b>
<b>Minority interest</b>	<b>1,253</b>	<b>626</b>

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

<b>Shareholders equity</b>		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)		
Common stock (\$0.01 par value; 95,000,000 shares authorized; 54,944,955 shares issued and 54,917,232 and 54,865,995 shares outstanding)	549	549
Additional paid-in capital	632,683	620,732
Treasury stock (27,723 at cost)	(284)	
Excess of purchase price over predecessor basis	(49,103)	(49,103)
Retained earnings	65,124	38,502
Accumulated other comprehensive income	43,142	49,663
<b>Total shareholders equity</b>	<b>692,111</b>	<b>660,343</b>
<b>Total liabilities, minority interest and shareholders equity</b>	<b>\$ 1,586,033</b>	<b>\$ 1,659,005</b>

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

**Table of Contents****SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED INCOME STATEMENTS**

(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2009 \$ 000s (except per share amounts)	2008 \$ 000s (except per share amounts)	2009 \$ 000s (except per share amounts)	2008 \$ 000s (except per share amounts)
<b>Revenue</b>	<b>\$ 180,580</b>	<b>\$ 186,938</b>	<b>\$ 525,123</b>	<b>\$ 576,505</b>
Cost of sales	93,782	103,463	271,009	312,286
<b>Gross profit</b>	<b>86,798</b>	<b>83,475</b>	<b>254,114</b>	<b>264,219</b>
Selling, general and administrative expense	53,437	63,762	166,907	180,238
Research and development	9,897	11,829	30,998	37,504
Provision for doubtful accounts and notes receivable	421	158	867	355
Net other operating (income) and restructuring costs	(1,881)	(2,500)	(5,072)	(7,500)
<b>Operating income</b>	<b>24,924</b>	<b>10,226</b>	<b>60,414</b>	<b>53,622</b>
Foreign currency transactions (gain)/loss, net	(5,111)	(307)	5,558	(15,232)
(Gain)/loss on derivative instruments	(3,139)	(6,149)	1,588	(936)
Interest expense, net	5,331	6,645	16,988	20,046
Other expense				305
<b>Income before taxes and minority interest</b>	<b>27,843</b>	<b>10,037</b>	<b>36,280</b>	<b>49,439</b>
Income tax provision	6,683	3,011	9,045	14,832
Minority interest	692	316	613	(17)
<b>Net income</b>	<b>\$ 20,468</b>	<b>\$ 6,710</b>	<b>\$ 26,622</b>	<b>\$ 34,624</b>
<b>Income per share</b>				
- Basic	\$ 0.37	\$ 0.12	\$ 0.49	\$ 0.63
- Diluted	\$ 0.37	\$ 0.12	\$ 0.48	\$ 0.63
Weighted average shares basic	54,878,923	54,804,720	54,861,885	54,785,915
Weighted average shares diluted	55,556,867	55,287,922	55,198,333	55,278,246

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

**Table of Contents****SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

	Nine months ended June 30,	
	2009	2008
	\$ 000s	
<b>Cash flows from operating activities</b>		
Net income	\$ 26,622	\$ 34,624
<b>Adjustments to reconcile net income to net cash used in operating activities</b>		
Minority interest	607	(32)
Depreciation and amortization	68,152	79,320
Loss on disposal of property, plant and equipment	84	42
Loss/(gain) on derivative instruments	1,588	(936)
Loss/(gain) on foreign currency transactions	5,558	(15,232)
Deferred income taxes	(17,449)	(14,451)
Amortization of debt issuance cost	904	955
Compensation expense from stock options	11,553	11,466
<b>Changes in assets and liabilities</b>		
Accounts receivable	(25,041)	(7,301)
Inventories	(1,604)	(6,619)
Prepaid expenses and other current assets	(1,482)	3,251
Restricted cash	36	(9)
Other non-current assets	(255)	437
Trade accounts payable	(3,958)	(13,054)
Accrued interest on long-term debt	(1,950)	(7,303)
Accrued liabilities and deferred income	2,278	(11,926)
Other non-current liabilities	(2,373)	223
Income taxes receivable	6,198	2,130
Income taxes payable	5,943	(4,643)
<b>Net cash provided by operating activities</b>	<b>75,411</b>	<b>50,942</b>
<b>Cash flows from investing activities</b>		
Investment in property, plant and equipment	(14,903)	(26,974)
Proceeds from sale of property, plant and equipment	290	111
Purchase of intangible assets	(69)	(343)
Purchase of long-term investments		(165)
Sale of businesses, net of cash sold	4,985	
<b>Net cash used in investing activities</b>	<b>(9,697)</b>	<b>(27,371)</b>
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(79,708)	(10,121)
Purchase of treasury stock	(284)	
Common shares issued under share based compensation plans	336	724
Tax effect of common shares exercised under share based compensation plans	62	178
<b>Net cash used in financing activities</b>	<b>(79,594)</b>	<b>(9,219)</b>

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





**Table of Contents**

Change in cash and cash equivalents	(13,880)	14,352
Effect of exchange rate change on cash and cash equivalents	(1,648)	8,632
Cash and cash equivalents at beginning of period	149,663	99,842
<b>Cash and cash equivalents at end of period</b>	<b>\$ 134,135</b>	<b>\$ 122,826</b>
<b>Supplemental information</b>		
Interest paid	\$ 19,087	\$ 26,511
Interest capitalized	335	434
Income taxes paid	13,680	31,098
<b>Sale of businesses, net of cash sold</b>		
Current assets	\$ 5,899	\$
Non-current assets	291	
Current liabilities	(1,205)	
	<b>\$ 4,985</b>	<b>\$</b>

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

**Table of Contents**

**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

**1. General**

**The Company and its Operations**

Sirona Dental Systems, Inc. ( Sirona, Company, we, us, or our ) and its subsidiaries manufacture high quality, technologically advanced dental equipment and systems solutions for the global dental market. We offer a broad range of products across all major segments of the dental equipment market including CAD/CAM systems, digital and film based intra oral and panoramic imaging systems, treatment centers and instruments. The Company acquired Schick Technologies, Inc. in 2006, further expanding our global presence and product offerings and strengthening our research and development capabilities. Sirona has served equipment dealers and dentists worldwide for more than 125 years. The Company's headquarters are located in Long Island City, New York with its primary facility located in Bensheim, Germany, as well as other support, manufacturing, assembling and sales & service facilities located elsewhere throughout the world.

**Basis of Presentation**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

In the opinion of management, all adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company's financial position as of June 30, 2009 and September 30, 2008 and the results of operations and cash flows for the three months and nine months ended June 30, 2009 and June 30, 2008, as applicable to interim periods have been made. The results of operations for the three months and nine months ended June 30, 2009 are not necessarily indicative of the operating results for the full fiscal year or future periods.

Management has evaluated events occurring subsequent to June 30, 2009 and through July 31, 2009, the date these interim financial statements were issued, for their effect on these interim financial statements in accordance with SFAS No. 165, *Subsequent Events*.

All amounts are reported in thousands of U.S. Dollars (\$), except per share amounts or as otherwise disclosed.

***Fiscal year***

The Company's fiscal year is October 1 to September 30.

***Principles of consolidation***

The consolidated financial statements include, after eliminating inter-company transactions and balances, the accounts of Sirona Dental Systems, Inc. and its subsidiaries.

