SIRONA DENTAL SYSTEMS, INC.
Form 10-Q
August 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

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

As of July 31, 2012, the number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 55,088,839.

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SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED JUNE 30, 2012

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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	June 30, 2012 (unaudited)	September 30, 2011
		$ 000s (except per share amounts)	
ASSETS			
Current assets			
Cash and cash equivalents		$ 104,600	$ 345,859
Accounts receivable, net of allowance for doubtful accounts of $1,575 and $1,868, respectively		117,491	97,853
Inventories, net	**5**	89,451	93,028
Deferred tax assets	**9**	24,501	25,014
Prepaid expenses and other current assets		11,772	15,477
Income tax receivable	**9**	2,953	4,193
Total current assets		**350,768**	**581,424**
Property, plant and equipment, net of accumulated depreciation and amortization of $122,694 and $111,832, respectively		130,048	131,044
Goodwill	**6**	617,518	653,799
Investments		2,507	2,453
Restricted cash			655
Intangible assets, net of accumulated amortization of $425,707 and $412,428, respectively	**6**	295,130	346,442
Other non-current assets		9,141	2,884
Deferred tax assets	**9**	8,357	7,427
Total assets		$ **1,413,469**	$ **1,726,128**
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts payable		$ 40,262	$ 48,697
Short-term debt and current portion of long-term debt	**7**	4,017	368,403
Income taxes payable	**9**	11,932	6,811
Deferred tax liabilities	**9**	250	1,108
Accrued liabilities and deferred income		94,592	110,207
Total current liabilities		**151,053**	**535,226**
Long-term debt	**8**	75,000	
Deferred tax liabilities	**9**	122,218	138,327
Other non-current liabilities		18,613	16,978

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

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Pension related provisions	**12**	46,372	49,677
Deferred income		42,500	50,000
Total liabilities		**455,756**	**790,208**
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;			
56,478,084 shares issued and 55,270,838 shares outstanding at Jun. 30, 2012;			
56,292,420 shares issued and 55,815,323 shares outstanding at Sept. 30, 2011		565	563
Additional paid-in capital		693,725	685,617
Treasury stock (at cost)			
1,207,246 shares held at cost at Jun. 30, 2012;			
477,097 shares held at cost at Sept. 30, 2011		(52,481)	(19,749)
Excess of purchase price over predecessor basis		(49,103)	(49,103)
Retained earnings		402,735	303,639
Accumulated other comprehensive income/(loss)	**4**	(40,562)	11,309
Total Sirona Dental Systems, Inc. shareholders equity		**954,879**	**932,276**
Noncontrolling interests		2,834	3,644
Total shareholders equity		**957,713**	**935,920**
Total liabilities and shareholders equity		$ **1,413,469**	$ **1,726,128**

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 June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
		$ 000s (except per share amounts)		$ 000s (except per share amounts)	
Revenue		$ **242,007**	$ **244,686**	$ **731,987**	$ **695,069**
Cost of sales		113,567	117,854	340,115	322,134
Gross profit		**128,440**	**126,832**	**391,872**	**372,935**
Selling, general and administrative expense		72,434	68,540	218,747	202,444
Research and development		13,092	14,390	40,016	42,045
Provision for doubtful accounts and notes receivable		(504)	13	263	34
Net other operating income		(2,500)	(2,500)	(7,500)	(7,500)
Operating income		**45,918**	**46,389**	**140,346**	**135,912**
Loss/(gain) on foreign currency transactions, net		2,675	(3,435)	6,255	(8,532)
Loss on derivative instruments	**13**	2,686	1,081	186	1,162
Interest expense, net		866	984	2,783	2,863
Other expense/(income)		(218)	383	272	(140)
Income before taxes		**39,909**	**47,376**	**130,850**	**140,559**
Income tax provision	**9**	9,180	10,423	30,096	30,923
Net income		30,729	36,953	100,754	109,636
Less: Net income attributable to noncontrolling interests		431	622	1,658	1,601
Net income attributable to Sirona Dental Systems, Inc.		$ **30,298**	$ **36,331**	$ **99,096**	$ **108,035**
Income per share (attributable to Sirona Dental Systems, Inc. common shareholders):	**10**				
- Basic		$ 0.55	$ 0.65	$ 1.78	$ 1.94
- Diluted		$ 0.53	$ 0.63	$ 1.74	$ 1.89
Weighted average shares - basic		55,507,312	55,992,911	55,721,869	55,619,151
Weighted average shares - diluted		56,717,943	57,577,513	56,939,621	57,246,485

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(UNAUDITED)

	Sirona Dental Systems, Inc. Shareholders									
	Common share capital	**Number of common shares issued and outstanding**	**Additional paid-in capital**	**Treasury Stock**	**Excess of purchase price over predecessor basis**	**Retained earnings**	**Accumulated other comprehensive income/(loss)**	**Total Sirona Dental Systems, Inc Shareholders**	**Noncontrolling Interests**	**Total**
	$ 000s (except for amount of common shares issued)									
Balances as of September 30, 2010	$ **553**	55,305,581	$ **652,698**	$ **(284)**	**(49,103)**	$ **181,846**	$ **19,701**	$ **805,411**	$ **2,222**	$ **807,633**
Issuance of common stock upon exercise of options	9	902,200	10,365					10,374		10,374
Stock compensation			7,241					7,241		7,241
Tax benefit of stock options exercised			7,345					7,345		7,345
Dividend distribution to noncontrolling interest									(487)	(487)
Comprehensive income:										
Net income						108,035		108,035	1,601	109,636
Cumulative translation adjustment							41,810	41,810	229	42,039
Unrecognized elements of pension cost, net of tax							(245)	(245)		(245)
Total comprehensive income						108,035	41,565	149,600	1,830	151,430
Balances as of June 30, 2011	$ **562**	56,207,781	$ **677,649**	$ **(284)**	**(49,103)**	$ **289,881**	$ **61,266**	$ **979,971**	$ **3,565**	$ **983,536**
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**
	2	185,664	1,744					1,746		1,746

