SIRONA DENTAL SYSTEMS, INC.
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

or

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

Commission file number 000-22673

Sirona Dental Systems, Inc.

(Exact name of registrant as specified in charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**11-3374812** **(I.R.S. Employer** **Identification No.)**
30-30 47th Avenue, Suite 500, **Long Island City, New York** **(Address of principal executive offices)**	**11101** **(Zip Code)**

Registrant s telephone number, including area code:

(718) 482-2011

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 þ 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 þ No ¨

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

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

Yes ¨ No þ

As of May 4, 2011, the number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 55,761,081.

SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2011

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PART I FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	Financial Statement Notes	March 31, 2011 (unaudited)	September 30, 2010
		$ 000s (except per share amounts)	
ASSETS			
Current assets			
Cash and cash equivalents		$ 300,136	$ 251,767
Restricted cash		710	703
Accounts receivable, net of allowance for doubtful accounts of $1,639 and $1,681, respectively		113,245	82,952
Inventories, net	**5**	90,489	74,027
Deferred tax assets	**9**	24,005	20,570
Prepaid expenses and other current assets		15,097	24,139
Income tax receivable	**9**	4,948	3,533
Total current assets		**548,630**	**457,691**
Property, plant and equipment, net of accumulated depreciation and amortization of $105,443 and $90,713, respectively		118,225	102,686
Goodwill	**6**	677,610	656,465
Investments		2,364	2,317
Intangible assets, net of accumulated amortization of $401,167 and $371,303, respectively	**6**	346,495	362,722
Other non-current assets		2,773	2,229
Deferred tax assets	**9**	4,077	8,827
Total assets		**$ 1,700,174**	**$ 1,592,937**
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts payable		$ 48,167	$ 42,737
Short-term debt and current portion of long-term debt	**7**	382,223	2,935
Income taxes payable	**9**	7,955	7,748
Deferred tax liabilities	**9**	1,211	1,456
Accrued liabilities and deferred income		89,201	105,209
Total current liabilities		**528,757**	**160,085**
Long-term debt	**8**		367,801
Deferred tax liabilities	**9**	134,014	138,190
Other non-current liabilities		6,453	6,556
Pension related provisions	**12**	55,418	52,672
Deferred income		55,000	60,000
Total liabilities		**779,642**	**785,304**

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

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Shareholders equity			
Preferred stock ($0.01 par value; 5,000,000 shares authorized; none issued and outstanding)			
Common stock ($0.01 par value; 95,000,000 shares authorized;			
55,768,804 shares issued and 55,741,081 shares outstanding at Mar. 31, 2011, and 55,333,304 shares issued and 55,305,581 shares outstanding at Sept. 30, 2010)		558	553
Additional paid-in capital		665,305	652,698
Treasury stock (27,723 shares at cost)		(284)	(284)
Excess of purchase price over predecessor basis		(49,103)	(49,103)
Retained earnings		253,550	181,846
Accumulated other comprehensive income	**4**	47,650	19,701
Total Sirona Dental Systems, Inc. shareholders equity		**917,676**	**805,411**
Noncontrolling interests		2,856	2,222
Total shareholders equity		**920,532**	**807,633**
Total liabilities and shareholders equity		**$ 1,700,174**	**$ 1,592,937**

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Financial Statement Notes	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
		$ 000s (except per share amounts)		$ 000s (except per share amounts)	
Revenue		**$ 214,737**	**$ 190,136**	**$ 450,383**	**$ 404,959**
Cost of sales		99,048	90,803	204,280	193,256
Gross profit		**115,689**	**99,333**	**246,103**	**211,703**
Selling, general and administrative expense		70,581	60,354	133,904	120,206
Research and development		14,145	11,690	27,655	23,155
Provision for doubtful accounts and notes receivable		(47)	72	21	136
Net other operating income	**13**	(2,500)	(3,408)	(5,000)	(5,908)
Operating income		**33,510**	**30,625**	**89,523**	**74,114**
(Gain)/Loss on foreign currency transactions, net		(4,336)	5,049	(5,097)	4,416
(Gain)/Loss on derivative instruments	**14**	(1,554)	(1,712)	81	(2,735)
Interest expense, net		929	4,141	1,879	9,343
Other expense/(income)		343	404	(523)	784
Income before taxes		**38,128**	**22,743**	**93,183**	**62,306**
Income tax provision	**9**	8,388	4,548	20,500	12,461
Net income		29,740	18,195	72,683	49,845
Less: Net income attributable to noncontrolling interests		428	656	979	1,131
Net income attributable to Sirona Dental Systems, Inc.		**$ 29,312**	**$ 17,539**	**$ 71,704**	**$ 48,714**
Income per share (attributable to Sirona Dental Systems, Inc. common shareholders):	**10**				
- Basic		$ 0.53	$ 0.32	$ 1.29	$ 0.88
- Diluted		$ 0.51	$ 0.31	$ 1.26	$ 0.86
Weighted average shares - basic		55,529,619	55,122,944	55,432,272	55,044,832
Weighted average shares - diluted		57,221,163	56,610,111	57,056,605	56,490,563

