

SIRONA DENTAL SYSTEMS, INC.

Form 10-Q

May 08, 2008

[Table of Contents](#)

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

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2008

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)

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)   | <b>11-3374812</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>30-30 47<sup>th</sup> Avenue, Suite 500,</b><br><b>Long Island City, New York</b><br>(Address of principal executive offices) | <b>11101</b><br>(Zip Code)                                   |
| <b>Registrant's telephone number, including area code: (718) 937-5765</b>  |  |

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company

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

Yes  No

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As of May 1, 2008, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 54,801,173.

**Table of Contents**

**SIRONA DENTAL SYSTEMS, INC.**

**FORM 10-Q**

**FOR THE THREE MONTHS ENDED MARCH 31, 2008**

**Index**

|   | <b>Page</b> |
|---|-------------|
| <b>Part I. <u>Financial Information (Unaudited)</u></b>   | <b>3</b>    |
| Item 1. <u>Financial Statements</u>   | 3           |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2008 and September 30, 2007</u>                          | 3           |
| <u>Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2008 and 2007</u> | 4           |
| <u>Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2008 and 2007</u>           | 5           |
| <u>Notes to the Condensed Consolidated Financial Statements</u>   | 7           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>              | 17          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 29          |
| Item 4. <u>Controls and Procedures</u>  | 29          |
| <b>Part II. <u>Other Information</u></b>  | <b>30</b>   |
| Item 1. <u>Legal Proceedings</u>  | 30          |
| Item 1A. <u>Risk Factors</u>  | 30          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 30          |
| Item 3. <u>Defaults upon Senior Securities</u>  | 30          |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>  | 30          |
| Item 5. <u>Other Information</u>  | 31          |
| Item 6. <u>Exhibits</u>   | 31          |
| <u>Signatures</u>   | 32          |
| <u>Certifications</u>   |             |

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

|  | March 31,<br>2008<br>(unaudited)   | September 30,<br>2007 |
|--|------------------------------------|-----------------------|
|  | \$ 000s (except per share amounts) |                       |
| <b>ASSETS</b>  |                                    |                       |
| <b>Current assets</b>  |                                    |                       |
| Cash and cash equivalents  | \$ 110,954                         | \$ 99,842             |
| Restricted cash  | 947                                | 908                   |
| Accounts receivable, net of allowance for doubtful accounts of \$1,826 and \$1,475, respectively                       | 100,780                            | 87,074                |
| Inventories, net   | 84,708                             | 74,834                |
| Deferred tax assets  | 10,242                             | 9,040                 |
| Prepaid expenses and other current assets  | 22,178                             | 18,801                |
| Income tax receivable  | 3,803                              | 3,758                 |
| <b>Total current assets</b>  | <b>333,612</b>                     | <b>294,257</b>        |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$43,499 and \$31,037, respectively | 98,357                             | 80,523                |
| Goodwill   | 741,518                            | 677,506               |
| Investments  | 1,317                              | 1,254                 |
| Intangible assets, net of accumulated amortization of \$219,898 and \$156,776, respectively                            | 602,814                            | 597,302               |
| Other non-current assets   | 4,432                              | 4,407                 |
| Deferred tax assets  | 2,407                              | 2,494                 |
| <b>Total assets</b>  | <b>\$ 1,784,457</b>                | <b>\$ 1,657,743</b>   |
| <b>LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY</b>  |                                    |                       |
| <b>Current liabilities</b>   |                                    |                       |
| Trade accounts payable   | \$ 41,086                          | \$ 46,190             |
| Short-term debt and current portion of long-term debt  | 6,250                              | 23,041                |
| Income taxes payable   | 9,173                              | 5,543                 |
| Deferred tax liabilities   | 3,325                              | 3,264                 |
| Accrued liabilities and deferred income  | 84,886                             | 84,348                |
| <b>Total current liabilities</b>   | <b>144,720</b>                     | <b>162,386</b>        |
| Long-term debt   | 584,775                            | 540,143               |
| Deferred tax liabilities   | 199,449                            | 192,808               |
| Other non-current liabilities  | 15,460                             | 13,406                |
| Pension related provisions   | 55,916                             | 49,450                |
| Deferred income  | 85,000                             | 90,000                |
| <b>Total liabilities</b>   | <b>1,085,320</b>                   | <b>1,048,193</b>      |
| <b>Minority interest</b>   | <b>185</b>                         | <b>484</b>            |

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| <b>Shareholders equity</b>   |                     |                     |
|--|---------------------|---------------------|
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)   |                     |                     |
| Common stock (\$0.01 par value; 95,000,000 shares authorized; 54,800,923 and 54,765,285 shares issued and outstanding, respectively) | 548                 | 548                 |
| Additional paid-in capital   | 611,781             | 603,570             |
| Excess of purchase price over predecessor basis  | (49,103)            | (49,103)            |
| Retained earnings  | 36,977              | 9,063               |
| Accumulated other comprehensive income   | 98,749              | 44,988              |
| <b>Total shareholders equity</b>   | <b>698,952</b>      | <b>609,066</b>      |
| <b>Total liabilities, minority interest and shareholders equity</b>  | <b>\$ 1,784,457</b> | <b>\$ 1,657,743</b> |

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

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

(UNAUDITED)

|  | Three months<br>ended<br>March 31,         |  | Six months<br>ended<br>March 31,           |  |
|--|--|--|--|--|
|  | 2008<br>\$ 000s (except per share amounts) | 2007<br>\$ 000s (except per share amounts) | 2008<br>\$ 000s (except per share amounts) | 2007<br>\$ 000s (except per share amounts) |
| <b>Revenue</b>   | <b>\$ 189,461</b>                          | <b>\$ 150,168</b>                          | <b>\$ 389,567</b>                          | <b>\$ 324,967</b>                          |
| Cost of sales  | 103,086                                    | 79,622                                     | 208,823                                    | 170,349                                    |
| <b>Gross profit</b>  | <b>86,375</b>                              | <b>70,546</b>                              | <b>180,744</b>                             | <b>154,618</b>                             |
| Selling, general and administrative expense                    | 60,590                                     | 52,877                                     | 116,476                                    | 100,378                                    |
| Research and development                                       | 11,967                                     | 12,054                                     | 25,675                                     | 22,334                                     |
| Provision/(benefit) for doubtful accounts and notes receivable | 140  | (68)                                       | 197  | 233  |
| Net other operating (income)/loss                              | (2,500)                                    | 122  | (5,000)                                    | (28)                                       |
| <b>Operating income</b>  | <b>16,178</b>                              | <b>5,561</b>                               | <b>43,396</b>                              | <b>31,701</b>                              |
| Foreign currency transactions (gain), net                      | (9,039)                                    | (1,889)                                    | (14,925)                                   | (8,955)                                    |
| Loss on derivative instruments                                 | 2,995                                      | 911  | 5,213                                      | 420  |
| Interest expense, net  | 6,655                                      | 6,207                                      | 13,401                                     | 15,166                                     |
| Loss on debt extinguishment                                    |  |  |  | 21,145                                     |
| Other expense  | 305  |  | 305  |  |
| <b>Income before taxes and minority interest</b>               | <b>15,262</b>                              | <b>332</b>                                 | <b>39,402</b>                              | <b>3,925</b>                               |
| Income tax provision   | 4,579                                      | 125  | 11,821                                     | 1,374                                      |
| Minority interest  | (246)                                      | (143)                                      | (333)                                      | (117)                                      |
| <b>Net income</b>  | <b>\$ 10,929</b>                           | <b>\$ 350</b>                              | <b>\$ 27,914</b>                           | <b>\$ 2,668</b>                            |
| Income per share   |  |  |  |  |
| - Basic  | \$ 0.20                                    | \$ 0.01                                    | \$ 0.51                                    | \$ 0.05                                    |
| - Diluted  | \$ 0.20                                    | \$ 0.01                                    | \$ 0.50                                    | \$ 0.05                                    |
| Weighted average shares basic                                  | 54,786,224                                 | 54,683,295                                 | 54,784,801                                 | 54,652,557                                 |
| Weighted average shares diluted                                | 55,189,583                                 | 54,890,447                                 | 55,357,044                                 | 54,869,481                                 |