Issuance of common stock upon exercise of options and net effect of vesting of RSUs/PSUs										
Purchase of treasury stock (at cost)		(730,149)		(32,732)				(32,732)		(32,732)
Stock compensation			6,375					6,375		6,375
Tax benefit of stock options exercised			(751)					(751)		(751)
Purchase of shares from noncontrolling interest			740					740	(740)	
Dividend distribution to noncontrolling interest									(1,689)	(1,689)
Comprehensive income:										
Net income						99,096		99,096	1,658	100,754
Cumulative translation adjustment							(51,720)	(51,720)	(39)	(51,759)
Unrecognized elements of pension cost, net of tax							714	714		714
Net loss on derivative financial instruments (hedging)							(865)	(865)		(865)
Total 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**

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)

	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$ 000s	
Cash flows from operating activities		
Net income	**$ 100,754**	**$ 109,636**
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	58,107	59,839
Loss on derivative instruments	186	1,162
Loss/(gain) on foreign currency transactions	6,255	(8,532)
Deferred income taxes	(11,079)	(9,143)
Amortization of debt issuance cost	491	895
Share-based compensation expense	6,375	7,241
Changes in assets and liabilities		
Accounts receivable	(25,939)	(27,953)
Inventories	(1,503)	(13,801)
Prepaid expenses and other current assets	3,528	10,042
Restricted cash	646	20
Other non-current assets	(252)	(243)
Trade accounts payable	(6,239)	1,171
Accrued liabilities and deferred income	(14,928)	(19,478)
Other non-current liabilities	818	712
Income taxes receivable	1,167	(5,518)
Income taxes payable	5,631	(604)
Net cash provided by operating activities	**124,018**	**105,446**
Cash flows from investing activities		
Investment in property, plant and equipment	(29,675)	(37,097)
Prepayments for other assets	(4,612)	
Purchase of intangible assets	(82)	(247)
Purchase of long-term investments	(48)	(95)
Acquisition of business, net of cash acquired		(20,840)
Net cash used in investing activities	**(34,417)**	**(58,279)**

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)

	Nine months ended June 30, 2012	2011
	$ 000s	
Cash flows from financing activities		
Repayments of short-term and long-term debt	(433,093)	
Proceeds from borrowings	141,297	
Purchase of treasury stock	(32,732)	
Debt issuance cost	(2,765)	
Dividend distributions to noncontrolling interest	(1,698)	(487)
Common shares issued under share based compensation plans	1,744	10,365
Tax effect of common shares issued under share based compensation plans	(1,067)	8,283
Net cash (used in)/provided by financing activities	**(328,314)**	**18,161**
Change in cash and cash equivalents	(238,713)	65,328
Effect of exchange rate change on cash and cash equivalents	(2,546)	14,108
Cash and cash equivalents at beginning of period	345,859	251,767
Cash and cash equivalents at end of period	**$ 104,600**	**$ 331,203**
Supplemental information		
Interest paid	$ 2,005	$ 3,114
Interest capitalized	203	376
Income taxes paid	32,460	37,291
Acquisition of business		
Current assets	$	$ 201
Non-current assets		47,277
Current liabilities		(269)
Non-current liabilities		(16,156)
		31,053
Cash paid		(20,898)
Fair value of liabilities incurred	$	$ 10,155

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

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 t 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, 2011.

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, 2012, and the results of operations and cash flows for the nine months ended June 30, 2012 and 2011, respectively, as applicable to interim periods have been made. The results of operations for the nine months ended June 30, 2012 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.

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. Recently Issued Accounting Pronouncements
Not Yet Adopted

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which 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. ASU 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011, which corresponds to the Company s fiscal year beginning October 1, 2012, with early adoption permitted. The Company will be required to change its presentation of comprehensive income but has not yet decided which method it will apply.

3. 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, 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, 2012, 1,052,959 shares were available for future grant under the 2006 Plan.

Restricted and Performance-Based Stock Units

In the nine months ended June 30, 2012, the Company granted 184,200 RSU s on November 22, 2011 with a value of $40.03, 1,000 RSU s on April 23, 2012 with a value of $48.97, 19,200 RSU s on May 8, 2012 with a value of $49.12, the values of which representing the closing prices at the date of the grant.

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, 2012, the Company granted 209,375 stock options on November 22, 2011, under the 2006 Plan with a weighted average exercise price of $40.03 and weighted average fair value of $14.15 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.

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Nine months ended June 30, 2012
Expected Volatility	39.17%
Risk-free rate	0.91%
Expected term	5 years
Expected dividends	

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, 2012:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Compensation Expense	$ 000s		$ 000s	
Cost of sales	$ 27	$ 31	$ 85	$ 104
Selling, general and administrative	2,029	2,692	6,192	7,006
Research and development	29	39	98	131
	$ 2,085	$ 2,762	$ 6,375	$ 7,241

	Three months ended June 30, 2012 $ 000s (except where noted)	Nine months ended June 30, 2012 $ 000s (except where noted)
Additional Information		
Tax Information		
Income tax benefit recognized for share-based compensation	$ (599)	$ (1,832)
Tax benefit realized from option exercises	$ (312)	$ (2,275)
Future Costs		
Total compensation cost to be recognized in future periods related to outstanding non-vested share-based compensation awards		$ 19,104
Weighted-average period expected for recognition of cost *(in years)*		2.7

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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, 2012:

	Nine months ended June 30, 2012			
	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	462,465	$ 36.99	12,800	$ 36.78
Reclass	(200)	36.78	200	36.78
Granted	204,400	40.94		
Vested	(75,478)	36.25		
Forfeited	(17,750)	42.01		
Outstanding at end of period	573,437	38.34	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, 2012:

	Nine months ended June 30, 2012	
	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,207,312	$ 15.05
Granted	209,375	40.03
Exercised	(134,899)	12.94
Expired	(2,682)	11.73
Forfeited	(23,609)	18.83
Outstanding at end of period	2,255,497	17.45
thereof vested and exercisable	*1,744,353*	

	$ 000s
Intrinsic value of options exercised	$ 4,592
Total fair value of options vested	$ 1,709
Aggregate intrinsic value of exercisable stock options	$ 50,931
Weighted average remaining contractual life *(in years)*	*4.5*

