SIRONA DENTAL SYSTEMS, INC.
Form 10-K
November 22, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended September 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 charter)

Delaware		**11-3374812**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification No.)**
30-30 47th Avenue, Suite 500, Long Island City, New York	**11101**	**(718) 937-5765**
(Address of principal executive offices)	**(Zip Code)**	**(Telephone No.)**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x **No** ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ **No** x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	x	**Accelerated filer**	¨
Non-accelerated filer	¨ **(Do not check if a smaller reporting company)**	**Smaller reporting company**	¨

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 31, 2013, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $ 3,435,842,773. Such aggregate market value is computed by reference to the closing sale price of the Common Stock on such date.

As of November 18, 2013, the number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 55,005,670.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive proxy statement for its 2013 annual meeting of stockholders to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year (September 30, 2013) are incorporated by reference into Part III of this report on Form 10-K.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Form 10-K Annual Report contains forward-looking statements that involve risks and uncertainties. All statements, other than statements of historical facts, included in this Annual 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 Annual Report, words such as anticipate, believe, estimate, expect, intend, objectives, plans and similar expressions, or the negatives thereof or variations thereon 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 Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report and the Risk Factors set forth in Item 1A of this Annual Report. All forward looking statements speak only as of the date of this Annual Report and are expressly qualified in their entirely by the cautionary statements included in this report. The Company undertakes 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.

Table of Contents

Table of Contents

Table of Contents

ITEM 1. BUSINESS

Overview

Sirona Dental Systems, Inc. (Sirona, the Company, we, us, and our refer to Sirona Dental Systems, Inc. and its consolidated subsidiaries and their predecessors, except as otherwise indicated or unless context otherwise requires) is the leading global manufacturer of high-quality, technologically-advanced dental equipment, and is focused on developing, manufacturing and marketing innovative solutions for dentists around the world. The Company is uniquely positioned to benefit from several trends in the global dental industry, such as technological innovation, increased use of CAD/CAM systems in restorative dentistry, the shift to digital imaging, favorable demographic trends and growing patient focus on dental health and cosmetic appearance. Sirona provides a broad range of technologically advanced products in each of its four product segments:

Dental CAD/CAM Systems;

Imaging Systems;

Treatment Centers; and

Instruments.

Sirona markets its products globally to dental practices, clinics and laboratories through an international network of distributors. The dental distributors typically supply both dental equipment and consumables, and have regular contact with the ultimate end-users. In addition, Sirona also distributes its products through its own growing sales and service infrastructure.

Sirona s revenue for the fiscal year ended September 30, 2013 was $ 1,101.5 million. Sirona sells its products globally, with the U.S. market contributing 31% of revenue, or $ 336.7 million, the German market contributing 18% of revenue, or $ 198.6 million, and the rest of the world contributing 51% of revenue, or $ 566.2 million.

History

Sirona dates back to the establishment of Reiniger, Gebbert & Schall, which introduced the first dental electrical drill in 1882. In 1925, the Company became part of Siemens & Halske Group and in 1934 launched the smallest x-ray in the world, enabling dental x-rays for the first time. In 1956, Siemens introduced Sirona as a brand for treatment centers, and in 1958 the group developed the first ball-bearing turbine for dental drills.

In 1997, funds advised by the financial sponsor, Permira, acquired the Sirona dental business from Siemens in a leveraged buy-out transaction. Following the transaction, Sirona substantially increased its international sales and intensified its focus on product innovation. In November 2003, Permira sold Sirona to the Scandinavian financial sponsor, EQT, and management in a leveraged buy-out transaction that closed on February 16, 2004. On April 30, 2005, funds managed by Madison Dearborn Partners, a private equity firm, and Sirona s management entered into an agreement to acquire Sirona in a leveraged buy-out transaction that closed on June 30, 2005.

On September 25, 2005, Schick Technologies, Inc. (Schick) entered into an Exchange Agreement with Sirona Holdings Luxco S.C.A. (Luxco) and Sirona Holding GmbH (Sirona Holding) providing for the issuance of 36,972,480 shares of Schick common stock to Luxco in exchange for Luxco s entire economic interest in Sirona Holding, which consisted of all of the issued and outstanding share capital of Sirona Holding and the existing indebtedness of Sirona Holding owed to Luxco in the principal amount of Euro 151.0 million ($182 million) plus accrued interest (the Exchange). On June 20, 2006, the Exchange closed and Schick, a Delaware corporation formed in 1997, was renamed Sirona Dental Systems, Inc. Although Sirona Holding became a subsidiary of Schick upon the completion of the Exchange, Sirona Holding was deemed the acquiring corporation for accounting purposes because Luxco received a controlling ownership interest in the Company,

Table of Contents

Sirona Holding s designees constituted a majority of the members of the Company s board of directors and Sirona Holding s senior management represented a majority of the senior management of the Company. In May 2011, Luxco sold all of its remaining shares of Sirona common stock pursuant to an underwritten follow-on public offering.

Our common stock is currently traded publicly on the NASDAQ Global Select Market under the trading symbol SIRO .

Industry/Products

Overview

The global dental market encompasses the diagnosis, treatment and prevention of disease and ailments of the teeth, gums and supporting bone. This market has enjoyed steady growth, driven by a number of factors, including an increased desire for aesthetics, a demographic shift towards an aging population coupled with a desire to retain tooth structure later in life, growth in disposable income, a desire for more convenience on the part of both dentists and patients, a shift towards private pay, a greater need for dental preventative care and technological innovation.

The global dental market has benefited from technological developments, which increase productivity for the dentist. This is particularly important in markets facing increased demand for dental services with little or no increase in the number of dentists servicing those markets. In addition, technological developments allow dentists to offer higher quality treatment to patients. We believe that the high-tech end of the dental market is growing at a faster pace than the overall dental market and that this trend will continue over time.

Recent technological advancements in the dental equipment industry include 3D radiography, digital radiography, CAD/CAM technology, and intra oral cameras.

Sirona serves the high-tech dental equipment and technology market for dental practitioners and laboratories. We are the only manufacturing company that can fully outfit a dental practitioner s office with dental equipment, including treatment centers, imaging systems, dental CAD/CAM systems, and instruments. Our products represent important investments by dental practitioners, and some of these products can have a life span of 10-20 years (shorter for instruments and software), depending on the nature and quality of the product.

Products

Our principal products can be generally classified into the following segments: Dental CAD/CAM Systems, Imaging Systems, Treatment Centers and Instruments.

A brief description of each of our segments follows. See Note 23 to our consolidated financial statements for revenues and gross profit by segment for each of the last three fiscal years, and assets by segment, at September 30, 2013 and 2012.

Dental CAD / CAM Systems

Dental CAD/CAM Systems address the worldwide market for dental restorations, which includes several types of restorations, such as inlays, onlays, veneers, crowns, bridges, copings and bridge frameworks made from ceramic, metal or composite blocks. The global market for dental restorations can be divided into two sub-segments: in-mouth fillings and out-of-mouth pre-shaped restorations. CAD/CAM-produced ceramic restorations represent a growing portion of the out-of-mouth restoration market and the number of out-of-mouth restorations prepared with CAD/CAM systems has increased substantially over the past few years. At the same time, the number of dental practitioners and dental laboratories using CAD/CAM technology has increased. Sirona estimates that as of the end of fiscal year 2013, the market penetration for in-office CAD/CAM systems in the United States had grown to approximately 14% and increased to approximately 15% in Germany.

Table of Contents

Sirona pioneered the application of high-tech CAD/CAM techniques to the traditional lab-based restoration process with the commercialization of the CEramic REConstruction, or CEREC, method. Sirona s CEREC system is an in-office application that enables dentists to produce high quality restorations from ceramic material and insert them into the patient s mouth during a single appointment. CEREC has a number of advantages compared to the traditional out-of-mouth pre-shaped restoration method, as CEREC does not require a physical model, restorations can be created in the dentist s office and the procedure can be completed in a single visit. The CEREC system consists of an imaging unit and a milling unit. The imaging unit scans the damaged area, captures the image of the tooth or teeth requiring restoration and proposes the specifications for the restoration. The milling unit then mills the ceramic restoration to the required specifications based upon the captured image and the dentist s design specifications. The result is a biocompatible, non-metallic, natural-looking restoration made of durable, high-quality ceramic materials completed in a single treatment session. Independent studies indicate that CEREC ceramic restorations are as durable as gold and can replace conventional restoration materials for most procedures. In addition, CEREC restorations are aesthetically pleasing and have the benefit of a natural-looking appearance.

In fiscal year 2003, Sirona launched CEREC 3D software, an important development that allowed the dentist to view the onscreen restoration area in three dimensions. Since then, Sirona s CAD CAM portfolio has been continuously updated. In fiscal year 2007, Sirona launched the MC XL next generation milling unit. The MC XL produces high quality, precisely fitted restorations in about half the time that the older CEREC milling units required. Fiscal year 2007 also saw the introduction of Sirona s Biogeneric software which virtually automated the design portion of the CAD/CAM process for inlays and onlays. This software was further enhanced in 2010, with the introduction of Version 3.8, which has the ability to create crowns and bridges. In January 2009, Sirona launched a new CEREC camera, based on the Company s proprietary Bluecam technology, which was faster, more accurate, and improved the workflow for practitioners. In fiscal year 2010, Sirona introduced the CEREC AC Connect stand-alone digital impression unit. CEREC AC Connect allows dental professionals to scan digital impressions and then send them to the inLab® dental laboratory of their choice. In 2011, Sirona introduced CEREC 4.0 software, an entirely redesigned software that gives CEREC users enhanced capabilities and speeds up the restoration process. In addition, CEREC 4.0 enables dentists to design and manufacture multiple restorations simultaneously, further enhancing productivity and profitability. In August 2012, Sirona launched its new CEREC Omnicam camera, which allows dentists to generate precise whole-arch scans in the shortest possible time. Three features of the CEREC Omnicam are particularly notable: video streaming, digitization of jaw structures in their natural color, and powderless scanning of tooth surfaces. This introduction further strengthens Sirona s leadership position in the dental CAD/CAM market. In March 2013, Sirona launched updated and expanded CEREC 4.2 software, further differentiated its CAD/CAM milling product line with the units MC X and MC XL Premium, and introduced the Apollo DI digital imaging system. These introductions expanded our portfolio and enable Sirona to offer CAD/CAM for Everyone , an approach which seeks to address the various needs of the widest possible range of dentists.

Sirona offers a service contract on its CEREC product, which includes software updates and upgrades and maintenance on software-related hardware.

In addition to CEREC, Sirona also offers CAD/CAM products for dental laboratories, including the inLab restoration fabrication system and the extra-oral inEos scanner. These products are designed to improve efficiency and reduce costs for the dental lab. The inLab system scans the models received from the dentists and then mills ceramic or composite block restorations, such as crown copings and bridge frameworks to the specifications of the captured image. In fiscal year 2007, Sirona launched its next generation inLab milling unit, the inLab MC XL. An enhanced version was launched in March 2013. The inLab MC XL milling and grinding unit opens up a broad range of production options for the dental laboratory. Milling performance and precision have been greatly enhanced, and a switch from grinding to milling can be accomplished in just a few, simple steps.

The inEos scanner, which was initially launched in 2005, is a high speed extra-oral scanner which produces 3D digital images from a single tooth up to a jaw, directly from the plaster model. In fiscal years 2010 and 2013,

Table of Contents

the successor models inEos Blue and inEos X5, respectively, were brought to market. inEos Blue is based on the Bluecam technology, is easy to use, fast, precise, flexible, and its auto capture function allows for substantial time savings. The 5-axis in Eos X5 is unrivaled in precision and has flexible handling, quick scanning times, and a comprehensive application spectrum for all digitization tasks. In March 2012, Sirona introduced the inLab 4.0 software, which offers an extended spectrum of clinical applications. New design tools facilitate a customized and direct workflow. The completely revised platform provides a secure basis for integrating future applications. In March 2013, further applications, such as smart design with virtual articulation, smile design, and other features, were added with the launch of inLab4.2.

In fiscal year 2004, Sirona started its central restoration service business in Germany and expanded the service to the United States in fiscal year 2006. The central restoration service allows dental labs to scan a plaster model received from the dentist and then transmit the digital image directly to Sirona via the internet. A restoration is then created at Sirona s central manufacturing site, with the final product shipped directly back to the lab.

In fiscal year 2008, we expanded our CEREC offering with the introduction of Sirona Connect. Sirona Connect is a web-based service that facilitates the electronic transmission of digital impressions acquired with a CEREC acquisition unit to inLab laboratories. Laboratories can use the digital impression to create final restorations. This process eliminates the need to take physical impressions, resulting in increased accuracy, less reworking of restorations and productivity savings.

The Dental CAD/CAM Systems segment contributed 37%, 34% and 34% to Sirona s revenue for the fiscal years ended September 30, 2013, 2012 and 2011, respectively.

Imaging Systems

Imaging Systems comprise a broad range of systems for diagnostic imaging in the dental practice. Sirona has developed a comprehensive range of imaging systems for 2D or 3D, panoramic and intra-oral applications that allow the dentist to accommodate the patient in a more efficient manner.

Intra-oral x-ray systems use image-capture sensor devices, which are inserted into the mouth behind the diagnostic area, and typically take images of one or two teeth. Panoramic x-ray systems produce images of the entire jaw structure by means of an x-ray tube and an image capture device, which rotates around the head.

In 2004, Sirona introduced its next generation of 2D digital panoramic x-ray systems, the Orthophos XG line. Since 2011, the flagship model has been the Orthophos XG 3DReady, which provides dental practitioners with a wide variety of diagnostic possibilities and is upgradeable to a 3D unit. Other models of the family include the Orthophos XG 5 and the basic model Orthophos XG 3.

As a result of the Exchange in 2006, we expanded our imaging system product line to include Schick s intraoral sensor portfolio based on CMOS technology.

In fiscal year 2007, Sirona introduced its GALILEOS Comfort 3-D imaging unit. Today, three-dimensional imaging is offering dentists advanced diagnostic and therapeutic options in the fields of surgery, implantology, prosthetics, orthodontics, and restorative dentistry. The Company believes GALILEOS integrates these capabilities efficiently into dental practices. In July 2008 and March 2013, Sirona launched GALILEOS Compact and GALILEOS Compact plus, respectively, which are specifically tailored to meet the needs of the general practitioner.

In fiscal year 2009, Sirona introduced software that facilitates the integration of 3D X-ray volume (bone level data) with a CEREC AC CAD/CAM scan (surface level information). This software allows the practitioner to plan both the implant surgery and the prosthetic at the start of the implant treatment session. This integrated

Table of Contents

process reduces the number of treatment sessions, results in greater accuracy and superior implant alignment. With this new software, the dental practitioner can now place more focus on the desired aesthetic outcome throughout the entire treatment process.