**Table of Contents****2. Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations* (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R will become effective for our fiscal year beginning October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, ( SFAS 160 ), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* ( ARB No. 51 ), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, previously referred to as minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheet within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and noncontrolling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. SFAS 160 is effective for fiscal years beginning after December 15, 2008, which corresponds to the Company's fiscal year beginning October 1, 2009. The Company is currently evaluating the potential impact of adopting SFAS 160 on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB statement No. 162* which establishes the Financial Accounting Standards Codification (the Codification ) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force ( EITF ), and related literature. In addition, rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements, and SEC Staff Announcements and Observer comments made at Emerging Issues Task Force meetings to publicly announce the SEC's views on certain accounting issues are also sources of authoritative GAAP for Sirona as an SEC registrant. This Codification does not change US GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009. The Codification will be applied prospectively in the fourth quarter of the Company's fiscal year 2009.

**3. Employee Share-Based Compensation**

Stock compensation expense under the Company's stock option plans (the Plans ) amounted to \$3,760 and \$11,553 for the three and nine months ended June 30, 2009, respectively, and \$3,968 and \$11,466 for the three and nine months ended June 30, 2008, respectively. The fiscal 2009 expenses include the impact of the stock option and restricted stock grants discussed below.

On October 1, 2008, December 8, 2008, January 2, 2009 and May 7, 2009, the Company granted 20,000, 1,106,700, 1,000 and 120,000 stock options under the Equity Incentive Plan (the 2006 Plan ), respectively. The October, December and January stock options vest over a period of four years and the May stock options vest over a period of three years. All grants expire ten years after the date of the grant. The 2006 Plan, as amended, provides for awards aggregating 4,550,000 stock options or restricted stock to employees, directors and consultants.

The fair values of the stock options granted under the 2006 Plan were estimated using the Black-Scholes option pricing model and the assumptions set forth in the following table. The exercise price is equal to the fair market value of Sirona's stock at the grant date. The expected volatility is determined based on the Company's historical stock

**Table of Contents**

volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant and has a term equal to the expected life of the options. The expected life represents the period of time the options are expected to be outstanding based on anticipated grantee behavior. The expected dividend yield is based on the Company's history of not paying regular dividends in the past and the Company's current intention not to pay dividends in the foreseeable future.

	May 2009-Grant	January 2009-Grant	December 2008-Grant	October 2008-Grant
Exercise price	\$ 19.94	\$ 10.36	\$ 11.90	\$ 21.32
Expected volatility	48%	51%	51%	51%
Risk-free rate	2.15%	1.72%	1.76%	2.87%
Expected life	5 years	5 years	5 years	5 years
Expected dividends				
Grant date fair value	\$ 8.58	\$ 4.17	\$ 5.51	\$ 10.45

In January and March 2009, the Company completed two value-for-value stock option exchange programs for holders of eligible options granted under the 1996 Incentive Stock Option Plan ( 1996 Plan ) and the 2006 Plan with exercise prices of \$21.32 or higher. Excluded from participating in the exchange programs were the Company's independent directors. Under value-for-value option exchange programs, the option holders were allowed to surrender their eligible options in exchange for a lower number of replacement options requiring an additional year of service for vesting and having an exercise price equal to the closing price of Sirona's stock on January 21, 2009 or March 30, 2009, the date the respective offers expired. The fair value of the replacement options approximates the fair value of the surrendered options in the aggregate, as determined using the Black-Scholes option pricing model as of the respective exchange date. Aggregate future non-cash stock option compensation expense is unchanged by the exchange programs in terms of both amount and timing of recognition.

Under the January 21, 2009 option exchange program, holders of 1,000,500 eligible options issued under the 2006 Plan surrendered those options in exchange for 421,428 replacement options with an exercise price of \$11.73. Accordingly, 579,072 options were added back to the plan and became available for future grant.

Under the March 30, 2009 option exchange program, holders of 1,619,750 eligible options issued under the 1996 Plan at an exercise price of \$25.10 surrendered those options in exchange for 988,325 replacement options under the 2006 Plan with an exercise price of \$14.09. Because the 1996 Plan has expired, the cancelled options did not become available for future grant.

**Table of Contents****4. Comprehensive Income**

	Three months		Nine months	
	ended		ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
Net Income	\$ 20,468	\$ 6,710	\$ 26,622	\$ 34,624
Other Comprehensive Income				
Cumulative translation adjustment from unrealized non-cash gain/(loss) on intra-group foreign currency transactions of long-term investments	19,446	(380)	(3,969)	35,538
Cumulative translation adjustment from the translation of financial statements of subsidiaries	10,741	124	(2,195)	18,045
Amortization of actuarial gains	(122)	(41)	(357)	(119)
Total Other Comprehensive Income	30,065	(297)	(6,521)	53,464
Total Comprehensive Income	\$ 50,533	\$ 6,413	\$ 20,101	\$ 88,088

**5. Inventories, Net**

	June 30,	September 30,
	2009	2008
	\$ 000s	
Finished goods	\$ 42,225	\$ 39,591
Work in progress	15,497	15,028
Raw materials	33,729	34,867
	<b>91,451</b>	<b>89,486</b>
Inventory reserve	(13,573)	(11,753)
	<b>\$ 77,878</b>	<b>\$ 77,733</b>

**Table of Contents****6. Intangible Assets and Goodwill**

	Gross	Accumulated amortization \$ 000s	Net
<b>As of June 30, 2009</b>			
Patents & licenses	\$ 148,102	\$ 54,168	\$ 93,934
Trademarks	135,577	303	135,274
Technologies and dealer relationships	468,445	244,509	223,936
Prepayments for intangible assets	247		247
	752,371	298,980	453,391
Goodwill	675,250		675,250
<b>Total intangible assets</b>	<b>\$ 1,427,621</b>	<b>\$ 298,980</b>	<b>\$ 1,128,641</b>

	Gross	Accumulated amortization \$ 000s	Net
<b>As of September 30, 2008</b>			
Patents & licenses	\$ 150,129	\$ 45,607	\$ 104,522
Trademarks	137,245	228	137,017
Technologies and dealer relationships	473,519	200,704	272,815
Prepayments for intangible assets	247		247
	761,140	246,539	514,601
Goodwill	683,075		683,075
<b>Total intangible assets</b>	<b>\$ 1,444,215</b>	<b>\$ 246,539</b>	<b>\$ 1,197,676</b>

The change in the value of goodwill from September 30, 2008 to June 30, 2009 relates to a decrease of \$8,438 due to changes in exchange rates, an increase due to a subsequent purchase price adjustment of \$652 (Euro 500) related to an earn-out provision from a prior year acquisition, and decreases of \$39 relating to the accounting for income tax benefits from the exercise of employee stock options.

**7. Short-Term Debt and Current Portion of Long-Term Debt**

Short-term debt and current portion of long-term debt also includes accrued interest on long-term debt that is payable within the next twelve months.

**Table of Contents****8. Long-Term Debt**

	June 30, 2009	September 30, 2008
	\$ 000s	
Senior term loan, Tranche A1, variable rate repayable in two installments in November 2010 and November 2011	128,078	151,317
Senior term loan, Tranche A2, variable rate repayable in two installments in November 2010 and November 2011	331,504	398,156
Other debt	1,073	2,140
	<b>460,655</b>	<b>551,613</b>
Less current portion	2,983	7,263
	<b>\$ 457,672</b>	<b>\$ 544,350</b>

**Senior Term Loans**

On November 22, 2006, Sirona Dental Systems, Inc. entered into a senior credit facility (the "Senior Facilities Agreement") as original guarantor, with Schick Technologies, Inc., a New York company and wholly owned subsidiary of Sirona ("Schick NY"), as original borrower and original guarantor, with Sirona Dental Systems GmbH, as original borrower and original guarantor, with Sirona Dental Services GmbH, as original borrower and original guarantor and with Sirona Dental Systems LLC, Sirona Holding GmbH (subsequently merged with Sirona Dental Services GmbH) and with Sirona Immobilien GmbH as original guarantors. Initial borrowings under the Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement includes: (1) a term loan A1 in an aggregate principal amount of \$150 million (the "tranche A1 term loan") available to Sirona's subsidiary, Schick NY, as borrower; (2) a term loan A2 in an aggregate principal amount of Euro 275 million (the "tranche A2 term loan") available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a \$150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S. Dollar, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees since all guarantees are by entities that have the same functional currency as the currency in which the respective guaranteed borrowing is denominated.