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4. Accumulated Other Comprehensive Income/(Loss)

	For the three months ended June 30, 2012			
	Cumulative translation adjustments	Unrecognized elements of pension cost	Net (loss)/gain from hedging instruments	Total
		$ 000s		
Balance at beginning of period	$ 8,408	$ (4,527)	$ (670)	$ 3,211
Current increase / (decrease)	(43,888)	428		(43,460)
Income tax (expense) / benefit		(118)	576	458
Changes in fair value of derivatives			(771)	(771)
Balance at end of period	$ (35,480)	$ (4,217)	$ (865)	$ (40,562)

	For the three months ended June 30, 2011			
	Cumulative translation adjustments	Unrecognized elements of pension cost	Net (loss)/gain from hedging instruments	Total
		$ 000s		
Balance at beginning of period	$ 49,946	$ (2,296)	$	$ 47,650
Current increase / (decrease)	13,628	(17)		13,611
Income tax (expense) / benefit		5		5
Balance at end of period	$ 63,574	$ (2,308)	$	$ 61,266

	For the nine months ended June 30, 2012			
	Cumulative translation adjustments	Unrecognized elements of pension cost	Net (loss)/gain from hedging instruments	Total
		$ 000s		
Balance at beginning of period	$ 16,007	$ (4,698)	$	$ 11,309
Current increase / (decrease)	(51,487)	664		(50,823)
Income tax (expense) / benefit		(183)	576	393
Changes in fair value of derivatives			(1,441)	(1,441)
Balance at end of period	$ (35,480)	$ (4,217)	$ (865)	$ (40,562)

	For the nine months ended June 30, 2011			
	Cumulative translation adjustments	Unrecognized elements of pension cost	Net (loss)/gain from hedging instruments	Total
	$ 000s			
Balance at beginning of period	$ 21,965	$ (2,264)	$	$ 19,701
Current increase / (decrease)	41,609	(60)		41,549
Income tax (expense) / benefit		16		16
Balance at end of period	$ 63,574	$ (2,308)	$	$ 61,266

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5. Inventories, net

	June 30, 2012	September 30, 2011
	$ 000s	
Finished goods	$ 58,774	$ 59,929
Work in progress	13,526	15,761
Raw materials	32,502	32,918
	104,802	**108,608**
Inventory reserve	(15,351)	(15,580)
	$ **89,451**	$ **93,028**

6. Intangible Assets and Goodwill

	Gross	Accumulated amortization $ 000s	Net
As of June 30, 2012			
Patents & Licenses	$ 130,812	$ 78,242	$ 52,570
Trademarks	123,584	603	122,981
Technologies and dealer relationships	426,100	346,862	79,238
In-process research & development (IPR&D)	40,341		40,341
	720,837	425,707	295,130
Goodwill	617,518		617,518
Total intangible assets	$ **1,338,355**	$ **425,707**	$ **912,648**

	Gross	Accumulated amortization $ 000s	Net
As of September 30, 2011			
Patents & Licenses	$ 140,136	$ 74,482	$ 65,654
Trademarks	130,706	528	130,178
Technologies and dealer relationships	447,687	337,418	110,269
In-process research & development (IPR&D)	40,341		40,341
	758,870	412,428	346,442
Goodwill	653,799		653,799

Total intangible assets	$ **1,412,669**	$ **412,428**	$ **1,000,241**

The change in the value of goodwill from September 30, 2011 to June 30, 2012 is mainly attributable to (i) foreign currency fluctuations, with an impact of $ (36,222), and (ii) a reduction in goodwill by $ (59) 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.

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Aside from normal amortization for the current fiscal year, the change in the value of intangible assets, excluding goodwill, from September 30, 2011 to June 30, 2012 is mainly attributable to foreign currency fluctuations, with an impact of $ (15,211).

IPR&D, with a fair value of $40.3 million, represents a single project. The remaining estimated cost to complete the project was $2.6 million as of June 30, 2012. The project is 95% through the development phase; the remaining steps prior to product release are beta testing and regulatory approvals. The percentage of completion for the full project is 90%, and we anticipate project completion in the first half of 2013.

7. Short-Term Debt and Current Portion of Long-Term Debt
The components of short-term debt are as follows:

	June 30, 2012	September 30, 2011
	$ 000s	
Prior Senior Term Loans (Tranches A1/A2, variable rate repayable in November 2011)	$	$ 364,817
Actual interest rate as of September 30, 2011 - Tranche A1: 0.69%		
Actual interest rate as of September 30, 2011 - Tranche A2: 1.81%		
Accrued interest on long-term debt	270	
Other short-term debt	3,747	3,586
	$ **4,017**	$ **368,403**

8. Long-Term Debt
The components of long-term debt are as follows:

	June 30, 2012	September 30, 2011
	$ 000s	
New Senior Term Loan (Facility A Term Loan, variable rate)repayable in two installments in November 2015 and November 2016	$ 75,270	$
Actual interest rate as of June 30, 2012: 2,8775%		
	75,270	
Less current portion	270	
	$ **75,000**	$

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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 Schick NY, 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 Schick NY, 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 will apply from March 31, 2012 onwards, the applicable margin will vary 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 be 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. For additional information on the Prior Senior Facilities Agreement, see Part I, Item 7 of the Company s 2011 Annual Report on Form 10-K.

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

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9. Income Taxes

For the first nine months of fiscal year 2012, an estimated effective tax rate of 23% has been applied, compared to an estimated effective tax rate of 22% for the first nine months of fiscal year 2011 and an effective tax rate for fiscal year 2011 of 22.4%.

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 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 2005.

The company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of June 30, 2012, 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, 2012, the approximate amount of undistributed foreign earnings amounted to $255 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.