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended March 31, 2011	2010
	$ 000s	
Cash flows from operating activities		
Net income	**$ 72,683**	**$ 49,845**
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	38,957	42,589
Loss on disposal of property, plant and equipment		15
Loss/(gain) on derivative instruments	81	(2,735)
(Gain)/loss on foreign currency transactions	(5,097)	4,416
Deferred income taxes	(7,250)	(9,491)
Amortization of debt issuance cost	597	586
Share-based compensation expense	4,479	8,048
Changes in assets and liabilities		
Accounts receivable	(27,467)	(7,288)
Inventories	(13,280)	(3,601)
Prepaid expenses and other current assets	9,803	6,701
Restricted cash	20	109
Other non-current assets	(735)	26
Trade accounts payable	3,957	3,353
Accrued interest on long-term debt		(1,412)
Accrued liabilities and deferred income	(20,663)	(25,309)
Other non-current liabilities	234	4,037
Income taxes receivable	(1,410)	1,506
Income taxes payable	(292)	3,415
Net cash provided by operating activities	**54,617**	**74,810**
Cash flows from investing activities		
Investment in property, plant and equipment	(23,618)	(9,566)
Proceeds from sale of property, plant and equipment	1	150
Purchase of intangible assets	(163)	
Purchase of long-term investments	(44)	(230)
Sale of businesses, net of cash sold		1,928
Net cash used in investing activities	**(23,824)**	**(7,718)**

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended March 31, 2011	2010
	$ 000s	
Cash flows from financing activities		
Repayments of short-term and long-term debt		(78,072)
Dividend distributions to noncontrolling interest	(487)	
Common shares issued under share based compensation plans	4,709	2,973
Tax effect of common shares exercised under share based compensation plans	4,135	1,181
Net cash provided by/(used in) financing activities	**8,357**	**(73,918)**
Change in cash and cash equivalents	39,150	(6,826)
Effect of exchange rate change on cash and cash equivalents	9,219	(11,833)
Cash and cash equivalents at beginning of period	251,767	181,098
Cash and cash equivalents at end of period	**$ 300,136**	**$ 162,439**
Supplemental information		
Interest paid	$ 2,050	$ 10,381
Interest capitalized	277	242
Income taxes paid	24,798	18,478
Sale of businesses, net of cash sold		
Current assets	$	$ 2,406
Non-current assets		550
Current liabilities		(867)
Non-current liabilities		(161)
	$	**$ 1,928**

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

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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 and their predecessors) is the 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. 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, 2010.

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 March 31, 2011, and the results of operations and cash flows for the six months ended March 31, 2011 and 2010, respectively, as applicable to interim periods have been made. The results of operations for the six months ended March 31, 2011 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.

2. Recently Issued Accounting Pronouncements

Adopted

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance for multiple-deliverable revenue arrangements (ASU 2009-13, *Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force)*. This new guidance establishes a selling price hierarchy for determining the selling price of a deliverable, replaces the term *fair value* in the revenue allocation with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant, replaces the *residual*

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

method of allocation with the *relative selling-price method* , and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables applying this method, including proportional allocation of any discounts to each deliverable.