Each of the senior term loans is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. The senior debt repayment tranche originally scheduled for November 24, 2009 was prepaid on May 11, 2009 in the amount of \$78.6 million. At the Company's current leverage multiples, the facilities bear interest at a margin of 55 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to our leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement). Interest rate swaps have been established for 66.6% of the interest until March 2010. As a result of the prepayment of the first senior debt tranche in May 2009 the percentage increased to 78.3%. The interest rate swaps fix the LIBOR or EURIBOR element of interest payable on 78.3% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively.

**Table of Contents**

The defined interest rates fixed for each twelve or thirteen month interest period range from 3.50% to 5.24%. Settlement of the swaps is required on a quarterly basis.

The Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, make investments (including in joint ventures), incur additional indebtedness, make acquisitions or pay dividends, subject to agreed-upon exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand.

Debt issuance costs of \$5.6 million were incurred in relation to the financing in November 2006 and were capitalized as deferred charges and are amortized using the effective interest method over the term of the loan.

**9. Income Taxes**

For the third quarter of fiscal year 2009, an estimated effective tax rate of 24% has been applied, the same effective tax rate as for fiscal year 2008. For the six months ended March 31, 2009, a 28% estimated effective tax rate was applied. The estimated effective tax rate is primarily the result of the expected distribution of profits across different countries. Variances between the expected and actual distribution of profits for the remainder of the year could result in a deviation of the actual from the estimated tax rate.

The income tax provision was reduced by \$847 in the current quarter to adjust for a prior year item.

With limited exception, the Company and its subsidiaries are no longer subject to income tax examinations by any major tax jurisdiction for the years prior to 2005.

**10. Income per Share**

The computation of basic and diluted income per share is as follows:

	Three months		Nine months	
	ended June 30,		ended June 30,	
	2009	2008	2009	2008
	\$ 000s (except for share and per share amounts)		\$ 000s (except for share and per share amounts)	
Net income	\$ 20,468	\$ 6,710	\$ 26,622	\$ 34,624
Weighted average shares outstanding basic	54,878,923	54,804,720	54,861,885	54,785,915
Dilutive effect of stock options	677,944	483,202	336,448	492,331
Weighted average shares outstanding diluted	55,556,867	55,287,922	55,198,333	55,278,246
Income per share				
Basic	\$ 0.37	\$ 0.12	\$ 0.49	\$ 0.63
Diluted	\$ 0.37	\$ 0.12	\$ 0.48	\$ 0.63

Stock options to acquire 361,500 shares common stock that were granted in connection with the Plans were not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2009 because the options underlying exercise price was greater than the average price of Sirona's common stock for the period.

Stock options to acquire 1,235,000 of Sirona's common stock that were granted in connections with the Plans were not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2008 because the options underlying exercise price was greater than the average price of Sirona's common stock for the period.





**Table of Contents****11. Product Warranty**

The following table provides the changes in the product warranty accrual for the three months and the nine months ended June 30, 2009 and June 30, 2008:

	Three months		Nine months	
	ended June 30,		ended June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
Balance at beginning of the period	\$ 11,806	\$ 14,157	\$ 12,176	\$ 12,547
Accruals for warranties issued during the period	4,534	6,751	15,005	17,298
Warranty settlements made during the period	(5,020)	(5,548)	(15,083)	(15,961)
Translation adjustment	612	(18)	(165)	1,458
Balance at the end of the period	\$ 11,932	\$ 15,342	\$ 11,933	\$ 15,342

**12. Pension Plans**

Components of net periodic benefit costs are as follows:

	Three months		Nine months	
	ended June 30,		ended June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
Service cost	\$ 73	\$ 95	\$ 213	\$ 272
Interest cost	660	706	1,933	2,037
Amortization of actuarial gains	(122)	(41)	(357)	(119)
Net periodic benefit cost	\$ 611	\$ 760	\$ 1,789	\$ 2,190

**Table of Contents****13. Net Other Operating (Income)/Loss and Restructuring Costs**

In December 2008, we announced certain actions to reduce operating costs and thereby to improve the efficiency of our organization. These actions predominantly relate to overhead functions in Germany including increased automation of our processes, the optimization of the supply chain as well as increased efficiency in our administrative functions.

For the three and nine months period ended June 30, 2009, we incurred restructuring costs of \$1.8 million (\$1.4 million after taxes) and \$4.5 million (\$3.4 million after taxes), respectively, consisting of employee severance pay and benefits as well as outside consulting fees directly related to the restructuring plan. The consulting fees were incurred to analyze processes in order to identify restructuring potential with the objective to reduce headcount. The costs associated with the restructuring are included in net other operating (income)/loss and restructuring costs within our consolidated statement of income.

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the nine months ended June 30, 2009 and the remaining accrued balance of restructuring costs as of June 30, 2009, which is included in accrued liabilities within our condensed consolidated balance sheet:

	Provision at October 1, 2008	Restructuring Costs	Payments \$ 000s	Currency translation adjustment	Provision at June 30, 2009
Severance costs	\$	\$ 2,611	\$ 554	\$ 162	\$ 2,219
Consulting costs		1,942	1,585	30	387
<b>Total</b>	<b>\$</b>	<b>\$ 4,553</b>	<b>\$ 2,139</b>	<b>\$ 192</b>	<b>\$ 2,606</b>

We expect to record remaining costs of up to \$5.5 million in the fourth quarter of fiscal 2009. We expect that half of the total costs of up to \$10 million will be paid in fiscal 2009.

**14. Derivative Instruments and Hedging Strategies**

Our operations are exposed to market risks from changes in foreign currency exchange rates and interest rates. In the normal course of business, these risks are managed through a variety of strategies, including the use of derivatives.

**Interest Rate Risk**

The Company is exposed to interest rate risk associated with fluctuations in the interest rates on its variable interest rate debt. In order to manage this risk, the Company has entered into interest rate swap agreements that convert the debt's variable interest rate to a fixed interest rate. These swap agreements are considered to be economic hedges which are not considered hedging instruments under SFAS 133.

Interest rate swaps have been established for 66.6% of the interest on the Senior Term loans until March 2010. As a result of the payment of the first senior debt tranche in May 2009 the percentage increased to 78.3%. The interest rate swaps fix the LIBOR or EURIBOR element of interest payable on 78.3% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively. The defined interest rates fixed for each twelve or thirteen month interest period range from 3.50% to 5.24%. Settlement of the swaps is required on a quarterly basis.

**Foreign Currency Exposure**

Although the U.S. Dollar is Sirona's reporting currency, its functional currency varies depending on the country of operation. During the periods under review, the U.S. Dollar/Euro exchange rate fluctuated significantly, thereby impacting Sirona's financial results. In order to manage foreign currency exposures, the Company enters into foreign exchange forward contracts. As with its interest rate swap instruments, the Company enters into forward contracts that are considered to be economic hedges which are not considered hedging instruments under SFAS 133.



**Table of Contents**

As of June 30, 2009, these contracts had notional amounts totaling \$44.0 million. These agreements are relatively short-term (generally six months).

The fair value carrying amount of the Company's derivative instruments at June 30, 2009 is described in Note 15 Fair Value Measurements.