10. 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,	
	2012	2011	2012	2011
	$ 000s (except for share amounts)		$ 000s (except for share amounts)	
Net income attributable to Sirona Dental Systems, Inc. common shareholders	$ 30,298	$ 36,331	$ 99,096	$ 108,035
Weighted average shares outstanding - basic	55,507,312	55,992,911	55,721,869	55,619,151
Dilutive effect of stock-based compensation	1,210,631	1,584,602	1,217,752	1,627,334
Weighted average shares outstanding - diluted	56,717,943	57,577,513	56,939,621	57,246,485
Net income per share				
Basic	$ 0.55	$ 0.65	$ 1.78	$ 1.94
Diluted	$ 0.53	$ 0.63	$ 1.74	$ 1.89

There were no stock options excluded from the computation of diluted earnings per share for the three and nine months ended June 30, 2012 and June 30, 2011.

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11. Product warranty

The following table provides the changes in the product warranty accrual for the three and nine months ended June 30, 2012 and 2011:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$ 000s		$ 000s	
Balance at beginning of the period	$ 9,103	$ 8,554	$ 8,735	$ 8,972
Accruals for warranties issued during the period	3,786	5,740	13,326	14,772
Warranty settlements made during the period	(4,098)	(4,985)	(13,180)	(14,711)
Translation adjustment	(437)	149	(527)	425
Balance at end of the period	**$ 8,354**	**$ 9,458**	**$ 8,354**	**$ 9,458**

12. Pension Plans

Components of net periodic benefit costs are as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$ 000s		$ 000s	
Service cost, net	$ 52	$ 68	$ 160	$ 197
Interest cost	601	640	1,845	1,853
Amortization of actuarial gains	(76)	(42)	(233)	(122)
Net periodic benefit cost	$ 577	$ 666	$ 1,772	$ 1,928

13. 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.

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.

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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, 2012, these contracts had notional amounts totaling $49.4 million. These agreements are relatively short-term (generally six months).

The fair value carrying amount of the Company s derivative instruments at June 30, 2012 is described in Note 14 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 statement of income for the nine months ended June 30, 2012 and 2011 were as follows:

Derivatives Designated as Cash Flow Hedging

	For the three months ended June 30,		For the nine months ended June 30,	
	2012	2011	2012	2011
	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	$ 771	$	$ 1,441	

	Location of (Gain)/Loss Recognized in Income on Derivative	For the three months ended June 30,		For the nine months ended June 30,	
		2012	2011	2012	2011
		Ineffective portion Recognized in Income $ 000s		Ineffective portion Recognized in Income $ 000s	
Interest rate swap contracts	Loss on derivative instruments, net	$ 1	$	$ 2	

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

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Derivatives Not Designated as Hedging Instruments

		For the three months ended June 30,		For the nine months ended June 30,	
		2012	2011	2012	2011
	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	
Foreign exchange contracts	Loss on derivative instruments, net	2,685	1,081	184	1,162
Total		$ 2,685	$ 1,081	$ 184	1,162

14. 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 June 30, 2012 and September 30, 2011:

	June 30, 2012			
	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)	$ 41,491	$	$	$ 41,491
Derivative Assets	$	$ 94	$	$ 94
Liabilities				
Derivative Liabilities		(1,856)		(1,856)
Business Acquisition-related liabilities			(11,335)	(11,335)
Total	$ 41,491	$ (1,762)	$ (11,335)	$ 28,394

	September 30, 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)	$ 157	$	$	$ 157
Derivative Assets		121		121
Liabilities				
Derivative Liabilities		(1,828)		(1,828)
Business Acquisition-related liabilities			(10,560)	(10,560)

Total	$ 157	$ (1,707)	$ (10,560)	$ (12,110)

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

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The change in the fair value of the business acquisition-related liabilities was $0.3 million and $0.8 million and was recorded in other (income)/expense in the income statement for the three and nine months ended June 30, 2012, respectively.

In the Company s June 30, 2012 and September 30, 2011 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.

15. 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. 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.

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	Three months ended June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$ 000s		$ 000s	
Revenue External				
Dental CAD/CAM Systems	$ 85,415	$ 83,209	$ 255,202	$ 243,593
Imaging Systems	82,120	85,014	251,399	233,564
Treatment Centers	48,773	48,166	146,474	139,128
Instruments	25,204	28,002	77,921	77,969
Total	**241,512**	**244,391**	**730,996**	**694,254**
Electronic center and corporate	495	295	991	815
Total	$ **242,007**	$ **244,686**	$ **731,987**	$ **695,069**
Revenue Internal				
Dental CAD/CAM Systems	$	$	$	$
Imaging Systems	3	1	15	9
Treatment Centers	2	2	6	19
Instruments	2,672	2,747	8,634	7,963
Intercompany elimination	(2,677)	(2,750)	(8,655)	(7,991)
Total				
Electronic center and corporate	5,245	6,461	17,684	18,690
Intercompany elimination	(5,245)	(6,461)	(17,684)	(18,690)
Total	$	$	$	$
Revenue Total				
Dental CAD/CAM Systems	$ 85,415	$ 83,209	$ 255,202	$ 243,593
Imaging Systems	82,123	85,015	251,414	233,573
Treatment Centers	48,775	48,168	146,480	139,147
Instruments	27,876	30,749	86,555	85,932
Total	**244,189**	**247,141**	**739,651**	**702,245**
Electronic center and corporate	5,739	6,755	18,675	19,504
Total	$ **249,928**	$ **253,896**	$ **758,326**	$ **721,749**
Segment performance measure				
Dental CAD/CAM Systems	$ 59,530	$ 56,075	$ 179,142	$ 170,270
Imaging Systems	47,846	49,553	144,519	138,040
Treatment Centers	19,934	18,788	59,305	57,261

Instruments	10,366	13,258	35,815	37,981
Total	**137,676**	**137,674**	**418,781**	**403,552**
Electronic center and corporate	1,625	2,102	6,243	7,199
Total	$ **139,301**	$ **139,776**	$ **425,024**	$ **410,751**
Depreciation and amortization expense				
Dental CAD/CAM Systems	$ 2,826	$ 2,113	$ 7,334	$ 5,847
Imaging Systems	1,536	1,623	4,475	4,494
Treatment Centers	1,995	1,916	5,718	5,118
Instruments	1,013	920	2,877	2,490
Total	**7,370**	**6,572**	**20,404**	**17,949**
Electronic center and corporate	408	255	1,497	823
Total	$ **7,778**	$ **6,827**	$ **21,901**	$ **18,772**

