

SIRONA DENTAL SYSTEMS, INC.
Form 10-Q
August 02, 2013
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, 2013

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 its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

30-30 47th Avenue, Suite 500, Long Island City,

New York
(Address of principal executive offices)

Registrant's telephone number, including area code: (718) 482-2011

11-3374812
(I.R.S. Employer

Identification No.)

11101
(Zip Code)

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

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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 Exchange Act). Yes No

As of July 29, 2013, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 55,031,581.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED JUNE 30, 2013

Index

| | Page |
|---|-------------|
| Part I. | |
| <u>Financial Information (Unaudited)</u> | 1 |
| Item 1. | |
| <u>Financial Statements</u> | 1 |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2013 and September 30, 2012</u> | 1 |
| <u>Condensed Consolidated Statements of Income for the three and nine months ended June 30, 2013 and 2012</u> | 2 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and 2012</u> | 3 |
| <u>Consolidated Statement of Changes in Shareholders' Equity for the nine months ended June 30, 2013 and 2012</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012</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> | 27 |
| Item 3. | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 42 |
| Item 4. | |
| <u>Controls and Procedures</u> | 42 |
| Part II. | |
| <u>Other Information</u> | 43 |
| Item 1. | |
| <u>Legal Proceedings</u> | 43 |
| Item 1A. | |
| <u>Risk Factors</u> | 43 |
| Item 2. | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 43 |
| Item 3. | |
| <u>Defaults upon Senior Securities</u> | 43 |
| Item 4. | |
| <u>Mine Safety Procedures</u> | 44 |
| Item 5. | |
| <u>Other Information</u> | 44 |
| Item 6. | |
| <u>Exhibits</u> | 44 |
| <u>Signatures</u> | 45 |
| Certifications | |

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

(UNAUDITED)

| | Financial Statement Notes | June 30, 2013 (unaudited) \$ 000s (except per share amounts) | September 30, 2012 |
|--|---------------------------------|---|-----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 205,704 | \$ 151,088 |
| Restricted cash | | 157 | |
| Accounts receivable, net of allowance for doubtful accounts of \$1,465 and \$1,408, respectively | | 107,928 | 132,569 |
| Inventories, net | 6 | 108,925 | 81,007 |
| Deferred tax assets | 10 | 28,357 | 24,781 |
| Prepaid expenses and other current assets | | 28,446 | 17,622 |
| Income tax receivable | 10 | 2,031 | 2,213 |
| Total current assets | | 481,548 | 409,280 |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$146,573 and \$125,706, respectively | | 152,783 | 143,351 |
| Goodwill | 7 | 654,425 | 631,077 |
| Intangible assets, net of accumulated amortization of \$480,542 and \$446,447, respectively | 7 | 303,980 | 288,556 |
| Other non-current assets | | 4,111 | 9,382 |
| Deferred tax assets | 10 | 12,706 | 12,888 |
| Total assets | | \$ 1,609,553 | \$ 1,494,534 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities | | | |
| Trade accounts payable | | \$ 57,375 | \$ 51,961 |
| Short-term debt and current portion of long-term debt | 8 | 381 | 478 |
| Income taxes payable | 10 | 6,579 | 14,906 |
| Deferred tax liabilities | 10 | 674 | 817 |
| Accrued liabilities and deferred income | | 126,364 | 118,075 |
| Total current liabilities | | 191,373 | 186,237 |
| Long-term debt | 9 | 75,000 | 75,000 |
| Deferred tax liabilities | 10 | 129,583 | 122,441 |
| Other non-current liabilities | | 24,465 | 16,852 |
| Pension related provisions | 13 | 62,633 | 61,629 |
| Deferred income | | 32,500 | 40,000 |

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| | | |
|---|---------------------|---------------------|
| Total liabilities | 515,554 | 502,159 |
| Shareholders equity | | |
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding) | 0 | 0 |
| Common stock (\$0.01 par value; 95,000,000 shares authorized; 57,081,680 shares issued and 54,970,276 shares outstanding at Jun. 30, 2013; | | |
| 56,598,045 shares issued and 55,051,673 shares outstanding at Sept. 30, 2012 | 570 | 566 |
| Additional paid-in capital | 717,462 | 699,279 |
| Treasury stock (at cost) 2,111,404 shares held at cost at Jun. 30, 2013; | | |
| 1,546,372 shares held at cost at Sept. 30, 2012 | (105,091) | (69,058) |
| Excess of purchase price over predecessor basis | (49,103) | (49,103) |
| Retained earnings | 547,981 | 437,471 |
| Accumulated other comprehensive income/(loss) | 5 | (29,797) |
| Total Sirona Dental Systems, Inc. shareholders equity | 1,091,895 | 989,358 |
| Noncontrolling interests | 2,104 | 3,017 |
| Total shareholders equity | 1,093,999 | 992,375 |
| Total liabilities and shareholders equity | \$ 1,609,553 | \$ 1,494,534 |

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

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

(UNAUDITED)

| | Financial Statement Notes | Three months ended | | Nine months ended | |
|--|---------------------------------|------------------------------------|-------------------|------------------------------------|-------------------|
| | | June 30, | | June 30, | |
| | | 2013 | 2012 | 2013 | 2012 |
| | | \$ 000s (except per share amounts) | | \$ 000s (except per share amounts) | |
| Revenue | | \$ 283,157 | \$ 242,007 | \$ 822,887 | \$ 731,987 |
| Cost of sales | | 131,670 | 113,567 | 374,823 | 340,115 |
| Gross profit | | 151,487 | 128,440 | 448,064 | 391,872 |
| Selling, general and administrative expense | | 79,702 | 72,434 | 249,477 | 218,747 |
| Research and development | | 15,729 | 13,092 | 44,926 | 40,016 |
| Provision for doubtful accounts and notes receivable | | 148 | (504) | 765 | 263 |
| Net other operating income | | (2,500) | (2,500) | (11,914) | (7,500) |
| Operating income | | 58,408 | 45,918 | 164,810 | 140,346 |
| (Gain)/loss on foreign currency transactions, net | | 4,510 | 2,675 | 10,507 | 6,255 |
| (Gain)/loss on derivative instruments | 15 | (901) | 2,686 | 317 | 186 |
| Interest expense, net | | 788 | 866 | 2,588 | 2,783 |
| Other expense/(income) | | 362 | (218) | 1,044 | 272 |
| Income before taxes | | 53,649 | 39,909 | 150,354 | 130,850 |
| Income tax provision | 10 | 12,876 | 9,180 | 38,281 | 30,096 |
| Net income | | 40,773 | 30,729 | 112,073 | 100,754 |
| Less: Net income attributable to noncontrolling interests | | 223 | 431 | 1,563 | 1,658 |
| Net income attributable to Sirona Dental Systems, Inc. | | \$ 40,550 | \$ 30,298 | \$ 110,510 | \$ 99,096 |
| Income per share (attributable to Sirona Dental Systems, Inc. common shareholders): | 11 | | | | |
| - Basic | | \$ 0.74 | \$ 0.55 | \$ 2.01 | \$ 1.78 |
| - Diluted | | \$ 0.72 | \$ 0.53 | \$ 1.96 | \$ 1.74 |
| Weighted average shares - basic | | 55,002,236 | 55,507,312 | 55,053,713 | 55,721,869 |
| Weighted average shares - diluted | | 56,220,901 | 56,717,943 | 56,330,052 | 56,939,621 |

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

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

(UNAUDITED)

| | Financial Statement Notes | Three months ended June 30, | | Nine months ended June 30, | |
|---|---------------------------------|--------------------------------|--------------------|-------------------------------|------------------|
| | | 2013 | 2012 | 2013 | 2012 |
| | | \$ 000s | | \$ 000s | |
| Net income | | \$ 40,773 | 30,729 | \$ 112,073 | 100,754 |
| Other comprehensive income/(loss), net of tax: | 5 | | | | |
| Cumulative translation adjustment | | 15,983 | (44,121) | 8,996 | (51,526) |
| Net gain/(loss) on derivative financial instruments (hedging) | | 181 | (195) | 699 | (865) |
| Unrecognized elements of pension cost, net of tax | | 85 | 310 | (61) | 481 |
| Total other comprehensive income/(loss) | | 16,249 | (44,006) | 9,634 | (51,910) |
| Total comprehensive income/(loss) | | 57,022 | (13,277) | 121,707 | 48,844 |
| Less: Comprehensive income/(loss) attributable to noncontrolling interests | | 263 | 198 | 1,324 | 1,619 |
| Comprehensive income/(loss) attributable to Sirona Dental Systems, Inc. shareholders | | \$ 56,759 | \$ (13,475) | \$ 120,383 | \$ 47,225 |

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

| | Sirona Dental Systems, Inc. Shareholders | | | | | | | | | |
|--|--|---|----------------------------|---|---|-------------------|---|--|--------------------------|------------|
| | Common share capital | Number of shares issued and outstanding | Additional paid-in capital | Treasury Stock \$ 000s (except for amount of common shares issued) | Excess of purchase price over predecessor basis | Retained earnings | Accumulated other comprehensive income/(loss) | Total Sirona Dental Systems, Inc. Shareholders | Noncontrolling Interests | Total |
| Balances as of September 30, 2011 | \$ 563 | 55,815,323 | \$ 685,617 | \$ (19,749) | (49,103) | \$ 303,639 | \$ 11,309 | \$ 932,276 | \$ 3,644 | \$ 935,920 |
| Issuance of common stock upon exercise of options | 2 | 185,664 | 1,744 | | | | | 1,746 | | 1,746 |
| Purchase of treasury stock (at cost) | | (730,149) | | (32,732) | | | | (32,732) | | (32,732) |
| Stock compensation | | | 6,375 | | | | | 6,375 | | 6,375 |
| Tax effect of stock options exercised and net effect of vesting of RSUs/PSUs | | | (751) | | | | | (751) | | (751) |
| Purchase of shares from noncontrolling interest | | | 740 | | | | | 740 | (740) | |
| Dividend distribution to noncontrolling interest | | | | | | | | | (1,689) | (1,689) |
| Comprehensive income | | | | | | 99,096 | (51,871) | 47,225 | 1,619 | 48,844 |
| Balances as of June 30, 2012 | \$ 565 | 55,270,838 | \$ 693,725 | \$ (52,481) | (49,103) | \$ 402,735 | \$ (40,562) | \$ 954,879 | \$ 2,834 | \$ 957,713 |
| Balances as of September 30, 2012 | \$ 566 | 55,051,673 | \$ 699,279 | \$ (69,058) | (49,103) | \$ 437,471 | \$ (29,797) | \$ 989,358 | \$ 3,017 | \$ 992,375 |
| Issuance of common stock upon exercise of options and net effect of vesting of | 4 | 483,635 | 5,844 | | | | | 5,848 | | 5,848 |

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| | | | | | | | | | | |
|--|---------------|-------------------|-------------------|---------------------|-----------------|-------------------|--------------------|---------------------|-----------------|---------------------|
| RSUs/PSUs | | | | | | | | | | |
| Purchase of treasury stock (at cost) | | (565,032) | | (36,033) | | | (36,033) | | | (36,033) |
| Stock compensation | | 10,651 | | | | | 10,651 | | | 10,651 |
| Tax effect of stock options exercised and net effect of vesting of RSUs/PSUs | | | 2,272 | | | | 2,272 | | | 2,272 |
| Purchase of shares from noncontrolling interest | | | (584) | | | | (584) | (802) | | (1,386) |
| Dividend distribution to noncontrolling interest | | | | | | | | (1,435) | | (1,435) |
| Comprehensive income | | | | | 110,510 | 9,873 | 120,383 | 1,324 | | 121,707 |
| Balances as of June 30, 2013 | \$ 570 | 54,970,276 | \$ 717,462 | \$ (105,091) | (49,103) | \$ 547,981 | \$ (19,924) | \$ 1,091,895 | \$ 2,104 | \$ 1,093,999 |