The location and amount of gains and losses from the fair value changes of derivative instruments reported in our condensed consolidated income statement were as follows:

Derivatives Not Designated as Hedging Instruments under SFAS 133	Location of (Gain)/Loss Recognized in Income on Derivative	For the three months ended June 30, 2009	For the nine months ended June 30, 2009
		Amount of (Gain)/Loss Recognized in Income on Derivative	Amount of (Gain)/Loss Recognized in Income on Derivative
Interest rate swap contracts	(Gain)/loss on derivative instruments	\$ (2,074)	\$ 6,492
Foreign exchange contracts	(Gain)/loss on derivative instruments	(1,065)	(4,904)
<b>Total</b>		<b>\$ (3,139)</b>	<b>\$ 1,588</b>

**15. Fair Value Measurements and Financial Instruments**

On October 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 157 *Fair Value Measurements* for assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 does not establish requirements for any new fair value measurements but it does apply to existing pronouncements in which fair value measurements are already required. SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and the credit risk of the Company and counterparties to the arrangement.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. SFAS No. 157 establishes and prioritizes the following three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

***Assets/Liabilities Measured at Fair Value on a Recurring Basis***

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

**Table of Contents**

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
			\$ 000s	
<b>Assets</b>				
Derivative Assets	\$	\$ 2,556	\$	\$ 2,556
<b>Liabilities</b>				
Derivative Liabilities	\$	\$ 9,020	\$	\$ 9,020

In the Company's June 30, 2009 Condensed Consolidated Balance Sheet derivative assets and derivative liabilities are classified as Prepaid expenses and other current assets and Accrued liabilities and deferred income, respectively.

As allowed by FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, the Company has elected to defer until October 1, 2009 the adoption of SFAS No. 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. Accordingly, the Company has not applied SFAS No. 157 to inventories, property, plant and equipment, or intangible assets with definite useful lives.

As allowed by SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which was adopted effective October 1, 2008, the Company did not elect the fair value option for any eligible financial instruments as of December 31, 2008 or June 30, 2009.

***Fair value of financial instruments***

Financial instruments consist of cash, cash equivalents, accounts receivable, accounts payable, foreign currency forward contracts and interest rate swaps. The fair values of cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values because of the short-term nature of these items. The fair value of the foreign currency forward contracts and interest rate swaps are estimated by obtaining quotes from financial institutions.

**Table of Contents****16. Segment Reporting**

The following tables show the results of the Company's reportable segments under the Company's management reporting system. The segment performance measure used to monitor segment performance is gross profit excluding the impact of the acquisition of control of the Sirona business by Sirona Holdings Luxco S.C.A. (Luxco), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners (MDP), Beecken Petty O'Keefe and management of Sirona, through a leveraged buyout transaction on June 30, 2005 (the MDP Transaction) and the acquisition of Schick Technologies, Inc. (the Exchange). This measure is considered by management to better reflect the performance of each segment as it eliminates the need to allocate centrally incurred costs and significant purchase accounting effects that the Company does not believe to be representative of the performance of the segments. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

	Three months		Nine months	
	ended June 30,		ended June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
<b>Revenue external</b>				
Dental CAD/CAM Systems	\$ 63,226	\$ 60,290	\$ 179,249	\$ 188,470
Imaging Systems	52,498	62,400	166,933	190,704
Treatment Centers	41,314	39,057	113,441	122,925
Instruments	23,334	25,177	65,061	74,382
<b>Total</b>	<b>\$ 180,372</b>	<b>186,924</b>	<b>524,684</b>	576,481
<b>Revenue internal</b>				
Dental CAD/CAM Systems	\$	\$	\$	\$
Imaging Systems	12	19	39	77
Treatment Centers	10	4	25	13
Instruments	2,542	2,786	6,909	8,244
Intercompany elimination	(2,564)	(2,809)	(6,973)	(8,334)
<b>Total</b>	<b>\$</b>			
<b>Revenue total</b>				
Dental CAD/CAM Systems	\$ 63,226	\$ 60,290	\$ 179,249	\$ 188,470
Imaging Systems	52,510	62,419	166,972	190,781
Treatment Centers	41,324	39,061	113,466	122,938
Instruments	25,876	27,963	71,970	82,626
<b>Total</b>	<b>\$ 182,936</b>	<b>189,733</b>	<b>531,657</b>	<b>584,815</b>
<b>Segment performance measure</b>				
Dental CAD/CAM Systems	\$ 42,966	\$ 41,215	\$ 123,927	\$ 125,961
Imaging Systems	30,923	36,649	98,935	113,549
Treatment Centers	17,346	14,391	44,380	48,553
Instruments	10,195	11,209	29,122	33,511
<b>Total</b>	<b>\$ 101,430</b>	<b>103,464</b>	<b>296,364</b>	<b>321,574</b>
<b>Depreciation and amortization expense</b>				
Dental CAD/CAM Systems	\$ 1,276	\$ 1,006	\$ 3,404	\$ 2,941
Imaging Systems	1,358	1,378	3,682	3,939

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

Treatment Centers	1,678	1,106	4,497	2,628
Instruments	826	980	2,094	2,812
<b>Total</b>	<b>\$ 5,138</b>	<b>4,470</b>	<b>13,677</b>	<b>12,320</b>



**Table of Contents****Reconciliation of the results of the segment performance measure to the consolidated statements of operations**

The following table and discussion provide a reconciliation of the total results of operations of the Company's business segments under management reporting to the consolidated financial statements. The differences shown between management reporting and U.S. GAAP for the three month and six month periods ended June 30, 2009 and 2008 are due to the impact of purchase accounting. Purchase accounting effects are not included in gross profit as the Company does not believe these to be representative of the performance of each segment.

Inter-segment transactions are based on amounts which management believes are approximate to the amounts of transactions with unrelated third parties.

	Three months		Nine months	
	ended June 30,		ended June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
<b>Revenue</b>				
Total segments (external)	\$ 180,372	\$ 186,924	\$ 524,684	\$ 576,481
Electronic center and corporate	208	14	439	24
Consolidated revenue	<b>180,580</b>	<b>186,938</b>	<b>525,123</b>	<b>576,505</b>
<b>Depreciation and amortization</b>				
Total segments	5,138	4,470	13,677	12,320
Differences management reporting vs. U.S. GAAP, electronic center and corporate	17,729	23,877	53,803	69,173
Consolidated depreciation and amortization	<b>22,867</b>	<b>28,347</b>	<b>67,480</b>	<b>81,493</b>
<b>Segment performance measure</b>				
Total segments	101,430	103,464	296,364	321,574
Differences management reporting vs. U.S. GAAP, electronic center and corporate	(14,632)	(19,989)	(42,250)	(57,355)
Consolidated gross profit	<b>86,798</b>	<b>83,475</b>	<b>254,114</b>	<b>264,219</b>
Selling, general and administrative expense	53,437	63,762	166,907	180,238
Research and development	9,897	11,829	30,998	37,504
Provision for doubtful accounts and notes receivable	421	158	867	355
Net other operating (income) and restructuring costs	(1,881)	(2,500)	(5,072)	(7,500)
Foreign currency transactions (gain)/loss, net	(5,111)	(307)	5,558	(15,232)
(Gain)/loss on derivative instruments	(3,139)	(6,149)	1,588	(936)
Interest expense, net	5,331	6,645	16,988	20,046
Other expense				305
<b>Income before income taxes and minority interest</b>	<b>\$ 27,843</b>	<b>\$ 10,037</b>	<b>\$ 36,280</b>	<b>\$ 49,439</b>

---

**Table of Contents**

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Condensed Consolidated Financial Statements included elsewhere in this report and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

All amounts are reported in thousands of U.S. Dollars (\$), except as otherwise disclosed.

This report contains forward-looking statements that involve risk and uncertainties. All statements, other than statements of historical facts, included in this report regarding the Company, its financial position, products, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements. When used in this report, words such as anticipate, believe, estimate, expect, intend, objectives, plans and similar expressions, or the negatives thereof or variations thereon or comparable terminology as they relate to the Company, its products or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of various factors, including, but not limited to, those contained in the Risk Factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2008. All forward looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events other than required by law.