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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 nine months ended June 30, 2012 and 2011 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,	
	2012	2011	2012	2011
	$ 000s		$ 000s	
Revenue				
Total segments (external)	$ 241,512	$ 244,391	$ 730,996	$ 694,254
Electronic center and corporate	495	295	991	815
Consolidated revenue	**242,007**	**244,686**	**731,987**	**695,069**
Depreciation and amortization				
Total segments	7,369	6,572	20,403	17,949
Differences management reporting vs. US GAAP, electronic center and corporate	12,278	14,310	37,704	41,890
Consolidated depreciation and amortization	**19,647**	**20,882**	**58,107**	**59,839**
Segment performance measure				
Total segments	137,675	137,674	418,780	403,552
Differences management reporting vs. US GAAP, electronic center and corporate	(9,235)	(10,842)	(26,908)	(30,617)
Consolidated gross profit	**128,440**	**126,832**	**391,872**	**372,935**
Selling, general and administrative expense	72,434	68,540	218,747	202,444
Research and development	13,092	14,390	40,016	42,045
Provision for doubtful accounts and notes receivable	(504)	13	263	34
Net other operating income	(2,500)	(2,500)	(7,500)	(7,500)
Loss/(gain) on foreign currency transaction , net	2,675	(3,435)	6,255	(8,532)
Loss on derivative instruments	2,686	1,081	186	1,162
Interest expense, net	866	984	2,783	2,863
Other expense/(income)	(218)	383	272	(140)
Income before taxes	**$ 39,909**	**$ 47,376**	**$ 130,850**	**$ 140,559**

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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 29% and 28% of our total revenues for the nine months ended June 30, 2012 and 2011, respectively. Henry Schein, Inc. (Henry Schein) accounted for 16% and 19% of our total revenues for the nine months ended June 30, 2012 and 2011, respectively. Together, these two customers represented 45% and 47% of our total revenues for the nine months ended June 30, 2012 and 2011, respectively. The accounts receivable from these two customers totaled $ 50,231 and $ 51,214 for the nine months ended June 30, 2012 and 2011, respectively. These revenues were earned across all segments, with a significant portion of revenues with Patterson being earned in the CAD/CAM segment. No other customer accounted for more than 10% of revenues.

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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, 2011. Actual results and the timing of certain events may differ significantly from those projected in such 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, 2011. 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 t 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: 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.

The U.S. market is the largest individual market for Sirona, followed by Germany. Between fiscal years 2004 and 2011, the Company increased U.S. revenues from $88.2 million to $255.9 million, driven by innovative products, particularly in the CAD/CAM and imaging segments and the Exchange. In July 2005, pursuant to an amendment to the distribution agreement between the Company and Patterson (the Distribution Agreement), 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. The May 2012 amendment and restatement of the Distribution Agreement did not impact the current method or period of recognition for deferred income related to the Patterson Exclusivity Payment.

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 2011, the Company increased revenues in non-U.S. and non-German markets from $190.9 million to $469.0 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, Korea, Italy, and France. The expansion helped to increase market share but also contributed to higher SG&A expenses.

Fiscal year 2011 was a successful year for Sirona. We posted solid revenue growth, with exceptionally strong performance in Germany on the heels of a successful International Dental Show (IDS) in Cologne, Germany and a trade-in program for CAD/CAM products. In addition, Sirona s new product introductions demonstrate our continued focus on innovation and the benefits we accrue from our industry-leading investments in R&D. These factors, plus our ongoing initiatives to expand our global sales and service infrastructure, resulted in strong financial performance for the fiscal year. Revenues in international markets increased 20.5% on a constant currency basis, with particularly strong performance in Europe, led by Germany, and Asia-Pacific. Revenues in the U.S. grew 6.8%. In fiscal year 2011, our net income and our operating cash flow benefitted from this strong revenue growth, but also from operating margin expansion and lower interest expense.

For the nine months ended June 30, 2012, revenues increased 9.4% on a constant currency basis over a very strong first nine months of fiscal year 2011, where revenues grew 17.8% constant currency. The nine months ended June 30, 2011, benefited from the IDS, the Orthophos 2D/3D product launch, as well as a successful CAD/CAM trade-up program in Germany. Revenues for the first nine months ended of the current fiscal year were particularly strong in the Imaging and Treatment Center segments as well as in the non-U.S., non-European markets, where our investments continue to produce benefits. Gross profit increased by $18.9 million, which was partially offset by a $16.3 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 3.3%.

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 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.

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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, 2012, approximately 39% of Sirona s revenue and approximately 69% 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, 2010 and June 30, 2012, the U.S. Dollar/Euro exchange rate used to calculate items included in Sirona s financial statements varied from a low of $1.2326 to a high of $1.4858. 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, 2012, these contracts had notional amounts totaling $49.4 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 rates for the three and nine months ended June 30, 2012, were $1.28513 and $1.31527, respectively, and varied from $ 1.25378 to $ 1.37045. For the three and nine months ended June 30, 2011, an average quarterly exchange rate converting Euro denominated revenues into U.S. Dollars of $1.43894 and $1.38876, 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 rates between the Euro and the U.S. Dollar.

Fluctuations in Quarterly Operating Results

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

- the timing of new product introductions by us and our competitors;
- timing of industry tradeshows, 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 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.

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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 in the mix of earnings in countries 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, 2012, 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.

Results of Operations

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Revenue

Revenue for the three months ended June 30, 2012 was $242.0 million, a decrease of $2.7 million, or 1.1%, as compared with the three months ended June 30, 2011. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 7.0%. By segment, CAD/CAM Systems increased 2.7% (up 9.5% on a constant currency basis), Treatment Centers increased 1.3% (up 13.3% on a constant currency basis), Imaging Systems decreased 3.4% (up 2.8% on a constant currency basis), and Instruments decreased 10.0% (up 0.6% on a constant currency basis).

The current-quarter 7.0% constant currency increase in revenue represents growth above a very strong third-quarter performance in the prior year, where revenues increased 24% on a constant currency basis. Furthermore, we continue to benefit from our increased global sales and service infrastructure and the demand for our innovative products. Our products enable dental professionals to improve their clinical results and to increase the profitability of their practices.