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, 2013 2012 \$ 000s | |
|---|--|-----------------|
| Cash flows from operating activities | | |
| Net income | \$ 112,073 | \$ 100,754 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 55,523 | 58,107 |
| (Gain)/loss on disposal of property, plant and equipment | 93 | |
| (Gain)/loss on derivative instruments | 317 | 186 |
| (Gain)/loss on foreign currency transactions | 10,507 | 6,255 |
| Deferred income taxes | 1,939 | (11,079) |
| Amortization of debt issuance cost | 415 | 491 |
| Share-based compensation expense | 10,651 | 6,375 |
| Changes in assets and liabilities | | |
| Accounts receivable | 21,253 | (25,939) |
| Inventories | (31,821) | (1,503) |
| Prepaid expenses and other current assets | (10,907) | 3,528 |
| Restricted cash | (172) | 646 |
| Other non-current assets | (226) | (252) |
| Trade accounts payable | 5,334 | (6,239) |
| Accrued liabilities and deferred income | (9,380) | (14,928) |
| Other non-current liabilities | 2,832 | 818 |
| Income taxes receivable | 205 | 1,167 |
| Income taxes payable | (8,616) | 5,631 |
| Net cash provided by operating activities | 160,020 | 124,018 |
| Cash flows from investing activities | | |
| Investment in property, plant and equipment | (35,634) | (29,675) |
| Proceeds from sale of property, plant and equipment | 83 | |
| Prepayments for other assets | | (4,612) |
| Purchase of intangible assets | (42) | (82) |
| Purchase of long-term investments | | (48) |
| Acquisition of business, net of cash acquired | (35,019) | |
| Net cash used in investing activities | (70,612) | (34,417) |

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, | |
|---|-------------------------------|-------------------|
| | 2013 | 2012 |
| | \$ 000s | |
| Cash flows from financing activities | | |
| Repayments of short-term and long-term debt | (98) | (433,093) |
| Proceeds from borrowings | | 141,297 |
| Purchase of treasury stock | (36,033) | (32,732) |
| Debt issuance cost | | (2,765) |
| Purchase of shares from noncontrolling interest | (1,386) | |
| Dividend distributions to noncontrolling interest | (1,435) | (1,698) |
| Common shares issued under share based compensation plans | 5,844 | 1,744 |
| Tax effect of common shares issued under share based compensation plans | (1,123) | (1,067) |
| Net cash used in financing activities | (34,231) | (328,314) |
| Change in cash and cash equivalents | 55,177 | (238,713) |
| Effect of exchange rate change on cash and cash equivalents | (561) | (2,546) |
| Cash and cash equivalents at beginning of period | 151,088 | 345,859 |
| Cash and cash equivalents at end of period | \$ 205,704 | \$ 104,600 |
| Supplemental information | | |
| Interest paid | \$ 2,283 | \$ 2,005 |
| Interest capitalized | 135 | 203 |
| Income taxes paid | 49,648 | 32,460 |
| Acquisition of business | | |
| Current assets | \$ 5,185 | \$ |
| Non-current assets | 61,237 | |
| Current liabilities | (7,835) | |
| Non-current liabilities | (11,951) | |
| | 46,636 | |
| Cash paid | (36,673) | |
| Settlement of balances | (4,544) | |
| Fair value of liabilities incurred | \$ 5,419 | \$ |

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, the Company, we, us, and our refer to Sirona Dental Systems, Inc. and its consolidated subsidiaries) is a leading manufacturer of high-quality, technologically advanced dental equipment, and is focused on developing, manufacturing and marketing innovative systems and solutions for dentists around the world. We offer a broad range of products across all major segments of the dental technology market including CEREC and our other CAD/CAM systems, digital intra oral and 2D and 3D panoramic imaging systems, treatment centers and instruments. The Company acquired Schick Technologies, Inc. (Schick) in 2006, in a transaction accounted for as a reverse acquisition (the Exchange), further expanding our global presence and product offerings and strengthening our research and development capabilities. On October 1, 2012, Schick was merged with and into a new Sirona subsidiary named Sirona Dental, Inc. (Sirona Dental), a Delaware corporation. Sirona has served equipment dealers and dentists worldwide for more than 130 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 and service facilities located around the globe.

Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (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, 2012.

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, 2013, and the results of operations and cash flows for the nine months ended June 30, 2013 and 2012, respectively, as applicable to interim periods have been made. The results of operations for the nine months ended June 30, 2013 are not necessarily indicative of the operating results for the full fiscal year or future periods.

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. The Company applies the equity method of accounting for investments in associated companies over which the Company has significant influence but does not have effective control.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. Recently Issued Accounting Pronouncements Adopted

Comprehensive Income

On October 1, 2012, the Company adopted the new accounting guidance for reporting comprehensive income (CI) (ASU 2011-05, *Presentation of Comprehensive Income*). This new guidance requires that all non-owner changes in shareholders' equity be presented either (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements. As a result, the Company reported all such changes in two separate, consecutive statements: Condensed Consolidated Statements of Income and Condensed Consolidated Statement of Comprehensive Income (CI Statement). The Company previously reported these items in its Consolidated Statement of Changes in Equity (Equity Statement). As a result of adoption, this detailed information was moved from the Equity Statement to the new and separate CI Statement. The details for these items (category and type of change, current period movements, and related tax effects) are reported separately in Note 5 to the consolidated financial statements. All related disclosures have been adjusted accordingly. Prior year amounts and presentation associated with non-owner changes in shareholders' equity have been adjusted accordingly to conform to the adoption.

3. Business Acquisitions

On October 8, 2012, the Company acquired 100% of the outstanding shares of capital stock of a technology company that develops and manufactures dental products. The results of its operations have been included in the consolidated financial statements since this date. The results were not material to the consolidated financial statements.

The fair value of total consideration transferred for this acquisition totaled \$46.6 million, consisting of cash of \$36.7 million, settlements of prior balances, and contingent consideration arrangements. The contingent consideration arrangements require the Company to pay the former owners additional amounts contingent upon revenue milestones. These contingent arrangements provide for payments ranging from \$0 up to a total of \$13.0 million over the expected life cycle of the company's major product. The fair value of the contingent arrangements at acquisition date was \$5.4 million and will be remeasured through settlement, with changes in fair value recorded in income (amounts included in Note 16). The fair value of the contingent arrangements as of June 30, 2013, was \$5.9 million, with the change in fair value of \$0.5 million recorded in other (income)/expense in the income statement for the nine months ended June 30, 2013.

4. Employee Share-Based Compensation

ASC 718, *Compensation - Stock Compensation*, requires that all share based compensation arrangements, including grants of stock option awards to employees, be recognized based on the estimated fair value of the share-based payment award.

Equity Incentive Plan

Stock options, restricted stock shares, restricted stock units (RSU), and performance-based stock units (PSU) have been issued to employees, directors, and consultants under the Company's 2006 Equity Incentive Plan (2006 Plan). The 2006 Plan provides for granting in total up to 4,550,000 stock options, incentive stock, restricted stock shares, RSU s, and PSU s. The 2006 Plan received stockholder approval at the Company's Annual Meeting of Stockholders held on February 27, 2007, and was amended on February 25, 2009. To cover the exercise of options and vesting of RSU s and PSU s, the Company generally issues new shares from its authorized but unissued share pool. As of June 30, 2013, 773,325 shares were available for future grant under the 2006 Plan.

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

Restricted and Performance-Based Stock Units

In the nine months ended June 30, 2013, the Company granted 180,036 RSU s with an average value of \$ 63.19, representing the average of closing prices of the Company s common stock at grant dates.

RSU s and PSU s generally vest in annual tranches over a period of three to four years. The PSU s were granted to three executive officers of the Company and vest three years from the date of the grant provided the Company achieves earnings targets specified in the grant. All grants expire ten years after the date of the grant. RSU s and PSU s do not have voting rights or rights to dividends prior to vesting. The value of each RSU and PSU grant is determined by the closing price at the date of grant. Share-based compensation expense for the entire award is recognized straight-line over the service period of the last separately vesting tranche of the award.

Stock Options

In the nine months ended June 30, 2013, the Company granted 154,500 stock options with a weighted average exercise price of \$63.45 and weighted average fair value of \$21.74 at the grant date. Grants generally vest over four years. All grants expire ten years after the date of the grant.

The fair value of options granted under the 2006 Plan were estimated using the Black-Scholes option pricing model using assumptions in the following table. The exercise price is equal to the fair market value of Sirona s stock at the grant date. Expected volatility is based on the Company s history stock price volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the day of grant and has a term equal to the expected life of the option. 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.

| | Nine months ended | Year ended |
|---------------------|--------------------------|---------------------------|
| | June 30, 2013 | September 30, 2012 |
| Expected Volatility | 38.23% | 39.17% |
| Risk-free rate | 0.70% | 0.91% |
| Expected term | 5 years | 5 years |
| Expected dividends | | |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

Compensation Costs

The following table summarizes compensation expense charged to income for stock-based compensation and additional information for the three and nine months ended June 30, 2013:

| Compensation Expense | Three months ended June 30, | | Nine months ended June 30, | |
|--|------------------------------------|-------------|-----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Cost of sales | \$ 35 | \$ 27 | \$ 102 | \$ 85 |
| Selling, general and administrative ⁽¹⁾ | 2,230 | 2,029 | 10,447 | 6,192 |
| Research and development | 34 | 29 | 102 | 98 |
| | \$ 2,299 | \$ 2,085 | \$ 10,651 | \$ 6,375 |

⁽¹⁾ For the nine months ended June 30, 2013, this includes the compensation charge from the first quarter of \$3,764 for the modification of share based awards in connection with the Transition Agreement for the departing CEO and Chairman.

| | Three months ended June 30, 2013 \$ 000s (except where noted) | Nine months ended June 30, 2013 \$ 000s (except where noted) |
|--|--|---|
| Additional Information | | |
| Tax Information | | |
| Income tax benefit recognized for share-based compensation | \$ (762) | \$ (3,081) |
| Tax benefit realized from share-based compensation | \$ (3,383) | \$ (7,777) |
| Future Costs | | |
| Total compensation cost to be recognized in future periods related to outstanding non-vested share-based compensation awards | | \$ 22,000 |
| Weighted-average period expected for recognition of cost (in years) | | 2.9 |

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Restricted and Performance-Based Stock Unit Activity

The following is a summary of Sirona's RSU and PSU activity for the nine months ended June 30, 2013:

| | Nine months ended June 30, 2013 | | | |
|------------------------------------|---------------------------------|--|-------------------------------|--|
| | Restricted stock units | | Performance-based stock units | |
| | Number of shares | Weighted average market price at grant | Number of shares | Weighted average market price at grant |
| Outstanding at beginning of period | 585,187 | \$ 38.47 | 13,000 | \$ 36.78 |
| Granted | 180,036 | 63.19 | | |
| Vested | (154,792) | 37.11 | | |
| Forfeited | (34,506) | 40.97 | | |
| Outstanding at end of period | 575,925 | 46.41 | 13,000 | 36.78 |

Stock Option Activity

The following is a summary of Sirona's stock option activity for the nine months ended June 30, 2013:

| | Nine months ended June 30, 2013 | |
|---|---------------------------------|---------------------------------|
| | Number of options | Weighted average exercise price |
| Outstanding at beginning of period | 2,157,113 | \$ 17.63 |
| Granted | 154,500 | 63.45 |
| Exercised | (381,476) | 15.49 |
| Forfeited | (21,290) | 42.17 |
| Outstanding at end of period | 1,908,847 | 21.49 |
| <i>thereof vested and exercisable</i> | <i>1,600,628</i> | |
| | | \$ 000s |
| Intrinsic value of options exercised | | \$ 20,340 |
| Total fair value of options vested | | \$ 2,033 |
| Aggregate intrinsic value of exercisable stock options | | \$ 80,291 |
| Weighted average remaining contractual life (<i>in years</i>) | | 3.6 |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