In fiscal year 2011, Sirona launched the Orthophos XG 3D imaging unit. This system gives the practitioner traditional 2D panoramic imaging capability and the ability to scan and view a large, eight by eight centimeter 3D field of view (a scan big enough to capture the entire jaw). Orthophos XG 3D is also available with cephalometric options, orthodontic, implant and other specialty programs.

In August 2012, Sirona launched the next generation of intraoral digital radiography the Schick 33 sensor and image management system. Schick 33 is the most advanced sensor in dentistry, delivering an unparalleled combination of high-resolution images and dynamic image management.

The Imaging Systems segment contributed 34%, 35% and 35% to Sirona s revenue for the fiscal years ended September 30, 2013, 2012 and 2011, respectively.

Table of Contents

Treatment Centers

Treatment Centers comprise a broad range of products from basic dentist chairs to sophisticated chair-based units with integrated diagnostic, hygiene and ergonomic functionalities, as well as specialist centers used in preventative treatment and for training purposes. Sirona offers specifically configured products to meet the preferences of dentists within each region in which it operates. Sirona s treatment center configurations and system integration are designed to enhance productivity by creating a seamless workflow within the dental practice. Sirona s centers therefore allow the dentist to both improve productivity and increase patient satisfaction, significant factors in adding value to his or her practice. In October 2004, Sirona acquired one of the leading Chinese manufacturers of basic treatment centers, located in South China. This facility manufactures basic products for both the domestic Chinese market and export markets.

In July 2008, Sirona launched its TENEO Treatment Center, which combines industry-leading technology with a timeless design that provides both patient and dentist with the ultimate in convenience and comfort. In March 2011, Sirona introduced SINIUS, a comfort class treatment center, which enables the dentist to maximize time and flexibility of their practice. SINIUS is fully networked and is easily integrated into any dental practice.

The Treatment Centers segment contributed 19%, 20% and 20% to Sirona s revenue for the fiscal years ended September 30, 2013, 2012 and 2011, respectively.

Instruments

Sirona offers a wide range of instruments, including handheld and power-operated handpieces for cavity preparation, endodontics, periodontology and prophylaxis, which are regularly updated and improved. The instruments are supplemented by multi-function tips, supply and suction hoses, as well as care and hygiene systems for instrument preparation. Sirona s instruments are often sold as packages in combination with treatment centers. During the last several years, Sirona introduced a variety of new products, including SIROLaser, a compact diode laser; SIROEndo, a root canal preparation unit; SIROPure, oil-free, power-driven handpieces; SIROBoost, a high performance turbine line that features 22 watts of power and a high torque level, allowing faster, more efficient and comfortable operation; and SIROInspect, a handpiece for the safe and secure monitoring of cavities.

Sirona intends to continue to strengthen the position of its Instruments segment as a diversified supplier of high-quality, reliable, user-friendly and cost-efficient dental instruments.

The Instruments segment contributed 9%, 11% and 11% to Sirona s revenue for the fiscal years ended September 30, 2013, 2012 and 2011, respectively.

Manufacturing and Suppliers

Our main manufacturing and assembly activities are located in Bensheim, approximately 60 kilometers south of Frankfurt am Main, Germany. We also operate smaller manufacturing sites in New York, Italy, Denmark and China. All of our facilities are in good condition.

All of our manufacturing facilities have established and maintain a Quality Management System that is registered to ISO 9001:2000 and ISO 13485:2003. Our New York and Bensheim facilities also maintain a Device Establishment Registration with the United States Food and Drug Administration.

Manufacturing consists primarily of assembly, systems integration and testing. We generally outsource manufacturing of parts and components used in the assembly of our products but own the design and tools used by our key component suppliers. We do, however, manufacture most of the precision parts used for our instruments.

Table of Contents

We purchase various components for our products from a number of outside suppliers. We currently have established relationships with approximately 1,550 suppliers, of which we view approximately 210 as key suppliers. Each supplier is selected according to stringent quality criteria, which are reviewed regularly. We do not believe we are dependent on one or a small group of suppliers and believe we could locate alternative suppliers if needed. For reasons of quality assurance or cost effectiveness, the Company relies on single sources for certain purchased components, e.g. sensors, which we use in our imaging segment. We work closely with our suppliers to help ensure continuity of supply while maintaining high quality and reliability. We have agreements in place and use a number of techniques, including security or consignment stock commitments, to address potential disruptions of the supply chain. We also own any custom tooling used in manufacturing these components. The Company has not experienced any significant difficulty in the past in obtaining the materials necessary to meet its production schedule. However, the need to replace one of our single source suppliers could cause a disruption in our ability to timely deliver certain of our products or increase costs. See Item 1A Risk Factors We are dependent upon a limited number of suppliers for critical components. If these suppliers delay or discontinue the manufacture of these components, we may experience delays in shipments, increased costs and cancellation of orders for our products.

Sales and Marketing

Our sales and marketing efforts are directed through regional managers who oversee our sales professionals. These professionals work closely with our distribution partners to maximize the efficiency and productivity of their sales efforts. Our marketing initiatives are focused on highlighting Sirona s leading role as a high-tech systems provider and industry innovator. In order to promote our brand and increase client loyalty, our distribution partners are supported through wide ranging advertising activities. In addition, we have been a key presenter at all major dental exhibitions, which are critical forums for raising brand awareness and new product introductions. Lastly, our product information is actively made available to business publications, dentists, journals, professional organizations and dental schools, our website (www.sirona.com), and social media offerings (Facebook, Twitter, Sirona Blog, etc.) are important interactive platforms for end-users as well as for distributors.

Distribution

Sirona distributes its products globally to dental practices, clinics and laboratories through an international network of more than 480 distributors and increasingly through our own sales and service infrastructure. See Note 23 to our consolidated financial statements for a description of our net sales and long-lived assets by geographic region for the last three fiscal years. Because distributors typically cover both dental equipment and consumables, they have regular contact with the dentist and are therefore optimally positioned to identify new equipment sale opportunities. Sirona s primary distributors are Patterson Companies and Henry Schein, two of the world s largest dental distributors. In the United States, Patterson is Sirona s primary distributor. Outside of the United States, Henry Schein is the company s largest distributor. Patterson Companies and Henry Schein accounted for 33% and 14%, respectively, of Sirona s worldwide revenue for the fiscal year ended September 30, 2013. Sirona distributes elsewhere through a well-developed network of independent regional distributors. Sirona works closely with its distributors by training their technicians and sales representatives with respect to its products. With over 10,000 sales and service professionals trained each year, Sirona seeks to ensure high standards of quality in after-sale service and the best marketing of its products. The success of Sirona s products is evidenced by their importance to its distribution partners, and in many cases are among their best-selling offerings. The Company continues to expand its sales and service infrastructure in selected countries around the world. These investments allow us to support our distributors selling efforts and strengthen the Sirona brand in these key markets. These investments, and the subsequent expansion of our infrastructure, have enabled Sirona to grow revenues and profitability at a faster rate.

On April 27, 1998, Sirona and Patterson Companies entered into an exclusive distribution agreement (the CAD/CAM Distribution Agreement) pursuant to which Patterson was appointed as the exclusive distributor of

Table of Contents

Sirona s CEREC CAD/CAM products within the United States and Canada. Under the terms of the CAD/CAM Distribution Agreement, Patterson s exclusivity was to terminate on September 30, 2007. On June 30, 2005, Sirona and Patterson entered into an amendment of the CAD/CAM Distribution Agreement which extended Patterson s exclusivity from October 1, 2007 through September 30, 2017. As consideration for the extension of its exclusivity, Patterson agreed to make a one-time payment to Sirona in the amount of $100 million (the Exclusivity Fee). In July 2005, Patterson paid the Exclusivity Fee, in its entirety, to Sirona. The full amount of the Exclusivity Fee was recorded as deferred income and has been recognized on a straight-line basis since October 1, 2007. The extension did not modify or alter the underlying provisions of the companies agreement through 2007, including the performance criteria necessary to maintain the exclusivity. The performance criteria are benchmark thresholds which afford Sirona the opportunity to abandon the exclusivity or to terminate the agreement with Patterson, but do not create minimum purchase obligations under a take-or-pay arrangement. The CAD/CAM Distribution Agreement was amended in May 2011 to revise the parameters for inLab sales in the United States and Canada.

In April 2000, Schick and Patterson entered into an exclusive distribution agreement (the Schick Distribution Agreement) covering the United States and Canada; and as of May 1, 2000, Schick began marketing and selling its CDR dental products in the United States and Canada through Patterson. This contract was amended in July 2005, March 2007, and May 2010 and expired on December 31, 2012.

In May 2012, the Company and Patterson amended and restated the terms of their business relationship set forth in CAD/CAM Distribution Agreement and the Schick Distribution Agreement with respect to distribution of certain products throughout the United States and in October 2013 entered into new distribution agreements covering Canada. The amendment and restatement of both the CAD/CAM Distribution Agreement and Schick Distribution Agreement addressed issues related to pricing, termination and annual minimum purchase quotas, and provided growth targets which, if achieved, extend the companies exclusivity period.

Sirona executes separate contracts with Henry Schein for each product group in each of the various jurisdictions in which Henry Schein distributes its products. The contracts governing most of the products distributed through Henry Schein are non-exclusive. Each of the contracts provides for minimum annual purchases, which are set annually. The contracts have terms of up to five years. Either party is entitled to terminate any of the contracts upon six months notice but generally not before the third anniversary of the contract. Sirona may terminate a contract upon 30 days notice in case of Henry Schein s default under the terms of the contract.

Competition

Competition in the global dental market is fragmented by both geography and products. We compete with a variety of companies, including large international companies as well as smaller companies that compete regionally or on a narrower product line. Sirona competes on the basis of its comprehensive and innovative product line and its global distribution network.

Research and Development

Sirona commits significant resources to research and development, with a particular focus on developing products that offer new diagnostic and treatment options, while increasing comfort for both users and patients and streamlining process efficiency. Sirona incurred approximately $60 million, $53 million and $56 million for research and development expenses in the fiscal years ended September 30, 2013, 2012 and 2011, respectively, which represented 5-6% of Sirona s total revenue in each year. Sirona employs 286 professionals in its global research and development departments. Sirona also cooperates in its research efforts with partners in research facilities and dental practices around the world. In fiscal year 2011, Sirona opened the Center of Innovation in Bensheim, Germany. The Center underscores Sirona s ongoing commitment to innovation in dentistry. Housing the majority of research and development professionals under one roof will ensure the Company maximum collaboration, creativity, technological advancement, and idea sharing.

Table of Contents

Patents, Trade Secrets and Proprietary Rights

We seek to protect our intellectual property through a combination of patent, trademark and trade secret protection. We believe that our future success will depend in part on our ability to obtain and enforce patents for our products and processes, preserve our trade secrets and operate without infringing the proprietary rights of others.

Patents

We have an active corporate patent program, the goal of which is to secure patent protection for our technology. Sirona owns and/or maintains approximately 860 patents and patent applications throughout the world. The patents expire at various dates through 2030. We also license or sublicense some of the technology used in our products from third parties.

Trademarks

We generally attempt to build brand awareness of our products through the use of trademark registrations. Sirona, CEREC, Orthophos, Heliodent, inLab, CDR, and Schick are some of our key registered trademarks. In addition, we have common law trademark rights in several other names we use commercially in connection with our products.

Trade Secrets

In addition to patent protection, we own trade secrets and proprietary know-how, which we seek to protect through agreements with employees and other appropriate individuals. These agreements generally allow assignment of confidential information developed by or made known to the individual by the Company during the course of the individual s relationship with the Company as confidential and not to be disclosed to third parties, except in specific limited circumstances. The agreements also generally assign to the Company all inventions conceived by the individual in the course of rendering services to the Company. However, there can be no assurance that the Company will be successful in enforcing this policy in each case, that the Company would have adequate remedies available for any breach or that the Company s trade secrets will not otherwise become known to, or independently developed by, its competitors.

Regulation

Medical Devices

Most of our products require certain forms of regulatory clearance, including, but not limited to, marketing clearance by the United States Food and Drug Administration (the FDA) in accordance with the Federal Food, Drug and Cosmetic Act, as amended (the FD&C Act) and by our Notified Body in accordance with the European Union s Medical Device Directive 93/42/EEC (MDD).

The FDA and MDD review process typically requires extended proceedings pertaining to product safety and efficacy. We believe that our future success will depend to a large degree upon commercial sales of improved versions of our current products and sales of new products; we will not be able to market such products in the U.S. or in the European Union without FDA or MDD clearance, respectively. There can be no assurance that any products developed by us in the future will be granted clearance by applicable regulatory authorities or that additional regulations will not be adopted or current regulations amended in such a manner as to adversely affect us.

Pursuant to the FD&C Act, the FDA regulates the introduction, manufacture, advertising, labeling, packaging, marketing and distribution of, and record-keeping for, dental devices. The FDA classifies medical devices intended for human use into three classes: Class I, Class II, and Class III. The Company s products are

Table of Contents

classified by the FDA into Class I or II that renders them subject only to general controls that apply to all medical devices, in particular regulations regarding alteration, misbranding, notification, record-keeping and good manufacturing practices.

The FD&C Act further provides that, unless exempted by regulation, medical devices may not be commercially distributed in the U.S. unless they have been cleared by the FDA. There are two review procedures by which medical devices can receive such clearance. Some products may qualify for clearance under a Section 510(k) procedure, in which the manufacturer submits to the FDA a pre-market notification that it intends to begin marketing the product, and shows that the product is substantially equivalent to another legally marketed product (i.e., that it has the same intended use and that it is as safe and effective as a legally marketed device, and does not raise different questions of safety and effectiveness than does a legally marketed device). Certain Class I devices are exempt from the 510(k) pre-market notification requirement and manufacturers of such products may proceed to market without any submission to the FDA. In some cases, the 510(k) notification must include data from human clinical studies.

Marketing in the U.S. may commence once the FDA issues a clearance letter finding such substantial equivalence. According to FDA regulations, the agency has 90 days in which to respond to a Class I or II 510(k) notification. There can be no assurance, however, that the FDA will provide a timely response, or that it will reach a finding of substantial equivalence.

