ESCO TECHNOLOGIES INC
Form 4
April 03, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
RICHEY VICTOR L JR

(Last) (First) (Middle)

C/O ESCO TECHNOLOGIES, 9900 A CLAYTON ROAD

(Street)

ST. LOUIS, MO 63124

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ESCO TECHNOLOGIES INC [ESE]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman, CEO & Pres.

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/01/2008		F		5,063	D	$ 39.72	239,605	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RICHEY VICTOR L JR C/O ESCO TECHNOLOGIES 9900 A CLAYTON ROAD ST. LOUIS, MO 63124	X		Chairman, CEO & Pres.	

Signatures

T. B. Martin, Attorney In-Fact	04/03/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rder="0">*If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).**Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).**(1)**The following derivative securities are also held directly: 8000 shares @ $7.9925, 4000 shares @ $13.76 and 1400 shares @ $22.98

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. n addition, interest expense for the year ended September 30, 2006 included interest of $10.1 million on a shareholder loan which was subsequently transferred to a group entity as consideration for the Exchange and has been eliminated on consolidation since June 20, 2006.

Debt Extinguishment

The retirement of the borrowings under the Company's previous credit facilities, the senior syndicated loan tranches A, B and C and the mezzanine loan facility was accounted for as a debt extinguishment in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". The unscheduled repayment of the mezzanine facility by the Company resulted in a prepayment fee of Euro 0.9 million ($1.2 million). In addition, $19.9 million of unamortized debt issue costs relating to the previous credit facilities were written off in the period. As a result, a loss on debt extinguishment totaling $21.1 million was recognized in the year ended September 30, 2007.

Income Tax (Benefit)/Provision

For the year ended September 30, 2007 and 2006, Sirona realized a profit before income taxes and minority interest of $21.8 million and $8.3 million, respectively. The average actual tax rate for these years was 35% and 35%, which would result in a provision of $7.6 million and $2.9 million, respectively. The tax benefit for income taxes for the year ended September 30, 2007 was $(34.9) million and the tax provision for the year ended September 30, 2006 was $7.4 million. The tax benefit for the year ended September 30, 2007 resulted mainly from non-cash revaluations of deferred tax assets and liabilities resulting from an enacted tax rate reduction in Germany. These non-cash revaluations of deferred tax assets and liabilities totaled $(45.6) million. The tax provision for the year ended September 30, 2006 was adversely impacted by the non-tax deductible charge related to the write off of IPR&D related to the Exchange.

Net Income

Sirona's net income for the year ended September 30, 2007 was $56.5 million, an increase of $55.7 million, as compared with the year ended September 30, 2006. As described above, Sirona's net income was significantly impacted by the tax benefit of $(34.9) million as compared to the prior year income tax provision of $7.4 million, mainly resulting from the tax rate change in the German jurisdiction, which reduced net deferred tax liabilities by $45.6 million. Other major impacts result from the Exchange and the MDP transaction. For the year ended September 30, 2007, amortization and depreciation expense resulting from the step-up of fair values of intangible and tangible assets related to the Exchange and MDP Transaction impacted net income by $50.9 million (net of taxes of $27.4 million) as compared to $35.3 million (net of taxes of $19.0 million) in the prior year. In addition to this effect, losses of $13.7 million were recorded on debt extinguishment (net of taxes of $7.4 million). Furthermore, stock option expense was recorded in the amount of $9.4 million (net of taxes of $5.0 million) as compared to $2.3 million (net of taxes of $1.2 million) in the prior year. Net income also increased as result of lower interest expense due to the refinancing and increased foreign currency transaction gains. The increase in sales was partially offset by increases in cost of sales, selling, general and administrative expenses and research and development expense.