5. Accumulated Other Comprehensive Income/(Loss)

| | Cumulative translation adjustments | For the three months ended June 30, 2013 | | | Total |
|--|--|---|---|-------------|-------|
| | | Unrecognized elements of pension cost | Net gain/(loss) from hedging instruments | | |
| | | | \$ 000s | | |
| Balance at beginning of period | \$ (40,725) | \$ 5,332 | \$ (1,027) | \$ (36,420) | |
| Current increase / (decrease) | 15,983 | 118 | 778 | 16,879 | |
| Income tax (expense) / benefit | | (33) | (310) | (343) | |
| Balance at end of period | (24,742) | 5,417 | (559) | (19,884) | |
| Less: Other comprehensive income/(loss) attributable to noncontrolling interests, net of tax | 40 | | | 40 | |
| Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders | \$ (24,782) | \$ 5,417 | \$ (559) | \$ (19,924) | |
| | | For the three months ended June 30, 2012 | | | |
| | Cumulative translation adjustments | Unrecognized elements of pension cost | Net gain/(loss) from hedging instruments | | Total |
| | | | \$ 000s | | |
| Balance at beginning of period | \$ 8,408 | \$ (4,527) | (670) | 3,211 | |
| Current increase / (decrease) | (44,121) | 428 | (195) | (43,888) | |
| Income tax (expense) / benefit | | (118) | | (118) | |
| Balance at end of period | (35,713) | \$ (4,217) | (865) | (40,795) | |
| Less: Other comprehensive income/(loss) attributable to noncontrolling interests, net of tax | (233) | | | (233) | |
| Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders | \$ (35,480) | \$ (4,217) | \$ (865) | \$ (40,562) | |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

| | Cumulative translation adjustments | For the nine months ended June 30, 2013 | | Total |
|---|--|---|---|-------------|
| | | Unrecognized elements of pension cost | Net gain/(loss) from hedging instruments \$ 000s | |
| Balance at beginning of period | \$ (34,017) | \$ 5,478 | \$ (1,258) | \$ (29,797) |
| Current increase / (decrease) | 8,996 | (11) | 1,164 | 10,149 |
| Income tax (expense) / benefit | | (50) | (465) | (515) |
| Balance at end of period | (25,021) | 5,417 | (559) | (20,163) |
| Less: Other comprehensive income/(loss) attributable to noncontrolling interests, net of tax | (239) | | | (239) |
| Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders | \$ (24,782) | \$ 5,417 | \$ (559) | \$ (19,924) |

| | Cumulative translation adjustments | For the nine months ended June 30, 2012 | | Total |
|---|--|---|--|-------------|
| | | Unrecognized elements of pension cost | Net gain/(loss) from hedging instruments \$ 000s | |
| Balance at beginning of period | \$ 16,007 | \$ (4,698) | \$ | \$ 11,309 |
| Current increase / (decrease) | (51,526) | 664 | (865) | (51,727) |
| Income tax (expense) / benefit | | (183) | | (183) |
| Balance at end of period | (35,519) | \$ (4,217) | (865) | (40,601) |
| Less: Other comprehensive income/(loss) attributable to noncontrolling interests, net of tax | (39) | | | (39) |
| Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders | \$ (35,480) | \$ (4,217) | \$ (865) | \$ (40,562) |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

6. Inventories, net

| | June 30, 2013 | September 30, 2012 |
|-------------------|-------------------|-----------------------|
| | \$ 000s | |
| Finished goods | \$ 74,315 | \$ 50,878 |
| Work in progress | 12,331 | 12,349 |
| Raw materials | 38,291 | 29,561 |
| | 124,937 | 92,788 |
| Inventory reserve | (16,012) | (11,781) |
| | \$ 108,925 | \$ 81,007 |

7. Intangible Assets and Goodwill

| | Gross | Accumulated amortization \$ 000s | Net |
|---|---------------------|--|-------------------|
| As of June 30, 2013 | | | |
| Patents & Licenses | \$ 146,594 | \$ 93,251 | \$ 53,343 |
| Trademarks | 127,408 | 833 | 126,575 |
| Technologies and dealer relationships | 480,959 | 386,458 | 94,501 |
| In-process research & development (IPR&D) | 29,561 | | 29,561 |
| | 784,522 | 480,542 | 303,980 |
| Goodwill | 654,425 | | 654,425 |
| Total intangible assets | \$ 1,438,947 | \$ 480,542 | \$ 958,405 |

| | Gross | Accumulated amortization \$ 000s | Net |
|---|------------|--|-----------|
| As of September 30, 2012 | | | |
| Patents & Licenses | \$ 134,251 | \$ 83,241 | \$ 51,010 |
| Trademarks | 126,245 | 728 | 125,517 |
| Technologies and dealer relationships | 434,166 | 362,478 | 71,688 |
| In-process research & development (IPR&D) | 40,341 | | 40,341 |
| | 735,003 | 446,447 | 288,556 |

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| | | | |
|--------------------------------|---------------------|-------------------|-------------------|
| Goodwill | 631,077 | | 631,077 |
| Total intangible assets | \$ 1,366,080 | \$ 446,447 | \$ 919,633 |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

The change in the value of goodwill from September 30, 2012 to June 30, 2013, is attributable to (i) foreign currency fluctuations, with an impact of \$5,263, (ii) the acquisition of a technology company in the first quarter of fiscal year 2013, which resulted in \$18,167 of goodwill based on preliminary estimates, and (iii) a reduction in goodwill by \$(81) as a result of tax benefits received subsequent to the Exchange for options that were vested and included in the determination of purchase price at the time of that acquisition.

Aside from normal amortization for the current fiscal year, the change in the value of intangible assets, excluding goodwill and the acquired IPR&D, from September 30, 2012 to June 30, 2013, is mainly attributable to (i) acquired patents and developed technology in connection with the acquisition of a technology company in the first quarter of fiscal year 2013 with an impact of \$10,633 and \$3,078, respectively, and (ii) foreign currency fluctuations, with an impact of \$2,563.

The change in IPR&D during the period resulted from (i) the acquisition of a technology company in the first quarter of fiscal year 2013 and (ii) the realization and commercialization in the current quarter of the single project that was in process at September 30, 2012 with a carrying value of \$40.3 million, which was reclassified as a technology asset during the current period. The total fair value of IPR&D of \$29.6 million as of June 30, 2013 represented a single project. The remaining estimated cost to complete the project was \$2.5 million. The project is 55% through the development phase; the remaining steps prior to product release are further development, prototype finalization and testing, integration and field testing, and regulatory approvals. The percentage of completion for the full project is 40%, and we anticipate project completion in the first half of 2015.

8. Short-Term Debt and Current Portion of Long-Term Debt

The components of short-term debt are as follows:

| | June 30, 2013 | September 30, 2012 |
|------------------------------------|------------------|-----------------------|
| | \$ 000s | |
| Accrued interest on long-term debt | 270 | 270 |
| Other short-term debt | 111 | 208 |
| | \$ 381 | \$ 478 |

9. Long-Term Debt

The components of long-term debt are as follows:

| | June 30, 2013 | September 30, 2012 |
|---|------------------|-----------------------|
| | \$ 000s | |
| New Senior Term Loan (Facility A Term Loan, variable rate) repayable in two installments in November 2015 and November 2016 | \$ 75,270 | \$ 75,270 |

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Actual interest rate as of June 30, 2013: 2.8875%

| | | |
|----------------------|------------------|------------------|
| | 75,270 | 75,270 |
| Less current portion | 270 | 270 |
| | \$ 75,000 | \$ 75,000 |

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Senior Term Loans

New Senior Facilities Agreement

On November 14, 2011, the Company entered into a new senior facilities agreement (the *New Senior Facilities Agreement*) with Sirona Dental Systems, Inc. and all significant subsidiaries of Sirona as original borrowers and original guarantors. As of November 16, 2011, Sirona fully repaid its obligations under the Prior Senior Facilities Agreement. Initial borrowings under the New Senior Facilities Agreement were used to retire the outstanding borrowings under the Company's previous credit facilities.

The New Senior Facilities Agreement includes: (1) a term loan in an aggregate principal amount of \$75 million (the *Facility A Term Loan*) available to Sirona or Sirona Dental, as borrower; (2) a 120 million Euro revolving credit facility (*Revolving Facility B*) available to Sirona Dental Systems GmbH and Sirona Dental Services GmbH, as initial borrowers; and (3) a \$100 million revolving credit facility (*Revolving Facility C*) available to Sirona or Sirona Dental, as initial borrowers. The Revolving Facility B is available for borrowing in Euro 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.

Of the amount borrowed under the Facility A Term Loan, 30% is due on November 16, 2015, and the balance is due on November 16, 2016. The loans under the New Senior Facilities Agreement bear interest of EURIBOR, for Euro-denominated loans, and LIBOR for the other loans, plus an initial margin of 160, 85 and 110 basis points for the Facility A Term Loan, Revolving Facility B and Revolving Facility C, respectively.

The New Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from March 31, 2012 onwards, the applicable margin varies depending on the Company's leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the New Senior Facilities Agreement) between 160 basis points and 215 basis points for the Facility A Term Loan, 85 basis points and 140 basis points for the Revolving Facility B, and 110 basis points and 165 basis points for the Revolving Facility C.

The New Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, to incur additional indebtedness, and to make disposals, 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 consolidated total net debt to consolidated adjusted EBITDA. If the Company breaches these covenants, the loans will become repayable on demand.

On November 16, 2011, Sirona entered into 5-year payer interest rate swaps to fully hedge its 3-month LIBOR exposure for the Facility A Term Loan. The terms of the swap reflect the term structure of the underlying loan. The effective nominal interest rate is 1.2775% plus the applicable margin. Settlement of the swaps is required on a quarterly basis.

Debt issuance costs of \$2.8 million were incurred in relation to the financing in November 2011 and have been capitalized as deferred charges and are amortized using the effective interest method over the term of the loans.

Prior Senior Facilities Agreement

On November 22, 2006, Sirona Dental Systems, Inc. entered into a Senior Facilities Agreement (the *Prior Senior Facilities Agreement*) as original guarantor, with all significant subsidiaries of Sirona as original borrowers and original guarantors. Initial borrowings under the Prior Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The senior debt repayment tranche originally scheduled for November 24, 2011 was repaid on November 16, 2011 in connection with the Company's New Senior Facilities Agreement, discussed above. At the Company's current Debt Cover Ratio, the loans under the Prior Senior Facilities Agreement bore interest of EURIBOR, for Euro-denominated loans, and LIBOR for the other loans, plus a margin of 45 basis points

for both.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

10. Income Taxes

For the first nine months of fiscal year 2013, an estimated effective tax rate of 24% has been applied. The income tax provision for the first nine months ended June 30, 2013, was \$38.3 million and includes a tax expense of \$2.2 million from a non-cash remeasurement of deferred tax assets and liabilities resulting from a local trade tax rate increase at our principal German operations, which was enacted in and effective beginning in the first quarter of fiscal year 2013. For the first nine months of fiscal year 2012, a 23% estimated effective tax rate was applied, and the actual effective tax rate for fiscal year 2012 was 24%.

The Company's effective tax rate may vary significantly from period to period, and can be influenced by many factors. These factors include, but are not limited to, changes to statutory tax rates in the jurisdictions where the Company has operations, changes in the mix of earnings amongst jurisdictions with differing statutory tax rates (including as a result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns, tax planning initiatives, tax characteristics of income, as well as the timing and deductibility of expenses for tax purposes. The Company's effective tax rate differs from the U.S. federal statutory rate of 35% primarily as a result of lower statutory tax rates on foreign earnings at the Company's operations outside of the United States. The distribution of lower-taxed foreign earnings to the U.S. would generally increase the Company's effective tax rate.

With limited exception, the Company and its subsidiaries are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by taxing authorities for tax returns filed with respect to periods prior to fiscal year 2009.

The Company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of June 30, 2013, it remained management's intention to continue to indefinitely reinvest such earnings in operations outside of the United States. In making this determination, the Company also evaluates its expected cash requirements in the United States. These foreign earnings relate to ongoing operations and, as of June 30, 2013, the approximate amount of undistributed foreign earnings amounted to \$374 million. Because of the availability of U.S. foreign tax credits as well as other factors, it is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

11. Income per Share

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

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|------------------------------------|------------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s (except for share amounts) | | \$ 000s (except for share amounts) | |
| Net income attributable to Sirona Dental Systems, Inc. common shareholders | \$ 40,550 | \$ 30,298 | \$ 110,510 | \$ 99,096 |
| Weighted average shares outstanding - basic | 55,002,236 | 55,507,312 | 55,053,713 | 55,721,869 |
| Dilutive effect of stock-based compensation | 1,218,665 | 1,210,631 | 1,276,339 | 1,217,752 |
| Weighted average shares outstanding - diluted | 56,220,901 | 56,717,943 | 56,330,052 | 56,939,621 |
| Net income per share | | | | |
| Basic | \$ 0.74 | \$ 0.55 | \$ 2.01 | \$ 1.78 |
| Diluted | \$ 0.72 | \$ 0.53 | \$ 1.96 | \$ 1.74 |

There were no stock options excluded from the computation of diluted earnings per share for the three and nine months ended June 30, 2013 and June 30, 2012.