If a product does not qualify for the 510(k) procedure (either because it is not substantially equivalent to a legally marketed device or because it is a Class III device), the FDA must approve a Pre-Market Approval (PMA) application before marketing can begin. PMA applications must demonstrate, among other things, that the medical device is safe and effective. A PMA application is typically a complex submission that includes the results of clinical studies. Preparation of such an application is a detailed and time-consuming process. Once a PMA application has been submitted, the FDA s review process may be lengthy and include requests for additional data. By statute and regulation, the FDA may take 180 days to review a PMA application, although such time may be extended. Furthermore, there can be no assurance that the FDA will approve a PMA application.

The products that we distribute in the European Union bear the CE Mark, a European Union symbol of compliance with the MDD. In order to market our products in the member countries of the European Union, it is necessary that those products conform to the requirements of the MDD. Our Bensheim facility which is engaged in the manufacturing of Class IIa and Class IIb medical devices as defined by the MDD is ISO 13485 certified. It is also necessary that our products comply with any revisions which may be made to these standards or the MDD.

Medical devices are subject to ongoing regulatory oversight by the FDA and a Notified Body. The FD&C Act requires that all medical device manufacturers and distributors register annually with the FDA and submit a list of those medical devices which they distribute commercially. The MDD requires that Class IIa devices or higher bear a CE mark with a Notified Body Number. The FD&C Act and the MDD also requires that all manufacturers of medical devices comply with labeling requirements and manufacture their products and maintain their documents in a prescribed manner with respect to manufacturing, testing, and quality control activities. The FDA s Medical Device Reporting regulation and the MDD subject medical devices to post-market reporting requirements for death or serious injury, and for certain malfunctions that would be likely to cause or contribute to a death or serious injury if malfunction were to recur. In addition, the FDA and the MDD prohibit a device which has received marketing clearance from being marketed for applications for which marketing clearance has not been obtained. Furthermore, the FDA generally requires that medical devices not cleared for marketing in the U.S. receive FDA marketing clearance before they are exported, unless an export certification has been granted. The FDA and the ISO Notified Bodies regularly inspect our registered and/or certified facilities.

Table of Contents

Failure to comply with applicable regulatory requirements can, among other consequences, result in fines, injunctions, civil penalties, suspensions or loss of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution. In addition, governmental regulations may be established that could prevent or delay regulatory clearance of our products. Delays in receipt of clearance, failure to receive clearance or the loss of previously received clearance would have a material adverse effect on our business, financial condition and results of operations.

Environmental, Health and Safety Matters

In addition to the laws and regulations discussed above, we are subject to government regulations applicable to all businesses, including, among others, regulations related to occupational health and safety, workers benefits and environmental protection. The extent of government regulation that might result from any future legislation or administrative action cannot be accurately predicted. Failure to comply with regulatory requirements could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of September 30, 2013, the Company had 3,216 employees. The Company believes that its relations with its employees are good. No Company employees are represented by labor unions or are subject to a collective bargaining agreement in the United States. Approximately 30% of our German employees are members of the IG Metall union. We have not experienced any work stoppages due to labor disputes.

Table of Contents

Executive Officers

See Part III, Item 10 of this 10-K Report for information about Executive Officers of the Company.

Available Information

Information about the Company s products and services, stockholder information, press releases, and filings with the Securities and Exchange Commission (SEC) can be found on the Company s website at www.sirona.com. The information contained on our website is for informational purposes only and is not incorporated by reference into this report. The Company s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other SEC filings, and any amendments to such reports and filings, are available free of charge in the Investor Relations section of the Company s website as soon as reasonably practical after the Company s material is filed with, or furnished to, the SEC.

Table of Contents

ITEM 1A. RISK FACTORS

These risk factors may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. The following information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and the consolidated financial statements and related notes incorporated by reference in this report.

Our businesses routinely encounter and address risks, some of which will cause our future results to be different sometimes materially different than we anticipate. Discussion about the material operational risks that our businesses encounter can be found in our MD&A, in the business descriptions in Item 1 of this report and in previous SEC filings. Below, we have described our present view of the material risks facing our business.

Risks Related to Our Business

We must develop new products and enhancements to existing products to remain competitive.

We are currently developing new products and enhancements to existing products. We cannot assure you that we will initiate, continue with and/or succeed in our efforts to develop or enhance such products. There can be no assurance that any new products will be developed by us, or if developed, will be approved by, or receive marketing clearance from, applicable domestic and/or international governmental or regulatory authorities. It is expected that we will file 510(k) applications with the Food and Drug Administration, or FDA, and similar filings with governmental authorities in other countries in connection with our future products and certain of our future product enhancements. There can be no assurance that we will file applications for or obtain regulatory approval from the FDA, either in the form of a pre-market clearance or a 510(k) clearance, for any of our future products, or that in order to obtain FDA clearance, we will not be required to submit additional data or meet additional FDA requirements that may substantially delay the application process and result in substantial additional expense. In addition, such pre-marketing clearance, if obtained, may be subject to conditions on marketing or manufacturing which could impede our ability to manufacture and/or market our products. If we are unable to develop, obtain regulatory approval for and market new products and enhancements to existing products, our business and results of operations could be harmed.

If we cannot obtain or maintain approval from government agencies, we will not be able to sell our products.

We must obtain certain approvals by, and marketing clearances from, governmental authorities, including the FDA and similar health authorities in foreign countries to market and sell our products in those countries. These regulatory agencies regulate the marketing, manufacturing, labeling, packaging, advertising, sale and distribution of medical devices. The FDA enforces additional regulations regarding the safety of X-ray emitting devices. Our products are currently regulated by such authorities and certain of our new products will require approval by, or marketing clearance from, various governmental authorities, including the FDA. Various states also impose similar regulations.

The FDA review process typically requires extended proceedings pertaining to the safety and efficacy of new products. A 510(k) application is required in order to market a new or modified medical device. If specifically required by the FDA, a pre-market approval, or PMA, may be necessary. Such proceedings, which must be completed prior to marketing a new medical device, are potentially expensive and time consuming. They may delay or hinder a product s timely entry into the marketplace. Moreover, there can be no assurance that the review or approval process for these products by the FDA or any other applicable governmental authority will occur in a timely fashion, if at all, or that additional regulations will not be adopted or current regulations amended in such a manner as will adversely affect us. The FDA also oversees the content of advertising and marketing materials relating to medical devices which have received FDA clearance. Failure to comply with the FDA s advertising guidelines may result in the imposition of penalties.

Table of Contents

We are also subject to other federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices. The extent of government regulation that might result from any future legislation or administrative action cannot be accurately predicted. Failure to comply with regulatory requirements could have a material adverse effect on our business.

Similar to the FDA review process, the EU review process typically requires extended proceedings pertaining to the safety and efficacy of new products. Such proceedings, which must be completed prior to marketing a new medical device, are potentially expensive and time consuming and may delay or prevent a product s entry into the marketplace.

Our business may be negatively affected if we do not continue to adapt to rapid technological change, evolving industry standards and new product introductions.

The market for our products is characterized by rapid and significant technological change, evolving industry standards and new product introductions. Our products require significant planning, design, development and testing which requires significant capital commitments and investment by us. There can be no assurance that our products or proprietary technologies will not become noncompetitive or obsolete as a result of technological change, evolving industry standards or new product introductions or that we will be able to generate any economic return on our investment in product development. If our products or technologies become noncompetitive or obsolete, our business could be negatively affected.

Our profitability may be negatively impacted by adverse general macroeconomic conditions in the geographic markets in which we sell our products.

Our profitability depends in part on the varying economic and other conditions of the global dental market, which in turn is impacted by general macroeconomic conditions in the geographic markets in which we sell our products. Growth in the global dental market over the past few years has been driven by a number of factors, including a growth in disposable income, a shift towards private pay, a greater need for dental preventative care and an increased emphasis on aesthetics. Demand for our products would be negatively impacted by a decline in the economy in general, including interest rate and tax changes, that impact the financial strength of our customers, as well as by changes in the economy in general that reduce disposable income among dental consumers in the markets we sell our products, which would in turn reduce the demand for preventative and aesthetic dental services.

The recent disruptions in the overall world economy and financial markets could reduce disposable income among dental consumers and negatively affect the demand for dental services, which could be harmful to our financial position and results of operations. Furthermore, there can be no assurances that government responses to the disruptions in the financial markets will stabilize the markets or increase liquidity and the availability of credit for our customers. Difficult economic conditions may also result in a higher rate of losses on our accounts receivable. As a result, our business, results of operations or financial condition could be materially adversely affected.

We are dependent upon a limited number of distributors for a significant portion of our revenue, and loss of these key distributors could result in a loss of a significant amount of our revenue.

Historically, a substantial portion of our revenue has come from a limited number of distributors. For example, Patterson Dental Company, Inc. accounted for 33% of revenue for the fiscal year ended September 30, 2013. In addition, 14% of our revenue for the fiscal year ended September 30, 2013, was attributable to sales to Henry Schein, Inc. It is anticipated that Patterson and Henry Schein will continue to be the largest contributors to our revenue for the foreseeable future. There can be no assurance that Patterson and Henry Schein will purchase any specified minimum quantity of products from us or that they will continue to purchase any products at all. If Patterson or Henry Schein ceases to purchase a significant volume of products from us, it could have a material adverse effect on our results of operations and financial condition.

Table of Contents

Competition in the markets for our products is intense, and we may not be able to compete effectively.

Competition relating to our current products is intense and includes various companies, both within and outside of the United States. We anticipate that competition for our future products will also be intense and include various companies, both within and outside of the United States, Asia and Europe. Our competitors and potential competitors include large companies with substantially greater financial, sales and marketing, and technical resources, larger and more experienced research and development staffs, more extensive physical facilities and substantially greater experience in obtaining regulatory approvals and in marketing products than we have. In addition, we cannot assure you that our competitors are not currently developing, or will not attempt to develop, technologies and products that are more effective than those being developed by us or that would otherwise render our existing and new technology and products obsolete or noncompetitive. We may not be able to compete successfully and may lose market share to our competitors.

Our failure to obtain issued patents and, consequently, to protect our proprietary technology could hurt our competitive position.

Our success will depend in part on our ability to obtain and enforce claims in our patents directed to our products, technologies and processes, both in the United States and in other countries. Risks and uncertainties that we face with respect to our patents and patent applications include the following:

- the pending patent applications that we have filed, or to which we have exclusive rights, may not result in issued patents or may take longer than we expect to result in issued patents;
- the allowed claims of any patents that issue may not provide meaningful protection;
- we may be unable to develop additional proprietary technologies that are patentable;
- the patents licensed or issued to us may not provide a competitive advantage;
- other companies may challenge patents licensed or issued to us;
- disputes may arise regarding inventions and corresponding ownership rights in inventions and know-how resulting from the joint creation or use of intellectual property by us and our respective licensors; and
- other companies may design around the technologies patented by us.

Our revenue and operating results are likely to fluctuate.

Our quarterly and annual operating results have varied in the past, and our operating results are likely to continue to fluctuate in the future. These variations result from a number of factors, many of which are substantially outside of our control, including:

- the timing of new product introductions by us and our competitors;
- timing of industry tradeshows, particularly the International Dental Show;

changes in relationships with distributors;

the timing of operational decisions by distributors and end users;

developments in government reimbursement policies;

changes in product mix;

our ability to supply products to meet customer demand;

fluctuations in manufacturing costs;

tax incentives;

Table of Contents

currency fluctuations; and

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

Our financial results may be adversely affected by fluctuations in foreign currency exchange rates.

We are exposed to currency exchange risk with respect to the U.S. Dollar in relation to the Euro, because a large portion of our revenue and expenses are denominated in Euros. In addition, we have an increasing portion of revenue and expenses denominated in other foreign currencies, e.g. Yen, Australian Dollar, Brazilian Real, and Yuan Renminbi. We monitor changes in our exposure to exchange rate risk. While we enter into hedging arrangements to protect our business against certain currency fluctuations, these hedging arrangements do not provide comprehensive protection, and our results of operations and prospects could be materially and adversely affected by foreign exchange fluctuations.

Our hedging and cash management transactions may expose us to loss or limit our potential gains.

As part of our risk management program, we use foreign currency exchange forward contracts. While intended to reduce the effects of exchange rate fluctuations, these transactions may limit our potential gains or expose us to loss. Should our counterparties to such transactions or the sponsors of the exchanges through which these transactions are offered fail to honor their obligations due to financial distress or otherwise, we would be exposed to potential losses or the inability to recover anticipated gains from these transactions.

We enter into foreign currency exchange forward contracts as economic hedges of trade commitments or anticipated commitments denominated in currencies other than the functional currency to mitigate the effects of changes in currency rates. Although we do not enter into these instruments for trading purposes or speculation, and although our management believes all of these instruments are economically effective as hedges of underlying physical transactions, these foreign exchange commitments are dependent on timely performance by our counterparties. Their failure to perform could result in our having to close these hedges without the anticipated underlying transaction and could result in losses if foreign currency exchange rates have changed.

We enter into interest rate swap agreements from time to time to manage some of our exposure to interest rate volatility. These swap agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements. In addition, these arrangements may not be effective in reducing our exposure to changes in interest rates. If such events occur, our results of operations may be adversely affected.

Most of our cash deposited with banks is not insured and would be subject to the risk of bank failure. Our total liquidity also depends on the availability of funds under our Senior Facility Agreement. The failure of any bank in which we deposit our funds or that is part of our Senior Facility Agreement could reduce the amount of cash we have available for operations and additional investments in our business.

If we lose our key management personnel or are unable to attract and retain qualified personnel, it could adversely affect our results of operations or delay or hurt our research and product development efforts.

Our success is dependent, in part, upon our ability to hire and retain management, sales, technical, research and other personnel who are in high demand and are often subject to competing employment opportunities. It is possible that the loss of the services of one or a combination of our senior executives or key managers could have an adverse effect on our operations.

Table of Contents

Work stoppages and other labor relations matters may make it substantially more difficult or expensive for us to produce our products, which could result in decreased sales or increased costs, either of which would negatively impact our financial condition and results of operations.

A significant part of our foreign employees are subject to collective bargaining agreements, and some of our employees are unionized; therefore, we are subject to the risk of work stoppages and other labor relations matters. While we have not experienced prolonged work stoppages in recent years and believe our relations with employees are satisfactory, any prolonged work stoppage or strike at any one of our principal facilities could have a negative impact on our business, financial condition, or results of operations.

We may experience difficulties managing our growth, which could adversely affect our results of operations.

It is expected that we will grow in certain areas of our operations as we develop and, assuming receipt of the necessary regulatory approvals, market our products. We will therefore need to recruit personnel, particularly sales and marketing personnel, and expand our capabilities, which may strain our managerial, operational, financial and other resources. To compete effectively and manage our growth, we must:

- train, manage, motivate and retain a growing employee base;
- accurately forecast demand for, and revenue from, our product candidates; and
- expand existing operational, financial and management information systems to support our development and planned commercialization activities and the multiple locations of our offices.