Fiscal Year Ended September 30, 2006 Compared to Aggregated Fiscal Year Ended September 30, 2005

Revenue

Revenue for the year ended September 30, 2006 was $520.6 million, an increase of $57.3 million, or 12.4%, as compared with the year ended September 30, 2005. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro rate, total revenue increased by 15%, which included growth rates for the Imaging Systems segments of 36%, the Instruments segments of 17%, the Dental CAD/CAM Systems of 11%, and the Treatment Center segment of 4%. The Imaging Systems segment was driven by the trend towards increasing digitalization of dental practices, the success of the new panoramic product line ORTHOPHOS XG and the inclusion beginning June 20, 2006 of the Schick operations. The Instrument segment revenue increase was driven by new products, such as the Sirolaser and SIROpure instruments. The Dental CAD/CAM systems revenue benefited from the key trends in the dental industry, such as increased emphasis on efficiency and productivity, and patients growing emphasis on aesthetics.

Revenue in the United States for the year ended September 30, 2006 increased by 26% from the prior period. All segments contributed to this development. Of the year-over-year growth in the United States 59% was attributable to the Imaging Systems segment, 21% to the Dental CAD/CAM Systems segment, 11% to the Instruments segment and 9% to the Treatment Center segment. Revenue growth in the rest of the world was 7%. On a constant currency basis, revenue in the rest of the world increased by 11%. The revenue growth in the rest of the world was primarily due to Sirona's expanded presence in Spain, Australia, China and Canada. Sirona launched new sales and service operations in Australia in May 2005 and in China in July 2006.

Cost of Sales

Cost of sales for the year ended September 30, 2006 was $278.7 million, an increase of $7.6 million, or 2.8%, as compared with the year ended September 30, 2005. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of inventories and tangible and intangible assets, which were $53.1 million for the year ended September 30, 2006, compared with $52.3 million for the year ended September 30, 2005. Excluding these amounts, costs of sales as a percentage of revenue decreased to 43.3% for the year ended September 30, 2006 compared with 47.2% for the year ended September 30, 2005, and gross profit as a percentage of revenue increased by 3.9% from 52.8% to 56.7%. This increase in gross profit was primarily due to a period-over-period increase in gross-profit margins in all of the segments. The improvement was attributable to economies of scale resulting from volume increases, which have in turn led to fixed cost leverage. In addition, the improved cost position of the new panoramic product line over the predecessor product and the Schick product lines, were the main drivers of the improved gross profit margin in the Imaging Systems segment.

Selling, General and Administrative

For the year ended September 30, 2006, SG&A expense was $148.7 million, an increase of $20.9 million, or 16.4%, as compared with the year ended September 30, 2005. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets as well as non-cash option expense in the amount of $5.5 million for the year ended September 30, 2006, compared with $1.7 million for the year ended September 30, 2005. The year-over-year increase in amortization and depreciation expense resulted from the step-up to fair values of Sirona's net assets and liabilities related to the Exchange. Excluding these amounts, as a percentage of revenue SG&A expense increased to 27.5% for the year ended September 30, 2006, as compared with 27.2% for the year ended September 30, 2005. The increase was primarily due to increased costs associated with the growth in revenue and with costs associated with Sirona's expanded presence in various markets, including the United States, Japan, Australia and China. Cost for the initial Sarbanes Oxley implementation in the amount of $2.8 million have been included in other operating expenses.

Research and Development

R&D expense for the year ended September 30, 2006 was $33.1 million, an increase of $3.5 million, or 11.8%, as compared with the year ended September 30, 2005. As a percentage of revenue, R&D remained relatively constant at 6.4% for the years ended September 30, 2006 and September 30, 2005, respectively. The increase in R&D reflects new product developments or product enhancements in all segments, with particular focus on GALILEOS, a 3D panoramic imaging unit, which will be launched in fiscal year 2007.

Write-off of In-process Research and Development

Write-off of IPR&D for the year ended September 30, 2006 was $6.0 million, compared to $33.8 million for the year ended September 30, 2005. The capitalization and immediate write-off were recorded as a result of the allocation of the acquisition purchase price in connection with the Exchange and the MDP Transaction. These charges will not have a continued impact on Sirona's future operating results.

(Gain)/Loss on Foreign Currency Transactions

Gain on foreign currency transactions for the year ended September 30, 2006 amounted to $9.9 million compared to a loss of $1.3 million for the year ended September 30, 2005. These gains and losses included an unrealized foreign currency (gain) and loss on U.S. dollar denominated bank debt of $(6.0) million and $2.9 million for the years ended September 30, 2006 and 2005, respectively. An unrealized foreign currency gain of $5.0 million on the U.S. dollar denominated deferred income, resulting from the exclusivity payment, is also included in the year ended September 30, 2006. This foreign currency gain or loss resulted from translation adjustments to the carrying value of Tranche A of Sirona's U.S. dollar denominated bank debt and deferred income due to currency fluctuations which did not affect cash flow.