**Overview**

Sirona is a leading manufacturer of high-tech dental equipment. Sirona focuses on developing innovative systems and solutions for dentists globally. Sirona has served equipment dealers and dentists worldwide for more than 125 years. The Company has its headquarters in Long Island City, New York and in addition the Company has its primary facility in Bensheim, Germany. Sirona manages its business on both a product and geographic basis and has four reporting segments: Dental CAD/CAM Systems, Imaging Systems, Treatment Centers and Instruments. Products from each category are marketed in all geographical sales regions.

**Significant Factors that Affect Sirona's Results of Operations**

***Increased Focus on Sirona's Position in the U.S. Market and Further Global Expansion***

The U.S. market is the largest individual market for Sirona. Over the last three fiscal years, Sirona experienced strong revenue growth, with U.S. Dollar revenue, bolstered by the June 2006 acquisition of Schick Technologies, increasing on average by 21% annually. Several products have generated significant interest in the U.S. market, including, but not limited to, CEREC, Schick imaging products, GALILEOS, the ORTHOPHOS XG line, inLab and inEos.

Sirona works together with large distributors in the U.S. market including Patterson Dental and Henry Schein, which accounted for 29% and 17%, respectively, of Sirona's global revenues for the nine month period ended June 30, 2009. The relationship with Henry Schein was expanded beyond the European markets to the United States in January 2005. Patterson Dental made a payment of \$100 million to Sirona in July 2005 in exchange for the exclusive distribution right for CEREC CAD/CAM products in the United States and Canada until 2017 (the Patterson exclusivity payment). The amount Sirona received was recorded as deferred income and is being recognized on a straight-line basis commencing at the beginning of the extension of the exclusivity period in fiscal 2008.

---

## **Table of Contents**

### ***Focus on Further Global Expansion***

In addition to increased U.S. market growth, Sirona has pursued expansion in the rest of the world. Over the last three fiscal years, sales in the rest of the world grew on average by 17% annually. To support this growth, Sirona expanded its local presence and distribution channels by establishing new sales and service locations in France and the United Kingdom in 2004; in Japan and Australia in 2005; in China in 2006 and in Italy in 2007. This expansion helped to increase sales and gross profit but also contributed to higher SG&A expense.

### ***Fluctuations in U.S. Dollar/Euro Exchange Rate***

Although the U.S. Dollar is Sirona's reporting currency, its functional currency varies depending on the country of operation. For the nine months ended June 30, 2009, approximately 50% of Sirona's revenue and approximately 72% of its expenses were denominated in Euros. During the periods under review, the U.S. Dollar/Euro exchange rate has fluctuated significantly, thereby impacting Sirona's financial results. Between October 1, 2007 and June 30, 2009, the U.S. Dollar/Euro exchange rates used to calculate items included in Sirona's financial statements varied from a low of 1.2439 to a high of 1.6017 and as of June 30, 2009 and September 30, 2008 were 1.4125 and 1.4340, respectively. Although Sirona does not apply hedge accounting, Sirona has entered into foreign exchange forward contracts to manage foreign currency exposure. As of June 30, 2009, these contracts had notional amounts totaling \$44.0 million. As these agreements are relatively short-term (generally six months), continued fluctuation in the U.S. Dollar/Euro exchange rate could materially affect Sirona's results of operations.

Certain revenue information under **Results of Operations** below is presented on a constant currency basis. This information is a non-GAAP financial measure. Sirona supplementally presents revenue on a constant currency basis because it believes this information facilitates a comparison of Sirona's operating results from period to period without regard to changes resulting solely from fluctuations in currency rates. Sirona calculates constant currency revenue growth by comparing current period revenues to prior period revenues with both periods converted at the U.S. Dollar/Euro average foreign exchange rate for the current period. The exchange rates used in converting Euro denominated revenues into U.S. Dollar in the Company's financial statements prepared in accordance with U.S. GAAP were: \$1.36206 and \$1.56333 for the three months ended June 30, 2009 and 2008, respectively, and \$1.32967 and \$1.50300 for the nine months ended June 30, 2009 and 2008, respectively.

Loans made to Sirona under the senior credit facility entered into November 22, 2006 are denominated in the functional currency of the respective borrowers. See **Liquidity and Capital Resources** for a discussion of our senior credit facility. However, inter-company loans are denominated in the functional currency of only one of the parties to the loan agreements. Where inter-company loans are of a long-term investment nature, the potential non-cash fluctuations in exchange rates are reflected within other comprehensive income. These fluctuations may be significant in any period due to changes in the exchange rates between the Euro and the U.S. Dollar.

### ***Fluctuations in Quarterly Operating Results***

Sirona's quarterly operating results have varied in the past and are likely to vary in the future. These variations result from a number of factors, many of which are substantially outside its control, including:

the timing of new product introductions by Sirona or its competitors;

the timing of industry trade shows;

developments in government reimbursement policies;

changes in product mix;

Sirona's ability to supply products to meet customer demand;

fluctuations in manufacturing costs;

## **Table of Contents**

income tax incentives; and

currency fluctuation.

Due to the variations which Sirona has experienced in its quarterly operating results, it does not believe that period-to-period comparisons of results of operations of Sirona are necessarily meaningful or reliable as indicators of current and future performance.

## **Results of Operations**

### ***Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008***

#### ***Revenue***

Revenue for the three months ended June 30, 2009 was \$180.6 million, a decrease of \$6.3 million compared with the three months ended June 30, 2008. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 6.2%. By segment, Treatment Centers increased 5.8% (up 20.8% on a constant currency basis), CAD/CAM increased 4.9% (up 12.7% on a constant currency basis), Instruments declined 7.3% (up 6.1% on a constant currency basis), and Imaging Systems declined 15.9% (down 9.1% on a constant currency basis).

Revenues grew 6.2% on a constant currency basis, with double-digit constant currency growth in two business segments. Revenue growth was driven by our new product launches (particularly the CEREC AC and TENEO), orders from the bi-annual international trade show IDS in Cologne in March of this year, and large projects in non-US, non-European markets. Imaging segment revenues were impacted by pricing pressure and the weak economic environment.

Revenue in the United States for the three months ended June 30, 2009 decreased by 17.3% compared to the prior year period. Revenue in the United States was impacted by lower imaging and CAD/CAM sales. Despite strong underlying CEREC demand, our US CAD/CAM revenues declined in the quarter. The decline in US CAD/CAM revenues was due to timing as we substantially increased shipments to international markets.

Revenue outside the United States increased by 2.5%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 17.7%, with mixed results among the countries. Strong revenue growth in Germany, Australia and France more than offset declines in some European countries, including the UK and Spain.

#### ***Cost of Sales***

Cost of sales for the three months ended June 30, 2009 was \$93.8 million, a decrease of \$9.7 million, or 9.4%, as compared with the prior year. Gross profit as a percentage of revenue was 48.1% compared to 44.7% in the prior year. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$16.6 million as well as non-cash option expense of \$0.1 million for the three months ended June 30, 2009, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$21.9 million and non-cash option expense of \$0.2 million for the three months ended June 30, 2008. Excluding these amounts, costs of sales as a percentage of revenue was 42.7% for the three months ended June 30, 2009 compared with 43.5% for the three months ended June 30, 2008 and therefore gross profit as a percentage of revenue was 57.3% compared to 56.5%. The increase in the gross profit margin is due to product and regional mix.