In October 2009, the FASB also issued new accounting guidance for revenue arrangements that include both tangible products and software elements (ASU 2009-14, *Certain Revenue Arrangements that Include Software Elements a consensus of the FASB Emerging Issues Task Force)*. This new guidance removes from the scope of the software revenue recognition guidance in ASC 985-605, *Software Revenue Recognition*, those tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality. In addition, this guidance requires that hardware components of a tangible product containing software components always be excluded from the software revenue recognition guidance as well as provides further guidance on determining which software, if any, relating to the tangible product also would be excluded from the scope of software revenue recognition guidance.

The Company adopted these standards at the beginning of its first quarter of fiscal year 2011 for applicable arrangements that were entered into or materially modified on or after October 1, 2010. Implementation of these standards did not have a material impact on the Company s condensed consolidated financial statements in the period under report and is not expected to significantly affect the timing and pattern of revenue recognition in future periods.

The Company s main revenue stream results from the delivery of dental equipment. The Company also enters into revenue arrangements that consist of multiple deliverables of its product and service offerings. Additionally, certain products, primarily in our CAD/CAM and Imaging segments, may contain embedded software that functions together with the product to deliver the product s essential functionality.

Revenue, net of related discounts and allowances, is recognized when products or equipment have been shipped, when persuasive evidence of the arrangement exists, the price is fixed or determinable, collectability is reasonably assured, title and risk of loss has passed to customers based on the shipping terms, no significant obligations remain, and allowances for discounts, returns, and customer incentives can be reliably estimated. The Company offers discounts to its distributors if certain conditions are met. Discounts and allowances are primarily based on the volume of products purchased or targeted to be purchased by the individual customer or distributor. Discounts are deducted from revenue at the time of sale or when the discount is offered, whichever is later. The Company estimates volume discounts based on the individual customer s historical and estimated future product purchases. Returns of products, excluding warranty related returns, are infrequent and insignificant. Amounts received from customers in advance of product shipment are classified as deferred income until the revenue can be recognized in accordance with the Company s revenue recognition policy.

Services: Service revenue is generally recognized ratably over the contract term as the specified services are performed. Amounts received from customers in advance of rendering of services are classified as deferred income until the revenue can be recognized upon rendering of those services.

Extended Warranties: The Company offers its customers an option to purchase extended warranties on certain products. The Company recognizes revenue on these extended warranty contracts ratably over the life of the contract. The costs associated with these extended warranty contracts are recognized when incurred.

Multiple-Element Arrangements (MEAs): Arrangements with customers may include multiple deliverables, including any combination of equipment, services, and extended warranties. The deliverables included in the Company s MEAs are separated into more than one unit of accounting when (i) the delivered equipment has value to the customer on a stand-alone basis, and (ii) delivery of the undelivered service element(s) is probable and substantially in the control of the Company. Based on the new accounting guidance adopted October 1, 2010, arrangement consideration is then allocated to each unit, delivered or undelivered, based on the relative selling price (RSP) of each unit of accounting based first on vendor-specific objective evidence (VSOE) if it exists and then based on estimated selling price (ESP).

VSOE In most instances, products are sold separately in stand-alone arrangements. Services are also sold separately through renewals of contracts with varying periods. The Company determines VSOE based on its pricing and discounting practices for the specific product or service when sold separately, considering geographical, customer, and other economic or marketing variables, as well as renewal rates or stand-alone prices for the service element(s).

ESP The estimated selling price represents the price at which the Company would sell a product or service if it were sold on a stand-alone basis. When VSOE does not exist for all elements, the Company determines ESP for the arrangement element based on sales, cost and margin analysis, as well as other inputs based on its pricing practices. Adjustments for other market and Company-specific factors are made as deemed necessary in determining ESP.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

After separating the elements into their specific units of accounting, total arrangement consideration is allocated to each unit of accounting according to the nature of the revenue as described above and application of the RSP method. Total recognized revenue is limited to the amount not contingent upon future transactions.

3. Employee Share-Based Compensation

Stock compensation expense under the Company s stock option plans amounted to $2,568 and $4,479 for the three and six months ended March 31, 2011, respectively, and $4,109 and $8,048 for the three and six months ended March 31, 2010, respectively. These expenses include the effect of previous stock options, restricted stock unit (RSU) grants, and performance-based stock unit (PSU) grants.