Interest Expense

Net interest expense for the year ended September 30, 2006 was $54.3 million, compared to $33.9 million for the year ended September 30, 2005. This increase was primarily due to higher average debt balances following the MDP Transaction and includes $6.2 and $2.7 million of amortization of capitalized financing fees for the year ended September 30, 2006 and 2005, respectively.

Income Tax Benefit/(Provision)

For the year ended September 30, 2006 and 2005, Sirona realized a profit and (loss) before income taxes and minority interest of $8.3 million and $(35.2) million, respectively. The average actual tax rate for these years was 35% and 36.9%, which would result in a provision and a (benefit) of $2.9 million and $(13.0) million, respectively. The tax provision for income taxes for the year ended September 30, 2006 was $7.4 million and the tax benefit for the year ended September 30, 2005 was $0.4 million. The tax provision for the year ended September 30, 2006 was adversely impacted by foreign income for which no foreign tax credit was available and the non-tax deductible charge related to the write off of IPR&D related to the Exchange. The tax benefit for the year ended September 30, 2005 was primarily impacted by non-tax deductible expense related to the write off of IPR&D related to the MDP Transaction.

Net Income/(Loss)

Sirona's net income for the year ended September 30, 2006 was $0.8 million, an increase of $35.7 million, as compared with the year ended September 30, 2005. As described above, Sirona's net income was significantly impacted by the MDP Transaction, the related financing and the Exchange. For the year ended September 30, 2006, amortization and depreciation expense resulting from the step-up of fair values of intangible and tangible assets related to the Exchange and the MDP Transaction was $35.3 million (net of a tax impact of $19.0 million). Write-off of IPR&D was $6.0 million (with no tax impact). In addition, the unrealized gains on the Tranche A U.S. dollar denominated bank debt as well as the deferred income from the exclusivity payment was $7.1 million (net of a tax impact of $3.9 million) and option expenses were $2.3 million (net of a tax impact of $1.2 million). Excluding these items in both periods, net income increased due to higher revenue and improved gross margins, partially offset by higher SG&A, R&D and interest expense.

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 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). Sirona's management believes that Sirona's working capital is sufficient for its present requirements.

	Successor			Predecessor 2	
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005	Year ended September 30, 2005 (aggregated) (unaudited)
			$'000s		
Net cash provided by operating activities	$ 79,175	$ 96,714	$ 137,403	$ 54,806	$ 192,209
Net cash used in investing activities	(37,531)	(6,317)	(559,998)	(37,408)	(597,406)
Net cash (used in)/provided by financing activities	(29,588)	(78,493)	448,847	(14,624)	434,223
Increase/(decrease) in cash during the period	$ 12,056	$ 11,904	$ 26,252	$ 2,774	$ 29,026

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 $79.2 million for the year ended September 30, 2007 compared to $96.7 million for the fiscal year ended September 30, 2006, and $192.2 million for the year ended September 30, 2005. The primary contributing factors to the decrease in cash provided by operating activities were (i) income tax payments in the amount of $41.7 million for the year ended September 30, 2007, compared to $6.5 million for the year ended September 30, 2006; (ii) accreted interest paid on the repayment of debt in connection with the refinancing in November 2006 in the amount of $8.6 million; and (iii) the increase of inventories due to the ramp up for new product launches and acquisitions. Income tax payments in the year ended September 30, 2007 were made in relation to taxes for prior year periods, which had been accrued at the end of fiscal year 2006, and for prepayments for fiscal year 2007.

In 2005 Sirona received a one-time payment of $100 million for an exclusivity agreement for Dental CAD/CAM systems with Sirona's distribution partner, Patterson Dental Inc., for sales in the United States and Canada. Excluding this amount the cash provided by operating activities in fiscal years 2006 and 2005 remained nearly unchanged.