## **Table of Contents**

### ***Selling, General and Administrative***

SG&A expense for the three months ended June 30, 2009 was \$53.4 million, a decrease of \$10.4 million, or 16.3%, as compared with the three months ended June 30, 2008. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of \$1.0 million, as well as non-cash option expense in the amount of \$3.6 million for the three months ended June 30, 2009, compared with \$1.9 million and \$3.5 million, respectively, for the three months ended June 30, 2008. Excluding these amounts, as a percentage of revenue, SG&A expense decreased to 27.0% for the three months ended June 30, 2009 as compared with 31.2% for the three months ended June 30, 2008. The decrease in SG&A is mainly driven by variations in the U.S. Dollar/Euro exchange rate as most of the expenses were denominated in Euro, and short-term cost savings and deferrals initiatives.

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

R&D expense for the three months ended June 30, 2009 was \$9.9 million, a decrease of \$1.9 million, or 16.1%, as compared with the three months ended June 30, 2008. R&D expense included non-cash stock option expense in the amount of \$0.1 million and \$0.2 million, respectively, for the three months ended June 30, 2009 and June 30, 2008. Excluding these amounts, as a percentage of revenue, R&D expense was 5.4% for the three months ended June 30, 2009, compared with 6.2% for the three months ended June 30, 2008. The decrease was mainly due to variations in the U.S. Dollar/Euro exchange rate and the timing of our new product launches.

### ***Net other operating (income) and restructuring costs***

Net other operating income for the three months ended June 30, 2009 was \$1.9 million, compared to a net operating income of \$2.5 million for the three months ended June 30, 2008. In both periods net other operating income included \$2.5 million income resulting from the amortization of the deferred income relating to the Patterson exclusivity payment.

In the three months ended June 30, 2009, net other operating income included a gain from the release of reserves related to the sale of the sales and service subsidiary in Spain of \$1.2 million.

In December 2008, we announced certain actions to reduce operating costs and thereby to improve the efficiency of our organization. These actions predominantly relate to overhead functions in Germany including increased automation of our processes, the optimization of the supply chain as well as increased efficiency in our administrative functions. For the three months ended June 30, 2009, we incurred restructuring and other related costs of \$1.8 million, consisting of employee severance pay and benefits and outside consulting fees directly related to the restructuring plan. We expect to record remaining costs of up to \$5.5 million in the fourth quarter of fiscal 2009 and anticipate that half of the total costs of up to \$10 million will be paid in fiscal 2009. The Company anticipates annual cost savings from these initiatives to be approximately \$10 million starting in fiscal year 2010.

## **Table of Contents**

### ***Gain on Foreign Currency Transactions***

Gain on foreign currency transactions for the three months ended June 30, 2009 amounted to \$5.1 million compared to a gain of \$0.3 million for the three months ended June 30, 2008. For the three months ended June 30, 2009, the gain included an unrealized non-cash foreign currency gain of \$4.8 million on the U.S. Dollar denominated deferred income, resulting from the currency revaluation adjustment of Patterson's exclusivity payment and a \$3.1 million gain due to the currency revaluation of U.S. Dollar denominated short-term intra-group loans. For the three months ended June 30, 2008, the gain included an unrealized non-cash foreign currency loss of \$0.1 million on the U.S. Dollar denominated deferred income, resulting from the currency revaluation adjustment of Patterson's exclusivity payment.

### ***Gain on Derivative Instrument***

Gain on derivative instruments for the three months ended June 30, 2009 amounted to \$3.1 million compared to a gain of \$6.1 million for the three months ended June 30, 2008. For the three months ended June 30, 2009 the gain included an unrealized non-cash gain of \$2.1 million on interest swaps, as well as a non-cash gain on foreign currency hedges of \$1.0 million. The gain for the three months ended June 30, 2008 included an unrealized non-cash gain of \$7.4 million on interest swaps, as well as a non-cash loss on foreign currency hedges of \$1.3 million.

### ***Interest Expense***

Net interest expense for the three months ended June 30, 2009 was \$5.3 million, compared to \$6.6 million for the three months ended June 30, 2008. This decrease resulted from variations in the U.S. Dollar/Euro exchange rate, lower interest rates, and lower overall debt levels.

### ***Income Tax Provision***

The income tax provision for the three months ended June 30, 2009 was \$6.7 million, compared to \$3.0 million for the three months ended June 30, 2008. For the third quarter of fiscal year 2009, an estimated effective tax rate of 24% has been applied, the same estimated effective tax rate as for fiscal year 2008. For the six months ended March 31, 2009, a 28% estimated effective tax rate was applied. The estimated effective tax rate is primarily the result of the expected distribution of profits across different countries.

The income tax provision was reduced by \$847 in the current quarter to adjust for a prior year item.

### ***Net Income***

Sirona's net income for the three months ended June 30, 2009 was \$20.5 million, an increase of \$13.8 million, as compared with the three months ended June 30, 2008. Third quarter 2009 net income included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to the Exchange and the MDP Transaction (deal related amortization and depreciation) of \$17.6 million (\$13.4 million net of tax), unrealized, non-cash foreign currency gains on the deferred income from the Patterson exclusivity payment of \$4.8 million (\$3.7 million net of tax) and gains on short-term intra-group loans of \$3.1 million (\$2.3 million net of tax). Sirona's net income for the three month period ended June 30, 2008 included deal related amortization and depreciation of \$23.9 million (\$16.7 million net of tax), currency revaluation losses on the Patterson exclusivity payment and revaluation losses on short-term intra-group loans of \$0.1 million (\$0.07 million net of tax).

The estimated effective tax rate for the third quarter of fiscal year 2009 is 24%, the same effective tax rate as for fiscal year 2008. For the six months ended March 31, 2009, a 28% estimated effective tax rate was applied. Option expense was \$3.8 million (\$2.9 million net of tax) in the third quarter of 2009, compared to \$4.0 million (\$2.8 million net of tax) in the prior year period.

**Table of Contents*****Nine months Ended June 30, 2009 Compared to Nine months Ended June 30, 2008******Revenue***

Revenue for the nine months ended June 30, 2009 was \$525.1 million, a decrease of \$51.4 million, or 8.9%, as compared with the nine months ended June 30, 2008. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue declined by 1.1%. By segment, CAD/CAM Systems declined 4.9% (up 1.2% on a constant currency basis), Treatment Centers declined 7.7% (up 3.7% on a constant currency basis), Instruments declined 12.5% (down 1.7% on a constant currency basis), and Imaging Systems declined 12.5% (down 6.4% on a constant currency basis).

All segments were impacted by the weak global economy which resulted in a challenging environment for selling dental equipment. In the current slowdown, we are seeing that some dentists are postponing investments in equipment. At the same time, they continue to demand innovative high tech products that improve their competitive position and increase their practice income; such products include CAD/CAM systems, digital imaging and Galileos 3D imaging systems. In addition, in the nine months period ended June 30, 2009, revenue was positively impacted by our new product launches, particularly the CEREC AC and TENEO, orders from the IDS and larger projects from non-US non-European markets.

The Dental CAD/CAM Systems segment faced a challenging year over year comparison due to the trade-in program for the MC-XL milling unit, which had a major impact in the first half of fiscal 2008. The launch of the new Acquisition Unit and its acceptance in the market contributed positively to fiscal 2009 performance.

Although the Imaging Systems segment was impacted by pricing pressure in a challenging economic environment, Sirona maintained its market share.

Revenue in the United States for the nine months ended June 30, 2009 decreased by 8%. Revenue outside the United States decreased by 9.3%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, revenue increased by 2.3%. Revenue growth was solid in Germany, Japan, Australia and other non-US and non-European markets. This solid growth was partly offset by declines in some European countries, including the UK and Spain.