On November 22, 2010, the Company granted 232,700 RSU s and 12,800 PSU s under its 2006 Equity Incentive Plan (2006 Plan) . The RSU grants vest over a period of four years (one third each during fiscal years 2013, 2014 and 2015). The PSU s were granted to three executive officers of the Company and vest three years from the date of grant provided the Company achieves earnings targets specified in the grant. The value of each RSU and PSU grant is determined by the closing price at the date of grant of $36.78.

On December 8, 2009, the Company granted 188,000 RSU s under the 2006 Plan. The RSU grants vest over a period of four years (one third each at December 8, 2011, 2012 and 2013). The value of each RSU is determined by the closing price at the date of grant of $34.45.

The 2006 Plan provides for granting in total up to 4,550,000 stock options, incentive stock, and RSU s to employees, directors, and consultants and received stockholder approval at the Company s Annual Meeting of Stockholders held on February 27, 2007, and was amended on February 25, 2009. As of March 31, 2011, 1,393,934 shares were available for future grant under the 2006 Plan.

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4. Comprehensive Income/(Loss) and Change in Equity

	Three months ended March 31, Changes in Equity attributable to			Six months ended March 31, Changes in Equity attributable to		
	Sirona Dental Systems, Inc.	Noncontrolling Interests $ 000s	Total Change in Equity for the Period	Sirona Dental Systems, Inc.	Noncontrolling Interests $ 000s	Total Change in Equity for the Period
As of March 31, 2011						
Comprehensive Income:						
Net Income	$ 29,312	$ 428	$ 29,740	$ 71,704	$ 979	$ 72,683
Other Comprehensive Income						
Cumulative translation adjustments	39,920	97	40,017	28,029	142	28,171
Unrecognized elements of pension cost, net of tax	(40)		(40)	(80)		(80)
Total Other Comprehensive Income	39,880	97	39,977	27,949	142	28,091
Total Comprehensive Income	**69,192**	**525**	**69,717**	**99,653**	**1,121**	**100,774**
Transactions with shareholders:						
Stock-based compensation activities	8,599		8,599	12,612		12,612
Dividend distribution to noncontrolling interest		(487)	(487)		(487)	(487)
Total transactions with shareholders	8,599	(487)	8,112	12,612	(487)	12,125
Total Change in Equity for the period	$ 77,791	$ 38	$ 77,829	$ 112,265	$ 634	$ 112,899

	Three months ended March 31, Changes in Equity attributable to			Six months ended March 31, Changes in Equity attributable to		
	Sirona Dental Systems, Inc.	Noncontrolling Interests $ 000s	Total Change in Equity for the Period	Sirona Dental Systems, Inc.	Noncontrolling Interests $ 000s	Total Change in Equity for the Period
As of March 31, 2010						
Comprehensive Income/(Loss):						
Net Income	$ 17,539	$ 656	$ 18,195	$ 48,714	1,131	$ 49,845
Other Comprehensive Income/(Loss)						

Cumulative translation adjustments	(38,668)		(26)	(38,694)		(49,448)		(18)	(49,466)
Unrecognized elements of pension cost, net of tax	(77)			(77)		(164)			(164)
Total Other Comprehensive Loss	(38,745)		(26)	(38,771)		(49,612)		(18)	(49,630)
Total Comprehensive Income/(Loss)	**(21,206)**		**630**	**(20,576)**		**(898)**		**1,113**	**215**
Transactions with shareholders:									
Stock-based compensation activities	3,573			3,573		9,364			9,364
Purchase of shares from noncontrolling interest	(818)		(498)	(1,316)		(818)		(498)	(1,316)
Total transactions with shareholders	2,755		(498)	2,257		8,546		(498)	8,048
Total Change in Equity for the period	$ (18,451)	$	132	$ (18,319)	$	7,648		615	$ 8,263

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5. Inventories, net

	March 31, 2011	September 30, 2010
	$ 000s	
Finished goods	$ 56,683	$ 51,102
Work in progress	16,442	12,646
Raw materials	32,456	23,342
	105,581	**87,090**
Inventory reserve	(15,092)	(13,063)
	$ 90,489	**$ 74,027**