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

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

(UNAUDITED)

|   | Six months<br>ended<br>March 31, |                 |
|---|----------------------------------|-----------------|
|   | 2008                             | 2007            |
|   | \$ 000s                          |                 |
| <b>Cash flows from operating activities</b>   |                                  |                 |
| Net income  | \$ 27,914                        | \$ 2,668        |
| <b>Adjustments to reconcile net income to net cash used in operating activities</b> |                                  |                 |
| Minority interest   | (329)                            | (116)           |
| Depreciation and amortization   | 53,036                           | 44,992          |
| Loss on disposal of property, plant and equipment                                   | 46                               | 31              |
| Loss on derivative instruments  | 5,213                            | 420             |
| Gain on foreign currency transactions   | (14,925)                         | (8,955)         |
| Accreted interest on long-term debt   | (7,607)                          | 4,449           |
| Deferred income taxes   | (9,901)                          | (22,691)        |
| Amortization of debt issuance cost  | 641                              | 2,374           |
| Loss on debt extinguishment   |                                  | 19,964          |
| Compensation expense from stock options   | 7,498                            | 6,711           |
| <b>Changes in assets and liabilities</b>  |                                  |                 |
| Accounts receivable   | (5,356)                          | (19,067)        |
| Inventories   | (3,156)                          | (13,166)        |
| Prepaid expenses and other current assets   | (2,761)                          | 5,999           |
| Restricted cash   | 55                               | 204             |
| Other non-current assets  | 626                              | (4,924)         |
| Trade accounts payable  | (15,242)                         | (509)           |
| Accrued liabilities and deferred income   | (11,099)                         | (4,358)         |
| Other non-current liabilities   | 1,668                            | (6,212)         |
| Income taxes receivable   | 257                              | (3,106)         |
| Income taxes payable  | 2,981                            | (2,102)         |
| <b>Net cash provided by operating activities</b>                                    | <b>29,559</b>                    | <b>2,606</b>    |
| <b>Cash flows from investing activities</b>   |                                  |                 |
| Investment in property, plant and equipment   | (16,584)                         | (9,326)         |
| Proceeds from sale of property, plant and equipment                                 | 6                                | 215             |
| Purchase of intangible assets   | (273)                            | (57)            |
| Purchase of long-term investments   | (63)                             | (402)           |
| <b>Net cash used in investing activities</b>  | <b>(16,914)</b>                  | <b>(9,570)</b>  |
| <b>Cash flows from financing activities</b>   |                                  |                 |
| Repayments of long-term debt  | (10,121)                         | (559,294)       |
| Proceeds from borrowings  |                                  | 529,747         |
| Debt issuance cost  |                                  | (5,381)         |
| Common shares issued under share based compensation plans                           | 489                              | 1,092           |
| Tax effect of common shares exercised under share based compensation plans          | 205                              | 1,173           |
| <b>Net cash used in financing activities</b>  | <b>(9,427)</b>                   | <b>(32,663)</b> |



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

**Table of Contents**

|   |        |          |
|---|--------|----------|
| Change in cash and cash equivalents                         | 3,218  | (39,627) |
| Effect of exchange rate change on cash and cash equivalents | 7,894  | 2,333    |
| Cash and cash equivalents at beginning of period            | 99,842 | 80,560   |

**Cash and cash equivalents at end of period** **\$ 110,954** **\$ 43,266**

**Supplemental information**

|   |           |           |
|---|-----------|-----------|
| Interest paid   | \$ 20,329 | \$ 25,584 |
| - thereof accreted interest paid on repayment of long-term debt |           | 8,594     |
| Interest capitalized  | 244       | 205       |
| Income taxes paid   | 17,945    | 26,249    |

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

**Table of Contents**

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

**1. General**

**The Company and its Operations**

Sirona Dental Systems, Inc. ( Sirona or the Company ) and its subsidiaries manufacture high quality, technologically advanced dental equipment and systems solutions for the global dental equipment market. We offer a broad range of products across all major segments of the dental equipment market including CEREC, CAD/CAM systems, digital and film based intra oral and panoramic imaging systems, 3D imaging systems, treatment centers and instruments. We acquired Schick Technologies, Inc. ( Schick NY ) in 2006, which further expanded our global presence and product offerings and strengthened our research and development capabilities. Sirona has served equipment dealers and dentists worldwide for more than 125 years. Sirona's headquarters are located in Long Island City, New York with its primary facility located in Bensheim, Germany, as well as other support, manufacturing, assembling and sales & service facilities located elsewhere throughout the world.

**Basis of Presentation**

These unaudited interim condensed consolidated financial statements ( consolidated financial statements ) have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

In the opinion of management, all adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company's financial position as of March 31, 2008 and September 30, 2007 and the results of its operations and cash flows for the three months and six months ended March 31, 2008 and March 31, 2007, as applicable to interim periods have been made. The results of operations for the three months and six months ended March 31, 2008 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.

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**Table of Contents**

**2. Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements. Among other requirements, SFAS 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective beginning the first fiscal year that begins after November 15, 2007. The Company is still determining the effect SFAS 157 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits measurement of recognized financial assets and liabilities at fair value with some certain exceptions such as investments in subsidiaries, obligations for pension or other postretirement benefits, and financial assets and financial liabilities recognized under leases. Changes in the fair value of items for which the fair value option is elected should be recognized in income or loss. The election to measure eligible items at fair value is irrevocable and can only be made at defined election dates or events, generally on an instrument by instrument basis. Items for which the fair value option is elected should be separately presented or parenthetically be disclosed in the statement of financial position. SFAS 159 also requires significant new disclosures that apply for interim and annual financial statements. SFAS 159 shall be effective for fiscal years beginning after November 15, 2007 with earlier adoption permitted, if certain conditions are met. The effect of the first remeasurement to fair value of eligible items existing will be reported as an adjustment to the opening balance of retained earnings as of the date of adoption. The Company is currently evaluating SFAS 159 and determining whether to elect the fair value option for certain financial assets and liabilities.

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statement amendments of ARB No. 51 (FAS 160). FAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. This statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008, which corresponds to the Company's fiscal year beginning October 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ( FAS 161 ). FAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The objective of the guidance is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for fiscal years beginning after November 15, 2008. Management is currently evaluating the impact FAS 161 will have on the Company's consolidated financial statements, but it currently does not expect the effect to be material.

**Table of Contents****3. Employee Share-Based Compensation**

The total stock compensation expense for the Company's stock option plans amounted to \$3,838 for the three months and \$7,498 for the six months ended March 31, 2008. These expenses include the impact of the stock option grant discussed below. The total stock compensation expense for the Company's stock option plans amounted to \$3,635 for the three months and \$6,711 for the six months ended March 31, 2007.