***Cost of Sales***

Cost of sales for the nine months ended June 30, 2009 was \$271.0 million, a decrease of \$41.3 million, or 13.2%, as compared with the nine months ended June 30, 2008. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$48.9 million, as well as non-cash option expense of \$0.2 million for the nine months ended June 30, 2009, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$63.7 million and non-cash option expense of \$0.5 million for the nine months ended June 30, 2008. Excluding these amounts, costs of sales as a percentage of revenue decreased to 42.3% for the nine months ended June 30, 2009 compared with 43.0% for the nine months ended June 30, 2008, and gross profit as a percentage of revenue increased to 57.7% compared to 57.1% for the nine months ended June 30, 2008.

***Selling, General and Administrative***

SG&A expense for the nine months ended June 30, 2009 was \$166.9 million, a decrease of \$13.3 million, or 7.4%, as compared with the nine months ended June 30, 2008. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of \$3.0 million as well as non-cash option expense in the amount of \$11.0 million for the nine months ended June 30, 2009, compared with \$4.0 million and \$10.2 million, respectively, for the nine months ended June 30, 2008. Excluding these amounts, as a percentage of revenue, SG&A expense was 29.1% for the nine months period ending June 30, 2009 compared to 28.8% June 30, 2008, respectively. SG&A is driven by variations in the U.S. Dollar/Euro exchange rate as most of the expenses were denominated in Euro, increased expenses related to our expanded presence in Japan and Italy, and expenses for the bi-annual international trade show IDS. The first nine months of fiscal 2009 benefited from short-term cost savings and deferral initiatives.



## **Table of Contents**

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

R&D expense for the nine months ended June 30, 2009 was \$31.0 million, a decrease of \$6.5 million, or 17.3%, as compared with the nine months ended June 30, 2008. R&D expense included non-cash stock option expense in the amount of \$0.4 million and \$0.8 million, respectively, for the nine months ended June 30, 2009 and June 30, 2008.

Excluding these amounts, R&D expense was 5.8% of revenues for the nine months ended June 30, 2009, compared with 6.4% for the nine months ended June 30, 2008. The decrease was primarily due to variations in the U.S. Dollar/Euro exchange rates as most of the expenses were denominated in Euro and the timing of new product launches.

### ***Net other operating (income) and restructuring costs***

Net other operating income for the nine months ended June 30, 2009 was \$5.1 million, compared to \$7.5 million for the nine months ended June 30, 2008. Net other operating income included \$7.5 million resulting from the amortization of the deferred income relating to the Patterson exclusivity payment in both periods. In the nine months ended June 30, 2009, net other operating income included a gain on the sale of a sales and service subsidiary in Spain of \$2.1 million.

In December 2008, we announced certain actions to reduce operating costs and thereby to improve the efficiency of our organization. These actions predominantly relate to overhead functions in Germany including increased automation of our processes, the optimization of the supply chain as well as increased efficiency in our administrative functions.

For the nine months period ended June 30, 2009, we incurred restructuring and other related costs of \$4.5 million, consisting of employee severance pay and benefits and outside consulting fees directly related to the restructuring plan.

We expect to record remaining costs of up to \$5.5 million in the fourth quarter of fiscal 2009. We expect that half of the total costs of up to \$10 million will be paid in fiscal 2009. The Company anticipates annual cost savings from these initiatives to be approximately \$10 million starting in fiscal year 2010.

### ***Loss/Gain on Foreign Currency Transactions***

Loss on foreign currency transactions for the nine months ended June 30, 2009 amounted to \$5.6 million compared to a gain of \$15.2 million for the nine months ended June 30, 2008. For the nine months ended June 30, 2009, the loss included an unrealized non-cash foreign currency loss of \$1.5 million on the U.S. Dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency loss on U.S. Dollar denominated short-term intra-group loans to European entities of \$0.8 million. For the nine months ended June 30, 2008, the gain included an unrealized non-cash foreign currency gain of \$10.2 million on the U.S. Dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on U.S. Dollar denominated short-term intra-group loans of \$6.5 million.

### ***Loss/(gain) on Derivative Instruments***

Loss on derivative instruments for the nine months ended June 30, 2009 amounted to \$1.6 million compared to a gain of \$0.9 million for the nine months ended June 30, 2008. For the nine months ended June 30, 2009, the loss included an unrealized non-cash loss of \$6.5 million on interest swaps, as well as a non-cash gain on foreign currency hedges of \$4.9 million. The gain for the nine months ended June 30, 2008 included an unrealized non-cash gain of \$1.1 million on interest swaps, as well as a non-cash loss on foreign currency hedges of \$0.2 million.

## **Table of Contents**

### ***Interest Expense***

Net interest expense for the nine months ended June 30, 2009 was \$17.0 million, compared to \$20.0 million for the nine months ended June 30, 2008. This decrease resulted from variations in the U.S. Dollar/Euro exchange rate, lower interest rates, and lower overall debt levels.

### ***Income Tax Provision***

The income tax provision for the nine months ended June 30, 2009 was \$9.0 million, compared to \$14.8 million for the nine months ended June 30, 2008. For the third quarter of fiscal year 2009, an estimated effective tax rate of 24% has been applied, the same estimated effective tax rate as for fiscal year 2008. For the six months ended March 31, 2009, a 28% estimated effective tax rate was applied. The estimated effective tax rate is primarily the result of a difference between the actual and the expected distribution of profits across different countries.

The income tax provision was reduced by \$847 in the current quarter to adjust for a prior year item.

### ***Net Income***

Sirona's net income for the nine months ended June 30, 2009 was \$26.6 million, a decrease of \$8.0 million as compared with the nine months ended June 30, 2008. Net income included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to the Exchange and the MDP Transaction (deal related amortization and depreciation) of \$51.9 million (\$38.0 million net of tax), unrealized, non-cash foreign currency losses on the deferred income from the Patterson exclusivity payment of \$1.5 million (\$0.9 million net of tax) and revaluation losses on short-term intra-group loans of \$0.8 million (\$0.5 million net of tax). Sirona's net income for the nine month period ended June 30, 2008 included deal related amortization and depreciation of \$67.8 million (\$47.4 million net of tax), currency revaluation gains on the Patterson exclusivity payment of \$10.2 million (\$7.1 million net of tax) and revaluation gains on short-term intra-group loans of \$6.5 million (\$4.6 million net of tax).

The estimated effective tax rate for the third quarter of fiscal year 2009 is 24%, the same effective tax rate as for fiscal year 2008. For the six months ended March 31, 2009, a 28% estimated effective tax rate was applied. Option expense was \$11.6 million (\$8.5 million net of tax) in the first three quarters of 2009, compared to \$11.5 million (\$8.0 million net of tax) in the prior year period.

### ***Liquidity and Capital Resources***

Historically, Sirona's principal uses of cash, apart from operating requirements, including research and development expenses, have been for interest payments, debt repayment and acquisitions. Periodic capital expenditures have approximately equaled depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona's and Schick's assets and liabilities required under purchase accounting). Sirona's management believes that Sirona's working capital is sufficient for its present requirements.

**Table of Contents**

	Nine months ended	
	June 30, 2009	June 30, 2008
	\$ 000s	
Net cash provided by operating activities	\$ 75,411	\$ 50,942
Net cash used in investing activities	(9,697)	(27,371)
Net cash used in financing activities	(79,594)	(9,219)
 (Decrease)/Increase in cash during the period	 \$ (13,880)	 \$ 14,352

***Net Cash Provided by Operating Activities***

Net cash provided by operating activities represents net cash from operations, returns on investments, and payments for interest and taxation.

Net cash provided by operating activities was \$75.4 million for the nine months ended June 30, 2009, compared to \$50.9 million for the nine months ended June 30, 2008. The primary contributing factors to the increase in cash provided by operating activities were an increase in operating income, as well as lower tax and interest payments.