Treatment Center as well as CAD/CAM segment revenues benefited from robust growth in many international markets. Imaging Systems revenues faced a challenging year-over-year comparison, since revenues increased 29.6% on a constant currency basis during the same period in the prior year due to the introduction of the Orthophos 2D/3D combination unit.

Revenue in the U.S. for the three months ended June 30, 2012 was up 7.7% compared to the prior year period. Revenue outside the U.S. decreased by 4.6%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 6.6%. We continued to experience strong double-digit growth in the non-U.S., non-European markets, led by the Asia-Pacific region. During the quarter, sales in Germany decreased as we faced a tough prior-year comparison due to the strong IDS performance as well as the successful Orthophos 2D/3D launch.

Revenue growth on a constant currency basis was mainly volume driven. Prices in general remained stable, with the exception of pricing pressure and product mix shifts in the 2D and 3D panoramic imaging product lines.

Cost of Sales

Cost of sales for the three months ended June 30, 2012 was $113.6 million, a decrease of $4.3 million, or 3.6%, as compared with the three months ended June 30, 2011. Gross profit as a percentage of revenue was 53.1% compared to 51.8% 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 $10.9 million as well as non-cash share-based compensation expense of $0.03 million for the three months ended June 30, 2012 compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $12.9 million and non-cash share-based compensation expense of $0.03 million for the three months ended June 30, 2011. Excluding these amounts, cost of sales as a percentage of revenue was 42.4% for the three months ended June 30, 2012 compared with 42.9% for the three months ended June 30, 2011. Therefore, gross profit as a percentage of revenue was 57.6%, compared to 57.1% in the prior year period. The increase in the gross profit margin was mainly due to product mix.

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Gross Profit

We use gross profit, excluding the impact of the MDP Transaction, the Exchange, and non-cash share-based compensation expense, to monitor segment performance. By segment, gross profit developed in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 as follows: CAD/CAM Systems increased 6.2%, Treatment Centers increased 6.1%, Imaging Systems decreased 3.4%, and Instruments decreased by 21.8%. The increase in CAD/CAM segment gross profit as well as gross profit margin was due to increased sales and also benefited from the weakened Euro vs. the U.S. Dollar. The increase in the Treatment Center segment gross profit as well as the gross profit margin was mainly driven by higher volume and a favorable product mix compared to the same prior-year period. We experienced strong demand for both our standard and comfort units. Product and regional mix in our Imaging Systems segment, partially offset by a positive impact of the weakened Euro vs. the U.S. Dollar, led to a decrease in gross profit, while the gross profit margin remained flat year over year. Gross profit and gross profit margin for the Instruments segment was below prior year level. This decrease in gross profit margin was driven by an unfavorable product mix toward lower-margin products. For more information, see Note 15 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 three months ended June 30, 2012, SG&A expense was $72.4 million, an increase of $3.9 million, or 5.7%, as compared with the three months ended June 30, 2011. 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 to build up our presence in key growth markets. These investments resulted in increased revenues, particularly in international markets. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of $0.7 million as well as non-cash share-based compensation expense in the amount of $2.0 million for the three months ended June 30, 2012, compared with $0.7 million and $2.7 million, respectively, for the three months ended June 30, 2011. Excluding these amounts, as a percentage of revenue, SG&A expense increased to 28.8% for the three months ended June 30, 2012, as compared with 26.6% for the three months ended June 30, 2011.

Research and Development

R&D expense for the three months ended June 30, 2012, was $13.1 million, a decrease of $1.3 million. The decrease is 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, 2012, compared with $0.04 million for the three months ended June 30, 2011. Excluding this amount, as a percentage of revenue, R&D expense decreased to 5.4% for the three months ended June 30, 2012, compared to 5.9% for the three months ended June 30, 2011.

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Net Other Operating Income

Net other operating income for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 was as follows:

	Three months ended June 30, 2012	2011
	$ millions	
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	$ 2.5	$ 2.5

Loss/(Gain) on Foreign Currency Transactions

The loss on foreign currency transactions for the three months ended June 30, 2012 amounted to $2.7 million and compares to a gain of $3.4 million for the three months ended June 30, 2011. The components of these results are as follows:

	Three months ended June 30, 2012	2011
	$ millions	
Unrealized non-cash foreign exchange loss/(gain) from translation adjustment of deferred income related to the Patterson exclusivity payment	$ 3.1	$ (1.2)
Unrealized non-cash foreign exchange loss/(gain) on short-term intra-group loans	4.9	(1.6)
Gain on other foreign currency transactions	(5.3)	(0.6)
	$ **2.7**	$ **(3.4)**

Loss on Derivative Instruments

The loss of $2.7 million on derivative instruments for the three months ended June 30, 2012 compared to a loss of $1.1 million for the three months ended June 30, 2011. In both periods, the loss related to unrealized non-cash gains on foreign currency hedges.

Interest Expense

Net interest expense for the three months ended June 30, 2012, was $0.9 million, compared to $1.0 million for the three months ended June 30, 2011. The slight decrease resulted from lower overall debt levels.

Income Tax Provision

For the three months ended June 30, 2012 and 2011, Sirona recorded a profit before income taxes of $39.9 million and $47.4 million, respectively. The estimated effective tax rate applied for these periods was 23% and 22%, respectively, compared to an actual effective tax rate of 22.4% in fiscal year 2011. The income tax provision for the three months ended June 30, 2012 and 2011, was $9.2 million and $10.4 million, respectively. The estimated effective tax rate is primarily driven by the expected mix of earnings across different countries.

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Net Income

Net income for the three months ended June 30, 2012 was $30.7 million, a decrease of $6.2 million, as compared with the three months ended June 30, 2011. Major influencing factors on net income were the increase in gross profit, mainly due to lower amortization, which was more than offset by an increase in SG&A expense due to continued investments in the expansion of our global sales and service infrastructure, foreign currency transaction losses, and a higher estimated effective tax rate. Net income for the three months ended June 30, 2012 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 $11.5 million ($8.9 million net of tax), a foreign currency loss on the deferred income from the Patterson exclusivity payment of $3.2 million ($2.5 million net of tax), and a loss on the revaluation of short-term intra-group loans of $4.8 million ($3.7 million net of tax).