12. Product warranty

The following table provides the changes in the product warranty accrual for the three and nine months ended June 30, 2013 and 2012:

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|----------|----------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Balance at beginning of the period | \$ 8,660 | \$ 9,103 | \$ 8,482 | \$ 8,735 |
| Accruals for warranties issued during the period | 5,088 | 3,786 | 14,253 | 13,326 |
| Warranty settlements made during the period | (4,224) | (4,098) | (13,157) | (13,180) |
| Translation adjustment | 157 | (437) | 103 | (527) |
| Balance at end of the period | \$ 9,681 | \$ 8,354 | \$ 9,681 | \$ 8,354 |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

13. Pension Plans

Components of net periodic benefit costs are as follows:

| | Three months ended June 30, | | Nine months ended June 30, | |
|---------------------------------------|-----------------------------|--------|----------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Service cost, net | \$ 50 | \$ 52 | \$ 151 | \$ 160 |
| Interest cost | 539 | 601 | 1,619 | 1,845 |
| Amortization of actuarial (gain)/loss | 32 | (76) | 96 | (233) |
| Net periodic benefit cost | \$ 621 | \$ 577 | \$ 1,866 | \$ 1,772 |

14. Net Other Operating Income

The components of net other operating income for the periods under report are as follows:

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|----------|----------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment | \$ 2,500 | \$ 2,500 | \$ 7,500 | \$ 7,500 |
| Gain from patent infringement settlement | | | 4,414 | |
| | \$ 2,500 | \$ 2,500 | \$ 11,914 | \$ 7,500 |

The gain from a patent infringement settlement for the nine months ended June 30, 2013, represents amounts received related to prior years.

15. 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.

The Company is exposed to interest rate risk associated with fluctuations in the interest rates on its variable interest rate debt. These fluctuations can have a significant impact on the Company's earnings, depending upon its interest rate exposure. In order to manage this risk, the Company enters into interest rate swap agreements, when appropriate, based upon market conditions.

Although the U.S. Dollar is Sirona's reporting currency, its functional currency varies depending on the country of operation, which exposes the Company to market risk associated with foreign currency exchange rate movements. The Company's policy generally is to hedge major foreign currency transaction exposure through foreign exchange forward contracts.

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

Cash Flow Hedges

The Company uses interest rate swaps to convert a portion of its debt's variable interest rate to a fixed interest rate. These swaps are designated as hedging instruments under ASC 815. Interest rate swaps have been established for 100% of the interest until November 2016. The interest rate swaps fix the LIBOR element of interest payable on 100% of the principal amount of the Facility A Term Loan for defined three month interest periods over the entire term of the loan. The defined interest rates fixed for each three month interest period range from 1.270% to 1.285%. Settlement of the swaps is required on a quarterly basis. The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes.

The Euro is the functional currency for many of Sirona's subsidiaries, including its primary sales and manufacturing operations in Germany. 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 (USD, AUD, and JPY). The Company enters into forward contracts that are considered to be economic hedges but which are not considered hedging instruments under ASC 815. As of June 30, 2013, these contracts had notional amounts totaling \$51.0 million. These agreements are relatively short-term (generally six months).

The fair value carrying amount of the Company's derivative instruments at June 30, 2013 is described in Note 16 Fair Value Measurements.

The following tables summarize the impact of gains and losses from the fair value changes of the Company's derivative instruments reported in our condensed consolidated statements of income for the three and nine months ended June 30, 2013 and 2012:

Derivatives Designated as Cash Flow Hedging

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|------------------------------|---|--------|---|-------|
| | 2013 | 2012 | 2013 | 2012 |
| | Amount of (Gain)/Loss Recognized in Accumulated Other Comprehensive Income \$ 000s | | Amount of (Gain)/Loss Recognized in Accumulated Other Comprehensive Income \$ 000s | |
| Interest rate swap contracts | \$ (778) | \$ 771 | \$ (1,164) | 1,441 |

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

Derivatives Not Designated as Hedging Instruments

| | Location of (Gain)/Loss Recognized in Income on Derivative | For the three months ended June 30, | | For the nine months ended June 30, | |
|----------------------------|--|---|---|--|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | | Amount of (Gain)/Loss Recognized in Income on Derivative | Amount of (Gain)/Loss Recognized in Income on Derivative | Amount of (Gain)/Loss Recognized in Income on Derivative | Amount of (Gain)/Loss Recognized in Income on Derivative |
| | | \$ 000s | | \$ 000s | |
| Foreign exchange contracts | (Gain)/Loss on derivative instruments, net | (901) | 2,686 | 317 | 186 |
| Total | | \$ (901) | \$ 2,686 | \$ 317 | \$ 186 |

16. Fair Value Measurements

The Company applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 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.

ASC 820 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. ASC 820 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.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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, 2013 and September 30, 2012:

| | June 30, 2013 | | | Total |
|--|---|--|--|------------------|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) Foreign Exchange | Significant Unobservable Inputs (Level 3) | |
| | | | | |
| Assets | | | | |
| Cash Equivalents | | | | |
| (money market funds) | \$ 112,299 | \$ | \$ | \$ 112,299 |
| Derivative Assets | | 560 | | 560 |
| Liabilities | | | | |
| Derivative Liabilities | | (468) | | (468) |
| Business Acquisition-related liabilities | | | (14,392) | (14,392) |
| Total | \$ 112,299 | \$ 92 | \$ (14,392) | \$ 97,999 |

| | September 30, 2012 | | | Total |
|----------------------|---|--|--|-----------|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) Foreign Exchange | Significant Unobservable Inputs (Level 3) | |
| | | | | |
| Assets | | | | |
| Cash Equivalents | | | | |
| (money market funds) | \$ 84,216 | \$ | \$ | \$ 84,216 |
| Derivative Assets | | 730 | | 730 |

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Liabilities

| | | | | |
|--|-----------|--------|------------|-----------|
| Derivative Liabilities | | (356) | | (356) |
| Business Acquisition-related liabilities | | | (7,864) | (7,864) |
| Total | \$ 84,216 | \$ 374 | \$ (7,864) | \$ 76,726 |

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The change in the fair value of the business acquisition-related liabilities was \$6.5 million, of which \$5.7 million resulted from the business acquisition in the first quarter of the current fiscal year, and a total for all acquisitions of \$0.3 million and \$1.0 million was recorded in other (income)/expense in the income statement for the three and nine months ended June 30, 2013, respectively.

In the Company's June 30, 2013 and September 30, 2012 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.

The Company did not elect the fair value option for any other eligible financial instruments.

Fair value of financial instruments

Financial instruments consist of cash, cash equivalents, accounts receivable, accounts payable, foreign currency forward contracts, interest rate swaps, and certain liabilities related to business acquisitions primarily resulting from earn-out features. The carrying amounts of cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values because of the short maturity and nature of these items. The fair value of the foreign currency forward contracts and interest rate swaps is determined by the estimated cash flows of those contracts and swaps. The fair values of the acquisition-related liabilities are based on discounted valuations of commercial assumptions made by Company management of stipulations governed in the underlying purchase agreements.

17. Segment Reporting

The following tables reflect 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 (Segment Performance Measure) excluding the impact of the acquisition of control of the Sirona business by Sirona Holdings Luxco S.C.A. (Luxco) the former controlling shareholder, 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 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 impacts that the Company does not believe are representative of the performance of the segments. Starting in fiscal year 2013, the Electronic Center has been outsourced; therefore, an intercompany elimination is no longer required. 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.

Table of Contents**SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

| | Three months ended June 30, | | Nine months ended June 30, | |
|------------------------------------|-----------------------------|-------------------|----------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Revenue External | | | | |
| Dental CAD/CAM Systems | \$ 102,865 | \$ 85,415 | \$ 302,078 | \$ 255,202 |
| Imaging Systems | 100,214 | 82,120 | 280,846 | 251,399 |
| Treatment Centers | 53,736 | 48,773 | 161,802 | 146,474 |
| Instruments | 26,342 | 25,204 | 78,161 | 77,921 |
| Total | 283,157 | 241,512 | 822,887 | 730,996 |
| Electronic center | | 495 | | 991 |
| Total | \$ 283,157 | \$ 242,007 | \$ 822,887 | \$ 731,987 |
| Revenue Internal | | | | |
| Dental CAD/CAM Systems | \$ | \$ | \$ | \$ |
| Imaging Systems | 1 | 3 | (1) | 15 |
| Treatment Centers | 1 | 2 | 4 | 6 |
| Instruments | 2,990 | 2,672 | 9,941 | 8,634 |
| Intercompany elimination | (2,992) | (2,677) | (9,944) | (8,655) |
| Total | | | | |
| Electronic center | | 5,245 | | 17,684 |
| Intercompany elimination | | (5,245) | | (17,684) |
| Total | \$ | \$ | \$ | \$ |
| Revenue Total | | | | |
| Dental CAD/CAM Systems | \$ 102,866 | \$ 85,415 | \$ 302,078 | \$ 255,202 |
| Imaging Systems | 100,214 | 82,123 | 280,845 | 251,414 |
| Treatment Centers | 53,738 | 48,775 | 161,806 | 146,480 |
| Instruments | 29,331 | 27,876 | 88,102 | 86,555 |
| Total | 286,149 | 244,189 | 832,831 | 739,651 |
| Electronic center | | 5,739 | | 18,675 |
| Total | \$ 286,149 | \$ 249,928 | \$ 832,831 | \$ 758,326 |
| Segment performance measure | | | | |
| Dental CAD/CAM Systems | \$ 70,067 | \$ 59,530 | \$ 207,483 | \$ 179,142 |
| Imaging Systems | 57,303 | 47,846 | 165,389 | 144,519 |
| Treatment Centers | 21,582 | 19,934 | 64,718 | 59,305 |
| Instruments | 10,753 | 10,366 | 33,731 | 35,815 |

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| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Total | 159,705 | 137,676 | 471,321 | 418,781 |
| Electronic center and corporate | 1,526 | 1,625 | 4,662 | 6,243 |
| Total | \$ 161,231 | \$ 139,301 | \$ 475,983 | \$ 425,024 |
| Depreciation and amortization expense | | | | |
| Dental CAD/CAM Systems | \$ 3,534 | \$ 2,826 | \$ 9,824 | \$ 7,334 |
| Imaging Systems | 1,808 | 1,536 | 4,747 | 4,475 |
| Treatment Centers | 1,957 | 1,995 | 5,635 | 5,718 |
| Instruments | 1,224 | 1,013 | 3,524 | 2,877 |
| Total | 8,523 | 7,370 | 23,730 | 20,404 |
| Electronic center and corporate | 179 | 408 | 1,734 | 1,497 |
| Total | \$ 8,702 | \$ 7,778 | \$ 25,464 | \$ 21,901 |

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 nine months ended June 30, 2013 and 2012 are mainly 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 ended June 30, | | Nine months ended June 30, | |
|---|--------------------------------|------------------|-------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Revenue | | | | |
| Total segments (external) | \$ 283,157 | \$ 241,512 | \$ 822,887 | \$ 730,996 |
| Electronic center | | 495 | | 991 |
| Consolidated revenue | 283,157 | 242,007 | 822,887 | 731,987 |
| Depreciation and amortization | | | | |
| Total segments | 8,523 | 7,369 | 23,730 | 20,403 |
| Differences management reporting vs. US GAAP, electronic center and corporate | 10,543 | 12,278 | 31,793 | 37,704 |
| Consolidated depreciation and amortization | 19,066 | 19,647 | 55,523 | 58,107 |
| Segment performance measure | | | | |
| Total segments | 159,705 | 137,675 | 471,321 | 418,780 |
| Differences management reporting vs. US GAAP, electronic center and corporate | (8,218) | (9,235) | (23,257) | (26,908) |
| Consolidated gross profit | 151,487 | 128,440 | 448,064 | 391,872 |
| Selling, general and administrative expense | 79,702 | 72,434 | 249,477 | 218,747 |
| Research and development | 15,729 | 13,092 | 44,926 | 40,016 |
| Provision for doubtful accounts and notes receivable | 148 | (504) | 765 | 263 |
| Net other operating income | (2,500) | (2,500) | (11,914) | (7,500) |
| (Gain)/loss on foreign currency transaction, net | 4,510 | 2,675 | 10,507 | 6,255 |
| (Gain)/loss on derivative instruments | (901) | 2,686 | 317 | 186 |
| Interest expense, net | 788 | 866 | 2,588 | 2,783 |
| Other expense/(income) | 362 | (218) | 1,044 | 272 |
| Income before taxes | \$ 53,649 | \$ 39,909 | \$ 150,354 | \$ 130,850 |

Table of Contents

Concentration of Revenue

A substantial portion of our revenue comes from two distributors accounting for more than 10% of revenues. Patterson Companies, Inc. (Patterson) accounted for 35% and 29% of our total revenues for the nine months ended June 30, 2013 and 2012, respectively. Henry Schein, Inc. (Henry Schein) accounted for 14% and 16% of our total revenues for the nine months ended June 30, 2013 and 2012, respectively. Together, these two customers represented 49% and 45% of our total revenues for the nine months ended June 30, 2013 and 2012, respectively. The accounts receivable from these two customers totaled \$55,561 and \$50,231 for the nine months ended June 30, 2013 and 2012, respectively. These revenues were earned across all segments, with a significant portion of revenues with Patterson being earned in the CAD/CAM and Imaging segments. No other customer accounted for more than 10% of revenues.