Our failure to manage these challenges effectively could materially harm our business.

Since we operate in markets outside of the United States and Europe, we are subject to additional risks.

We anticipate that sales outside of the United States and Europe will continue to account for a significant percentage of our revenue. Such revenue is subject to a number of uncertainties, including, but not limited to, the following:

- economic and political instability;
- import or export licensing requirements;
- trade restrictions;
- longer payment cycles;
- unexpected changes in regulatory requirements and tariffs;
- fluctuations in currency exchange rates;

potentially adverse tax consequences; and

potentially weak protection of intellectual property rights.

These risks may impair our ability to generate revenue from our sales efforts. In addition, many countries outside of the United States and Europe have their own regulatory approval requirements for the sale of products. As a result, the introduction of new products into, and our continued sale of existing products in, these markets could be prevented, and/or costly and/or time-consuming, and we cannot assure you that we will be able to obtain the required regulatory approvals on a timely basis, if at all.

Our business is subject to extensive, complex, and changing laws, regulations, and orders that failure to comply with could subject us to civil or criminal penalties or other liabilities.

We are subject to extensive laws, regulations, and orders which are administered by various international, federal, and state governmental authorities, including, among others, the FDA, the Office of Foreign Assets

Table of Contents

Control of the United States Department of the Treasury (OFAC), the United States Federal Trade Commission, the United States Department of Justice, and other similar domestic and foreign authorities. These regulations include, but are not limited to, the U.S. Foreign Corrupt Practices Act and similar international anti-bribery laws, regulations concerning the supply of conflict minerals, various environmental regulations and regulations relating to trade, import and export controls and economic sanctions. Such laws, regulations, and orders may be complex and are subject to change.

Compliance with the numerous applicable existing and new laws, regulations and orders could require us to incur substantial regulatory compliance costs. Although the Company has implemented policies and procedures to comply with applicable laws, regulations and orders, there can be no assurance that governmental authorities will not raise compliance concerns or perform audits to confirm compliance with such laws, regulations, and orders. Failure to comply with applicable laws, regulations, or orders could result in a range of governmental enforcement actions, including fines or penalties, injunctions, and/or criminal or other civil proceedings. Any such actions could result in higher than anticipated costs or lower than anticipated revenue and could have a material adverse effect on the Company s reputation, business, financial condition, and results of operations.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

To the extent that we operate outside the United States, we are subject to the Foreign Corrupt Practices Act (the FCPA) which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though such partners are foreign companies that are not subject to the FCPA. Any determination that we violated the FCPA could result in sanctions that could have a material adverse effect on our business.

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions designed to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required due diligence efforts in fiscal 2013, with initial disclosure requirements beginning in May 2014. There will be additional costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. As there may be only a limited number of suppliers offering conflict-free minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

We may be a party to legal actions that are not covered by insurance.

We may be a party to a variety of legal actions, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims, stockholder suits, including securities fraud, governmental investigations and intellectual property related litigation. In addition, because of the nature of our business, we are subject to a variety of legal actions relating to our business operations. Although we have maintained insurance coverage for some of these potential liabilities, we cannot assure you that such insurance coverage will continue to be available or, if available, that it can be obtained in sufficient amounts or at

Table of Contents

reasonable cost or that it will be sufficient to cover any claims that may arise. Other potential liabilities may not be covered by insurance, insurers may dispute coverage, or the amount of insurance may not be sufficient to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance and/or insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

We are dependent upon a limited number of suppliers for critical components. If these suppliers delay or discontinue the manufacture of these components, we may experience delays in shipments, increased costs and cancellation of orders for our products.

We rely on key suppliers for various critical components and procure certain components from outside sources which are sole suppliers. The availability and prices of these components may be subject to change due to interruptions in production, changing market conditions and other events. Any delays in delivery of or shortages in these components could interrupt and delay manufacturing of our products and result in the cancellation of orders for our products. In addition, these suppliers could discontinue the manufacture or supply of these components at any time. We may not be able to identify and integrate alternative sources of supply in a timely fashion or at all. Any transition to alternate suppliers may result in delays in shipment and increased expenses and may limit our ability to deliver products to our customers. If we are unable to develop reasonably-priced alternative sources in a timely manner, or if we encounter delays or other difficulties in the supply of such products and other materials from third parties, our business and results of operations may be harmed. In past years, semiconductors have been subject to significant price fluctuations.

While we have, in the past, attempted to mitigate the effects of such potential fluctuations, we cannot assure you that we will continue to do so or that we will be able to successfully mitigate the effect of future price increases on our results of operations and financial condition. See Item 1 Business Manufacturing and Suppliers.

Our profitability could suffer if third parties infringe upon our proprietary technology.

Our profitability could suffer if third parties infringe upon our intellectual property rights or misappropriate our technologies and trademarks for their own businesses. To protect our rights to our intellectual property, we rely on a combination of patent and trademark law, trade secret protection, confidentiality agreements and contractual arrangements with our employees, strategic partners and others. We cannot assure you that any of our patents, any of the patents of which we are a licensee or any patents which may be issued to us or which we may license in the future, will provide us with a competitive advantage or afford us protection against infringement by others, or that the patents will not be successfully challenged or circumvented by third parties, including our competitors. The protective steps we have taken may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Effective patent, trademark and trade secret protection may not be available in every country in which we will offer, or intend to offer, our products. Any failure to adequately protect our intellectual property could devalue our proprietary content and impair our ability to compete effectively. Further, defending our intellectual property rights could result in the expenditure of significant financial and managerial resources.

Our profitability may suffer if our products are found to infringe the intellectual property rights of others.

Litigation may be necessary to enforce our patents or to defend against any claims of infringement of patents owned by third parties that are asserted against us. In addition, we may have to participate in one or more interference proceedings declared by the United States Patent and Trademark Office, the European Patent Office or other foreign patent governing authorities, to determine the priority of inventions, which could result in substantial costs.

Table of Contents

If we become involved in litigation or interference proceedings, we may incur substantial expense, and the proceedings may divert the attention of our technical and management personnel, even if we ultimately prevail. An adverse determination in proceedings of this type could subject us to significant liabilities, allow our competitors to market competitive products without obtaining a license from us, prohibit us from marketing our products or require us to seek licenses from third parties that may not be available on commercially reasonable terms, if at all. If we cannot obtain such licenses, we may be restricted or prevented from commercializing our products.

The enforcement, defense and prosecution of intellectual property rights, including the United States Patent and Trademark Office s, the European Patent Office s and other foreign patent offices interference proceedings, and related legal and administrative proceedings in the United States and elsewhere, involve complex legal and factual questions. As a result, these proceedings are costly and time-consuming, and their outcome is uncertain. Litigation may be necessary to:

assert against others or defend us against claims of infringement;

enforce patents owned by, or licensed to us from, another party;

protect our trade secrets or know-how; or

determine the enforceability, scope and validity of our proprietary rights or the proprietary rights of others.

Changes in the healthcare industry could adversely affect our business.

The healthcare industry has undergone, and is in the process of undergoing, significant changes driven by efforts to reduce costs. These changes include legislative healthcare reform, the reduction of spending budgets by government and private insurance programs, such as Medicare, Medicaid and corporate health insurance plans; trends toward managed care; consolidation of healthcare distribution companies; consolidation of healthcare manufacturers; collective purchasing arrangements and consolidation among office-based healthcare practitioners; and changes in reimbursements to customers. Some of these potential changes may cause a decrease in demand for and/or reduce the prices of our products. These changes could adversely affect our revenues and profitability. In addition, similar legislative efforts in the future could adversely impact our business.

Product liability claims exposure could be significant.

We may face exposure to product liability claims and recalls for unforeseen reasons from consumers, distributors or others. We may experience material product liability losses in the future, and we may incur significant costs to defend these claims. In addition, if any of our products are or are alleged to be defective; we may be required to participate in a recall involving those products. End-users of our products may look to us for contribution when faced with product recalls or product liability claims. Although we have maintained insurance coverage related to product liability claims, we cannot assure you that product liability insurance coverage will continue to be available or, if available, that it can be obtained in sufficient amounts or at reasonable cost or that it will be sufficient to cover any claims that may arise. We may not maintain any insurance relating to potential recalls of our products. A successful product liability claim brought against us in excess of available insurance coverage or a requirement to participate in any product recall could reduce our profits and/or impair our financial condition, and damage our reputation.

Product warranty claims exposure could be significant.

We generally warrant each of our products against defects in materials and workmanship for a period of one year from the date of shipment plus any extended warranty period purchased by the customer. The future costs associated with providing product warranties could be material. A successful warranty claim brought against us could reduce our profits and/or impair our financial condition, and damage our reputation.

Table of Contents

Adverse publicity regarding the safety of our technology or products could negatively impact us.

Despite any favorable safety tests that may be completed with respect to our products, adverse publicity regarding application of X-ray products or other products being developed or marketed by others could negatively affect us. If other researchers studies raise or substantiate concerns over the safety of our technology approach or product development efforts generally, our reputation could be harmed, which would adversely impact our business.

Inadequate levels of reimbursement from governmental or other third-party payers for procedures using our products may cause our revenue to decline.

Third-party payers, including government health administration authorities, private health care insurers and other organizations regulate the reimbursement of fees related to certain diagnostic procedures or medical treatments. Third-party payers are increasingly challenging the price and cost-effectiveness of medical products and services. While we cannot predict what effect the policies of government entities and other third-party payers will have on future sales of our products, there can be no assurance that such policies would not cause our revenue to decline.

We have developed and must continue to maintain internal controls.

Effective internal controls are necessary for us to provide assurance with respect to our financial reports and to effectively prevent fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our operating results could be harmed. The Sarbanes-Oxley Act of 2002 requires us to furnish a report by management on internal control over financial reporting, including managements assessment of the effectiveness of such control. Internal control over financial reporting may not prevent or detect misstatements because of its certain limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. As a result, even effective internal controls may not provide reasonable assurances with respect to the preparation and presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become either obsolete or inadequate as a result of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain adequate internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in implementing new or revised controls, our business and operating results could be harmed and we could fail to meet our reporting obligations.

We may be required to record a significant charge to earnings if our goodwill or other intangible assets become impaired.

Our balance sheet includes goodwill and other identifiable intangible assets. If impairment of our goodwill or other identifiable intangible assets is determined, we may be required to record a significant charge to earnings in the period of such determination under U.S. generally accepted accounting principles (GAAP).

Table of Contents

Risks Related to Our Common Stock

Certain provisions of our certificate of incorporation and bylaws and Delaware law could discourage, delay, or prevent a merger or acquisition at a premium price.

The provisions of our certificate of incorporation and bylaws may also deter, delay or prevent a third-party from acquiring us. These provisions include:

- limitations on the ability of stockholders to amend our charter documents, including stockholder supermajority voting requirements;
- the authority of the board of directors to adopt amendments to our bylaws without shareholder approval;
- the inability of stockholders to act by written consent or to call special meetings;
- a classified board of directors with staggered three-year terms;
- advance notice requirements for nominations for election to the board of directors and for stockholder proposals; and
- the authority of our board of directors to issue, without stockholder approval, up to 5,000,000 shares of preferred stock with such terms as the board of directors may determine and to issue additional shares of our common stock.

We are also subject to the protections of Section 203 of the Delaware General Corporation Law, which prevents us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock, unless board or stockholder approval were obtained.

In addition, in the event of a change of control as defined in our senior facilities agreement, we may be required to, among other things, repay all of our obligations outstanding under the senior facilities agreement, with interest thereon, which could materially adversely impact the value of our common stock.

These provisions could have the effect of delaying, deferring or preventing a change in control of our company, discourage others from making tender offers for our shares, lower the market price of our stock or impede the ability of our stockholders to change our management, even if such changes would be beneficial to our stockholders.

The market price of our common stock may fluctuate significantly, and this may make it difficult for holders to resell our common stock when they want or at prices that they find attractive.

The price of our common stock on the NASDAQ Global Select Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- changes in market conditions;
- quarterly variations in our operating results;

operating results that vary from the expectations of management, securities analysts and investors;

changes in expectations as to our future financial performance;

announcements of strategic developments, significant contracts, acquisitions and other material events by us, our competitors, or our distribution partners;

the operating and securities price performance of other companies that investors believe are comparable to us;

future sales of our equity or equity-related securities;

Table of Contents

changes in the economy and the financial markets;

departures of key personnel;

changes in governmental regulations; and

geopolitical conditions, such as acts or threats of terrorism or military conflicts.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our management

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated thereunder, the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the U.S. public markets. Our management team will need to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases its headquarters in Long Island City, New York. The lease expires in November 2017. The leased space houses executive offices and group functions including legal affairs and investor relations, sales and marketing, research and development laboratories and production and shipping facilities.

The Company has its largest facility in Bensheim, Germany. It is composed of a number of buildings housing the Company s primary manufacturing and assembly facility. It also houses executive offices, finance, sales, customer service and marketing, research and development laboratories, and shipping facilities. In fiscal year 2011, the Company expanded these facilities with inauguration of the Center of Innovation, which houses the research and development professionals in Germany under one roof. In fiscal year 2013, the Company once again invested in these facilities by significantly expanding and enhancing its Instruments manufacturing capacity. In addition, since September 2007, the Company leases space in Salzburg, Austria. The leased space houses executive offices and group functions including strategy, sales, finance, accounting, human resources, marketing, and legal affairs.

The Company also maintains manufacturing facilities in China, Italy and Denmark and certain sales and service offices worldwide.

The Company believes that its properties and facilities will be adequate for its needs for the foreseeable future and that, if such space proves to be inadequate, it will be able to procure additional or replacement space that will be adequate for its needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings that are incidental to the conduct of the Company s business. The Company is not involved in any pending or threatened legal proceedings that the Company believes could reasonably be expected to have a material adverse effect on the financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is currently traded publicly on the NASDAQ Global Select Market. Our trading symbol is SIRO .

The following table presents quarterly information on the price range of our common stock. This information indicates the high and low sale prices, as quoted on NASDAQ commencing October 1, 2011. These prices do not include retail markups, markdowns or commissions.

Fiscal Year Ended September 30, 2013	High	Low
First Quarter	$ 64.57	$ 53.26
Second Quarter	73.98	64.11
Third Quarter	75.81	62.48
Fourth Quarter	72.63	64.40

Fiscal Year Ended September 30, 2012	High	Low
First Quarter	$ 49.78	$ 39.15
Second Quarter	52.52	42.28
Third Quarter	52.28	40.59
Fourth Quarter	57.36	41.51

On November 18, 2013, there were approximately 78 holders of record of the Company s common stock. However, the Company believes that the number of beneficial owners of its common stock is substantially higher.