6. Intangible Assets and Goodwill

	Gross	Accumulated amortization	Net
		$ 000s	
As of March 31, 2011			
Patents & Licenses	$ 147,112	$ 71,586	$ 75,526
Trademarks	136,183	478	135,705
Technologies and dealer relationships	464,289	329,103	135,186
Prepayments for intangible assets	78		78
	747,662	401,167	346,495
Goodwill	677,610		677,610
Total intangible assets	**$ 1,425,272**	**$ 401,167**	**$ 1,024,105**

	Gross	Accumulated amortization	Net
		$ 000s	
As of September 30, 2010			
Patents & Licenses	$ 150,706	$ 71,965	$ 78,741
Trademarks	131,908	428	131,480
Technologies and dealer relationships	451,333	298,910	152,423
Prepayments for intangible assets	78		78
	734,025	371,303	362,722
Goodwill	656,465		656,465

Total intangible assets	**$ 1,390,490**	**$ 371,303**	**$ 1,019,187**

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The change in the value of goodwill and of intangible assets from September 30, 2010 to March 31, 2011 is mainly attributable to foreign currency fluctuations, with an increase of $21,871 in goodwill and $10,603 in intangible assets. Goodwill has been reduced by $706 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.

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

The components of short-term debt are as follows:

	March 31, 2011	September 30, 2010
	$ 000s	
Senior Term Loans (Tranches A1/A2, variable rate repayable in November 2011)	$ 378,408	$
Accrued interest on long-term debt		319
Other short-term debt	3,815	2,616
	$ 382,223	**$ 2,935**

8. Long-Term Debt

The components of long-term debt are as follows:

	March 31, 2011	September 30, 2010
	$ 000s	
Bank loans:		
Senior term loan, Tranche A1, variable rate repayable in November 2011	$	$ 105,063
Senior term loan, Tranche A2, variable rate repayable in November 2011		263,057
		368,120
Less current portion		319
	$	**$ 367,801**

Senior Term Loans

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

The Senior Facilities Agreement includes: (1) a term loan A1 in an aggregate principal amount of $150 million (the tranche A1 term loan) available to Schick Technologies, Inc., a New York company and wholly-owned subsidiary of Sirona (Schick NY), as borrower; (2) a term loan

A2 in an aggregate principal amount of Euro 275 million (the tranche A2 term loan) available to Sirona s subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a $150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

revolving credit facility is available for borrowing in Euro, U.S. Dollars, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees since all guarantees are by entities that have the same functional currency as the currency in which the respective guaranteed borrowing is denominated.

Each of the senior term loans are to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% was due on November 24, 2009, 15% was due on November 24, 2010 and 70% is due on November 24, 2011. The senior debt repayment tranche originally scheduled for November 24, 2009 was prepaid on May 11, 2009 in the amount of $78.6 million, and the senior debt repayment tranche originally scheduled for November 24, 2010 was prepaid on March 31, 2010 in the amount of $78.1 million. At the Company s current Debt Cover Ratio, the facilities bear interest of Euribor, for Euro-denominated loans, and Libor for the other loans, plus a margin of 45 basis points for both.

The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to the Company s leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement). Interest rate swaps were established for 66.6% of the interest until March 2010. These swaps expired on March 31, 2010 and were not renewed. The interest rate swaps fixed the LIBOR or EURIBOR element of interest payable on 66.7% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively. The defined interest rates fixed for each twelve or thirteen month interest period ranged from 3.50% to 5.24%. Settlement of the swaps was required on a quarterly basis.

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

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

9. Income Taxes

For the first six months of fiscal year 2011, an estimated effective tax rate of 22% has been applied, compared to an estimated effective tax rate of 20% for the first six months of fiscal year 2010 and an effective tax rate for fiscal year 2010 of 20.6%.

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 in the mix of earnings in countries 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 United States federal statutory rate of 35% primarily as a result of lower effective tax rates on certain earnings 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 2005.

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

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(UNAUDITED)

10. Income per Share

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

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
	$ 000s (except for share amounts)		$ 000s (except for share amounts)	
Net income attributable to Sirona Dental Systems, Inc. common shareholders	$ 29,312	$ 17,539	$ 71,704	$ 48,714
Weighted average shares outstanding - basic	55,529,619	55,122,944	55,432,272	55,044,832
Dilutive effect of stock-based compensation	1,691,544	1,487,167	1,624,333	1,445,731
Weighted average shares outstanding - diluted	57,221,163	56,610,111	57,056,605	56,490,563
Net income per share				
Basic	$ 0.53	$ 0.32	$ 1.29	$ 0.88
Diluted	$ 0.51	$ 0.31	$ 1.26	$ 0.86

Stock options to acquire 80,250 shares of Sirona s common stock that were granted in connection with the Company s stock option plans were not included in the computation of diluted earnings per share for the three months ended March 31, 2010 because the options underlying exercise prices were greater than the average market price of Sirona s common stock for the period. There were no out of the money options for the three and six months ended March 31, 2011.