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, 2012. Actual results and the timing of certain events may differ significantly from those projected in forward-looking statements due to a number of factors, including those set forth in Results of Operations in this Item and elsewhere in this Report. 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, 2012. 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 Dental Systems, Inc. (Sirona, the Company, we, us, and our refer to Sirona Dental Systems, Inc. and its consolidated subsidiaries) is a leading manufacturer of high-quality, technologically advanced dental equipment, and is focused on developing, manufacturing and marketing innovative systems and solutions for dentists around the world. The Company is uniquely positioned to benefit from several trends in the global dental industry, such as technological innovation, increased use of CAD/CAM systems in restorative dentistry, the shift to digital imaging, favorable demographic trends and growing patient focus on dental health and cosmetic appearance. The Company has its headquarters in Long Island City, New York and its largest facility in Bensheim, Germany.

Sirona has a long tradition of innovation in the dental industry. The Company introduced the first dental electric drill approximately 130 years ago, the first dental X-ray unit approximately 100 years ago, the first dental computer-aided design/computer-aided manufacturing (CAD/CAM) system 27 years ago, and numerous other significant innovations in dentistry. Sirona continues to make significant investments in research and development (R&D), and its track record of innovative and profitable new products continues today with numerous product launches including: CEREC 4.2 software, CAD/CAM milling units MC X and MC XL Premium, Apollo DI digital imaging system (all launched in March 2013), the Omnicam and Schick 33 (both launched in August 2012), the Orthophos XG 3D imaging unit (launched in March 2011), Sinius treatment center (launched in March 2011), CEREC 4.0 software (launched in March 2011), the Galileos and CEREC combination (launched in September 2009), the CEREC AC unit (launched in January 2009), the Galileos Compact 3D imaging system (launched in July 2008), the TENEO treatment center (launched in July 2008) and the CAD/CAM milling unit MC XL (launched in fiscal year 2007).

Sirona manages its business on both a product and geographic basis and has four segments: Dental CAD/CAM Systems, Imaging Systems, Treatment Centers, and Instruments. Sirona has the broadest product portfolio in the industry, and is capable of fully outfitting and integrating a dental practice. Products from each category are marketed in all geographical sales regions.

The Company's business has grown substantially over the past five years, driven by numerous high-tech product introductions, a continued expansion of its global sales and service infrastructure, strong relationships with key distribution partners, namely Patterson and Henry Schein, and an international dealer network. Due to the international nature of the Company's business, movements in global foreign exchange rates have a significant effect on financial results.

Table of Contents

The U.S. market is the largest individual market for Sirona, followed by Germany. Between fiscal years 2004 and 2012, the Company increased U.S. revenues from \$88.2 million to \$284.9 million, driven by innovative products, particularly in the CAD/CAM and Imaging segments and the Schick acquisition. Patterson made a payment of \$100 million to Sirona in July 2005 in exchange for the exclusive distribution rights for CAD/CAM products in the U.S. and Canada until 2017 (the Patterson Exclusivity Payment). The amount 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 year 2008. In May 2012, the Company and Patterson amended and restated the terms of their business relationship set forth in that Distribution Agreement with respect to distribution of certain products throughout the United States; however, it did not amend or restate the business relationship with respect to distribution in Canada. The amendment and restatement of the Distribution Agreement addressed issues related to pricing, termination and annual minimum purchase quotas, and provided growth targets which, if achieved, extend the companies' exclusivity period.

In addition to strong U.S. market growth, Sirona has pursued expansion in non-U.S. and non-German markets. Between fiscal years 2004 and 2012, the Company increased revenues in non-U.S. and non-German markets from \$190.9 million to \$535.1 million. To support this growth, Sirona expanded its local presence and distribution channels by establishing sales and service locations e.g. in Japan, Australia, China, South Korea, Italy, France, Brazil, and Russia. The expansion was one of the main contributors to increased market share but also required additional SG&A expenses.

In fiscal year 2012, Sirona revenues increased 12.6% on a constant currency basis over a very strong prior year, where revenues grew 16.4% on a constant currency basis. While Germany was down 9.5% year-over-year due to (i) a challenging IDS comparison, (ii) the Orthophos 2D/3D launch, and (iii) a successful CAD/CAM trade-up program, we had our second best year ever in Germany. U.S. revenues increased 11.4%, and momentum continued in our non-European, international markets, showing strong double-digit growth above the company's average growth rate, led by Asia-Pacific. On a segment basis, Sirona's revenue was broad based. All segments posted double digit growth rates constant currency, except for Instruments. During the year, we expanded our exclusive distribution agreement with Patterson to include all Sirona products for the U.S. market. This enables us to strengthen our go-to-market approach and grow in the U.S. by increasing the focus on the seamless integration of our best-in-class product offerings and digital solutions. Gross profit increased by \$40.3 million, which was partially offset by a \$18.6 million increase in SG&A expenses. The major driver of the increase in SG&A expenses was the continued strategic expansion of our sales and service infrastructure in key growth markets. As a result, operating income increased 15.4%. Operating income includes a year-over-year decrease in amortization of \$7.0 million. Operating cash flow remained strong and increased 12.6%.

At the end of August, we launched our new CEREC Omnicam camera, which further strengthens Sirona's leadership position in the CAD/CAM market. The Omnicam's features are particularly notable: video streaming, digitization of jaw structures in their natural color, and powderless scanning of tooth surfaces.

For the nine months ended June 30, 2013, we posted a record performance, with revenues up 12.9% on a constant currency basis over a strong first nine months in fiscal year 2012, where revenues grew 9.3% constant currency. Revenues were exceptionally strong in the U.S. and Germany. In Germany, we particularly benefited from orders following the International Dental Show (IDS) in Cologne in March 2013, where we introduced a record 25 new products. On a segment basis, we experienced very strong growth in our CAD/CAM segment, where we benefited from the Omnicam launch as well as a generally increasing demand for products in this segment. In addition, our Imaging and Treatment Center segments performed very well, with year-over-year constant currency revenue growth rates in the first nine months of 12.1% and 11.1%, respectively. Gross profit increased by \$56.2 million, which was partially offset by a \$30.7 million increase in SG&A expenses. SG&A expenses include \$7.3 million related to the Transition Agreement for the former Chairman and CEO, filed as an Exhibit with the Company's Annual Report on Form 10-K on November 16, 2012 (the Transition Agreement). The major drivers of the residual increase in SG&A expenses of \$23.4 million were the continued strategic expansion of our sales and service infrastructure in key growth markets and expenses related to the biennial IDS of \$3.5 million. As a result, operating income increased 17.4%. Operating income includes a year-over-year decrease in amortization of \$6.1 million, primarily representing a decrease in amortization from the step-up to fair values of intangible and tangible assets related to past business combinations. Operating cash flow remained very strong and increased 31% over the comparative prior-year period.

Significant Factors that Affect Sirona's Results of Operations

The MDP Transaction and the Exchange

On June 30, 2005, Sirona Holdings Luxco S.C.A. (Luxco), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH (formerly Blitz 05-118

Table of Contents

GmbH) and its wholly owned subsidiary Sirona Dental Services GmbH, to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the MDP Transaction). In May 2011, Luxco sold all of its remaining 9,747,480 shares of Sirona common stock pursuant to an underwritten follow-on public offering.

The assets and liabilities acquired in the MDP Transaction and the Exchange were partially stepped up to fair value, and a related deferred tax liability was recorded. The excess of the total purchase price over the fair value of the net assets acquired, including IPR&D, which were expensed at the date of closing of the MDP Transaction and the Exchange, was allocated to goodwill and is subject to periodic impairment testing.

Sirona's cost of goods sold, R&D, SG&A expense and operating results have been and will continue to be materially affected by depreciation and amortization costs resulting from the step-up to fair value of Sirona's assets and liabilities.

Fluctuations in U.S. Dollar/Euro Exchange Rate

Although the U.S. Dollar is Sirona's reporting currency, its functional currencies vary depending on the country of operation. For the nine months ended June 30, 2013, approximately 39% of Sirona's revenue and approximately 72% of its expenses were in Euro. During the periods under review, the U.S. Dollar/Euro exchange rate has fluctuated significantly, thereby impacting Sirona's financial results. Between October 1, 2011 and June 30, 2013, the U.S. Dollar/Euro exchange rate used to calculate items included in Sirona's financial statements varied from a low of \$1.2094 to a high of \$1.4155. Sirona has entered into foreign exchange forward contracts to manage foreign currency exposure. The Company does not apply hedge accounting to such contracts. As of June 30, 2013, these contracts had notional amounts totaling \$51.0 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 above and 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 each month of the current period. The average exchange rate for the three and nine months ended June 30, 2013, was \$1.30590 and \$1.30786, respectively, and varied from \$1.28296 to \$1.33851. For the three and nine months ended June 30, 2012, an average exchange rate converting Euro denominated revenues into U.S. Dollars of \$1.28513 and \$1.31527, respectively, was applied.

Loans made to Sirona under both the Prior Senior Facilities Agreement entered into on November 22, 2006, and the New Senior Facilities Agreement entered into on November 14, 2011, are denominated in the functional currency of the respective borrowers. See Liquidity and Capital Resources for a discussion of our Senior Facilities Agreements. However, intra-group loans are denominated in the functional currency of only one of the parties to the loan agreements. Where intra-group 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 rate between the Euro and the U.S. Dollar.

Table of Contents

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 the Company and its competitors;

timing of industry tradeshow, particularly the IDS;

changes in relationships with distributors;

developments in government reimbursement policies;

changes in product mix;

our ability to supply products to meet customer demand;

fluctuations in manufacturing costs;

tax incentives;

currency fluctuations; and

general economic and political conditions, as well as those specific to the healthcare industry and related industries.

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 future performance.

Effective Tax Rate

Sirona's effective tax rate may vary significantly from period to period and, as a global enterprise, can be influenced by many factors. These factors include, but are not limited to, changes to statutory tax rates in the jurisdictions where the Company has operations, changes in the mix of earnings amongst jurisdictions with differing statutory tax rates (including the result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns, tax planning initiatives, tax characteristics of income, changes in exchange rates, as well as the timing and deductibility of expenses for tax purposes.

The Company's effective tax rate differs from the U.S. federal statutory rate of 35% primarily as a result of lower statutory tax rates on foreign earnings at the Company's operations outside of the United States. The Company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because, as of June 30, 2013, it remained management's intention to continue to indefinitely reinvest such earnings in operations outside of the United States. The distribution of lower-taxed foreign earnings to the U.S. would generally increase the Company's effective tax rate.