On December 11, 2007, the Company granted 500,000 stock options under the Equity Incentive Plan (the "New Plan"). The stock options vest over a period of four years and expire ten years after the date of the grant. The exercise price of such options may not be less than 100% of the fair market value of a share of the Company's common stock as determined by the closing price on the date of the grant. The New Plan provides for granting in total up to 2,275,000 stock options to employees and received stockholder approval at the Company's Annual Meeting of Stockholders held on February 27, 2007.

The fair values of the stock options granted under the New Plan were estimated using the Black-Scholes option pricing model and the assumptions set forth in the following table. The exercise price is equal to the fair market value of Sirona's stock based on its closing price on the grant date. The expected volatility is determined based on the Company's historical stock volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant and has a term equal to the expected life of the options. The expected life represents the period of time the options are expected to be outstanding based on anticipated employee exercise behavior taking into consideration historical exercise 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.

|                       |          |
|-----------------------|----------|
| Exercise price        | \$ 31.81 |
| Expected volatility   | 44%      |
| Risk-free rate        | 3.27%    |
| Expected life         | 5 years  |
| Expected dividends    |          |
| Grant date fair value | \$ 13.63 |

**4. Comprehensive Income**

|                                   | Three months     |                 | Six months       |                  |
|-----------------------------------|------------------|-----------------|------------------|------------------|
|                                   | ended            |                 | ended            |                  |
|                                   | March 31,        |                 | March 31,        |                  |
|                                   | 2008             | 2007            | 2008             | 2007             |
|                                   | \$ 000s          |                 | \$ 000s          |                  |
| Net Income                        | \$ 10,929        | \$ 350          | \$ 27,914        | \$ 2,668         |
| Other Comprehensive Income        | 37,091           | 3,541           | 53,761           | 13,949           |
| <b>Total Comprehensive Income</b> | <b>\$ 48,020</b> | <b>\$ 3,891</b> | <b>\$ 81,675</b> | <b>\$ 16,617</b> |

Other comprehensive income for the three months and six months ended March 31, 2008 relates to the cumulative translation adjustment and the pension obligation adjustment. The cumulative translation adjustment includes unrealized non-cash gains on intra-group foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements in the amount of \$24,374 for the three months and \$35,918 for the six months ended March 31, 2008. The cumulative translation adjustment resulting from the translation of the financial statements of subsidiaries with functional currencies other than the U.S. Dollar amounted to \$12,677 for the three months and \$17,765 for the six months ended March 31, 2008, and the pension obligation adjustment includes the amortization of actuarial gains and losses in the amount of \$40 for the three month, and in the amount of \$78 for the six month period ended March 31, 2008. Other comprehensive income for the three and the six months ended March 31, 2007 includes unrealized non-cash gains on intra-group foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements in the amount of \$2,594 for the three months and \$10,670 for the six months ended March 31, 2007 and the cumulative translation adjustment resulting from the translation of the financial statements of subsidiaries with functional currencies other than the U.S. Dollar amounted to \$947 for the three months and \$3,279 for the six months ended March 31, 2007.



**Table of Contents****5. Inventories, Net**

|                   | March 31,<br>2008 | September 30,<br>2007 |
|-------------------|-------------------|-----------------------|
|                   | \$ 000s           |                       |
| Finished goods    | \$ 46,108         | \$ 40,000             |
| Work in progress  | 16,167            | 13,647                |
| Raw materials     | 36,163            | 32,136                |
|                   | <b>98,438</b>     | <b>85,783</b>         |
| Inventory reserve | (13,730)          | (10,949)              |
|                   | <b>\$ 84,708</b>  | <b>\$ 74,834</b>      |

**6. Intangible Assets and Goodwill**

|                                       | Gross               | Accumulated<br>amortization<br>\$ 000s | Net                 |
|---------------------------------------|---------------------|--|---------------------|
| <b>As of March 31, 2008</b>           |                     |  |                     |
| Patents & licenses                    | \$ 165,146          | \$ 43,115                              | \$ 122,031          |
| Trademarks                            | 148,649             | 178                                    | 148,471             |
| Technologies and dealer relationships | 508,670             | 176,605                                | 332,065             |
| Prepayments for intangible assets     | 247                 |  | 247                 |
|                                       | 822,712             | 219,898                                | 602,814             |
| Goodwill                              | 741,518             |  | 741,518             |
| <b>Total intangible assets</b>        | <b>\$ 1,564,230</b> | <b>\$ 219,898</b>                      | <b>\$ 1,344,332</b> |
| <b>As of September 30, 2007</b>       |                     |  |                     |
| Patents & licenses                    | \$ 148,218          | \$ 32,183                              | \$ 116,035          |
| Trademarks                            | 136,058             | 128                                    | 135,930             |
| Technologies and dealer relationships | 469,555             | 124,465                                | 345,090             |
| Prepayments for intangible assets     | 247                 |  | 247                 |
|                                       | 754,078             | 156,776                                | 597,302             |
| Goodwill                              | 677,506             |  | 677,506             |
| <b>Total intangible assets</b>        | <b>\$ 1,431,584</b> | <b>\$ 156,776</b>                      | <b>\$ 1,274,808</b> |

The change in the value of goodwill from September 30, 2007 to March 31, 2008 includes increases due to changes in exchange rates totaling \$64,111 and decreases of \$99 relating to the accounting for income tax benefits from the exercise of employee stock options.





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

Short-term debt relates to the Company's current portion of long-term debt, other short-term debt and accrued interest on long-term debt totaling \$6.3 million and \$13.1 million, as of March 31, 2008 and September 30, 2007, respectively. As of September 30, 2007 short-term debt also related to the utilized portion of the Company's revolving credit facility in the amount of Euro 7 million (\$9.9 million), which was repaid in October 2007.

**8. Long-Term Debt**

|   | <b>March 31,<br/>2008</b> | <b>September 30,<br/>2007</b> |
|---|---------------------------|-------------------------------|
|   | <b>\$ 000s</b>            |                               |
| Senior term loan, Tranche A1, variable rate repayable in annual installments starting November 2009 through November 2011 | 150,566                   | 153,066                       |
| Senior term loan, Tranche A2, variable rate repayable in annual installments starting November 2009 through November 2011 | 436,640                   | 396,692                       |
| Other debt  | 2,165                     | 1,958                         |
|   | <b>589,371</b>            | <b>551,716</b>                |
| Less current portion  | 4,596                     | 11,573                        |
|   | <b>\$ 584,775</b>         | <b>\$ 540,143</b>             |

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## **Table of Contents**

### **Senior Term Loans**

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

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

Each of the senior term loans is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 65 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

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

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

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

### **Debt Extinguishment**

The retirement of the borrowings under the Company's credit facilities prior to November 2006, the senior syndicated loan tranches A, B and C and the mezzanine loan facility, was accounted for as a debt extinguishment in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in November 2006. The unscheduled repayment of the mezzanine facility by the Company resulted in a prepayment fee of Euro 0.9 million (\$1.2 million). In addition, \$19.9 million of unamortized debt issuance costs relating to the previous credit facilities were written off in the three month period ended December 31, 2006. As a result, a loss on debt extinguishment totaling \$21.1 million was recognized in the three month period ended December 31, 2006.

**Table of Contents****9. Income Taxes**

For fiscal year 2008, an estimated effective tax rate of 30% has been applied, which is positively impacted by a lower German tax rate and tax planning initiatives. This compares to an effective tax rate of 35% for fiscal year 2007.

Effective October 1, 2007 the Company adopted the provisions of FASB Interpretation 48 Accounting for Uncertainty in Income Taxes ( FIN 48 ) without material impact. FIN 48 clarifies the accounting and reporting for uncertain income tax positions. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

At October 1, 2007, the total amount of unrecognized tax benefits was \$336. As a result of settlement of certain tax matters during the three month period ended March 31, 2008, the amount of unrecognized tax benefits was reduced by \$300. As of March 31, 2008, the Company's liability for unrecognized tax benefits was approximately \$30.