11. Product warranty

The following table provides the changes in the product warranty accrual for the three months ended March 31, 2011 and 2010:

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
	$ 000s		$ 000s	
Balance at beginning of the period	$ 8,458	$ 12,083	$ 8,972	$ 11,506
Accruals for warranties issued during the period	4,928	4,828	9,032	11,549
Warranty settlements made during the period	(5,256)	(4,570)	(9,726)	(10,512)
Translation adjustment	424	(715)	276	(917)
Balance at end of the period	**$ 8,554**	**$ 11,626**	**$ 8,554**	**$ 11,626**

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

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12. Pension Plans

Components of net periodic benefit costs are as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
	$ 000s		$ 000s	
Service cost, net	$ 65	$ 65	$ 129	$ 135
Interest cost	608	635	1,213	1,312
Amortization of actuarial gains	(40)	(112)	(80)	(233)
Net periodic benefit cost	$ 633	$ 588	$ 1,262	$ 1,214

13. Net Other Operating Income

Net other operating income for the three and six months ended March 31, 2011 and 2010 was $5.0 million and $5.9 million, respectively. In both periods, net other operating income included $2.5 million (three months) and $5.0 million (six months) of income resulting from the amortization of the deferred income relating to the Patterson exclusivity payment. In the three and six months ended March 31, 2010, net other operating income included a gain from the sale of a subsidiary in Italy of $0.9 million.

14. Derivative Instruments and Hedging Strategies

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

Interest Rate Risk

The Company is exposed to interest rate risk associated with fluctuations in the interest rates on its variable interest rate debt. In order to manage this risk, the Company entered into interest rate swap agreements that convert the debt s variable interest rate to a fixed interest rate. While these swap agreements were considered to be economic hedges, they are not designated as hedging instruments under ASC 815.

Interest rate swaps were established for 66.6% of the interest until March 2010. These swaps expired on March 31, 2010 and were not renewed. The interest rate swaps fixed the LIBOR or EURIBOR element of interest payable on 66.7% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively. The defined interest rates fixed for each twelve or thirteen month interest period ranged from 3.50% to 5.24%. Settlement of the swaps was required on a quarterly basis.

Foreign Currency Exposure

Although the U.S. Dollar is Sirona s reporting currency, its functional currency varies depending on the country of operation. During the periods under review, the U.S. Dollar/Euro exchange rate fluctuated significantly, thereby impacting Sirona s financial results. In order to manage foreign currency exposures, the Company enters into foreign exchange forward contracts (USD, AUD, and JPY). As with its interest rate swap instruments, the Company enters into forward contracts that are considered to be economic hedges which are not considered hedging instruments under ASC 815.

As of March 31, 2011, these contracts had notional amounts totaling $ 40.5 million. These agreements are relatively short-term (generally six months).

The fair value carrying amount of the Company s derivative instruments at March 31, 2011 is described in Note 15 Fair Value Measurements.

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

		For the three months ended March 31,		For the six months ended March 31,	
		2011	2010	2011	2010
Derivatives Not Designated as Hedging Instruments	**Location 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**	**Amount of (Gain)/Loss Recognized in Income on Derivative**
		$ 000s		**$ 000s**	
Interest rate swap contracts	Gain on derivative instruments, net	$	$ (2,937)	$	(6,364)
Foreign exchange contracts	(Gain)/Loss on derivative instruments, net	(1,554)	1,225	81	3,629
Total		$ (1,554)	$ (1,712)	$ 81	(2,735)

15. 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.