Historically, Sirona has not paid any dividends to holders of its common stock. The Company may consider paying dividends in the future, but currently has no plans to do so. The payment of dividends is within the discretion of the Board of Directors and will depend upon the Company s earnings, its capital requirements, financial condition and other relevant factors.

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12.

Table of Contents

Issuer Purchases of Equity Securities

The following table presents activity under the stock repurchase program during the fourth quarter of the fiscal year ended September 30, 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (1) (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
		$ 000s (except per share amounts)		
July 1 - July 31, 2013	68,675	67.14	68,675	90,583
August 1 - August 31, 2013	34,100	66.08	34,100	88,330
September 1 - September 30, 2013				88,330
	102,775		**102,775**	

(1) In August 2011, the Company s Board of Directors announced a stock repurchase program to purchase up to an aggregate of $100,000,000 of its common stock in open market or privately-negotiated transactions effective through September 2014. In the third quarter of fiscal 2013, all remaining amounts available under the 2011 Program were utilized.

(2) In May 2013, the Company s Board of Directors announced a stock repurchase program (the 2013 Program) to purchase up to an additional aggregate of $100,000,000 of its common stock in open market or privately-negotiated transactions effective through June 2016. The Company is not obligated to acquire any particular amount of common stock and may suspend the program at any time at its discretion without prior notice. Of the shares purchased during the period under report, all were part of the 2013 Program, of which $88,330 remains available as of September 30, 2013.

Table of Contents

Performance Measurement Comparison

The following graph compares the Company s cumulative stockholder return on its common stock with the return on the Russell 2000 Index and the Dow Jones US Medical Equipment Index from September 30, 2008 through September 30, 2013, the end of the Company s fiscal year. The graph assumes investments of $100 on September 30, 2008, the last trading day of that fiscal year, in the Company s common stock, the Russell 2000 Index and the US Medical Equipment Index and assumes the reinvestment of all dividends.

COMPARISON OF 6 YEAR CUMULATIVE TOTAL RETURN*

Among Sirona Dental Systems, Inc, The Russell 2000 Index

And The Dow Jones US Medical Equipment Index

* $100 invested on 9/30/2008 in stock or index-including reinvestment of dividends.

	9/30/2008	9/30/2009	9/30/2010	9/30/2011	9/30/2012	9/30/2013
Sirona Dental Systems Inc.	$ 100.00	$ 127.79	$ 154.81	$ 182.17	$ 244.67	$ 287.50
Russell 2000	100.00	90.45	102.53	98.91	130.47	169.68
Dow Jones US Medical Equipment	100.00	83.60	84.39	88.27	109.29	136.18

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial data of Sirona included below and elsewhere in this document are not necessarily indicative of future performance. This information is only a summary and should be read in conjunction with the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements contained elsewhere in this document.

	Year ended September 30, 2013	Year ended September 30, 2012	Year ended September 30, 2011	Year ended September 30, 2010	Year ended September 30, 2009
			$ 000s (except for per share amounts)		
Statement of Income Data:					
Revenue	$ 1,101,491	$ 979,351	$ 913,866	$ 770,276	$ 713,294
Cost of sales	510,136	455,400	430,214	371,266	367,152
Gross profit	591,355	523,951	483,652	399,010	346,142
Operating expenses/(income):					
Selling, general and administrative expense	332,849	295,659	277,081	235,932	225,351
Research and development	59,575	52,622	55,530	46,365	40,631
Provision for doubtful accounts and notes receivable	613	(75)	96	271	763
Net other operating (income) and restructuring costs	(14,414)	(10,000)	(10,000)	(11,661)	(5,689)
Operating income	212,732	185,745	160,945	128,103	85,086
Non-operating expense, net	15,161	7,422	1,416	12,877	21,805
Income before taxes	197,571	178,323	159,529	115,226	63,281
Income tax provision/(benefit)	49,022	42,718	35,744	23,780	9,297
Net income	148,549	135,605	123,785	91,446	53,984
Less: Net income attributable to noncontrolling interests	1,804	1,773	1,992	1,457	629
Net income attributable to Sirona Dental Systems, Inc.	**$ 146,745**	**$ 133,832**	**$ 121,793**	**$ 89,989**	**$ 53,355**
Income per share (attributable to Sirona Dental Systems, Inc. shareholders):					
- Basic	2.67	2.41	2.19	1.63	0.97
- Diluted	2.61	2.36	2.13	1.59	0.96

	As of September 30, 2013	As of September 30, 2012	As of September 30, 2011	As of September 30, 2010	As of September 30, 2009
			$ 000s		
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 241,745	$ 151,088	$ 345,859	$ 251,767	$ 181,098
Working capital (1) (2)	316,997	223,043	46,198	297,606	251,070
Total assets	1,738,419	1,494,534	1,726,128	1,592,937	1,648,075
Non-current liabilities (2)	334,288	315,922	254,982	625,219	758,910
Total liabilities	580,375	502,159	790,208	785,304	903,320
Retained earnings	584,216	437,471	303,639	181,846	91,857
Shareholders´ equity (Sirona Dental Systems, Inc.)	1,155,625	989,358	932,276	805,411	743,438
Total shareholders equity	1,158,044	992,375	935,920	807,633	744,755

(1) Working capital is defined as current assets less current liabilities.
(2) The significant decrease in working capital and non-current liabilities in fiscal year 2011 is due to the reclassification of the final tranche of the senior term loan due in November 2011 as current. The balance of these senior term loans was $364,817 as of September 30, 2011.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Report. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in Results of Operations in this Item and elsewhere in this Report. Except as otherwise disclosed all amounts are reported in U.S. Dollars ($).

Overview

Sirona Dental Systems Inc. (Sirona , the Company , we , us , and our refer to Sirona Dental Systems, Inc. and its consolidated subsidiaries and predecessors, except as otherwise indicated or unless context otherwise requires) is the leading manufacturer of high-quality, technologically advanced dental equipment, and is focused on developing, manufacturing and marketing innovative systems and solutions for dentists around the world. The Company is uniquely positioned to benefit from several trends in the global dental industry, such as technological innovation, increased use of CAD/CAM systems in restorative dentistry, the shift to digital imaging, favorable demographic trends and growing patient focus on dental health and cosmetic appearance. The Company has its headquarters in Long Island City, New York and its largest facility in Bensheim, Germany.

Sirona has a long tradition of innovation in the dental industry. The Company introduced the first dental electric drill approximately 130 years ago, the first dental X-ray unit approximately 100 years ago, the first dental computer-aided design/computer-aided manufacturing (CAD/CAM) system 28 years ago, and numerous other significant innovations in dentistry. Sirona continues to make significant investments in research and development, and its track record of innovative and profitable new products continues today with numerous product launches including: CAD/CAM for Everyone with CEREC 4.2 software, a further-differentiated milling product line, as well as Apollo DI (launched in March 2013), the Omnicam camera unit and Schick 33 (both launched in August 2012), the Orthophos XG 3D imaging unit (launched in March 2011), Sinius treatment center (launched in March 2011); CEREC 4.0 software (launched in March 2011); the Galileos and CEREC combination (launched in September 2009), the CEREC AC unit (launched in January 2009), the Galileos Compact 3D imaging system (launched in July 2008), the TENEO treatment center (launched in July 2008) and the CAD/CAM milling unit MC XL (launched in fiscal year 2007).

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

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

The U.S. market is the largest individual market for Sirona, followed by Germany. Between fiscal years 2004 and 2013, the Company increased U.S. revenues from $88.2 million to $ 336.7 million, driven by innovative products, particularly in the CAD/CAM and imaging segments and the Schick acquisition. Patterson made a payment of $100 million to Sirona in July 2005 in exchange for the exclusive distribution rights for CAD/CAM products in the U.S. and Canada until 2017 (the Patterson exclusivity payment). The amount received was recorded as deferred income and is being recognized on a straight-line basis commencing at the beginning of the extension of the exclusivity period in fiscal year 2008. In May 2012, the Company and Patterson amended and restated the terms of their business relationship set forth in that Distribution Agreement with respect to distribution of certain products throughout the United States; however, it did not amend or restate the business

Table of Contents

relationship with respect to distribution in Canada. The amendment and restatement of the Distribution Agreement addressed issues related to pricing, termination and annual minimum purchase quotas, and provided growth targets which, if achieved, extend the companies exclusivity period.

In addition to strong U.S. market growth, Sirona has pursued expansion in non-U.S. and non-German markets. Between fiscal years 2004 and 2013, the Company increased revenues in non-U.S. and non-German markets from $190.9 million to $ 566.2 million. To support this growth, Sirona expanded its local presence and distribution channels by establishing sales and service locations e.g. in Japan, Australia, China, South Korea, Italy, France, Brazil, and Russia. The expansion helped to increase market share but also contributed to higher SG&A expenses.

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

In fiscal year 2013, Sirona revenues increased 11.7% on a constant currency basis over a strong prior year, where revenues grew 12.6% on a constant currency basis. Revenues were exceptionally strong in the U.S., which increased 18.2%, and Germany, which increased 23.4% constant currency. In Germany, we particularly benefitted from orders following the International Dental Show (IDS) in Cologne in March 2013, where we introduced a record 25 new products, a successful trade-up program in the CAD/CAM segment, as well as last-edition sales of our renowned M1+ treatment center unit. U.S. revenues benefitted from (i) strong demand for our Imaging and CAD/CAM products, (ii) the impact of implementation of the Medical Device Tax in 2013 and anticipated changes in tax benefits in the first quarter, (iii) the delivery of Omnicam trade-ups particularly in the third and fourth quarters, and (iv) the expanded agreement with Patterson. On a segment basis, we experienced very strong growth in our CAD/CAM segment, where we benefitted from the Omnicam launch in August 2012, trade-up programs, as well as a generally-increasing demand for products in this segment. Our new CEREC Omnicam camera further strengthens Sirona s leadership position in the CAD/CAM market. The Omnicam s features are particularly notable: video streaming, digitization of jaw structures in their natural color, and powderless scanning of tooth surfaces. In addition, our Imaging and Treatment Center segments performed very well, with year-over-year constant currency revenue growth of 9.5% and 5.8%, respectively. Gross profit increased by $67.4 million, which was partially offset by a $37.2 million increase in SG&A expenses. SG&A expenses include a total of $8.6 million related to the transition agreements for the former Chairman and CEO, filed as an Exhibit to the Company s Annual Report on Form 10-K on November 16, 2012 (the Transition Agreement), and the departing EVP and CFO, filed as an exhibit to the Company s third quarter Quarterly Report on Form 10-Q on August 2, 2013 (the Separation Agreement). The major drivers of the residual increase in SG&A expenses of $28.6 million were the continued strategic expansion of our sales and service infrastructure in key growth markets and expenses related to the biennial IDS of $3.5 million. As a result, operating income increased 14.5%. Operating income includes a year-over-year decrease in amortization of $7.2 million. Net income was negatively impacted by losses from the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily driven by the fluctuations between the Yen/Euro, Euro/U.S. Dollar, and Brazilian Real/Euro exchange rates. Operating cash flow remained strong and increased 15.2% over the comparative prior-year period.

Table of Contents

Significant Factors that Affect Sirona s Results of Operations

The MDP Transaction and the Exchange

On June 30, 2005, Sirona Holdings Luxco S.C.A. (Luxco), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH and its wholly-owned subsidiary Sirona Dental Services GmbH, to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the MDP Transaction).

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

Sirona s cost of goods sold, selling, general and administrative expense, and operating result have been and will continue to be materially affected by depreciation and amortization costs resulting from the step-up to fair value of Sirona s assets and liabilities.

Foreign Currency Fluctuations

Although the U.S. Dollar is Sirona s reporting currency, it conducts its business in many currencies, and its functional currencies vary depending on the country of operation. For the fiscal year ended September 30, 2013, Sirona s revenues denominated in Euro, U.S. Dollar, and a number of other currencies represented approximately 40 %, 36 %, and 24 %, respectively, whereas approximately 72 % of its operating expenses were in Euro. Fluctuations in exchange rates impact Sirona s financial results. The major influencing factor is the U.S. Dollar/Euro exchange rate. During the periods under review, the U.S. Dollar/Euro exchange rate has fluctuated significantly. Between October 1, 2010 and September 30, 2013, the U.S. Dollar/Euro exchange rate used to calculate items included in Sirona s financial statements varied from a low of $ 1.21 to a high of $ 1.49.

Certain revenue information above and under Results of Operations below is presented on a constant currency basis. This information is a non-GAAP financial measure. Sirona supplementally presents revenue on a constant currency basis because it believes this information facilitates a comparison of Sirona s operating results from period to period without regard to changes resulting solely from fluctuations in currency rates. Because of the significance of the Euro to its operations, Sirona calculates constant currency revenue growth by comparing current-period revenues to prior-period revenues with both periods converted at the U.S. Dollar/Euro average foreign exchange rate for each month of the current period. The average exchange rate for the fiscal year ended September 30, 2013, was $ 1.31 and varied from $ 1.28 to $ 1.34 .. For the fiscal year ended September 30, 2012, an average exchange rate converting Euro denominated revenues into U.S. Dollars of $ 1.30 was applied.

Although Sirona does not apply hedge accounting, Sirona has entered into foreign exchange forward contracts to help mitigate foreign currency exposure. As of September 30, 2013, these contracts had notional amounts totalling $ 38.1 million. As these agreements are relatively short-term (generally six months), continued fluctuation in the U.S. Dollar/Euro exchange rate could materially affect Sirona s results of operations.

Loans made to Sirona under the New Senior Facilities Agreement entered into on November 14, 2011 are denominated in the functional currency of the respective borrowers. See Liquidity and Capital Resources for a discussion of our New Senior Facilities Agreement. However, certain intra-group loans and other intra-group monetary assets and liabilities are denominated in the functional currency of only one of the parties to the agreements. Where intra-group loans are of a long-term investment nature, the potential fluctuations in exchange rates are reflected within other comprehensive income, whereas exchange rate fluctuations for short-term intra-group loans and other short-term intra-group transactions are recorded in the consolidated statements of income. These fluctuations may be significant in any period due to changes in exchange rates, especially between the Euro and the U.S. Dollar.

Table of Contents

Fluctuations in Operating Results

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

- the timing of new product introductions by us and our competitors;
- timing of industry tradeshows, particularly the International Dental Show (IDS);
- changes in relationships with distributors;
- the timing of operational decisions by distributors and end users;
- developments in government reimbursement policies;
- changes in product mix;
- our ability to supply products to meet customer demand;
- fluctuations in manufacturing costs;
- tax incentives;
- currency fluctuations; and
- general economic conditions, as well as those specific to the healthcare industry and related industries.