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 audits by taxing authorities through 2004. During the quarter, the U.S. Internal Revenue Service commenced an audit of the 2005 U.S. income tax returns for a U.S. subsidiary of the Company. The Company anticipates that this audit will be completed by the third quarter of 2008.

The Company classifies interest and penalties associated with income taxes as interest and other operating expense, respectively. Amounts of interest or penalties have not been material in any period.

**10. Income Per Share**

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

|   | Three months<br>ended<br>March 31,               |            | Six months<br>ended<br>March 31,                 |            |
|---|--|------------|--|------------|
|   | 2008   | 2007       | 2008   | 2007       |
|   | \$ 000s (except for share and per share amounts) |            | \$ 000s (except for share and per share amounts) |            |
| Net income                                  | \$ 10,929  | \$ 350     | \$ 27,914  | \$ 2,668   |
| Weighted average shares outstanding basic   | 54,786,224                                       | 54,683,295 | 54,784,801                                       | 54,652,557 |
| Dilutive effect of stock options            | 403,359  | 207,152    | 572,243  | 216,924    |
| Weighted average shares outstanding diluted | 55,189,583                                       | 54,890,447 | 55,357,044                                       | 54,869,481 |
| Income per share                            |  |            |  |            |
| Basic                                       | \$ 0.20  | \$ 0.01    | \$ 0.51  | \$ 0.05    |
| Diluted                                     | \$ 0.20  | \$ 0.01    | \$ 0.50  | \$ 0.05    |

Stock options to acquire 1,186,375 and 1,146,375 shares, respectively of Sirona's common stock that were granted in connections with the New Plan were not included in the computation of diluted earnings per share for the three and six months ended March 31, 2008 because the options underlying exercise price was greater than the average price of Sirona's common stock for the period.

**11. Product Warranty**

The following table provides the changes in the product warranty accrual for the three months and the six months ended March 31, 2008 and March 31, 2007:



**Table of Contents**

|  | Three months<br>ended<br>March 31,<br>2008 |                  | Six months<br>ended<br>March 31,<br>2007 |                  |
|--|--|------------------|--|------------------|
|  | \$ 000s                                    |                  | \$ 000s                                  |                  |
| Balance at beginning of the period               | \$ 13,519                                  | \$ 11,934        | \$ 12,547                                | \$ 10,879        |
| Accruals for warranties issued during the period | 5,218                                      | 5,242            | 10,670                                   | 9,251            |
| Warranty settlements made during the period      | (5,492)                                    | (4,682)          | (10,413)                                 | (8,087)          |
| Translation adjustment                           | 912  | 107              | 1,353                                    | 558              |
| Balance at the end of the period                 | <b>\$ 14,157</b>                           | <b>\$ 12,601</b> | <b>\$ 14,157</b>                         | <b>\$ 12,601</b> |

**12. Pension Plans**

Components of net periodic benefit costs are as follows:

|                           | Three months<br>ended<br>March 31,<br>2008 |               | Six months<br>ended<br>March 31,<br>2007 |                 |
|---------------------------|--|---------------|--|-----------------|
|                           | \$ 000s                                    |               | \$ 000s                                  |                 |
| Service cost              | \$ 90                                      | \$ 97         | \$ 177                                   | \$ 192          |
| Interest cost             | 677  | 545           | 1,331                                    | 1,081           |
| Net periodic benefit cost | <b>\$ 767</b>                              | <b>\$ 642</b> | <b>\$ 1,508</b>                          | <b>\$ 1,273</b> |

**Table of Contents****13. Segment Reporting**

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

|  | Three months       |                   | Six months         |                   |
|--|--------------------|-------------------|--------------------|-------------------|
|  | ended<br>March 31, |                   | ended<br>March 31, |                   |
|  | 2008               | 2007              | 2008               | 2007              |
|  | \$ 000s            |                   | \$ 000s            |                   |
| <b>Revenue external</b>                      |                    |                   |                    |                   |
| Dental CAD/CAM Systems                       | \$ 66,207          | \$ 47,196         | \$ 128,180         | \$ 99,671         |
| Imaging Systems                              | 60,256             | 52,857            | 128,304            | 111,736           |
| Treatment Centers                            | 39,338             | 29,415            | 83,868             | 69,987            |
| Instruments                                  | 23,655             | 20,684            | 49,205             | 43,552            |
| <b>Total</b>                                 | <b>\$ 189,456</b>  | <b>\$ 150,152</b> | <b>\$ 389,557</b>  | <b>\$ 324,946</b> |
| <b>Revenue internal</b>                      |                    |                   |                    |                   |
| Dental CAD/CAM Systems                       | \$                 | \$                | \$                 | \$                |
| Imaging Systems                              | 38                 | 22                | 58                 | 74                |
| Treatment Centers                            | 5                  | 4                 | 9                  | 6                 |
| Instruments                                  | 2,628              | 2,487             | 5,458              | 5,977             |
| Intercompany elimination                     | (2,671)            | (2,513)           | (5,525)            | (6,057)           |
| <b>Total</b>                                 | <b>\$</b>          | <b>\$</b>         | <b>\$</b>          | <b>\$</b>         |
| <b>Revenue total</b>                         |                    |                   |                    |                   |
| Dental CAD/CAM Systems                       | \$ 66,207          | \$ 47,196         | \$ 128,180         | \$ 99,671         |
| Imaging Systems                              | 60,294             | 52,879            | 128,362            | 111,810           |
| Treatment Centers                            | 39,343             | 29,419            | 83,877             | 69,993            |
| Instruments                                  | 26,283             | 23,171            | 54,663             | 49,529            |
| <b>Total</b>                                 | <b>\$ 192,127</b>  | <b>\$ 152,665</b> | <b>\$ 395,082</b>  | <b>\$ 331,003</b> |
| <b>Segment performance measure</b>           |                    |                   |                    |                   |
| Dental CAD/CAM Systems                       | \$ 43,553          | \$ 32,836         | \$ 84,746          | \$ 71,357         |
| Imaging Systems                              | 35,961             | 31,563            | 76,900             | 66,403            |
| Treatment Centers                            | 15,184             | 11,320            | 34,162             | 28,199            |
| Instruments                                  | 10,559             | 9,580             | 22,302             | 20,627            |
| <b>Total</b>                                 | <b>\$ 105,257</b>  | <b>\$ 85,299</b>  | <b>\$ 218,110</b>  | <b>\$ 186,586</b> |
| <b>Depreciation and amortization expense</b> |                    |                   |                    |                   |
| Dental CAD/CAM Systems                       | \$ 927             | \$ 264            | \$ 1,935           | \$ 843            |

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|                   |                 |                 |                 |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
| Imaging Systems   | 1,361           | 885             | 2,561           | 1,921           |
| Treatment Centers | 828             | 497             | 1,522           | 1,142           |
| Instruments       | 962             | 461             | 1,832           | 1,160           |
| <b>Total</b>      | <b>\$ 4,078</b> | <b>\$ 2,107</b> | <b>\$ 7,850</b> | <b>\$ 5,066</b> |

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

The following table provides a reconciliation of the total results of operations of the Company's business segments under management reporting to the consolidated financial statements. The differences shown between management reporting and U.S. GAAP for the three month and six month periods ended March 31, 2008 and 2007 are due to the impact of purchase accounting. Purchase accounting effects are not included in gross profit as the Company does not believe they are representative of the performance of each segment.