Table of Contents**Results of Operations*****Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012******Revenue***

Revenue for the three months ended June 30, 2013 was \$283.2 million, an increase of \$41.2 million, or 17.0%, as compared with the three months ended June 30, 2012. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 15.7%. By segment, Imaging Systems increased 22.0% (up 21.0% on a constant currency basis), CAD/CAM Systems increased 20.4% (up 19.4% on a constant currency basis), Treatment Centers increased 10.2% (up 8.4% on a constant currency basis), and Instruments increased 4.5% (up 2.9% on a constant currency basis).

Imaging segment revenues were particularly strong in the U.S. and Germany. We continue to benefit from robust demand for our Orthophos product line and our best-in-class Schick 33 Sensor program. CAD/CAM segment revenues benefited from the Omnicam launch and delivery of trade-ups and a generally increasing demand for products in this segment. In our Treatment Center segment, we continued the above-market growth trajectory. Sales were again particularly strong in Germany, with robust demand for our Sinius treatment center. Revenues in the Instruments segment were up 2.9% constant currency compared to the prior year mainly driven by the German market.

Revenues in the U.S. for the three months ended June 30, 2013 increased an exceptional 28.8% compared to the prior-year period. U.S. revenues benefited from strong demand for our Imaging and CAD/CAM products, the delivery of Omnicam trade-ups, and the expanded agreement with Patterson. Revenue outside the U.S. increased 11.8%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 10.0%. Sales growth in international markets was driven by an exceptionally strong performance in Germany, where we particularly benefited from orders following the IDS.

Revenue growth on a constant currency basis was mainly volume and product mix driven. Prices in general remained stable, with the exception of pricing pressure in Imaging product lines.

Cost of Sales

Cost of sales for the three months ended June 30, 2013 was \$131.7 million, an increase of \$18.1 million, or 15.9%, as compared with the three months ended June 30, 2012. Gross profit as a percentage of revenue was 53.5% compared to 53.1% in the prior year period. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$9.7 million as well as non-cash share-based compensation expense of \$0.03 million for the three months ended June 30, 2013 compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$10.9 million and non-cash share-based compensation expense of \$0.03 million for the three months ended June 30, 2012. Excluding these amounts, cost of sales as a percentage of revenue was 43.0% for the three months ended June 30, 2013 compared with 42.4% for the three months ended June 30, 2012, and therefore gross profit as a percentage of revenue was 57.0%, compared to 57.6% in the prior year period. The decrease in the gross profit margin was mainly due to product mix.

Gross Profit

We use gross profit, excluding the impacts of the MDP Transaction and the Exchange, to monitor segment performance. By segment, gross profit developed in the three months ended June 30, 2013 compared to the three months ended June 30, 2012 as follows: Imaging Systems increased 19.8%, CAD/CAM Systems increased 17.7%, Treatment Centers increased 8.3%, and Instruments increased by 3.7%. The CAD/CAM segment gross profit benefited from the strong increase in sales; however, the gross profit margin was below the prior year. The decrease in gross profit margin was mainly driven by product mix due to an increasing share of Omnicam sales from the delivery of trade-ups. The Imaging segment gross profit benefited from a strong increase in sales; however, the segment gross profit margin was below the prior year mainly due to product mix within our extra oral product portfolio. The increase in the Treatment Center segment gross profit was driven by increased volume whereas the gross profit margin decrease was mainly due to product mix. Gross profit for the Instruments segment was slightly above the prior year, but the gross profit margin was below the prior-year level. This decrease in gross profit margin was mainly driven by lower hygiene product sales and the increased ratio of lower-end handpieces. For more information, see Note 17 to our condensed consolidated financial statements for revenues and gross profit by segment for each of the fiscal periods under report.

Table of Contents***Selling, General and Administrative***

For the three months ended June 30, 2013, SG&A expense was \$79.7 million, an increase of \$7.3 million, or 10.0%, as compared with the three months ended June 30, 2012. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of \$0.6 million as well as other non-cash share-based compensation expense in the amount of \$2.2 million for the three months ended June 30, 2013, compared with \$0.7 million and \$2.0 million, respectively, for the three months ended June 30, 2012. Excluding the above amounts, as a percentage of revenue, SG&A expense was 27.1% for the three months ended June 30, 2013, as compared with 28.8% for the three months ended June 30, 2012. During the quarter, we continued to implement our strategy to invest in the expansion of our sales and service infrastructure to capitalize on opportunities to gain market share and build up our presence in key growth markets.

Research and Development

R&D expense for the three months ended June 30, 2013, was \$15.7 million, an increase of \$2.6 million. The increase was mainly driven by the timing of projects. R&D expense included non-cash share-based compensation expense in the amount of \$0.03 million for the three months ended June 30, 2013, compared with \$0.03 million for the three months ended June 30, 2012, respectively. Excluding this amount, as a percentage of revenue, R&D expense was 5.5% for both the three months ended June 30, 2013 and 2012.

Net Other Operating Income

Net other operating income for the three months ended June 30, 2013 compared to the three months ended June 30, 2012 was as follows:

| | Three months ended June 30, | |
|--|------------------------------------|---------------|
| | 2013 | 2012 |
| | \$ millions | |
| Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment | \$ 2.5 | \$ 2.5 |
| | \$ 2.5 | \$ 2.5 |

Table of Contents***(Gain)/Loss on Foreign Currency Transactions***

The loss on foreign currency transactions for the three months ended June 30, 2013 amounted to \$4.5 million and compares to a loss of \$2.7 million for the three months ended June 30, 2012. The components of these results are as follows:

| | Three months ended June 30, | |
|--|-----------------------------|---------------|
| | 2013 | 2012 |
| | \$ millions | |
| Unrealized non-cash foreign exchange (gain)/loss from translation adjustment of deferred income related to the Patterson exclusivity payment | \$ (0.9) | \$ 3.1 |
| Unrealized non-cash foreign exchange (gain)/loss on short-term intra-group loans | (1.7) | 4.9 |
| (Gain)/loss on other foreign currency transactions ⁽¹⁾ | 7.1 | (5.3) |
| | \$ 4.5 | \$ 2.7 |

- ⁽¹⁾ For the three months ended June 30, 2013, the loss on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by the fluctuations between the Yen/Euro, Euro/U.S. Dollar, and Real/Euro exchange rates. For the three months ended June 30, 2012, the gain on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by fluctuations in the Euro/U.S. Dollar exchange rate.

(Gain)/Loss on Derivative Instruments

The gain of \$0.9 million on derivative instruments for the three months ended June 30, 2013 compared to a loss of \$2.7 million for the three months ended June 30, 2012. In both periods, the gain and loss, respectively, related to unrealized non-cash gains and losses on foreign currency hedges.

Interest Expense

Net interest expense for the three months ended June 30, 2013, was \$0.8 million, compared to \$0.9 million for the three months ended June 30, 2012.

Income Tax Provision

For the three months ended June 30, 2013 and 2012, Sirona recorded a profit before income taxes of \$53.6 million and \$39.9 million, respectively. The income tax provision for the three months ended June 30, 2013 and 2012, was \$12.9 million and \$9.2 million, respectively. The estimated effective tax rate for the third quarter of fiscal year 2013 was 24.0% and compares to an effective tax rate of 23.0% applied for the third quarter of fiscal 2012 and an actual effective tax rate of 24.0% in fiscal year 2012. The estimated effective tax rate is primarily driven by the expected mix of earnings across different jurisdictions.

Net Income

Net income for the three months ended June 30, 2013 was \$40.8 million, an increase of \$10.0 million, as compared with the three months ended June 30, 2012. Major influencing factors on net income were (i) the increase in gross profit, mainly due to increased sales, (ii) an increase in SG&A expense due to the continued investments in the expansion of our global sales and service infrastructure, and (iii) losses in the total amount of \$3.6 million from foreign currency transactions and derivative instruments. Net income for the three months ended June 30, 2013 included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations (i.e. the Exchange and the MDP Transaction deal related amortization and depreciation) of \$10.4 million (\$7.9 million net of tax), a foreign currency gain on the deferred income from the Patterson exclusivity payment of \$0.9 million (\$0.7 million net of tax), and a gain on the

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revaluation of short-term intra-group loans of \$1.7 million (\$1.3 million net of tax).

Sirona's net income for the three months ended June 30, 2012 included deal related amortization and depreciation of assets acquired in past business combinations of \$11.5 million (\$8.9 million net of tax), currency revaluation loss on the Patterson exclusivity payment of \$3.1 million (\$2.5 million net of tax), and a loss on the revaluation of short-term intra-group loans of \$4.9 million (\$3.7 million net of tax).

Share-based compensation expense was \$2.3 million (\$1.7 million net of tax) for the three months ended June 30, 2013, compared to \$2.1 million (\$1.6 million net of tax) in the prior year period.

Table of Contents***Nine Months Ended June 30, 2013 Compared to Nine Months Ended June 30, 2012******Revenue***

Revenue for the nine months ended June 30, 2013 was \$822.9 million, an increase of \$90.9 million, or 12.4%, as compared with the nine months ended June 30, 2012. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 12.9%. By segment, CAD/CAM Systems increased 18.4% (up 18.8% on a constant currency basis), Imaging Systems increased 11.7% (up 12.1% on a constant currency basis), Treatment Centers increased 10.5% (up 11.1% on a constant currency basis), and Instruments increased 0.3% (up 0.9% on a constant currency basis).

CAD/CAM segment revenues grew 18.8% on a constant currency basis and benefited from the Omnicam launch and delivery of trade-ups and a generally increasing demand for products in this segment. Growth was broad-based, but particularly strong in the U.S. The Imaging segment was up 12.1% on a constant currency basis. Sales were particularly strong in the U.S. and Germany, and we continue to experience robust demand for our Orthophos product line. In our Treatment Center segment, we continued the above-market growth trajectory. Sales were particularly strong in Germany and non-European international markets. Demand for our Sinius treatment center continued to be robust. Revenues in the Instruments segment were up 0.9% on a constant currency basis driven by non-European international markets.

Revenues in the U.S. for the nine months ended June 30, 2013 were exceptionally strong, with an increase of 23.7% compared to the prior-year period. U.S. revenues benefited from (i) strong demand for our Imaging and CAD/CAM products, (ii) the impact of implementation of the Medical Device Tax in 2013 and anticipated changes in tax benefits in the first quarter, (iii) the delivery of Omnicam trade-ups, and (iv) the expanded agreement with Patterson. Revenue outside the U.S. increased by 7.9%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 8.5%. Sales growth in international markets was particularly driven by an exceptionally strong performance in Germany, as well as robust growth in non-European international markets, led by China and Canada.

Revenue growth on a constant currency basis was mainly volume driven. Prices in general remained stable, with the exception of pricing pressure in the Imaging product lines.

Cost of Sales

Cost of sales for the nine months ended June 30, 2013 was \$374.8 million, an increase of \$34.7 million, or 10.2%, as compared with the nine months ended June 30, 2012. Gross profit as a percentage of revenue was 54.5% compared to 53.5% in the prior year period. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$27.9 million as well as non-cash share-based compensation expense of \$0.1 million for the nine months ended June 30, 2013 compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$33.2 million and non-cash share-based compensation expense of \$0.09 million for the nine months ended June 30, 2012. Excluding these amounts, cost of sales as a percentage of revenue was 42.1% for the nine months ended June 30, 2013 compared to 41.9% nine months ended June 30, 2012, and therefore gross profit as a percentage of revenue was 57.9% compared to 58.1% in the prior-year period. The slight decrease in gross profit margin compared with the nine month ended June 30, 2012 was mainly due to product mix.

Gross Profit

We use gross profit, excluding the impacts of the MDP Transaction and the Exchange, to monitor segment performance. By segment, gross profit developed in the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012 as follows: CAD/CAM Systems increased 15.8%, Imaging Systems increased 14.4%, Treatment Centers increased 9.1%, and Instruments decreased by 5.8%. The CAD/CAM segment gross profit benefited from the strong increase in sales; however, gross profit margin was below the prior year. The decrease in gross profit margin was mainly driven by product mix, due to an increasing share of Omnicam sales from the delivery of trade-ups.

