

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2013

or

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

Commission file number 000-22673

Sirona Dental Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

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

New York
(Address of principal executive offices)

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

11-3374812
(I.R.S. Employer

Identification No.)

11101
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED JUNE 30, 2013

Index

	Page
Part I.	
<u>Financial Information (Unaudited)</u>	1
Item 1.	
<u>Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets as of June 30, 2013 and September 30, 2012</u>	1
<u>Condensed Consolidated Statements of Income for the three and nine months ended June 30, 2013 and 2012</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and 2012</u>	3
<u>Consolidated Statement of Changes in Shareholders' Equity for the nine months ended June 30, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012</u>	5
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4.	
<u>Controls and Procedures</u>	42
Part II.	
<u>Other Information</u>	43
Item 1.	
<u>Legal Proceedings</u>	43
Item 1A.	
<u>Risk Factors</u>	43
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3.	
<u>Defaults upon Senior Securities</u>	43
Item 4.	
<u>Mine Safety Procedures</u>	44
Item 5.	
<u>Other Information</u>	44
Item 6.	
<u>Exhibits</u>	44
<u>Signatures</u>	45
Certifications	

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

(UNAUDITED)

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

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

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

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

(UNAUDITED)

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

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

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

(UNAUDITED)

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

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

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

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

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

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

(UNAUDITED)

	Nine months ended June 30, 2013 2012 \$ 000s	
Cash flows from operating activities		
Net income	\$ 112,073	\$ 100,754
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	55,523	58,107
(Gain)/loss on disposal of property, plant and equipment	93	
(Gain)/loss on derivative instruments	317	186
(Gain)/loss on foreign currency transactions	10,507	6,255
Deferred income taxes	1,939	(11,079)
Amortization of debt issuance cost	415	491
Share-based compensation expense	10,651	6,375
Changes in assets and liabilities		
Accounts receivable	21,253	(25,939)
Inventories	(31,821)	(1,503)
Prepaid expenses and other current assets	(10,907)	3,528
Restricted cash	(172)	646
Other non-current assets	(226)	(252)
Trade accounts payable	5,334	(6,239)
Accrued liabilities and deferred income	(9,380)	(14,928)
Other non-current liabilities	2,832	818
Income taxes receivable	205	1,167
Income taxes payable	(8,616)	5,631
Net cash provided by operating activities	160,020	124,018
Cash flows from investing activities		
Investment in property, plant and equipment	(35,634)	(29,675)
Proceeds from sale of property, plant and equipment	83	
Prepayments for other assets		(4,612)
Purchase of intangible assets	(42)	(82)
Purchase of long-term investments		(48)
Acquisition of business, net of cash acquired	(35,019)	
Net cash used in investing activities	(70,612)	(34,417)

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended June 30,	
	2013	2012
	\$ 000s	
Cash flows from financing activities		
Repayments of short-term and long-term debt	(98)	(433,093)
Proceeds from borrowings		141,297
Purchase of treasury stock	(36,033)	(32,732)
Debt issuance cost		(2,765)
Purchase of shares from noncontrolling interest	(1,386)	
Dividend distributions to noncontrolling interest	(1,435)	(1,698)
Common shares issued under share based compensation plans	5,844	1,744
Tax effect of common shares issued under share based compensation plans	(1,123)	(1,067)
Net cash used in financing activities	(34,231)	(328,314)
Change in cash and cash equivalents	55,177	(238,713)
Effect of exchange rate change on cash and cash equivalents	(561)	(2,546)
Cash and cash equivalents at beginning of period	151,088	345,859
Cash and cash equivalents at end of period	\$ 205,704	\$ 104,600
Supplemental information		
Interest paid	\$ 2,283	\$ 2,005
Interest capitalized	135	203
Income taxes paid	49,648	32,460
Acquisition of business		
Current assets	\$ 5,185	\$
Non-current assets	61,237	
Current liabilities	(7,835)	
Non-current liabilities	(11,951)	
	46,636	
Cash paid	(36,673)	
Settlement of balances	(4,544)	
Fair value of liabilities incurred	\$ 5,419	\$

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. General

The Company and its Operations

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

Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

In the opinion of management, all adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company's financial position as of June 30, 2013, and the results of operations and cash flows for the nine months ended June 30, 2013 and 2012, respectively, as applicable to interim periods have been made. The results of operations for the nine months ended June 30, 2013 are not necessarily indicative of the operating results for the full fiscal year or future periods.

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

Fiscal year

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

Principles of consolidation

The consolidated financial statements include, after eliminating inter-company transactions and balances, the accounts of Sirona Dental Systems, Inc. and its subsidiaries. The Company applies the equity method of accounting for investments in associated companies over which the Company has significant influence but does not have effective control.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. Recently Issued Accounting Pronouncements Adopted

Comprehensive Income

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

3. Business Acquisitions

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

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

4. Employee Share-Based Compensation

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

Equity Incentive Plan

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

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

(UNAUDITED)

Restricted and Performance-Based Stock Units

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

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

Stock Options

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

The fair value of options granted under the 2006 Plan were estimated using the Black-Scholes option pricing model using assumptions in the following table. The exercise price is equal to the fair market value of Sirona s stock at the grant date. Expected volatility is based on the Company s history stock price volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the day of grant and has a term equal to the expected life of the option. The expected life represents the period of time the options are expected to be outstanding based on anticipated grantee behavior. The expected dividend yield is based on the Company s history of not paying regular dividends in the past and the Company s current intention not to pay dividends in the foreseeable future.

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Compensation Costs

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

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

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

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

Table of Contents

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

(UNAUDITED)

Restricted and Performance-Based Stock Unit Activity

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

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

Stock Option Activity

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

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

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

(UNAUDITED)

5. Accumulated Other Comprehensive Income/(Loss)

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

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

(UNAUDITED)

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

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

Table of Contents

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

6. Inventories, net

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

7. Intangible Assets and Goodwill

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

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

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

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

(UNAUDITED)

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

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

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

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

The components of short-term debt are as follows:

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

9. Long-Term Debt

The components of long-term debt are as follows:

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

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

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Senior Term Loans

New Senior Facilities Agreement

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

The New Senior Facilities Agreement includes: (1) a term loan in an aggregate principal amount of \$75 million (the *Facility A Term Loan*) available to Sirona or Sirona Dental, as borrower; (2) a 120 million Euro revolving credit facility (*Revolving Facility B*) available to Sirona Dental Systems GmbH and Sirona Dental Services GmbH, as initial borrowers; and (3) a \$100 million revolving credit facility (*Revolving Facility C*) available to Sirona or Sirona Dental, as initial borrowers. The Revolving Facility B is available for borrowing in Euro or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees.

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

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

The New Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, to incur additional indebtedness, and to make disposals, subject to agreed-upon exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of consolidated total net debt to consolidated adjusted EBITDA. If the Company breaches these covenants, the loans will become repayable on demand.

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

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

Prior Senior Facilities Agreement

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

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

for both.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

10. Income Taxes

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

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

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

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

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

(UNAUDITED)

11. Income per Share

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

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

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

12. Product warranty

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

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

Table of Contents

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

13. Pension Plans

Components of net periodic benefit costs are as follows:

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

14. Net Other Operating Income

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

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012