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

|   | Three months<br>ended<br>March 31, |                | Six months<br>ended<br>March 31, |                 |
|---|------------------------------------|----------------|----------------------------------|-----------------|
|   | 2008                               | 2007           | 2008                             | 2007            |
|   | \$ 000s                            |                | \$ 000s                          |                 |
| <b>Revenue</b>  |                                    |                |                                  |                 |
| Total segments (external)                               | \$ 189,456                         | \$ 150,152     | \$ 389,557                       | \$ 324,946      |
| Electronic center and corporate                         | 5                                  | 16             | 10                               | 21              |
| Consolidated revenue                                    | <b>189,461</b>                     | <b>150,168</b> | <b>389,567</b>                   | <b>324,967</b>  |
| <b>Depreciation and amortization</b>                    |                                    |                |                                  |                 |
| Total segments  | 4,078                              | 2,107          | 7,850                            | 5,066           |
| Electronic center and corporate                         | 710                                | 535            | 1,397                            | 896             |
| Differences management reporting vs. U.S. GAAP          | 22,237                             | 18,608         | 43,899                           | 38,859          |
| Consolidated depreciation and amortization              | <b>27,025</b>                      | <b>21,250</b>  | <b>53,146</b>                    | <b>44,821</b>   |
| <b>Segment performance measure</b>                      |                                    |                |                                  |                 |
| Total segments  | 105,257                            | 85,299         | 218,110                          | 186,586         |
| Electronic center and corporate                         | 2,300                              | 1,048          | 4,438                            | 1,892           |
| Differences management reporting vs. U.S. GAAP          | (21,182)                           | (15,801)       | (41,804)                         | (33,860)        |
| Consolidated gross profit                               | <b>86,375</b>                      | <b>70,546</b>  | <b>180,744</b>                   | <b>154,618</b>  |
| Selling, general and administrative expense             | 60,590                             | 52,877         | 116,476                          | 100,378         |
| Research and development                                | 11,967                             | 12,054         | 25,675                           | 22,334          |
| Provision for doubtful accounts and notes receivable    | 140                                | (68)           | 197                              | 233             |
| Net other operating (income)/loss                       | (2,500)                            | 122            | (5,000)                          | (28)            |
| Foreign currency transactions (gain), net               | (9,039)                            | (1,889)        | (14,925)                         | (8,955)         |
| Loss on derivative instruments                          | 2,995                              | 911            | 5,213                            | 420             |
| Interest expense, net                                   | 6,655                              | 6,207          | 13,401                           | 15,166          |
| Loss on debt extinguishment                             |                                    |                |                                  | 21,145          |
| Other expense   | 305                                |                | 305                              |                 |
| <b>Income before income taxes and minority interest</b> | <b>\$ 15,262</b>                   | <b>\$ 332</b>  | <b>\$ 39,402</b>                 | <b>\$ 3,925</b> |



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**Table of Contents**

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the condensed consolidated financial statements included elsewhere in this report and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

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, 2007. All forward looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events other than required by law.

**Overview**

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

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

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

The U.S. market is the largest individual market for Sirona. Over the last three fiscal years, bolstered by the Exchange in 2006, Sirona experienced strong revenue growth in the U.S. market, with revenue increasing on average by 35% annually. Several products have generated significant interest in the U.S. market, including, but not limited to, CEREC, Schick imaging products, GALILEOS, the ORTHOPHOS XG line, inLab, inEos, electrical handpieces and SIROLaser.

Sirona works together with large distributors in the U.S. market, including Patterson Dental and Henry Schein, which accounted for 29% and 16%, respectively, of Sirona's global revenues for the six month period ended March 31, 2008. The relationship with Henry Schein was expanded beyond the European markets to the United States in January 2005. Patterson Dental made a payment of \$100 million to Sirona in July 2005 in exchange for the exclusive right to distribute for CEREC CAD/CAM products in the United States and Canada until 2017. The amount Sirona received was recorded as deferred revenue and has been recognized as other operating income on a straight-line basis since October 1, 2007.

**Table of Contents**

***Focus on Further Global Expansion***

In addition to increased U.S. market penetration, Sirona has pursued expansion in the rest of the world. Over the last three fiscal years, sales in the rest of the world grew on average by 14% annually. To support this growth, Sirona expanded its local presence and distribution channels by establishing new sales and service locations in Spain, France and the United Kingdom in 2004; in Japan and Australia in 2005; in China in 2006; and in Italy in 2007. This expansion resulted in increased sales, gross profit and SG&A expense.

***Transactions Accounted for as Business Combinations***

The MDP Transaction and the Exchange were accounted for as business combinations and are described in detail in the Company's Annual Reports on Form 10-K for fiscal years 2007 and 2006.

As a result of these transactions, Sirona's cost of goods sold and SG&A expense have been and will continue to be materially affected by (i) higher depreciation and amortization costs arising from the step-up of Sirona's assets and liabilities to fair value; and (ii) accounting for the Company's stock option plan. Taxes, interest and net income have also been and will continue to be substantially impacted by the structural changes resulting from these business combinations.

In-process research and development (IPR&D) projects acquired in connection with the Exchange and the MDP Transaction, with fair values of \$6.0 million and \$33.8 million, respectively, were appraised and charged to the income statement at the respective dates of acquisition. The projects primarily related to (i) 3D-Imaging, (ii) enhancements to the CAD/CAM system's hardware and software, (iii) the new treatment center platform and (iv) intra-oral digital imaging. The fair value of \$6.0 million in connection with the Exchange related primarily to intra-oral digital imaging projects. As of March 31, 2008, the 3D-Imaging and the majority of the CAD/CAM system's enhancements have been completed.

The remaining estimated costs to complete the significant projects at March 31, 2008 were (i) \$0.4 million for an outstanding enhancement to the CAD/CAM system, (ii) \$3.8 million for the new treatment center platform, and (iii) \$0.3 million for the intra-oral digital imaging projects. The estimated percentages of completion of the significant projects as of March 31, 2008 were (i) 83%, (ii) 84% and (iii) 90%, respectively.

As of March 31, 2008, (i) the project for enhancements to the CAD/CAM system's hardware and software was well into the product development phase, with the remaining steps prior to the project release phase being beta testing and regulatory approvals; (ii) the new treatment center platform was in the product development phase with the remaining steps prior to the product release phase being beta testing and regulatory approvals; and (iii) the intra-oral digital imaging projects were close to completion as specified prior to the Exchange.

It is anticipated that the projects will be completed in fiscal year 2008 and begin to generate cash in the fiscal year following their completion. There are no specific risks and uncertainties associated with these projects; however, the general risks relating to the Company as discussed under Risk Factors as set forth in our Form 10-K for the fiscal year ended September 30, 2007 may apply.

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

Although the U.S. dollar is Sirona's reporting currency, its functional currency varies depending on the country of operation. For the six months ended March 31, 2008, approximately 53% of Sirona's revenue and approximately 77% of its expenses were denominated 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, 2006 and March 31, 2008, the U.S. dollar/Euro exchange rate used to calculate items included in Sirona's financial statements varied from a low of 1.2515 to a high of 1.5828. As of March 31, 2008 and September 30, 2007 the U.S. dollar/Euro exchange rates were 1.5810 and 1.4187, respectively. Although Sirona does not apply hedge accounting, Sirona has entered into foreign exchange forward contracts to manage foreign currency exposure. As of March 31, 2008, these contracts had notional amounts totaling \$50.15 million. As these agreements are relatively short-term (generally six months), continued fluctuation in the U.S. dollar could materially affect Sirona's results of operations.