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

Effective Tax Rate

Sirona s effective tax rate may vary significantly from period to period and, as a global enterprise, can be influenced by many factors. These factors include, but are not limited to, changes in the mix of earnings in countries with differing statutory tax rates (including the result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns, tax planning initiatives, tax characteristics of income, changes in exchange rates, as well as the timing and deductibility of expenses for tax purposes. The Company s effective tax rate differs from the U.S. federal statutory rate of 35% primarily as a result of lower effective tax rates on certain earnings outside of the United States.

The company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of September 30, 2013, it remained management s intention to continue to indefinitely reinvest such earnings in foreign operations. The distribution of lower-taxed foreign

earnings to the U.S. would generally increase the Company s effective tax rate.

Table of Contents

Results of Operations

The table below sets forth Sirona s results of operations for the fiscal periods presented:

	Year ended September 30, 2013	Year ended September 30, 2012	Year ended September 30, 2011
	$ 000 (except per share amounts)		
Revenue	$ 1,101,491	$ 979,351	$ 913,866
Cost of sales	510,136	455,400	430,214
Gross profit	591,355	523,951	483,652
Operating expenses/(income):			
Selling, general and administrative expense	332,849	295,659	277,081
Research and development	59,575	52,622	55,530
Provision for doubtful accounts and notes receivable	613	(75)	96
Net other operating (income) and restructuring costs	(14,414)	(10,000)	(10,000)
Operating income	212,732	185,745	160,945
Foreign currency transactions (gain)/loss, net	12,355	5,873	(5,668)
Loss/(gain) on derivative instruments	(421)	(1,961)	3,302
Interest expense, net	3,410	3,767	3,883
Other (income)/expense	(183)	(257)	(101)
Income before taxes	197,571	178,323	159,529
Income tax provision	49,022	42,718	35,744
Net income	148,549	135,605	123,785
Less: Net income attributable to noncontrolling interests	1,804	1,773	1,992
Net income attributable to Sirona Dental Systems, Inc.	$ 146,745	$ 133,832	$ 121,793
Income per share (attributable to Sirona Dental Systems, Inc. common shareholders):			
- Basic	$ 2.67	$ 2.41	$ 2.19
- Diluted	$ 2.61	$ 2.36	$ 2.13

Fiscal Year Ended September 30, 2013 compared to Fiscal Year Ended September 30, 2012

Revenue

Revenue for the fiscal year ended September 30, 2013 was $ 1,101.5 million, an increase of $122.1 million, or 12.5%, as compared with the fiscal year ended September 30, 2012. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 11.7%. By segment, CAD/CAM Systems increased 22.4% (up 21.6% on a constant currency basis), Imaging Systems increased 10.0% (up 9.5% on a constant currency basis), Treatment Centers increased 6.9% (up 5.8% on a constant currency basis), and Instruments increased 1.0% (flat on a constant currency basis).

CAD/CAM segment revenues grew 21.6% on a constant currency basis and benefited from the Omnicam launch, the delivery of trade-up units, and a generally-increasing demand for products in this segment. Growth was broad-based, but was particularly strong in the U.S and Germany. The Imaging segment was up 9.5% on a constant currency basis. Sales were particularly strong in the U.S. and Germany, and we continue to experience robust demand for our Orthophos product line. In our Treatment Center segment, we continued the above-market growth trajectory. Sales were particularly strong in Germany, benefitting from robust demand for our comfort and standard treatment center product lines, including the last-edition program for our well renowned M1+ unit. Revenues in the Instruments segment were on prior year levels on a constant currency basis.

36

Table of Contents

Revenue in the U.S. for the fiscal year ended September 30, 2013 was up 18.2% compared to the prior year period. U.S. revenues benefited from (i) strong demand for our Imaging and CAD/CAM products, (ii) the impact of implementation of the Medical Device Tax in 2013 and anticipated changes in tax benefits in the first quarter, (iii) the delivery of Omnicam trade-up units, particularly in the third and fourth quarters, and (iv) the expanded agreement with Patterson. Revenue outside the U.S. increased by 10.1%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 9.1%. Sales growth in international markets was particularly driven by an exceptionally strong performance in Germany, which increased 23.4% on a constant currency basis. Growth in non-European, international markets was overall robust and was led by China, Canada, Russia, and Brazil.

Cost of Sales

Cost of sales for the fiscal year ended September 30, 2013 was $510.1 million, an increase of $54.7 million, or 12.0%, as compared with the fiscal year ended September 30, 2012. Gross profit as a percentage of revenue was 53.7% compared to 53.5% in the prior year. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $37.8 million as well as non-cash share-based compensation expense of $0.1 million for the fiscal year ended September 30, 2013, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $43.9 million and non-cash share-based compensation expense of $0.1 million for the fiscal year ended September 30, 2012. Excluding these amounts, cost of sales as a percentage of revenue was 42.9% for the fiscal year ended September 30, 2013, compared with 42.0% for the fiscal year ended September 30, 2012, and therefore gross profit as a percentage of revenue was 57.1% compared to 58.0% in the prior year.

Gross Profit

We use gross profit, excluding the impact of the MDP Transaction and the Exchange, to monitor segment performance. By segment, gross profit in fiscal year ended September 30, 2013 compared to fiscal year ended September 30, 2012 developed as follows: CAD/CAM Systems increased 18.3%, Imaging Systems increased 11.2%, Treatment Centers increased 2.2%, and Instruments decreased 8.0%. The CAD/CAM segment gross profit benefited from the strong increase in sales; however, gross profit margin was below the prior year. The decrease in gross profit margin was mainly driven by product mix, due to an increasing share of Omnicam sales and from the delivery of trade-ups. The Imaging segment gross profit as well as the gross profit margin mainly benefited from a strong increase in sales and favorable product mix within our intra- and extra-oral product portfolio. The increase in the Treatment Center segment gross profit was driven by increased volume, whereas the gross profit margin decrease was mainly due to product mix. Gross profit and gross profit margin for the Instruments segment were below the prior-year level. The decrease in gross profit margin was driven by the increased ratio of lower-end handpieces, short-term inefficiencies from the ramp-up of expanded manufacturing capacity, as well as lower hygiene product sales. For more information see Note 23 to our consolidated financial statements for revenues and gross profit by segment for each of the last three fiscal years.

Selling, General and Administrative

For the fiscal year ended September 30, 2013, SG&A expense was $332.8 million, an increase of $37.2 million, or 12.6%, as compared with the fiscal year ended September 30, 2012. SG&A expense for the fiscal year ended September 30, 2013 included $8.6 million for the transition agreements with the former Chairman and CEO and the departing EVP and CFO, which includes a $3.8 million non-cash charge for the modification of share-based awards. Excluding the effects of the transition agreements, SG&A expense increased $28.6 million, or 9.7%. SG&A expense also included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of $2.5 million, as well as non-cash share-based compensation expense in the amount of $12.6 million ($8.8 million excluding the impact of the agreement with the former Chairman and CEO).

Table of Contents

SG&A expense for the fiscal year ended September 30, 2012 included $2.7 million of amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets, and $8.4 million of non-cash share-based compensation expense.

Excluding the above amounts, as a percentage of revenue, SG&A expense was 28.5% and 29.1% for the fiscal years ended September 30, 2013 and 2012, respectively. The absolute increase in SG&A expense is driven by investments in sales and service infrastructure to capitalize on opportunities to gain market share and build up our presence in key growth markets. SG&A expense for the fiscal year also included $3.5 million of costs for the biennial IDS.

Research and Development

R&D expense for the fiscal year ended September 30, 2013 was $59.6 million, an increase of $7.0 million, or 13.2%, as compared with the fiscal year ended September 30, 2012. The increase was mainly driven by the timing of projects, particularly in preparation for the biennial IDS in March, where we launched a record 25 new products.

R&D expense included non-cash share-based compensation expense in the amount of $0.1 million each for the fiscal years ended September 30, 2013 and 2012. Excluding this amount, as a percentage of revenue, R&D expense was 5.4% for both fiscal years ended September 30, 2013 and 2012.

Net Other Operating Income

Net other operating income for the fiscal year ended September 30, 2013 compared to September 30, 2012 was as follows:

	Year ended September 30, 2013	Year ended September 30, 2012
	$ millions	
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	$ 10.0	$ 10.0
Gain from patent infringement settlement	4.4	
	$ 14.4	**$ 10.0**

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

Table of Contents

(Gain) /Loss on Foreign Currency Transactions

The loss on foreign currency transactions for the fiscal year ended September 30, 2013 amounted to $12.4 million and compares to a loss of $5.9 million for the fiscal year ended September 30, 2012. The components of these results are as follows:

	Year ended September 30, 2013	Year ended September 30, 2012
	$ millions	
Unrealized non-cash foreign exchange (gain)/loss from translation adjustment of deferred income related to the Patterson exclusivity payment	$ (1.9)	$ 2.6
Unrealized non-cash foreign exchange (gain)/loss on short-term intra-group loans	0.9	3.4
(Gain)/Loss on other foreign currency transactions (1)	13.4	(0.1)
	$ 12.4	**$ 5.9**

(1) For the fiscal year 2013, the loss on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by the recent weakness of the Yen, as well as fluctuations in the Brazilian Real and South African Rand to the U.S. Dollar in the second half of the fiscal year. For the fiscal year 2012, the gain on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by fluctuations in the Euro/U.S. Dollar exchange rate.

(Gain)/Loss on Derivative Instruments

The gain of $0.4 million on derivative instruments for the fiscal year ended September 30, 2013 compared to a gain of $2.0 million for the fiscal year ended September 30, 2012. The results related to unrealized non-cash gain and loss on foreign currency hedges.

	Year ended September 30, 2013	Year ended September 30, 2012
	$ millions	
Unrealized non-cash (gain)/loss on foreign currency hedges	$ (0.4)	$ (2.0)

Interest Expense

Net interest expense for the fiscal year ended September 30, 2013, was $3.4 million, compared to $3.8 million for the fiscal year ended September 30, 2012. This decrease resulted from lower overall debt levels, partially offset by lower interest income.

Income Tax Provision

For the fiscal years ended September 30, 2013 and 2012, Sirona recorded a profit before income taxes of $197.6 million and $178.3 million, respectively. The income tax provision for the fiscal years ended September 30, 2013 and 2012 was $49.0 and $42.7 million, respectively. The income tax provision as of September 30, 2013 includes the effect from a local trade tax increase at our principal German operations, which was enacted and declared effective beginning in the first quarter of fiscal year 2013. This tax rate change resulted in a tax expense of $2.2 million, primarily from a non-cash remeasurement of deferred tax assets and liabilities. Excluding this amount, the effective tax rate for the fiscal year 2013 was 23.7% and compares to an effective tax rate of 24.0% in fiscal year 2012.

39

Table of Contents

The company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of September 30, 2013, it remained management s intention to continue to indefinitely reinvest such earnings in foreign operations. In making this determination, the Company also evaluates its expected cash requirements in the United States. These earnings relate to ongoing operations and as of September 30, 2013, amounted to approximately $409 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.

Net Income

Sirona s net income for the fiscal year ended September 30, 2013 was $148.5 million, an increase of $12.9 million, as compared with the fiscal year ended September 30, 2012. Major influencing factors on net income were (i) the increase in gross profit, mainly due to increased sales, (ii) an increase in SG&A expense due to the expenses related to the transition agreements for the former Chairman and CEO and the departing EVP and CFO totaling $8.6 million, which includes a $3.8 million non-cash charge for the modification of share-based awards, expenses related to the IDS of $3.5 million, and continued investments in the expansion of our global sales and service infrastructure, (iii) a gain from a patent infringement settlement, (iv) net losses in the total amount of $ 11.9 million ($ 9.1 million net of tax) from foreign currency transactions and derivative instruments, and (v) the effect from a non-cash remeasurement of deferred tax assets and liabilities resulting from a local trade tax rate increase at our principal German operations of $2.2 million. Fiscal year 2013 net income also included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations (i.e. the Exchange and the MDP Transaction deal related amortization and depreciation) of $ 40.2 million ($30.6 million net of tax).

Sirona s net income for the fiscal year ended September 30, 2012 included deal related amortization and depreciation of assets acquired in past business combinations of $ 46.5 million ($35.4 million net of tax) and net losses in the total amount of $ 3.9 million ($ 3.0 million net of tax) from foreign currency transactions and derivative instruments.

Share-based compensation expense was $12.8 million ($9.7 million net of tax) in fiscal year 2013, compared to $8.6 million ($6.6 million net of tax) in fiscal year 2012.

Fiscal Year Ended September 30, 2012 compared to Fiscal Year Ended September 30, 2011

Revenue

Revenue for the fiscal year ended September 30, 2012 was $ 979.4 million, an increase of $65.5 million, or 7.2%, as compared with the fiscal year ended September 30, 2011. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 12.6%. By segment, CAD/CAM Systems increased 9.1% (up 13.9% on a constant currency basis), Imaging Systems increased 7.4% (up 11.5% on a constant currency basis), Treatment Centers increased 7.2% (up 15.1% on a constant currency basis), and Instruments increased 0.2% (up 7.5% on a constant currency basis).

We were able to grow our revenues due to solid demand for our innovative products, and we continue to benefit from our increased global sales and service infrastructure. Our products enable dental professionals to improve their clinical results and to increase the profitability of their practices.

CAD/CAM and Imaging segment revenues benefited from robust growth in the U.S. and in many non-European, international markets. Growth in the Treatment Center and Instruments segment revenues was mainly driven by international markets. Our innovative product portfolio and our expanded sales and service infrastructure were the main drivers of growth.

Table of Contents

Revenue in the U.S. for the fiscal year ended September 30, 2012 was up 11.4% compared to the prior year period. Revenue growth was mainly driven by the Imaging and CAD/CAM segments and also benefitted from a successful CAD/CAM trade-up program. Revenue outside the U.S. increased by 5.5%. On a constant currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 13.2%. Momentum continued in our non-European, international markets, showing strong double digit growth, above the Company s average growth rate. This development was primarily driven by Asia-Pacific. Sales in Germany decreased 9.5% year-over-year as we faced a challenging prior-year comparison due to the strong IDS performance and a successful CAD/CAM trade-up program. Despite this challenging comparison, we achieved our second-best year ever in Germany.