Sirona s net income for the three months ended June 30, 2011 included deal related amortization and depreciation of assets acquired in past business combinations of $13.7 million ($10.7 million net of tax), currency revaluation gains on the Patterson exclusivity payment of $1.2 million ($0.9 million after tax), and a gain on the revaluation of short-term intra-group loans of $1.6 million ($1.2 million net of tax).

Share-based compensation expense was $2.1 million ($1.6 million net of tax) for the three months ended June 30, 2012 compared to $2.8 million ($2.2 million net of tax) in the prior year period.

Nine Months Ended June 30, 2012 Compared to Nine Months Ended June 30, 2011

Revenue

Revenue for the nine months ended June 30, 2012 was $732.0 million, an increase of $36.9 million, or 5.3%, as compared with the nine months ended June 30, 2011. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 9.3%. By segment, Imaging Systems increased 7.6% (up 10.7% on a constant currency basis), Treatment Centers increased 5.3% (up 11.1% on a constant currency basis), CAD/CAM Systems increased 4.8% (up 8.2% on a constant currency basis), and Instruments decreased 0.1% (up 5.4% on a constant currency basis).

The current-year 9.3% constant currency increase in revenue represents growth above a very strong first nine months of the prior year, where revenues increased 17.8% on a constant currency basis. The prior-year period was marked by strong sales stemming from the IDS, the Orthophos 2D/3D product launch, as well as a successful CAD/CAM trade-up program in Germany. We also continue to benefit from our increased global sales and service infrastructure and the demand for our innovative products and. Our products enable dental professionals to improve their clinical results and to increase the profitability of their practices.

Imaging Systems revenue growth was driven by robust demand for our 3D and 2D Orthophos products, with sales particularly strong in international markets. This growth was achieved despite a challenging comparison, as Imaging Systems revenue grew 21% in the same period last year. Treatment Center revenues benefited from robust growth in many international markets as well as the new Sinius unit. CAD/CAM Systems revenue growth was particularly strong in non-U.S., non-European markets and faced a challenging comparison, as the first quarter in fiscal year 2011 benefited from a very successful trade-in program in Germany and strong sales stemming from the IDS. Instrument revenues were flat over the prior-year period and benefited from high-volume projects in several international markets.

Revenue in the U.S. for the nine months ended June 30, 2012 was up 4.9% compared to the prior year period. Revenue outside the U.S. increased by 5.5%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 11.2%. Revenue growth was particularly strong in non-U.S., non-European markets, led by the Asia-Pacific region.

Revenue growth on a constant currency basis was mainly volume driven. Prices in general remained stable, with the exception of pricing pressure and product mix shifts in the 2D and 3D panoramic imaging product lines.

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Cost of Sales

Cost of sales for the nine months ended June 30, 2012 was $340.1 million, an increase of $18.0 million, or 5.6%, as compared with the nine months ended June 30, 2011. Gross profit as a percentage of revenue was 53.5% compared to 53.7% 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 $33.2 million as well as non-cash share-based compensation expense of $0.09 million for the nine months ended June 30, 2012 compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $37.8 million and non-cash share-based compensation expense of $0.1 million for the nine months ended June 30, 2011. Excluding these amounts, cost of sales as a percentage of revenue was 41.9% for the nine months ended June 30, 2012 compared with 40.9% for the nine months ended June 30, 2011, and therefore gross profit as a percentage of revenue was 58.1% compared to 59.1% in the prior year period. The decrease in the gross profit margin was mainly due to product mix in all segments.

Gross Profit

We use gross profit, excluding the impact of the MDP Transaction, the Exchange, and non-cash share-based compensation expense, to monitor segment performance. By segment, gross profit developed in the nine months ended June 30, 2012 compared to the nine months ended June 30, 2011 as follows: CAD/CAM Systems increased 5.2%, Imaging Systems increased 4.7%, Treatment Centers increased 3.6%, and Instruments decreased 5.7%. The increase in gross profit in the CAD/CAM, Imaging Systems, and Treatment Centers segments was mainly due to volume growth. The development of the Instruments segment gross profit was mainly due to product mix. In all segments, gross profit margins decreased, mainly due to product mix, except for the CAD/CAM segment, where the gross profit margin increased slightly over the prior year. For more information, see Note 15 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, 2012, SG&A expense was $218.7 million, an increase of $16.3 million, or 8.1%, as compared with the nine months ended June 30, 2011. In the first nine months of the 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 to build up our presence in key growth markets. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of $2.1 million as well as non-cash share-based compensation expense in the amount of $6.2 million for the nine months ended June 30, 2012, compared with $2.2 million and $7.0 million, respectively, for the nine months ended June 30, 2011. Excluding these amounts, as a percentage of revenue, SG&A expense increased to 28.8 % for the nine months ended June 30, 2012, as compared with 27.8% for the nine months ended June 30, 2011.

Research and Development

R&D expense for the nine months ended June 30, 2012, was $40.0 million, a decrease of $2.0 million, or 4.8%, as compared with the nine months ended June 30, 2011. The decrease of R&D expense was primarily driven by the timing of individual projects.

R&D expense included non-cash share-based compensation expense in the amount of $0.1 million for the nine months ended June 30, 2012, compared with $0.1 million for the nine months ended June 30, 2011. Excluding this amount, as a percentage of revenue, R&D expense decreased to 5.5% for the nine months ended June 30, 2012, compared to 6.0% for the nine months ended June 30, 2011.