***Net Cash Used in Investing Activities***

For the nine months ended June 30, 2009, net cash used in investing activities represents cash used in capital expenditures in the course of normal operating activities, partly offset by proceeds from the disposal of long-lived assets and the proceeds from the sale of a sales and services subsidiary in Spain effective November 28, 2008. The primary contributors to the investing cash outflow for the nine months ended June 30, 2008 were capital expenditures in the course of normal operating activities.

***Net Cash Used in Financing Activities***

Net cash used in financing activities was \$79.6 million for the nine months ended June 30, 2009, compared to \$9.2 million for the nine months ended June 30, 2008. Net cash used in financing activities in the nine months ended June 30, 2009 relates to the prepayment of the senior debt repayment tranche originally scheduled for November 2009 in May 2009 in the amount of \$78.6 million, the repayment of a bank loan in China and the purchase of treasury shares under the stock repurchase program. Net cash used in financing activities in the nine months ended June 30, 2008 relates to the repayment of the utilized portion of the Company's revolving credit facility.

Sirona's management believes that Sirona's operating cash flows and available cash (including restricted cash), together with its long-term borrowings, will be sufficient to fund its working capital needs, research and development expenses (including but not limited to the acquired in-process research and development), anticipated capital expenditure and debt service requirements for the foreseeable future.

---

**Table of Contents**

***Capital Resources***

***Senior Term Loans***

On November 22, 2006, Sirona Dental Systems, Inc. entered into a senior credit facility (the "Senior Facilities Agreement") as original guarantor, with Schick Technologies, Inc., a New York company and wholly owned subsidiary of Sirona ("Schick NY"), as original borrower and original guarantor, with Sirona Dental Systems GmbH, as original borrower and original guarantor, with Sirona Dental Services GmbH, as original borrower and original guarantor and with Sirona Dental Systems LLC, Sirona Holding GmbH (subsequently merged with Sirona Dental Services GmbH) and with Sirona Immobilien GmbH as original guarantors. Initial borrowings under the Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement includes: (1) a term loan A1 in an aggregate principal amount of \$150 million (the "tranche A1 term loan") available to Sirona's subsidiary, Schick NY, as borrower; (2) a term loan A2 in an aggregate principal amount of Euro 275 million (the "tranche A2 term loan") available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a \$150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S. Dollar, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees since all guarantees are by entities that have the same functional currency as the currency in which the respective guaranteed borrowing is denominated.

Each of the senior term loans is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. The senior debt repayment tranche originally scheduled for November 24, 2009 was prepaid on May 11, 2009 in the amount of \$78.6 million. At the Company's current leverage multiples, the facilities bear interest at a margin of 55 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to our leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement). Interest rate swaps have been established for 66.6% of the interest until March 2010. As a result of the prepayment of the first senior debt tranche in May 2009 the percentage increased to 78.3%. The interest rate swaps fix the LIBOR or EURIBOR element of interest payable on 78.3% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively. The defined interest rates fixed for each twelve or thirteen month interest period range from 3.50% to 5.24%. Settlement of the swaps is required on a quarterly basis.

The Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, make investments (including in joint ventures), incur additional indebtedness, make acquisitions or pay dividends, subject to agreed-upon exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand.

Debt issuance costs of \$5.6 million were incurred in relation to the financing in November 2006 and were capitalized as deferred charges and are amortized using the effective interest method over the term of the loan.

**Table of Contents****Other Financial Data**

	Three months		Nine months	
	ended		ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
Net income	\$ 20,468	\$ 6,710	\$ 26,622	\$ 34,624
Net interest expense	5,331	6,645	16,988	20,046
Provision for income taxes	6,683	3,011	9,045	14,832
Depreciation	5,175	4,748	14,575	12,777
Amortization	17,692	23,598	52,905	68,716
 EBITDA	 \$ 55,349	 \$ 44,712	 \$ 120,135	 \$ 150,995

EBITDA is a non-GAAP financial measure that is reconciled to net income, its most directly comparable U.S. GAAP measure, in the accompanying financial tables. EBITDA is defined as net earnings before interest, taxes, depreciation, and amortization. Sirona's management utilizes EBITDA as an operating performance measure in conjunction with U.S. GAAP measures, such as net income and gross margin calculated in conformity with U.S. GAAP. EBITDA should not be considered in isolation or as a substitute for net income prepared in accordance with U.S. GAAP. There are material limitations associated with making the adjustments to Sirona's earnings to calculate EBITDA and using this non-GAAP financial measure. For instance, EBITDA does not include:

interest expense, and because Sirona has borrowed money in order to finance its operations, interest expense is a necessary element of its costs and ability to generate revenue;

depreciation and amortization expense, and because Sirona uses capital and intangible assets, depreciation and amortization expense is a necessary element of its costs and ability to generate revenue; and

tax expense, and because the payment of taxes is part of Sirona's operations, tax expense is a necessary element of costs and impacts Sirona's ability to operate.

In addition, other companies may define EBITDA differently. EBITDA, as well as the other information in this filing, should be read in conjunction with Sirona's consolidated financial statements and footnotes.

In addition to EBITDA, the accompanying financial tables also set forth certain supplementary information that Sirona believes is useful for investors in evaluating Sirona's underlying operations. This supplemental information includes gains/losses recorded in the periods presented which relate to the early extinguishment of debt, share based compensation, revaluation of U.S. Dollar-denominated exclusivity payment and borrowings where the functional currency is Euro, and the Exchange. Sirona's management believes that these items are either nonrecurring or noncash in nature, and should be considered by investors in assessing Sirona's financial condition, operating performance and underlying strength.

Sirona's management uses EBITDA together with this supplemental information as an integral part of its reporting and planning processes and as one of the primary measures to, among other things:

- (i) monitor and evaluate the performance of Sirona's business operations;

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

- (ii) facilitate management's internal comparisons of the historical operating performance of Sirona's business operations;
  
- (iii) facilitate management's external comparisons of the results of its overall business to the historical operating performance of other companies that may have different capital structures and debt levels;

**Table of Contents**

(iv) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and

(v) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.

Sirona's management believes that EBITDA and the supplemental information provided is useful to investors as it provides them with disclosures of Sirona's operating results on the same basis as that used by Sirona's management.

**Supplemental Information**

	Three months		Nine months	
	ended June 30,		ended June 30,	
	2009	2008	2009	2008
	\$ 000s		\$ 000s	
Share-based compensation	\$ 3,760	\$ 3,968	\$ 11,553	\$ 11,466
Unrealized, non-cash (gain)/loss on revaluation of the carrying value of the \$-denominated exclusivity fee	(4,813)	144	1,512	(10,221)
Unrealized, non-cash (gain)/loss on revaluation of the carrying value of short-term intra-group loans	(3,082)	(18)	830	(6,547)
	\$ (4,135)	\$ 4,094	\$ 13,895	\$ (5,302)

**Recently Issued Accounting Pronouncements**

See note 2 to the unaudited condensed consolidated financial statements for discussion of recently issued accounting pronouncements that have not yet been adopted.

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to the Company's market risk since September 30, 2008.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of June 30, 2009. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2009, the Company's disclosure controls and procedures were effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms.

**Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II.**

**ITEM 1. LEGAL PROCEEDINGS**

There are currently no material legal proceedings pending.

**ITEM 1A. RISK FACTORS**

There are no material changes from risk factors as previously disclosed by the Company in Part I, Item IA of its 2008 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The following Exhibits are included in this report:

<b>Exhibit No.</b>	<b>Item Title</b>
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

**Table of Contents**

**SIGNATURE**

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

Date: July 31, 2009

Sirona Dental Systems, Inc.

By: /s/ Simone Blank  
Simone Blank, Executive Vice President and Chief  
Financial Officer

(Principal Financial and Accounting Officer)

(Duly authorized signatory)