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

Cost of Sales

Cost of sales for the fiscal year ended September 30, 2012 was $455.4 million, an increase of $25.2 million, or 5.9%, as compared with the fiscal year ended September 30, 2012. Gross profit as a percentage of revenue was 53.5% compared to 52.9% in the prior year. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $43.9 million as well as non-cash share-based compensation expense of $0.1 million for the fiscal year ended September 30, 2012, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $50.5 million and non-cash share-based compensation expense of $0.1 million for the fiscal year ended September 30, 2011. Excluding these amounts, cost of sales as a percentage of revenue was 42.0 % for the fiscal year ended September 30, 2012, compared with 41.5% for the fiscal year ended September 30, 2011, and therefore gross profit as a percentage of revenue was 58.0% compared to 58.5% in the prior year.

Gross Profit

We use gross profit, excluding the impact of the MDP Transaction, to monitor segment performance. By segment, gross profit developed in fiscal year ended September 30, 2012 compared to fiscal year ended September 30, 2011 as follows: Imaging Systems increased 6.5%, CAD/CAM Systems increased 9.2%, Treatment Centers increased 8.8%, and Instruments decreased 5.3%. The CAD/CAM segment gross profit benefited from robust sales in the U.S. and in non-European, international markets. The segment gross profit margin was on level with the prior year. The increase in Imaging Systems gross profit was driven by robust growth in our Orthophos products, which, due to product mix, led to a slight decrease in the gross profit margin. The Imaging Systems and CAD/CAM segment gross profit were positively impacted by the weakened Euro against the U.S. Dollar. Unit growth in our Treatment Center segment resulted in higher gross profit. The gross profit margin in this segment was above the prior year, mainly due to product mix. Instruments segment gross profit and gross profit margin were negatively impacted by product mix. Unit growth in this segment was particularly strong in the volume segments of the market. For more information see Note 23 to our consolidated financial statements for revenues and gross profit by segment for each of the last three fiscal years.

Selling, General and Administrative

For the fiscal year ended September 30, 2012, SG&A expense was $295.7 million, an increase of $18.6 million, or 6.7%, as compared with the fiscal year ended September 30, 2011. SG&A expense for the fiscal year ended September 30, 2012 included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of $2.7 million, as well as non-cash share-based compensation expense in the amount of $8.4 million.

Table of Contents

SG&A expense for the fiscal year ended September 30, 2011 included a one-time non-cash compensation charge of $6.6 million as a result of a payment made by certain former shareholders of the Company to the acting chief executive officer and chief financial officer of the Company at that time. SG&A expense also included $3.1 million of amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets, and $7.3 million of non-cash share-based compensation expense.

Excluding the above amounts, as a percentage of revenue, SG&A expense was 29.1% and 28.5% for the fiscal years ended September 30, 2012 and 2011, respectively. The absolute increase in SG&A expense is driven by investments in sales and service infrastructure in international markets, partly offset by foreign currency exchange fluctuations.

Research and Development

R&D expense for the fiscal year ended September 30, 2012 was $52.6 million, a decrease of $2.9 million, or 5.2%, as compared with the fiscal year ended September 30, 2011.

R&D expense included non-cash share-based compensation expense in the amount of $0.1 million each for the fiscal years ended September 30, 2012 and 2011. Excluding this amount, as a percentage of revenue, R&D expense decreased to 5.4 % for the fiscal year ended September 30, 2012, compared to 6.1% for the fiscal year ended September 30, 2011.

The decrease of the absolute R&D expense was primarily driven by foreign currency exchange fluctuations.

Net Other Operating Income

Net other operating income for the fiscal year ended September 30, 2012 compared to September 30, 2011 was as follows:

	Year ended September 30, 2012	Year ended September 30, 2011
	$ millions	
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	$ 10.0	$ 10.0

(Gain)/Loss on Foreign Currency Transactions

The loss on foreign currency transactions for the fiscal year ended September 30, 2012 amounted to $5.9 million and compares to a gain of $5.7 million for the fiscal year ended September 30, 2011. The components of these results are as follows:

	Year ended September 30, 2012	Year ended September 30, 2011
	$ millions	
Unrealized non-cash foreign exchange (gain)/loss from translation adjustment of deferred income related to the Patterson exclusivity payment	$ 2.6	$ 0.5
Unrealized non-cash foreign exchange (gain)/loss on short-term intra-group loans	3.4	0.3
(Gain)/loss on other foreign currency transactions	(0.1)	(6.5)
	$ 5.9	**$ (5.7)**

42

Table of Contents

(Gain)/Loss on Derivative Instruments

The gain of $2.0 million on derivative instruments for the fiscal year ended September 30, 2012 compared to a loss of $3.3 million for the fiscal year ended September 30, 2011. The components of these results are as follows:

	Year ended September 30, 2012	Year ended September 30, 2011
	$ millions	
Unrealized non-cash (gain)/loss on foreign currency hedges	$ (2.0)	$ 3.3

Interest Expense

Net interest expense for the fiscal year ended September 30, 2012, was $3.8 million, compared to $3.9 million for the fiscal year ended September 30, 2011. This decrease resulted from lower overall debt levels as well as lower interest income.

Income Tax Provision

For the fiscal years ended September 30, 2012 and 2011, Sirona recorded a profit before income taxes of $178.3 million and $159.5 million, respectively. The average actual effective tax rate for these years was 24% and 22.4%, respectively. The income tax provision for the fiscal years ended September 30, 2012 and 2011 was $42.7 and $35.7 million, respectively.

The 24% effective tax rate for the fiscal year ended September 30, 2012 includes the effect from a tax audit in Germany covering fiscal years 2005 until 2009. Without consideration for the effect from the German tax audit, the effective tax rate for fiscal year ended September 30, 2012 was 23%.

The 22.4% effective tax rate for the fiscal year ended September 30, 2011, includes the effects from a one-time non-cash charge, as a result of a payment made in the fourth quarter 2011 by certain former shareholders of the Company to the chief executive officer and chief financial officer of the Company. No Company cash was used for the payment, and the payment is not tax-deductible for the Company. Without consideration of this special item, the effective tax rate for the fiscal year ended September 30, 2012 was 21.5%.

The Company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of September 30, 2012, it remained management s intention to continue to indefinitely reinvest such earnings in foreign operations. In making this determination, the Company also evaluates its expected cash requirements in the United States. These earnings relate to ongoing operations and as of September 30, 2012, amounted to approximately $265 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.

Net Income

Sirona s net income for the fiscal year ended September 30, 2012 was $135.6 million, an increase of $11.8 million, as compared with the fiscal year ended September 30, 2011. Major influencing factors on net income were the increase in revenues and gross profit, higher costs resulting from increased sales and service infrastructure and lower amortization. The effective tax rate for fiscal year 2012 was 24.0%, up from 22.4% in fiscal year 2011.

Fiscal year 2012 net income included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations (i.e. the Exchange and the MDP Transaction deal related amortization and depreciation) of $46.6 million ($35.4 million net of tax), unrealized, non-cash foreign currency loss on the deferred income from the Patterson exclusivity payment of $2.6 million ($2.0 million net of tax), and losses on the revaluation of short-term intra-group loans of $3.7 million ($2.8 million net of tax).

Table of Contents

Sirona s net income for the fiscal year ended September 30, 2011 included deal related amortization and depreciation of assets acquired in past business combinations of $53.6 million ($41.4 million net of tax), currency revaluation losses on the Patterson exclusivity payment of $ 0.5 million ($0.4 million after tax), losses on the revaluation of short-term intra-group loans of $1.0 million ($0.8 million net of tax), and a one-time non-cash compensation charge of $6.6 million ($6.6 million net of tax).

Share-based compensation expense was $8.6 million ($6.6 million net of tax) in fiscal year 2012, compared to $7.6 million ($5.9 million net of tax) in fiscal year 2011.

Liquidity and Capital Resources

Historically, Sirona s principal uses of cash, apart from operating requirements, including research and development expenses, have been for interest payments, debt repayment, and acquisitions. Operating capital expenditures typically are approximately equal to operating depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona s and Schick s assets and liabilities required under purchase accounting). These expenditures may temporarily exceed operating depreciation for larger-scale infrastructure and other investment activities that the Company may undertake from time to time. The Company also uses cash for occasional purchases of treasury shares pursuant to stock repurchase programs. Sirona believes that its operating cash flows and available cash will be sufficient to fund its working capital needs, research and development expenses, and anticipated capital expenditures for the foreseeable future.

Cash and cash equivalents of $234.2 million held by our foreign subsidiaries generally are not subject to restrictions prohibiting such amounts from being available in the United States. The distribution of lower-taxed foreign earnings to the United States, however, would generally increase our effective tax rate. It is management s intention to continue to indefinitely reinvest such earnings in foreign operations.

On November 14, 2011, the Company entered into a new senior facilities agreement (the New Senior Facilities Agreement) with Sirona Dental Systems, Inc. and all significant subsidiaries of Sirona as original borrowers and original guarantors, and as of November 16, 2011, Sirona fully repaid its obligations under the Prior Senior Facilities Agreement. Initial borrowings under the New Senior Facilities Agreement were used to retire the outstanding borrowings under the Company s previous credit facilities. Please see New Senior Facilities Agreement within this section and Note 13 to our consolidated financial statements for a complete description of this New Senior Facilities Agreement.

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

The financial covenants require that the Company maintain a debt coverage ratio (Debt Cover Ratio) of consolidated total net debt to consolidated adjusted EBITDA (Consolidated Adjusted EBITDA), determined on the basis of the last twelve months, of no more than 3.00 to 1. The Company is required to determine its compliance with the covenants as of September 30 and March 31. As of September 30, 2013, the most recent period for which this ratio was calculated, the Company was in compliance. As calculated in accordance with the New Senior Facilities Agreement, the Company did not have any net debt as of September 30, 2013 or as of March 31, 2013 after the repayment of balances drawn under the Revolving Facility B in the second quarter of fiscal year 2012. Therefore, its Debt Cover Ratio was not meaningful in the absence of net debt:

	Year Ended September 30, 2013	LTM March 31, 2013
	$ 000s	
Debt Cover Ratio	not meaningful	not meaningful
as set by covenants (less than or equal to)	*3.00*	*3.00*

Table of Contents

Cash Flow

	Year ended September 30, 2013	Year ended September 30, 2012	Year ended September 30, 2011
		$ 000s	
Net cash provided by operating activities	$ 232,025	$ 201,369	$ 178,853
Net cash used in investing activities	(106,845)	(52,152)	(78,142)
Net cash used in financing activities	(38,073)	(345,444)	(313)
Increase/(decrease) in cash during the period	$ 87,107	$ (196,227)	$ 100,398

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 $232.0 million for fiscal year 2013 compared to $201.4 million for fiscal year 2012, and $178.9 million for fiscal year 2011. The primary contributing factor to the cash provided by operating activities in fiscal year 2013 was impacted by (i) higher revenues and gross profit from strong business growth, driving higher working capital and tax payments, which partially offset the increase, and (ii) the payments received from the settlement of a patent infringement claim. The primary contributing factor to the net cash provided by operating activities for the fiscal year 2012 was the increase in operating income. Net cash provided by operating activities for the fiscal year 2011 was impacted by an increase in operating income, partially offset by the increase in accounts receivable and inventories, which was driven by the overall increase in revenues as well as the expansion of our global sales and service infrastructure, resulting in higher working capital requirements.

Net Cash Used in Investing Activities

Net cash used in investing activities represents cash used for capital expenditures in the normal course of operating activities, financial investments, acquisitions and long-lived asset disposals.

Net cash used in investing activities was $106.8 million for the fiscal year ended September 30, 2013, compared to $52.2 million for the fiscal year ended September 30, 2012, and $78.1 million for the fiscal year ended September 30, 2011. The primary uses of the investing cash outflow in fiscal year 2013 were (i) the acquisition of a technology company for $35.0 million, (ii) the expansion of our manufacturing facility, and thus capacity, for instruments for $16.9 million, (iii) software developed for sale related to product launches for $13.5 million, and (iv) capital expenditures in the course of normal operating activities. The primary contributors to the investing cash outflow in fiscal year 2012 were for capital expenditures in the course of normal operating activities, including software developed for sale related to product launches for $11.5 million. The primary contributors in fiscal year 2011 were for (i) construction of the Center of Innovation in Germany for $13.2 million, which was opened in September 2011, (ii) acquisition of a development stage entity for $20.8 million, (iii) software developed for sale related to product launches for $11.0 million, and (iv) capital expenditures in the course of normal operating activities.

Net Cash Used in Financing Activities

Net cash used in financing activities was $38.1 million for the fiscal year ended September 30, 2013, compared to $345.4 million for the fiscal year ended September 30, 2012 and $0.3 million for the fiscal year ended September 30, 2011. Net cash used in financing activities in fiscal year 2013 mainly resulted from the purchase of treasury shares pursuant to our current stock repurchase programs, partly offset by proceeds from exercises of stock options and tax-related benefits from RSU/PSU vesting from the Company s stock-based compensation program. Net cash used in financing activities in fiscal year 2012 results primarily from (i) the repayment of our senior term loans and (ii) purchase of treasury shares pursuant to our stock repurchase program. Net cash used in financing activities in fiscal year 2011 relates mainly to the purchase of treasury shares pursuant to our stock repurchase program, mostly offset by proceeds and tax-related benefits from exercises of options previously granted in the Company s stock-based compensation activities.

45

Table of Contents

Other Financial Data

	Year ended September 30, 2013	Year ended September 30, 2012	Year ended September 30, 2011
		$ 000s	
Net income attributable to Sirona Dental Systems, Inc.	$ 146,745	$ 133,832	$ 121,793
Net interest expense	3,410	3,767	3,883
Provision for income taxes	49,022	42,718	35,744
Depreciation	34,993	29,800	26,232
Amortization	40,603	47,949	54,941
EBITDA	$ 274,773	$ 258,066	$ 242,593

EBITDA is a non-GAAP financial measure that is reconciled to net income, its most directly comparable U.S. GAAP measure, in the accompanying financial tables. EBITDA is defined as net earnings before interest, taxes, depreciation, and amortization. Sirona s management utilizes EBITDA as an operating performance measure in conjunction with U.S. GAAP measures, such as net income and gross margin calculated in conformity with U.S. GAAP. EBITDA should not be considered in isolation or as a substitute for net income prepared in accordance with U.S. GAAP. There are material limitations associated with making the adjustments to Sirona s earnings to calculate EBITDA and using this non-GAAP financial measure. For instance, EBITDA does not include:

interest expense, and because Sirona has borrowed money in order to finance its operations, interest expense is a necessary element of its costs and ability to generate revenue;

depreciation and amortization expense, and because Sirona uses capital and intangible assets, depreciation and amortization expense is a necessary element of its costs and ability to generate revenue; and

tax expense, and because the payment of taxes is part of Sirona s operations, tax expense is a necessary element of costs and impacts Sirona s ability to operate.