Certain revenue information under Results of Operations below is presented on a constant currency basis. This information is a non-GAAP financial measure. Sirona supplementally presents revenue on a constant currency basis because it believes this information facilitates a comparison of Sirona's operating results from period to period without regard to changes resulting solely from fluctuations in currency rates. Sirona calculates constant currency

## **Table of Contents**

revenue growth by comparing current period revenues to prior period revenues with both periods converted at the U.S. dollar/Euro average foreign exchange rate for the current period. The exchange rates used in converting Euro denominated revenues into U.S. \$ in the Company's financial statements prepared in accordance with U.S. GAAP were: \$1.49777 and \$1.31044 for the three months ended March 31, 2008 and 2007, respectively, and \$1.47258 and \$1.29929 for the six months ended March 31, 2008 and 2007, respectively.

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

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

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

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

the timing of industry trade shows;

seasonal fluctuations;

developments in government reimbursement policies;

changes in product mix;

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

fluctuations in manufacturing costs;

income tax incentives; and

currency fluctuation.

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

## **Results of Operations**

### ***Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***

Revenue for the three months ended March 31, 2008 was \$189.5 million, an increase of \$39.3 million, or 26.2%, as compared with the three months ended March 31, 2007. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro exchange rate, total revenue increased by 15.4%. Growth rates were 40.3% (up 31.8% on a constant currency basis) for the CAD/CAM Systems segment, 33.7% (up 17.4%

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on a constant currency basis) for the Treatment Center segment, 14.4% (up 0.9% on a constant currency basis) for the Instruments segment and 14.0% (up 5.8% on a constant currency basis) for the Imaging Systems segment.

The strong Dental CAD/CAM Systems segment revenue growth was impacted by our new MC XL milling machine, which continues to be well received in the marketplace and has become the preferred choice of dentists as their milling device. All regions show double-digit growth rates. The trade-in program we implemented for existing CEREC users in the fourth quarter of fiscal year 2007 continued to contribute positively to our revenue development.

The Treatment Center segment development was particularly driven by project business in the Middle East and strong sales in Germany.

## **Table of Contents**

The Instruments segment revenue was positively impacted by strong sales in France and Germany.

The Imaging Systems segment development was mainly attributable to the continued adoption of digital radiography.

Revenue in the United States for the three months ended March 31, 2008 increased by 7.4% compared with the same period last year driven by the CAD/CAM Systems segment.

Revenue growth in the rest of the world was 36.1%. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro exchange rate, revenue in the rest of the world increased by 19.1%. The revenue growth in the rest of the world was primarily due to Sirona's expanded presence in Italy, Japan and Australia as well as strong sales in Germany, Canada and South Korea.

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

Cost of sales for the three months ended March 31, 2008 was \$103.1 million, an increase of \$23.5 million, or 29.5%, as compared with the three months ended March 31, 2007. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$21.2 million as well as non-cash option expense of \$0.2 million for the three months ended March 31, 2008, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$17.7 million and non-cash option expense of \$0.3 million for the three months ended March 31, 2007. The quarter-over-quarter increase in amortization and depreciation expense mainly resulted from variations in the U.S. dollar / Euro exchange rate. Excluding these amounts, costs of sales as a percentage of revenue increased to 43.1% for the three months ended March 31, 2008 compared with 41.0% for the three months ended March 31, 2007 and gross profit as a percentage of revenue decreased by 2.1 percentage points to 56.9% from 59.0%.

Gross profit margins continued to be negatively impacted by variations in the U.S. dollar/Euro rate, as most of the expenses are denominated in Euro; the trade-in-program for the MC XL milling unit; and by multi-unit contract sales in emerging markets in the Instruments segment. The gross profit margins for the Treatment Center and the Imaging Systems segments were at the prior year's level.

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

For the three months ended March 31, 2008, SG&A expense was \$60.6 million, an increase of \$7.7 million, or 14.6%, as compared with the three months ended March 31, 2007. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of \$1.1 million as well as non-cash option expense in the amount of \$3.5 million for the three months ended March 31, 2008, compared with \$1.1 million and \$2.9 million, respectively, for the three months ended March 31, 2007. Excluding these amounts, as a percentage of revenue, SG&A expense decreased to 29.6% for the three months ended March 31, 2008 as compared with 32.6% for the three months ended March 31, 2007. The decrease as a percentage of sales was primarily due to the positive revenue development. The increase of the absolute SG&A expense was mainly driven by variations in the U.S. dollar/Euro exchange rates as most of the expenses were denominated in Euro, expenses associated with the growth in revenue and with Sirona's expanded presence in selected markets, including Italy and Japan.

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**Table of Contents*****Research and Development***

R&D expense for the three months ended March 31, 2008 was \$12.0 million, a decrease of \$0.1 million, or 0.7%, as compared with the three months ended March 31, 2007. R&D expense included non-cash stock option expense in the amount of \$0.2 million for the three months ended March 31, 2008, compared with \$0.4 million for the three months ended March 31, 2007. Excluding these amounts, as a percentage of revenue, R&D expense decreased to 6.2% for the three months ended March 31, 2008, compared with 7.7% for the three months ended March 31, 2007. The decrease as a percentage of sales was due to the positive revenue development.

***Gain on Foreign Currency Transactions***

Gain on foreign currency transactions for the three months ended March 31, 2008 amounted to \$9.0 million compared to a gain of \$1.9 million for the three months ended March 31, 2007. For the three months ended March 31, 2008 the gain included an unrealized non-cash foreign currency gain of \$6.7 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on U.S. dollar denominated short-term intra-group loans to European entities of \$4.4 million. For the three months ended March 31, 2007 the gain included an unrealized non-cash foreign currency gain of \$0.9 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on U.S. dollar denominated short term intra-group loans to German entities of \$0.8 million.

***Loss/(Gain) on Derivative Instruments***

Loss on derivative instruments for the three months ended March 31, 2008 amounted to \$3.0 million compared to a loss of \$0.9 million for the three months ended March 31, 2007. For the three months ended March 31, 2008 the loss included an unrealized non-cash loss of \$4.7 million on interest swaps, as well as a non-cash gain on foreign currency hedges of \$1.7 million. The loss for the three months ended March 31, 2007 included an unrealized non-cash loss of \$0.7 million on interest swaps, as well as a non-cash loss on foreign currency hedges of \$0.2 million.

***Interest Expense***

Net interest expense for the three months ended March 31, 2008 was \$6.7 million, compared to \$6.2 million for the three months ended March 31, 2007. This increase mainly resulted from variations in the U.S. dollar/Euro exchange rate.

***Income Tax Provision***

The income tax provision for the three months ended March 31, 2008 was \$4.6 million, compared to \$0.1 million for the three months ended March 31, 2007. For fiscal year 2008, an estimated effective tax rate of 30% has been applied, which is positively impacted by a lower German tax rate and tax planning initiatives. This compares to an effective tax rate of 35% for fiscal year 2007.

***Net Income***

Sirona's net income for the three months ended March 31, 2008 was \$10.9 million, an increase of \$10.6 million, as compared with the three months ended March 31, 2007. For the three months ended March 31, 2008, amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to the Exchange and the MDP Transaction amounted to \$22.3 million (\$15.6 million net of tax). Furthermore, unrealized, non-cash foreign currency gains on the deferred income from the Patterson exclusivity payment and on short-term intra-group loans amounted to \$11.1 million (\$7.8 million net of tax) and option expense was \$3.8 million (\$2.7 million net of tax). Sirona's net income for the three month period ended March 31, 2008 was also impacted by the reduction of the estimated tax rate for fiscal year 2008 to 30% compared to an estimated tax rate of 35% for fiscal year 2007. Excluding these items, net income increased due to higher revenue, partially offset by higher SG&A.