Net Other Operating Income

Net other operating income for the nine months ended June 30, 2012 compared to the nine months ended June 30, 2011 was as follows:

	Nine months ended June 30, 2012	2011
	$ millions	
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	$ 7.5	$ 7.5

Loss/(gain) on Foreign Currency Transactions

The loss on foreign currency transactions for the nine months ended June 30, 2012 amounted to $6.3 million and compares to a gain of $8.5 million for the nine months ended June 30, 2011. The components of these results are as follows:

	Nine months ended June 30, 2012	2011
	$ millions	
Unrealized non-cash foreign exchange loss/(gain) from translation adjustment of deferred income related to the Patterson exclusivity payment	$ 3.9	$ (3.7)
Unrealized non-cash foreign exchange loss/(gain) on short-term intra-group loans	5.9	(4.6)
Gain on other foreign currency transactions	(3.5)	(0.2)
	$ **6.3**	$ **(8.5)**

Loss on Derivative Instruments

The loss of $0.2 million on derivative instruments for the nine months ended June 30, 2012 compared to a loss of $1.2 million for the nine months ended June 30, 2011. In both periods, the loss related to unrealized non-cash gains and losses on foreign currency hedges.

Interest Expense

Net interest expense for the nine months ended June 30, 2012, was $2.8 million, compared to $2.9 million for the nine months ended June 30, 2011. Interest expense remained at prior-year levels despite increasing interest rates due to lower overall debt levels in the current fiscal period.

Income Tax Provision

For the nine months ended June 30, 2012 and 2011, Sirona recorded a profit before income taxes of $130.9 million and $140.6 million, respectively. The estimated effective tax rate applied for these periods was 23% and 22%, respectively, compared to an actual effective tax rate of 22.4% in fiscal year 2011. The income tax provision for the nine months ended June 30, 2012 and 2011, was $30.1 and $30.9 million, respectively. 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, 2012 was $100.8 million, a decrease of $8.9 million, as compared with the nine months ended June 30, 2011. Major influencing factors on net income were the increase in revenues and gross profit and lower amortization, all of which was more than offset by an increase in SG&A expense due to continued investments in the expansion of our global sales and service infrastructure, foreign currency transaction losses, and a higher estimated effective tax rate. Net income for the nine months ended June 30, 2012 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 $35.2 million ($27.1 million net of tax), a foreign currency loss on the deferred income from 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).

Sirona s net income for the nine months ended June 30, 2011 included deal related amortization and depreciation of assets acquired in past business combinations of $40.0 million ($31.2 million net of tax), currency revaluation gains on the Patterson exclusivity payment of $3.7 million ($2.9 million after tax), and a gain on the revaluation of short-term intra-group loans of $4.6 million ($3.6 million net of tax).

Share-based compensation expense was $6.4 million ($4.9 million net of tax) for the nine months ended June 30, 2012 compared to $7.2 million ($5.6 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 Schick 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 held by our foreign subsidiaries generally are not subject to restrictions prohibiting such amounts from being available in the United States. Undistributed foreign earnings as of June 30, 2012 amounted to approximately $255 million. 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.

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 8 to our consolidated financial statements 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. 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 (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, 2012, 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, 2012, please see our Form 10-Q for the fiscal quarter ended March 31, 2012, under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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Cash Flows

	Nine months ended June 30, 2012	2011
	$ 000s	
Net cash provided by operating activities	$ 124,018	$ 105,446
Net cash used in investing activities	(34,417)	(58,279)
Net cash (used in)/provided by financing activities	(328,314)	18,161
(Decrease)/increase in cash during the period	$ (238,713)	$ 65,328

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 $124.0 million for the nine months ended June 30, 2012 compared to $105.4 million for the nine months ended June 30, 2011. The primary contributing factor to the increase in cash provided by operating cash flows in the nine months ended June 30, 2012 was improved working capital performance and slightly lower tax payments.

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, 2012 were capital expenditures in the course of normal operating activities. For the nine months ended June 30, 2011, net cash used in investing activities represented construction of the Center of Innovation in Bensheim, Germany, acquisition of a development stage entity, and capital expenditures in the course of normal operating activities.

Net Cash (Used in) / Provided by Financing Activities

Net cash used in financing activities was $328.3 million for the nine months ended June 30, 2012, compared to net cash provided by financing activities of $18.2 million for the nine months ended June 30, 2011. Net cash used in financing activities in the nine months ended June 30, 2012 results 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. Net cash provided by financing activities in the nine months ended June 30, 2011 primarily relates to proceeds and tax-related benefits from exercises of options previously granted in the Company s stock-based compensation activities.

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 Schick NY, 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 Schick NY, 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.

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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 will apply from March 31, 2012 onwards, the applicable margin will vary 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 be 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. For additional information on the Prior Senior Facilities Agreement, see Part I, Item 7 of the Company s 2011 Annual Report on Form 10-K.

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Other Financial Data

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	$ 000s		$ 000s	
Net income attributable to Sirona Dental Systems, Inc.	$ 30,298	$ 36,331	$ 99,096	$ 108,035
Net interest expense	866	984	2,783	2,863
Provision for income taxes	9,180	10,423	30,096	30,923
Depreciation	7,778	6,827	21,901	18,772
Amortization	11,869	14,055	36,206	41,067
EBITDA	$ 59,991	$ 68,620	$ 190,082	$ 201,660

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 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;

(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, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$ 000s		$ 000s	
Share-based compensation	$ 2,085	$ 2,762	$ 6,375	$ 7,241
Unrealized, non-cash loss/(gain) on revaluation of the carrying value of the $-denominated exclusivity fee	3,153	(1,248)	3,914	(3,718)
Unrealized, non-cash loss/(gain) on revaluation of the carrying value of short-term intra-group loans	4,822	(1,618)	5,866	(4,619)
	$ 10,060	**$ (104)**	**$ 16,155**	**$ (1,096)**

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.

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, 2011.

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, 2012. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2012, 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, 2012, has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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, 2011.

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, 2012 are set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
	$ 000s (except per share amounts)			
April 1 - April 30, 2012				63,757
May 1 - May 31, 2012	176,363	45.19	176,363	55,787
June 1 - June 30, 2012	182,716	43.70	182,716	47,803
	359,079		**359,079**	

(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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following Exhibits are included in this report:

Exhibit No.	Item Title
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, 2012 and September 30, 2011, (ii) Condensed Consolidated Statements of Income for the nine months ended June 30, 2012 and 2011, (iii) Consolidated Statements of Shareholders Equity and Comprehensive Income for the nine months ended June 30, 2012 and 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2012 and 2011, and (v) Notes to Consolidated Condensed Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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 3, 2012

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)