In addition, other companies may define EBITDA differently. EBITDA, as well as the other information in this filing, should be read in conjunction with Sirona s consolidated financial statements and footnotes.

In addition to EBITDA, the accompanying financial tables also set forth certain supplementary information that Sirona believes is useful for investors in evaluating Sirona s underlying operations. This supplemental information includes gains/losses recorded in the periods presented which relate to share based compensation, revaluation of the U.S. Dollar-denominated exclusivity payment and borrowings where the functional currency is the Euro, and the one-time non-cash compensation charge resulting from a payment by certain former shareholders of the Company to the chief executive officer and chief financial officer of the Company. Sirona s management believes that these items are either nonrecurring or non-cash in nature, and should be considered by investors in assessing Sirona s financial condition, operating performance and underlying strength.

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

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

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

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

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

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

Table of Contents

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

	Year ended September 30, 2013	Year ended September 30, 2012	Year ended September 30, 2011
		$ 000s	
Share-based compensation [(1)]	$ 12,813	$ 8,623	$ 7,604
Unrealized, non-cash (gain)/loss on revaluation of the carrying value of the $-denominated exclusivity fee	(1,890)	2,559	499
Unrealized, non-cash (gain)/loss on revaluation of the carrying value of short-term intra-group loans	851	3,365	295
One-time non-cash compensation charge			6,625
	$ 11,774	**$ 14,547**	**$ 15,023**

(1) For the fiscal year 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 former CEO and Chairman.

Long-Term Debt

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 will apply from March 31, 2012 onwards, the applicable margin will vary depending on the Company s leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the new Senior Facilities Agreement) between 160 basis points and 215 basis points for the Facility A Term Loan, 85 basis points and 140 basis points for the Revolving Facility B, and 110 basis points and 165 basis points for the Revolving Facility C.

Table of Contents

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

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

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

Prior Senior Facilities Agreement

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

The senior debt repayment tranche originally scheduled for November 24, 2011 was repaid on November 16, 2011 in connection with the Company s New Senior Facilities Agreement, discussed above. At the Company s current Debt Cover Ratio, the loans under the Prior Senior Facilities Agreement bore interest of EURIBOR, for Euro-denominated loans, and LIBOR for the other loans, plus a margin of 45 basis points for both. For additional information on the Prior Senior Facilities Agreement, see Part I, Item 7 of the Company s 2011 Annual Report on Form 10-K.

Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations and commercial commitments as of September 30, 2013.

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			$ 000s		
Long-term debt*	$ 84,597	$ 3,568	$ 28,219	$ 52,810	$
Operating lease obligations	65,483	13,499	20,468	13,330	18,186
Pension	33,062	3,835	6,017	6,118	17,092
Purchase commitments**	14,184		14,184		
Total	$ 197,326	$ 20,902	$ 68,888	$ 72,258	$ 35,278

* *includes expected interest payments and agency/commitment fees*

** *represents unconditional purchase commitments with remaining terms in excess of one year*

Off-Balance Sheet Arrangements

In July 2005, Sirona entered into a sale and leaseback agreement regarding unused land on the Bensheim site of Sirona in Germany. The land was sold for Euro 0.9 million ($1.2 million at the U.S. Dollar/Euro exchange rate of September 30, 2013) to an unrelated property development company, who constructed an office building based on Sirona s specifications on the site. Sirona leases the building from the property development company through a 20-year lease. Rental payments started in April 2007 when the building was ready for occupancy.

Table of Contents

Under the terms of the lease, rent is fixed at Euro 1.2 million ($1.6 million at the U.S. Dollar/Euro exchange rate of September 30, 2013) per annum until 2013. After 2013, rent is subject to adjustment according to an inflation index. The land remains an asset on Sirona s balance sheet and the building has been accounted for as an operating lease.

Sirona does not have other off-balance sheet financing arrangements other than its derivatives.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires Sirona to make estimates and assumptions that affect amounts reported in its consolidated financial statements and accompanying notes. These estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information Sirona believes to be reasonable under the circumstances. There can be no assurance that actual results will conform to Sirona s estimates and assumptions, and that reported results of operations will not be materially adversely affected by the need to make accounting adjustments to reflect changes in its estimates and assumptions from time to time. The following accounting policies are those that Sirona believes to be the most sensitive to its estimates and assumptions.

Revenue Recognition

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

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

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

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

Multiple-Element Arrangements (MEAs): Arrangements with customers may include multiple deliverables, including any combination of equipment, services, and extended warranties. The deliverables included in the Company s MEAs are separated into more than one unit of accounting when (i) the delivered equipment has value to the customer on a stand-alone basis, and (ii) delivery of the undelivered service element(s) is probable and substantially in the control of the Company. Arrangement consideration is then allocated to each unit, delivered or undelivered, based on the relative selling price (RSP) of each unit of

Table of Contents

accounting based first on vendor-specific objective evidence (VSOE) if it exists and then based on estimated selling price (ESP).

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

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

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

Pensions and 401(k) Plan

The Company has defined benefit and defined contribution pension plans and an early retirement plan.

As of September 30, 2007, the Company adopted the recognition provisions of ASC 715-30, Compensation-Retirement Benefits Defined Benefit Plans-Pension. Upon adoption, Sirona recognized as an adjustment to accumulated other comprehensive income the funded status of its benefit plans, measured as the difference between the fair value of plan assets and benefit obligations as of September 30, 2007, net of related tax effects. Beginning in fiscal year 2008, Sirona recognizes changes in the funded status of its benefit plans, not yet recognized in the income statement, in other comprehensive income until they are amortized as a component of net periodic benefit cost.

Pension expense is recognized on an accrual basis over the employee s approximate service periods. Defined benefit pension costs are determined by using an actuarial method, which provides for the deferral of actuarial gains and losses (in excess of a specified corridor) that result from changes in assumptions or actual experience differing from that assumed. Costs relating to changes in the benefit plan as well as the transition obligation are amortized. Disclosure of the components of periodic pension cost is also required. When purchase accounting is applied, pension liabilities are recognized for the projected benefit obligation in excess of plan assets.

The key assumption used in the actuarial calculations for the defined benefit pension plans is the selection of the appropriate discount rate. The discount rate has been selected by reference to market interest rates. The discount rate used reflects the rates available on high quality fixed income investment of appropriate duration at the measurement dates of each year. Fluctuations in market interest rates could impact the amount of pension expense recorded for these plans. The discount rate assumption changed from 3.50% at September 30, 2012 to 3.40% at September 30, 2013, thereby affecting the amount of pension obligation recorded at September 30, 2013.

Plan assets consist of insurance policies with a guaranteed minimum return by the insurance company and an excess profit participation feature for a portion of the benefits. Sirona pays the premiums on the insurance policies but does not manage the investment of the funds; the insurance company makes all decisions on investment of funds, including the allocation to asset groups. The fair value of the plan assets such as equity securities, fixed-income investments, and others is based on the cash surrender values reported by the insurance company.

Table of Contents

Contributions made to the defined contribution pension plans and the 401(k) savings plan for U.S. employees are accrued based on the contributions required by the plan.

The Company also has an early retirement plan, Altersteilzeit (ATZ), which allows certain German employees who have been accepted into the plan to retire at 60 rather than at the legal retirement age of 67. Eligible employees are those who have attained the age of 59, have completed 12 years of service, and have been accepted to participate in the ATZ plan. Accepted employees join for a period of 2-4 years, during which they work in full active service for 50% of the agreed ATZ plan period, the remaining 50% of the plan period being the passive phase during which the employee does not work. Alternatively, the employee may work for 50% of the time for the entire agreed ATZ plan period. The alternative actually executed is decided via mutual agreement between Sirona and the employee. During the active service period, the employees receive 50% of their salary plus a bonus payment equal to 35% of their salary, and the remaining 50% of their salary, plus a bonus payment equal to 35% of their salary, is paid during the inactive service period. The Company recognizes the salary component of the ATZ plan over the period from the beginning of the ATZ period to the end of the active service period.

Income Taxes

Sirona recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Sirona regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance, as necessary, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax-planning strategies. If Sirona is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, it could be required to increase its valuation allowance against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on operating results. As of September 30, 2013, Sirona had recorded valuation allowances against its deferred tax assets in the amount of $3.2 million. Further information on income taxes is provided in Note 10 to the consolidated financial statements appearing elsewhere in this report.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of ASC 740 and other complex tax laws. Resolution of these uncertainties in a manner inconsistent with management s expectations could have a material impact on the Company s financial condition and operating results.

Impairment of Long-Lived and Finite-Lived Assets

Sirona assesses all its long-lived assets for impairment whenever events or circumstances indicate their carrying value may not be recoverable. Sirona s management assesses whether there has been an impairment by comparing anticipated undiscounted future cash flows from operating activities with the carrying value of the asset. The factors considered by Sirona s management in this assessment include operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. If an impairment is deemed to exist, management records an impairment charge equal to the excess of the carrying value over the fair value of the impaired assets. This could result in a material charge to earnings.

Table of Contents

Impairment of Indefinite-Lived Assets

The Company elected to early adopt ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* which simplifies how entities test goodwill for impairment, for the fiscal year 2012 goodwill impairment test performed in the fourth quarter. The adoption of this guidance did not affect our consolidated financial statements.

Goodwill is allocated to each of our reporting units, which we regard to be our operating segments (Dental CAD/CAM Systems, Imaging Systems, Treatment Centers, and Instruments). Sirona assesses goodwill for impairment annually on September 30 unless an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value at an earlier date. This evaluation begins with a qualitative assessment to determine if the fair value of its reporting units is more likely than not less than their carrying values. The Company evaluates such qualitative factors as (i) the results of the last quantitative impairment assessment, (ii) macro- and industry economic conditions such as significant changes in the business and legal climate and competition, and (iii) Company-specific assumptions including historical data and experience, operating performance indicators, projections of revenues and expenses and related cash flows, expected long-term growth rates, sale or disposition of a significant portion of the business, the development of its stock price, and other factors. If we determine that the fair value is more likely than not less than the carrying value, or we decide to bypass the qualitative assessment for a reporting unit, goodwill is tested for impairment under the two-step valuation test. The first step is to estimate the fair value of each reporting unit and compare this estimated fair value with each reporting unit s carrying value. If the fair value is less than the carrying value, additional steps, including an allocation of the estimated fair value to the assets and liabilities of the reporting unit, would be necessary to determine the amount, if any, of goodwill impairment. In this second step, a fair value exercise similar to a business combination would be performed where the individual identifiable assets and liabilities of the reporting unit are valued at fair value with the difference between the fair value of the reporting unit being the implied fair value of goodwill. As of September 30, 2013, based on the qualitative assessment, the Company determined that step one of the impairment test is not required. If we would determine the fair value of a reporting unit, we would use a discounted future cash flow model to estimate reporting unit fair value. Significant assumptions in a discounted cash flow model would include discount rate, revenue and gross profit margin growth and terminal growth rates based on our judgments, estimates and assumptions.

The Company elected to early adopt ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* , which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets, similar to the guidance on goodwill impairment testing in ASU 2011-08, together with ASU 2011-08 for the fiscal year 2012 impairment test performed in the fourth quarter. The adoption of this guidance did not affect our consolidated financial statements.

Sirona evaluates trademarks and in-process research and development (IPR&D), which are considered indefinite-lived intangible assets until the associated projects are completed, for impairment at least annually or whenever events or circumstances indicate their carrying value might be impaired. In performing this assessment, Sirona s management employs a systematic methodology that considers qualitative and quantitative evidence in evaluating whether an impairment is likely to have occurred. These factors include operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. If an impairment is likely to have occurred, as estimate of the fair value of the indefinite-lived intangible assets is performed. The carrying value is considered impaired when it exceeds the fair market value. In such an event, an impairment loss is recognized equal to the amount of that excess. Key assumptions in determining fair value include using the expected discounted cash flows. Once an impairment is determined, an impairment charge is recorded in the consolidated statement of income.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sirona s primary market risk exposure is foreign currency risk, which can adversely affect our revenues and operating profits. To help mitigate this risk, Sirona enters into forward exchange contracts.

Sirona is also exposed to interest rate risk associated with short and long-term bank loans bearing variable interest rates. To help mitigate this interest rate risk exposure, Sirona enters into interest rate swap agreements.

The following discussion should be read in conjunction with Notes 2, 12, and 13 to Sirona s audited consolidated financial statements appearing elsewhere in this report, which provide further information on Sirona s derivative instruments.

Exchange Rate Sensitivity

The Euro is the functional currency for the majority of Sirona s subsidiaries, including its German operations, which are the primary sales and manufacturing operations of Sirona. Sales from other Sirona operations are denominated in various foreign currencies. Sales in Euro, U.S. Dollar and a number of other currencies represented approximately 40 %, 36 % and 24 %, respectively, of total sales for fiscal year 2013. In order to hedge portions of the transactional exposure to fluctuations in exchange rates, based on forecasted and firmly committed cash flows, Sirona enters into forward foreign currency (different from functional currency) contracts. These forward foreign currency contracts are intended to reduce short-term effects of changes in exchange rates. Sirona does not apply hedge accounting to these forward foreign currency contracts.

A significant portion of our senior term loan is denominated in Euro. The Euro-denominated part of the senior term loan was granted to one of our German subsidiaries, whose functional currency is the Euro. Accordingly, the Company does not consider this facility to be a foreign currency risk sensitive instrument.

The table below provides information, as of September 30, 2013, about receivables and derivative financial instruments by functional currency and presents such information in U.S. Dollars, which is Sirona s reporting currency. The table summarizes information only for those instruments and transactions that are sensitive to foreign currency exchange rates. The estimated fair value of receivables is considered to approximate their carrying value because receivables have a short maturity. A receivable denominated in Euro held by subsidiaries whose functional currency is the Euro is not sensitive to exchange rate changes. The table below includes only those Euro receivables held by subsidiaries with non-Euro functional currencies. Likewise, a receivable denominated in U.S. Dollars held by entities whose functional currency is the U.S. Dollar is not sensitive to exchange rate changes. The table below includes only those U.S. Dollar receivables held by subsidiaries with non-U.S. Dollar functional currencies. For foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

Table of Contents

As of September 30, 2013	Expected Maturity Date Fiscal Year							
	2014	2015	2016	2017	2018	Beyond 2019	Total	Fair Value
					$ 000s			
Instruments sensitive to exchange rate risk (all held by subsidiaries with functional currencies other than those stated below)								
Receivables (grouped by transactional currency):								
U.S. Dollar	$ 36,425	$					$ 36,425	$ 36,425
Japanese Yen	16,460							