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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 March 31, 2011 and September 30, 2010:

	March 31, 2011			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2) Foreign Exchange	Significant Unobservable Inputs (Level 3)	Total
	$ 000s			
Assets				
Cash Equivalents				
(money market funds)	$ 175,218	$	$	$ 175,218
Derivative Assets		1,552		1,552
Liabilities				
Derivative Liabilities	$	$ (88)	$	$ (88)
Total	$ 175,218	$ 1,464	$	

	September 30, 2010			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2) Foreign Exchange	Significant Unobservable Inputs (Level 3)	Total
	$ 000s			
Assets				
Cash Equivalents				
(money market funds)	$ 141,981	$	$	$ 141,981
Derivative Assets		2,015		2,015

Liabilities				
Derivative Liabilities	$	$ (563)	$	$ (563)
Total	$ 141,981	$ 1,452	$	

In the Company s March 31, 2011 and September 30, 2010 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 eligible financial instruments.

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Fair value of financial instruments

Financial instruments consist of cash, cash equivalents, accounts receivable, accounts payable and foreign currency forward contracts. 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 is estimated by obtaining quotes from financial institutions.

16. 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), 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. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

	Three months ended March 31,		Six months ended March 31,	
	2011	2010	2011	2010
	$ 000s		$ 000s	
Revenue External				
Dental CAD/CAM Systems	$ 77,010	$ 66,306	$ 160,384	$ 140,122
Imaging Systems	72,285	59,535	148,550	130,516
Treatment Centers	41,199	39,857	90,962	83,708
Instruments	23,890	24,196	49,967	50,253
Total	**214,384**	**189,894**	**449,863**	**404,599**
Electronic center and corporate	353	242	520	360
Total	**$ 214,737**	**$ 190,136**	**$ 450,383**	**$ 404,959**
Revenue Internal				
Dental CAD/CAM Systems	$	$	$	$
Imaging Systems	3	11	8	15
Treatment Centers	13	8	17	16
Instruments	2,508	2,485	5,216	4,843
Intercompany elimination	(2,524)	(2,504)	(5,241)	(4,874)
Total				
Electronic center and corporate	6,327	5,294	12,229	10,431
Intercompany elimination	(6,327)	(5,294)	(12,229)	(10,431)

Total	**$**	**$**	**$**	**$**
Revenue Total				
Dental CAD/CAM Systems	$ 77,010	$ 66,306	$ 160,384	$ 140,122
Imaging Systems	72,288	59,546	148,558	130,531
Treatment Centers	41,212	39,865	90,979	83,724
Instruments	26,399	26,681	55,183	55,096
Total	**216,909**	**192,398**	**455,104**	**409,473**
Electronic center and corporate	6,680	5,536	12,749	10,791
Total	**$ 223,589**	**$ 197,934**	**$ 467,853**	**$ 420,264**

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Segment performance measure				
Dental CAD/CAM Systems	$ 55,159	$ 47,498	$ 114,195	$ 98,434
Imaging Systems	42,353	35,878	88,487	79,176
Treatment Centers	16,426	16,516	38,473	34,676
Instruments	12,011	11,114	24,723	23,423
Total	**125,949**	**111,006**	**265,878**	**235,709**
Electronic center and corporate	2,682	2,760	5,097	5,186
Total	**$ 128,631**	**$ 113,766**	**$ 270,975**	**$ 240,895**
Depreciation and amortization expense				
Dental CAD/CAM Systems	$ 1,937	$ 1,403	$ 3,734	$ 2,814
Imaging Systems	1,503	1,257	2,871	2,635
Treatment Centers	1,683	1,608	3,202	3,327
Instruments	807	802	1,570	1,708
Total	**5,930**	**5,070**	**11,377**	**10,484**
Electronic center and corporate	288	936	568	1,167
Total	**$ 6,218**	**$ 6,006**	**$ 11,945**	**$ 11,651**

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

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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 six months ended March 31, 2011 and 2010 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 March 31,		Six months ended March 31,	
	2011	2010	2011	2010
	$ 000s		$ 000s	
Revenue				
Total segments (external)	$ 214,384	$ 189,894	$ 449,863	$ 404,599
Electronic center and corporate	353	242	520	360
Consolidated revenue	**214,737**	**190,136**	**450,383**	**404,959**
Depreciation and amortization				
Total segments	5,930	5,070	11,377	10,484
Differences management reporting vs. US GAAP, electronic center and corporate	13,820	15,715	27,580	32,105