Table of Contents

The Imaging segment gross profit as well as the gross profit margin mainly benefited from a strong increase in sales and favorable product mix within our extra oral product portfolio. The increase in the Treatment Center segment gross profit was driven by increased volume, whereas the gross profit margin decrease was mainly due to product mix. Gross profit and gross profit margin for the Instruments segment were below the prior-year level. The decrease in gross profit margin was mainly driven by lower hygiene product sales and the increased ratio of lower-end handpieces. For more information, see Note 17 to our condensed consolidated financial statements for revenues and gross profit by segment for each of the fiscal periods under report.

Selling, General and Administrative

For the nine months ended June 30, 2013, SG&A expense was \$249.5 million, an increase of \$30.7 million, or 14.0%, as compared with the nine months ended June 30, 2012. SG&A expense includes \$7.3 million for the Transition Agreement with the former Chairman and CEO, which includes a \$3.8 million non-cash charge for the modification of share-based awards. Excluding the effects of the Transition Agreement, SG&A expense increased \$23.4 million, or 10.7%. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of \$1.8 million as well as other non-cash share-based compensation expense in the amount of \$10.4 million for the nine months ended June 30, 2013, compared with \$2.1 million and \$6.2 million, respectively, for the nine months ended June 30, 2012.

Excluding the above amounts, as a percentage of revenue, SG&A expense was 28.4% for the nine months ended June 30, 2013, as compared with 28.8% for the nine months ended June 30, 2012. During the first nine months of the current fiscal year, we continued to implement our strategy to invest in the expansion of our sales and service infrastructure to capitalize on opportunities to gain market share and build up our presence in key growth markets. SG&A expense for the first nine months of the fiscal year also included \$3.5 million of costs for the biennial IDS.

Research and Development

R&D expense for the nine months ended June 30, 2013, was \$44.9 million, an increase of \$4.9 million. The increase is mainly driven by the timing of projects, particularly in preparation for the biennial IDS in March where we launched a record 25 new products.

R&D expense included non-cash share-based compensation expense in the amount of \$0.1 million for the nine months ended June 30, 2013, compared with \$0.1 million for the nine months ended June 30, 2012, respectively. Excluding this amount, as a percentage of revenue, R&D expense decreased slightly to 5.4% for the nine months ended June 30, 2013, compared to 5.5% for the nine months ended June 30, 2012.

Table of Contents**Net Other Operating Income**

Net other operating income for the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012 was as follows:

| | Nine months ended June 30, 2013 2012 | |
|--|--|---------------|
| | \$ millions | |
| Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment | \$ 7.5 | \$ 7.5 |
| Gain from patent infringement settlement | 4.4 | |
| | \$ 11.9 | \$ 7.5 |

The gain from patent settlement for the nine months ended June 30, 2013, represents amounts received for past lost profits in an out-of-court settlement of a patent defense suit in the normal course of business.

(Gain)/Loss on Foreign Currency Transactions

The loss on foreign currency transactions for the nine months ended June 30, 2013 amounted to \$10.5 million and compares to a loss of \$6.3 million for the nine months ended June 30, 2012. The components of these results are as follows:

| | Nine months ended June 30, 2013 2012 | |
|--|--|---------------|
| | \$ millions | |
| Unrealized non-cash foreign exchange (gain)/loss from translation adjustment of deferred income related to the Patterson exclusivity payment | \$ (0.6) | \$ 3.9 |
| Unrealized non-cash foreign exchange (gain)/loss on short-term intra-group loans | (1.0) | 5.9 |
| (Gain)/loss on other foreign currency transactions | 12.1 | (3.5) |
| | \$ 10.5 | \$ 6.3 |

- ⁽¹⁾ For the nine months ended June 30, 2013, the loss on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by the fluctuations between the Yen/Euro, Euro/U.S. Dollar, and Real/Euro exchange rates. For the nine months ended June 30, 2012, the gain on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by fluctuations in the Euro/U.S. Dollar exchange rate.

(Gain)/Loss on Derivative Instruments

The loss of \$0.3 million on derivative instruments for the nine months ended June 30, 2013 compared to a loss of \$0.2 million for the nine months ended June 30, 2012. In both periods, these amounts related to unrealized non-cash gains and losses on foreign currency hedges.

Table of Contents***Interest Expense***

Net interest expense for the nine months ended June 30, 2013, was \$2.6 million, compared to \$2.8 million for the nine months ended June 30, 2012.

Income Tax Provision

For the nine months ended June 30, 2013 and 2012, Sirona recorded a profit before income taxes of \$150.4 million and \$130.9 million, respectively. The income tax provision for the nine months ended June 30, 2013 and 2012, was \$38.3 and \$30.1 million, respectively. The income tax provision as of June 30, 2013, includes the effect from a local trade tax increase at our principal German operations, which was enacted in and effective beginning in the first quarter of fiscal year 2013. This tax rate change resulted in a tax expense of \$2.2 million, primarily from a non-cash remeasurement of deferred tax assets and liabilities. Excluding this amount, the estimated effective tax rate for the first nine months of fiscal year 2013 was 24.0% and compares to an effective tax rate of 23.0% applied for the first nine months of fiscal 2012 and an actual effective tax rate of 24.0% in fiscal year 2012. The estimated effective tax rate is primarily driven by the expected mix of earnings across different countries.

Net Income

Net income for the nine months ended June 30, 2013 was \$112.1 million, an increase of \$11.3 million, as compared with the nine months ended June 30, 2012. Major influencing factors on net income were (i) the increase in gross profit, mainly due to increased sales, (ii) a gain from a patent infringement settlement, (iii) an increase in SG&A expense due to the expenses related to the Transition Agreement for the former Chairman and CEO of \$7.3 million, which includes a \$3.8 million non-cash charge for the modification of share-based awards, expenses related to the IDS of \$3.5 million, and continued investments in the expansion of our global sales and service infrastructure, and (iv) losses in the total amount of \$10.8 million from foreign currency transactions and derivative instruments. Net income for the nine months ended June 30, 2013 included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations (i.e. the Exchange and the MDP Transaction deal related amortization and depreciation) of \$29.8 million (\$22.6 million net of tax), a foreign currency gain on the deferred income from the Patterson exclusivity payment of \$0.6 million (\$0.5 million net of tax), a gain on the revaluation of short-term intra-group loans of \$1.0 million (\$0.8 million net of tax), and the effect from a non-cash remeasurement of deferred tax assets and liabilities resulting from a local trade tax rate increase at our principal German operations of \$2.2 million.

Sirona's net income for the nine months ended June 30, 2012 included deal related amortization and depreciation of assets acquired in past business combinations of \$35.2 million (\$27.1 million net of tax), currency revaluation loss on the Patterson exclusivity payment of \$3.9 million (\$3.0 million net of tax), and a loss on the revaluation of short-term intra-group loans of \$5.9 million (\$4.5 million net of tax).

Share-based compensation expense was \$10.7 million (\$8.1 million net of tax) for the nine months ended June 30, 2013 compared to \$6.4 million (\$4.9 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. Operating capital expenditures typically are approximately equal to operating depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona's and Sirona Dental's assets and liabilities required under purchase accounting). These expenditures may temporarily exceed operating depreciation for larger-scale infrastructure and other investment activities that the Company may undertake from time to time. The Company also uses cash for occasional purchases of treasury shares pursuant to stock repurchase programs. Sirona believes that its operating cash flows, available cash, and available financing will be sufficient to fund its working capital needs, research and development expenses, and anticipated capital expenditures for the foreseeable future.

Cash and cash equivalents of \$178.5 million held by our foreign subsidiaries generally are not subject to restrictions prohibiting such amounts from being available in the United States. The distribution of lower-taxed foreign earnings to the United States, however, would generally increase our effective tax rate. It is management's intention to continue to indefinitely reinvest such earnings in foreign operations.

Table of Contents

On November 14, 2011, the Company entered into a new senior facilities agreement (the *New Senior Facilities Agreement*) with Sirona Dental Systems, Inc. and all significant subsidiaries of Sirona as original borrowers and original guarantors, and as of November 16, 2011, Sirona fully repaid its obligations under the *Prior Senior Facilities Agreement*. Initial borrowings under the *New Senior Facilities Agreement* were used to retire the outstanding borrowings under the Company's previous credit facilities. Please see *New Senior Facilities Agreement* within this section and Note 9 to our unaudited condensed consolidated financial statements included in this report for a complete description of this *New Senior Facilities Agreement*.

The *New Senior Facilities Agreement* contains restrictive covenants that limit Sirona's ability to make loans, to incur additional indebtedness, and to make disposals, subject to agreed 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 consolidated total net debt to consolidated adjusted EBITDA (*Consolidated Adjusted EBITDA*). If the Company breaches any of the covenants, the loans will become repayable on demand.

The financial covenants require that the Company maintain a debt coverage ratio (*Debt Cover Ratio*) of consolidated total net debt to Consolidated Adjusted EBITDA, determined on the basis of the last twelve months, of no more than 3.00 to 1. The Company is required to determine its compliance with the covenants as of September 30 and March 31. As of March 31, 2013, the most recent period for which this ratio was calculated, the Company was in compliance. For further information regarding the calculation of this ratio as of March 31, 2013, please see our Form 10-Q for the fiscal quarter ended March 31, 2013, under the caption *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources*.

Cash Flows

| | Nine months ended June 30, | |
|---|-----------------------------------|--------------|
| | 2013 | 2012 |
| | \$ 000s | |
| Net cash provided by operating activities | \$ 160,020 | \$ 124,018 |
| Net cash used in investing activities | (70,612) | (34,417) |
| Net cash used in financing activities | (34,231) | (328,314) |
| Increase/(decrease) in cash during the period | \$ 55,177 | \$ (238,713) |

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 \$160.0 million for the nine months ended June 30, 2013 compared to \$124.0 million for the nine months ended June 30, 2012. The primary contributing factors to the increase in cash provided by operating cash flows in the nine months ended June 30, 2013 were (i) higher revenues and gross profit from strong business growth, driving higher working capital and tax payments, which partially offset the increase, and (ii) the payments received from the settlement of a patent infringement claim. The primary contributing factors to the increase in the net cash provided by operating activities in the nine months ended June 30, 2012, were improved working capital performance and slightly lower tax payments.

Table of Contents

Net Cash Used in Investing Activities

Net cash used in investing activities represents cash used for capital expenditures in the normal course of operating activities, financial investments, acquisitions and long-lived asset disposals. The primary contributors to the investing cash outflow in the nine months ended June 30, 2013 were the acquisition of a technology company for \$35.0 million and capital expenditures in the course of normal operating activities. For the nine months ended June 30, 2012, net cash used in investing activities represented capital expenditures in the normal course of business.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$34.2 million for the nine months ended June 30, 2013, compared to \$328.3 million for the nine months ended June 30, 2012. Net cash used in financing activities in the nine months ended June 30, 2013, mainly resulted from the purchase of treasury shares pursuant to our current stock repurchase program, partly offset by proceeds from exercises of stock options and tax-related benefits from RSU/PSU vesting from the Company's stock-based compensation program. Net cash used in financing activities in the nine months ended June 30, 2012 resulted from repayment of our prior senior term loans in November 2011, partly offset by proceeds from borrowings under new senior term loans and revolving facilities.

Capital Resources

Senior Facilities Agreement

New Senior Facilities Agreement

On November 14, 2011, the Company entered into the New Senior Facilities Agreement with Sirona Dental Systems, Inc. and all significant subsidiaries of Sirona as original borrowers and original guarantors. As of November 16, 2011, Sirona fully repaid its obligations under the Prior Senior Facilities Agreement. Initial borrowings under the New Senior Facilities Agreement were used to retire the outstanding borrowings under the Company's previous credit facilities.

The New Senior Facilities Agreement includes: (1) a term loan in an aggregate principal amount of \$75 million (the Facility A Term Loan) available to Sirona or Sirona Dental, as borrower; (2) a 120 million Euro revolving credit facility (Revolving Facility B) available to Sirona Dental Systems GmbH and Sirona Dental Services GmbH, as initial borrowers; and (3) a \$100 million revolving credit facility (Revolving Facility C) available to Sirona or Sirona Dental, as initial borrowers. The Revolving Facility B is available for borrowing in Euro 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.