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**Table of Contents**

***Six Months Ended March 31, 2008 Compared to Six Months Ended March 31, 2007***

Revenue for the six months ended March 31, 2008 was \$389.6 million, an increase of \$64.6 million, or 19.9%, as compared with the six months ended March 31, 2007. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro exchange rate, total revenue increased by 10.3%. Growth rates were 28.6% (up 20.9% on a constant currency basis) for the CAD/CAM Systems segment, 19.8% (up 6.1% on a constant currency basis) for the Treatment Center segment, 14.8% (up 7.8% on a constant currency basis) for the Imaging Systems segment and 13.0% (up 0.7% on a constant currency basis) for the Instruments segment.

The strong Dental CAD/CAM Systems segment revenue growth was positively impacted by our new MC XL milling machine, which continues to be well received in the marketplace. All regions show double-digit revenue growth. The trade-in program we implemented for existing CEREC users in the fourth quarter of fiscal year 2007 contributed positively to our revenue development.

The Treatment Center segment revenue development was particularly impacted by Sirona's expanded presence in Japan and Italy.

The Imaging Systems segment development was attributable to the continued adoption of digital radiography and sales of the 3D digital panoramic imaging unit GALILEOS. While sales of GALILEOS contributed to the increase, the industry is tracking slower than expected, as new 3D product offerings continue to cause the dentists to take longer to evaluate their options.

The Instruments segment revenue was impacted by a positive development in France.

Revenue in the United States for the six months ended March 31, 2008 increased by 5.5% compared with the same period last year driven by the CAD/CAM Systems segment.

Revenue growth in the rest of the world was 27.7%. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro exchange rate, revenue in the rest of the world increased by 12.6%. The revenue growth in the rest of the world was primarily due to Sirona's expanded presence in Italy, Japan and Australia as well as strong sales in Germany, South Korea and Canada.

***Cost of Sales***

Cost of sales for the six months ended March 31, 2008 was \$208.8 million, an increase of \$38.5 million, or 22.6%, as compared with the six months ended March 31, 2007. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$41.8 million as well as non-cash option expense of \$0.4 million for the six months ended March 31, 2008, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$36.9 million and non-cash option expense of \$0.4 million for the six months ended March 31, 2007. The increase in amortization and depreciation expense mainly resulted from variations in the U.S. dollar / Euro exchange rate. Excluding these amounts, costs of sales as a percentage of revenue increased to 42.8% for the six months ended March 31, 2008 compared with 40.9% for the six months ended March 31, 2007 and gross profit as a percentage of revenue decreased by 1.9 percentage points to 57.2% from 59.1%.

Gross profit margins were negatively impacted by variations in the U.S. dollar/Euro rate as most of the expenses are denominated in Euro, the trade-in-program for the MC XL milling unit as well as by multi-unit contract sales in emerging markets in the Instruments segment. The gross profit margin for the Treatment Center and the Imaging Systems segments were at the prior year's level,

***Selling, General and Administrative***

For the six months ended March 31, 2008, SG&A expense was \$116.5 million, an increase of \$16.1 million, or 16.0%, as compared with the six months ended March 31, 2007. 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 option expense in the amount of \$6.6 million for the six months ended March 31, 2008, compared with \$1.9 million and \$5.8 million, respectively, for the six months ended March 31, 2007. Excluding these amounts, as a percentage of revenue, SG&A expense decreased to 27.7% for the six months ended March 31, 2008 as compared with 28.5% for the six months ended March 31, 2007. The decrease as a percentage of sales was primarily due to the positive revenue development. The increase of the absolute SG&A expense was mainly driven by variations in the U.S. dollar/Euro exchange rates as most of the expenses were denominated in Euro, expenses associated with the growth in revenue and with Sirona's expanded presence in selected markets, including Italy and Japan.





## **Table of Contents**

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

R&D expense for the six months ended March 31, 2008 was \$25.7 million, an increase of \$3.3 million, or 15.0%, as compared with the six months ended March 31, 2007. R&D expense included non-cash stock option expense in the amount of \$0.5 million for the six months ended March 31, 2008 as well as for the six months ended March 31, 2007.

Excluding these amounts, as a percentage of revenue, R&D expense decreased to 6.5% for the six months ended March 31, 2008, compared with 6.7% for the six months ended March 31, 2007. The decrease as a percentage of sales was primarily due to the positive revenue development. The increase of the absolute R&D expense was primarily driven by variations in the U.S. dollar/Euro exchange rates as most of the expenses were denominated in Euro.

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

Gain on foreign currency transactions for the six months ended March 31, 2008 amounted to \$14.9 million compared to a gain of \$9.0 million for the six months ended March 31, 2007. For the six months ended March 31, 2008 the gain included an unrealized non-cash foreign currency gain of \$10.4 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on U.S. dollar denominated short-term intra-group loans to European entities of \$6.5 million. For the six months ended March 31, 2007 the gain included foreign currency gains upon the repayment of the U.S. dollar denominated bank debt of \$3.9 million, an unrealized non-cash foreign currency gain of \$4.9 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on the U.S. dollar denominated bank loans and short term intra-group loans to German entities of \$1.4 million.

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

Loss on derivative instruments for the six months ended March 31, 2008 amounted to \$5.2 million compared to a loss of \$0.4 million for the six months ended March 31, 2007. For the six months ended March 31, 2008 the loss included an unrealized non-cash loss of \$6.3 million on interest swaps, as well as a non-cash gain on foreign currency hedges of \$1.1 million. The loss for the six months ended March 31, 2007 included an unrealized non-cash loss of \$0.9 million on interest swaps, as well as a non-cash gain on foreign currency hedges of \$0.5 million.

**Table of Contents****Interest Expense**

Net interest expense for the six months ended March 31, 2008 was \$13.4 million, compared to \$15.2 million for the six months ended March 31, 2007. This decrease was primarily due to the Company's refinancing of its previous credit facilities on November 24, 2006 on more favorable terms, partially offset by foreign currency translation effects.

**Income Tax Provision**

The income tax provision for the six months ended March 31, 2008 was \$11.8 million, compared to \$1.4 million for the six months ended March 31, 2007. For fiscal year 2008, an estimated effective tax rate of 30% has been applied, which is positively impacted by a lower German tax rate and tax planning initiatives. This compares to an effective tax rate of 35% for fiscal year 2007.

**Net Income**

Sirona's net income for the six months ended March 31, 2008 was \$27.9 million, an increase of \$25.2 million, as compared with the six months ended March 31, 2007. For the six months ended March 31, 2008, amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to the Exchange and the MDP Transaction amounted to \$43.9 million (\$30.7 million net of tax). Furthermore, unrealized, non-cash foreign currency gains on the deferred income from the Patterson exclusivity payment and on short-term intra-group loans amounted to \$16.9 million (\$11.8 million net of tax) and option expense was \$7.5 million (\$5.2 million net of tax). Sirona's net income for the six month period ended March 31, 2008 was also impacted by the reduction of the estimated tax rate for fiscal year 2008 to 30% compared to an estimated tax rate of 35% for fiscal year 2007. Excluding these items, net income increased due to higher revenue, partially offset by higher SG&A and R&D expenses.