Of the amount borrowed under the Facility A Term Loan, 30% is due on November 16, 2015, and the balance is due on November 16, 2016. The loans under the New Senior Facilities Agreement bear interest of EURIBOR, for Euro-denominated loans, and LIBOR for the other loans, plus an initial margin of 160, 85 and 110 basis points for the Facility A Term Loan, Revolving Facility B and Revolving Facility C, respectively.

The New Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from March 31, 2012 onwards, the applicable margin varies depending on the Company's leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the New Senior Facilities Agreement) between 160 basis points and 215 basis points for the Facility A Term Loan, 85 basis points and 140 basis points for the Revolving Facility B, and 110 basis points and 165 basis points for the Revolving Facility C.

The New Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, to incur additional indebtedness, and to make disposals, 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 consolidated total net debt to consolidated adjusted EBITDA. If the Company breaches these covenants, the loans will become repayable on demand.

On November 16, 2011, Sirona entered into 5-year payer interest rate swaps to fully hedge its 3-month LIBOR exposure for the Facility A Term Loan. The terms of the swap reflect the term structure of the underlying loan. The effective nominal interest rate is 1.2775% plus the applicable margin. Settlement of the swaps is required on a quarterly basis.

Table of Contents

Debt issuance costs of \$2.8 million were incurred in relation to the financing in November 2011 and have been capitalized as deferred charges and are amortized using the effective interest method over the term of the loans.

Other Financial Data

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|-----------|----------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Net income attributable to Sirona Dental Systems, Inc. | \$ 40,550 | \$ 30,298 | \$ 110,510 | \$ 99,096 |
| Net interest expense | 788 | 866 | 2,588 | 2,783 |
| Provision for income taxes | 12,876 | 9,180 | 38,281 | 30,096 |
| Depreciation | 8,702 | 7,778 | 25,464 | 21,901 |
| Amortization | 10,365 | 11,867 | 30,059 | 36,206 |
| EBITDA | \$ 73,281 | \$ 59,989 | \$ 206,902 | \$ 190,082 |

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 the U.S. Dollar-denominated Patterson Exclusivity Payment and borrowings where the functional currency is the Euro, and the Exchange. Sirona's management believes that these items are either nonrecurring or non-cash 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;

- (ii) facilitate management's internal comparisons of the historical operating performance of Sirona's business operations;

Table of Contents

- (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;
- (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 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 ended June 30, | | Nine months ended June 30, | |
|---|-----------------------------|------------------|----------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$ 000s | | \$ 000s | |
| Share-based compensation ⁽¹⁾ | \$ 2,299 | \$ 2,085 | \$ 10,651 | \$ 6,375 |
| Unrealized, non-cash (gain)/loss on revaluation of the carrying value of the \$-denominated exclusivity fee | (905) | 3,153 | (560) | 3,917 |
| Unrealized, non-cash (gain)/loss on revaluation of the carrying value of short-term intra-group loans | (1,734) | 4,822 | (975) | 5,866 |
| | \$ (340) | \$ 10,060 | \$ 9,116 | \$ 16,158 |

⁽¹⁾ For the nine months ended June 30, 2013, this includes the compensation charge from the first quarter of \$3,764 for the modification of share based awards in connection with the Transition Agreement for the departing CEO and Chairman.

Recent Accounting Pronouncements Not Yet Adopted

Please see Note 2 to the unaudited condensed consolidated financial statements for any discussions 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 as reported under Part II, Item 7A in its Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer (principal executive officer) and chief financial officer (principal 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, 2013. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2013, the Company's disclosure controls and procedures are 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, and is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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 Exchange Act) occurred during the quarter ended June 30, 2013, 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 1A of its Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

The number and average price of shares repurchased during the three months ended June 30, 2013 are set forth in the table below:

| Period | Total Number of Shares Purchased | Average Price Paid per Share \$ 000s (except per share amounts) | Total Number of Shares Purchased as Part of Publicly Announced Program (1)(2) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs (3) |
|--------------------------|---|--|--|--|
| April 1 - April 30, 2013 | | | | 7,358 |
| May 1 - May 31, 2013 | 65,551 | 69.56 | 65,551 | 102,799 |
| June 1 - June 30, 2013 | 114,401 | 66.48 | 114,401 | 95,194 |
| | 179,952 | | 179,952 | |

- (1) In August 2011, the Company's Board of Directors announced a stock repurchase program to purchase up to an aggregate of \$100,000,000 of its common stock in open market or privately-negotiated transactions effective through September 2014. The Company is not obligated to acquire any particular amount of common stock and may suspend the program at any time at its discretion without prior notice. Of the shares purchased during the period, 104,570 shares with a value of \$7,358 were part of the 2011 Program. As of June 30, 2013, there were no remaining amounts available for future purchases under the 2011 Program.
- (2) In May 2013, the Company's Board of Directors announced a stock repurchase program (the 2013 Program) to purchase up to an additional aggregate of \$100,000,000 of its common stock in open market or privately-negotiated transactions effective through June 2016. The Company is not obligated to acquire any particular amount of common stock and may suspend the program at any time at its discretion without prior notice. Of the shares purchased during the period, 75,382 shares with a value of \$4,806 were part of the 2013 Program.

(3) Amounts include shares under both the 2011 Program and 2013 Program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

The disclosure set forth below is included herein for the purpose of providing the disclosure required under Item 5.02 Departures of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers of Form 8-K in connection with (i) the resignation of Simone Blank, the Company's Executive Vice President and Chief Financial Officer, and (ii) the appointment of Ulrich Michel as the Company's successor Executive Vice President and Chief Financial Officer.

Resignation of Chief Financial Officer

On August 2, 2013, the Company announced that Ms. Simone Blank intends to resign from her position as the Company's Executive Vice President and Chief Financial Officer and as a member of its Board of Directors, effective October 14, 2013.

In connection with Ms. Blank's resignation, Ms. Blank, the Company and Sirona Dental GmbH, a wholly owned subsidiary of the Company, entered into a separation agreement (the Separation Agreement), dated August 1, 2013. Pursuant to the Separation Agreement, Ms. Blank resigned from the Company's Board of Directors and the officer positions she holds in the Company and its subsidiaries effective October 14, 2013 and terminated the Amended and Restated Service Agreement, by and between Ms. Blank and Sirona Dental GmbH, dated December 2, 2008, as amended by a supplement, dated November 15, 2010 (as supplemented, the Service Agreement). Ms. Blank will remain an employee of the Company through January 31, 2014 (the Separation Date) and during such time will make herself available to assist in a smooth transition of her responsibilities as Chief Financial Officer to the new Chief Financial Officer.

Under the terms of the Separation Agreement, Ms. Blank will receive a severance payment in an amount equal to EUR 991,350, calculated in accordance with her base salary and target bonus under the Service Agreement, as well as the monetary value of her health and welfare benefits, in each case as applicable for the year 2013 (the Severance Payment). Ms. Blank will receive an amount equal to one-third of the Severance Payment within 10 days after the Separation Date and an amount equal to the remaining two-thirds of the Severance Payment in 12 equal installments during the 12 months following the Separation Date, payable monthly in arrears. In addition, Ms. Blank will receive her unpaid salary and accrued vacation through the Separation Date within 10 days after the Separation Date. All unvested stock options and restricted stock units currently held by Ms. Blank will continue to vest through and until the Separation Date. On the Separation Date, Sirona Dental GmbH may (but will not be obligated to) provide an additional special departure bonus to Ms. Blank in such amount as is determined by the Board of Directors of Sirona Dental GmbH in its sole discretion, after consulting with the Chief Executive Officer. Ms. Blank has agreed not to compete with the Company during the 18 months following the Separation Date.

The foregoing summary of certain provisions of the Separation Agreement does not purport to be complete and is qualified in its entirety by reference to the complete text of the Separation Agreement, a copy of which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Appointment of Chief Financial Officer

On August 2, 2013, the Company announced that Mr. Ulrich Michel will succeed Ms. Blank as the Company's Executive Vice President and Chief Financial Officer, effective October 14, 2013. Mr. Michel, age 50, has served as Chief Financial Officer of WABCO Holdings Inc. since July 2007, a position he will hold until October 11, 2013. From April 2005 to July 2007, Mr. Michel served as Chief Financial Officer for WABCO's Trane Vehicle Control Systems business. From 2003 to April 2005, Mr. Michel served as Chief Financial Officer for American Standard's Trane Commercial Systems business in Europe, Middle East, Africa & India Region. Prior to joining American Standard in 2003, Mr. Michel spent six years in financial leadership positions in the United States and Europe at Honeywell International/Allied Signal, with areas of focus including mergers and acquisitions, the Specialty Chemicals business and the Control Products business. Before joining Honeywell International/Allied Signal, Mr. Michel spent eight years at Pricewaterhouse, working both in the United States and Europe.

In connection with Mr. Michel's appointment as Executive Vice President and Chief Financial Officer, Mr. Michel and the Company entered into an executive employment agreement (the Employment Agreement), dated July 29, 2013. The Employment Agreement sets forth Mr. Michel's duties and responsibilities as Chief Financial Officer of the Company and contains his compensation arrangements, including, but not limited to, an initial base salary of EUR 420,000 per year, subject to increases as may be approved by the Compensation Committee of the Company's Board of Directors from time to time. Mr. Michel will also be eligible to receive, pursuant to the terms and conditions set forth in the Company's Executive Bonus Plan, an annual cash bonus, based upon achievement of annual performance goals and objectives established by the

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Compensation Committee of the Company's Board of Directors on an annual basis, with a target bonus of 70% of his base salary.

Table of Contents

Under the terms of the Employment Agreement, on July 29, 2013, Mr. Michel was granted, pursuant to and in accordance with the Company's 2007 Incentive Plan, restricted stock units and non-qualified options to purchase shares of the Company's common stock. Also, in acknowledgment of Mr. Michel's forfeiture of certain equity grants from his prior employer, and certain incentives related to his prior employer's cash incentive bonus program, the Company granted him additional restricted stock units and non-qualified options to purchase shares of the Company's common stock to make him whole for the forfeiture. Mr. Michel will be eligible to receive additional grants of equity-based awards on an annual basis at the discretion of the Compensation Committee of the Company's Board of Directors.

Upon any termination of Mr. Michel's employment, Mr. Michel will be entitled to receive all accrued and unpaid compensation through the date of termination. In the event the Company terminates Mr. Michel's employment without Cause or Mr. Michel resigns for Good Reason, Mr. Michel will also be entitled to receive, if within 60 days after the date of termination he executes and does not revoke a general release of claims against the Company, severance benefits consisting of his then base salary and annual target bonus amount for a period of twenty-four months following the date of termination, and the target bonus for which he would otherwise have been eligible for the fiscal year in which the termination occurs, pro-rated based on the number of months remaining in such fiscal year. Mr. Michel will be prohibited from competing with the Company and soliciting customers and employees during his employment period and for a period of one year thereafter.

The foregoing summary of certain provisions of the Employment Agreement does not purport to be complete and is qualified in its entirety by reference to the complete text of the Employment Agreement, a copy of which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

There are no other arrangements or understandings pursuant to which Mr. Michel was appointed Executive Vice President and Chief Financial Officer. There are no family relationships between Mr. Michel and any of the Company's directors or executive officers. Except for the Employment Agreement, there are no related party transactions between the Company and Mr. Michel reportable under Item 404(a) of Regulation S-K.

ITEM 6. EXHIBITS

The following Exhibits are included in this report:

| Exhibit No. | Item Title |
|-------------|--|
| 10.1 | Separation Agreement, dated August 1, 2013, by and between Sirona Dental GmbH, Sirona Dental Systems, Inc. and Simone Blank. |
| 10.2 | Executive Employment Agreement, dated July 29, 2013, by and between Sirona Dental Systems, Inc. and Ulrich Michel. |
| 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. |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |
| 101.LAB | XBRL Extension Labels Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language):
 (i) Condensed Consolidated Balance Sheets as of June 30, 2013 and September 30, 2012, (ii) Condensed Consolidated Statements of Income

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for the three and nine months ended June 30, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and 2012, (iv) Consolidated Statements of Changes in Shareholders' Equity for the nine months ended June 30, 2013 and 2012, and (v) Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012, and (v) Notes to Condensed Consolidated Financial Statements.

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: August 2, 2013

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)