**Liquidity and Capital Resources**

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

|   | Six months ended  |                   |
|---|-------------------|-------------------|
|   | March 31,<br>2008 | March 31,<br>2007 |
|   | \$ 000s           |                   |
| Net cash provided by operating activities     | \$ 29,559         | \$ 2,606          |
| Net cash used in investing activities         | (16,914)          | (9,570)           |
| Net cash used in financing activities         | (9,427)           | (32,663)          |
| Increase/(decrease) in cash during the period | \$ 3,218          | \$ (39,627)       |

## **Table of Contents**

### ***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 \$29.6 million for the six months ended March 31, 2008 compared to \$2.6 million for the six months ended March 31, 2007. The primary contributing factors to the increase in cash provided by operating activities were an increase in net income as well as lower tax and interest payments by \$13.6 million.

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

Net cash used in investing activities represents cash used for capital expenditures, financial investments and long-lived asset disposals. The primary contributors to the investing cash outflow in the periods presented are capital expenditures in the course of normal operating activities.

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

Net cash used in financing activities was \$9.4 million for the six months ended March 31, 2008, compared to \$32.7 million for the six months ended March 31, 2007. Net cash used in financing activities in the six months ended March 31, 2008 relates to the repayment of the utilized portion of the Company's revolving credit facility. Cash used in financing activities in the six month period ended March 31, 2007 reflected the refinancing of the Company's prior credit facilities as of November 24, 2006.

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

### ***Capital Resources***

#### ***Senior Term Loans***

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

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

Each of the senior term loans has a five year maturity and is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 65 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

**Table of Contents**

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

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

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

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

|                            | Three months       |           | Six months         |           |
|----------------------------|--------------------|-----------|--------------------|-----------|
|                            | ended<br>March 31, |           | ended<br>March 31, |           |
|                            | 2008               | 2007      | 2008               | 2007      |
|                            | \$ 000s            |           | \$ 000s            |           |
| Net income                 | \$ 10,929          | \$ 350    | \$ 27,914          | \$ 2,668  |
| Net interest expense       | 6,655              | 6,207     | 13,401             | 15,166    |
| Provision for income taxes | 4,579              | 125       | 11,821             | 1,374     |
| Depreciation               | 4,236              | 2,109     | 8,029              | 5,732     |
| Amortization               | 22,789             | 19,141    | 45,118             | 39,089    |
| EBITDA                     | \$ 49,188          | \$ 27,932 | \$ 106,283         | \$ 64,029 |

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 below 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 dollar-denominated exclusivity payment and borrowings where the functional currency is Euro, and the Exchange. Sirona's management believes that these items are either nonrecurring or noncash in nature, and should be considered by investors in assessing Sirona's financial condition, operating performance and underlying strength.

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

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

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

**Table of Contents**

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

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

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

**Supplemental Information**

|   | Three months<br>ended<br>March 31,<br>2008 |          | Six months<br>ended<br>March 31,<br>2008 |           |
|---|--|----------|--|-----------|
|   | \$ 000s                                    |          | \$ 000s                                  |           |
| Loss on debt extinguishment   | \$   | \$       | \$                                       | \$ 21,145 |
| Share-based compensation  | 3,838                                      | 3,635    | 7,498                                    | 6,711     |
| Unrealized, non-cash (gain) on revaluation of the carrying value of the \$-denominated<br>exclusivity fee | (6,734)                                    | (912)    | (10,365)                                 | (4,866)   |
| Foreign currency exchange (gain) on the early extinguishment of \$-denominated bank debt                  |  |          |  | (3,885)   |
| Unrealized, non-cash (gain) on revaluation of the carrying value of short-term intra-group loans          | (4,419)                                    | (762)    | (6,529)                                  | (1,353)   |
|   | \$ (7,315)                                 | \$ 1,961 | \$ (9,396)                               | \$ 17,752 |

**Recently Issued Accounting Pronouncements-**

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

**Table of Contents**

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

There have been no material changes to the Company's market risk since September 30, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of March 31, 2008. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2008, the Company's disclosure controls and procedures were effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms.

**Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II.**

**ITEM 1. LEGAL PROCEEDINGS**

There are currently no material legal proceedings pending.

**ITEM 1A. RISK FACTORS**

There are no material changes from risk factors as previously disclosed by the Company in Part I, Item IA of its 2007 Annual Report on Form 10-K.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

(a) The Company held its 2007 Annual Meeting of Stockholders (the Annual Meeting ) on February 26, 2008.

(b) The following matter concerning the election of Directors was voted upon at the Annual Meeting with the accompanying results:  
Election of Directors:

|  | <b>Number of Votes<br/>For</b> | <b>Number of Votes<br/>Withheld</b> |
|--|--------------------------------|-------------------------------------|
| William K. Hood<br>(New term expires in 2010)              | 51,785,288                     | 221,290                             |
| Harry M. Jansen Kraemer, Jr.<br>(New term expires in 2010) | 49,104,674                     | 2,901,904                           |
| Jeffery T. Slovin<br>(New term expires in 2010)            | 49,244,626                     | 2,761,952                           |

The terms of the other Directors of the Company continued after the meeting, as follows: Simone Blank, Timothy D. Sheehan and Timothy D. Sullivan serve in the class whose term expires at the Annual Meeting of Stockholders for the fiscal year ending in 2009 and Nicholas W. Alexos, David K. Beecken, Jost Fischer and Arthur D. Kowaloff serve in the class whose term expires at the Annual Meeting of Stockholders for the fiscal year ending in 2008. Upon the expiration of the term of a class of Directors, the members of such class will be elected for three-year terms at the Annual Meeting of Stockholders at which such expiration occurs.

(c) The following additional matters were voted upon at the Annual Meeting held on February 26, 2008 with the following results:

1. Ratification of the selection of KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftspruefungsgesellschaft, Germany as the Company's independent auditor for the fiscal year ending September 30, 2008:

Number of votes for: 51,967,372

Number of votes against: 27,814

Number of abstentions: 11,391

(d) Not Applicable.

**Table of Contents**

**ITEM 5. OTHER INFORMATION**

On May 8, 2008, the board of directors of the Company approved the Company's 2008 Executive Bonus Plan (the "Plan"). Jost Fischer, Simone Blank, Jeffrey Slovin and Theo Haar have been selected to participate in the Plan. This Plan replaces the cash bonus component of total compensation used in prior years for its participants, such as the Company's EVA Plan or such participant's employment agreement with the Company.

The Plan provides for the award of cash bonuses to our named executive officers based upon the Company's financial performance. Performance measures include a revenue measure and two earnings measures, which are adjusted net income and adjusted EBITDA. The revenue measure is weighted 25% while the earnings measures are together weighted 75% in determining the bonus earned. The participants are awarded 100% of target bonus at target Company performance. Participants may earn no more than 200% of their target bonus under the Plan. Payment is made within 10 days after the Committee has determined the amount earned based upon the Company's audited financial statements.

This summary description is qualified in its entirety by reference to the Company's Executive Bonus Plan, which is filed as an exhibit to this quarterly report on Form 10-Q and is incorporated herein by reference.

**ITEM 6. EXHIBITS**

The following Exhibits are included in this report:

| <b>Exhibit No.</b> | <b>Item Title</b>  |
|--------------------|--|
| 10.1               | Sirona Dental Systems, Inc. 2008 Executive Bonus Plan.   |
| 31.1               | Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2               | Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1               | Section 1350 Certification of Chief Executive Officer.   |
| 32.2               | Section 1350 Certification of Chief Financial Officer.   |

**Table of Contents**

**SIGNATURE**

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

Date: May 8, 2008

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)