Net Cash Used in Investing Activities

Net cash used in investing activities represents cash used for capital expenditures, financial investments, acquisitions and long-lived asset disposals. The primary contributors to the investing cash outflow in the periods presented are capital expenditures in the course of normal operating activities and the cash effect from two acquisitions in fiscal year 2007.

Net cash used in investing activities was $37.5 million for the year ended September 30, 2007, compared to $6.3 million for the year ended September 30, 2006, and $597.4 million for the year ended September 30, 2005. The primary contributors to the investing cash outflow in fiscal year 2007 were (i) investments in special tools and software developed for sale, related to product launches, (ii) leasehold improvements for the Company's new office building in Bensheim, and (iii) the acquisition of an imaging systems manufacturer and a sales and service company with $10.5 million. The primary contributor to the investing cash inflow in fiscal year 2006 was the Exchange with $14.6 million, offset by capital expenditures of $22.5 million primarily related to property, plant and equipment and software developed for sale.

The primary contributors to the investing cash outflow in the twelve months period that ended on September 30, 2005 were (i) the MDP Transaction of $556.3 million, (ii) the deferred purchase price payment in December 2004 of $25.7 million related to the EQT Transaction, and (iii) capital expenditures of $15.7 million.

Net Cash Used in/(Provided by) Financing Activities

Net cash used in financing activities was $29.6 million for the year ended September 30, 2007 compared to net cash used in financing activities of $78.5 million for the year ended September 30, 2006 and net cash provided by financing activities of $434.2 million for the year ended September 30, 2005. The cash used in financing activities in fiscal 2007 reflected the refinancing of the Company's prior credit facilities as of November 24, 2006 and the utilization of the Company's revolving credit facility in the period. Cash used in financing activities in fiscal 2006 comprised unscheduled prepayments of the Mezzanine loan (€15 million or $17.4 million) as well as Tranche C (€15 million or $17.4 million) and unscheduled and scheduled prepayments of Tranche A ($43.9 million) of the Senior Facility Loan. The cash provided by financing activities in the twelve months ended September 30, 2005 reflected the refinancing of Sirona's debt to effect the MDP Transaction. This refinancing resulted in full repayment of Sirona's existing bank debt and shareholder loans and proceeds generated from new debt. As a result of the MDP Transaction, Sirona's debt substantially increased.

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

Other Financial Data (unaudited):

	Successor			Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
	$'000s			
Net income/(loss)	$ 56,469	$ 755	$ (46,035)	$ 11,126
Net interest expense	28,166	54,275	11,087	22,774
(Benefit)/provision for income taxes	(34,877)	7,360	(5,796)	5,444
Depreciation	14,646	12,543	3,454	12,738
Amortization	78,994	54,311	11,938	31,417
EBITDA	$ 143,398	$ 129,244	$ (25,352)	$ 83,499

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

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

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

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

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

In addition to EBITDA, the accompanying financial tables also set forth certain supplementary information that Sirona believes is useful for investors in evaluating Sirona's underlying operations. This supplemental information includes gains/losses recorded in the periods presented which relate to the early extinguishment of debt, share based compensation, revaluation of the dollar-denominated exclusivity payment and borrowings where the functional currency is the Euro, and the Exchange. Sirona's management believes that these items are either nonrecurring or noncash in nature, and should be considered by investors in assessing Sirona's financial condition, operating performance and underlying strength.

Explanation of Responses:

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

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

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

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

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

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

Sirona'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

	Successor			Predecessor 2
	Year ended September 30, 2007	**Year ended September 30, 2006**	**July 1, 2005 to September 30, 2005**	**October 1, 2004 to June 30, 2005**
	$'000s			
Transaction related costs	$	$	$ 1,592	$ 35
Write off of IPR&D		6,000	33,796	
Fair Value increase in inventory		750	9,904	
Loss on debt extinguishment	21,145			
Share-based compensation	14,400	3,537		
Unrealized, non-cash (gain) on revaluation of the carrying value of the $-denominated exclusivity fee	(11,274)	(4,972)		
Foreign currency exchange (gain) on the early extinguishment of $-denominated bank debt	(3,885)			
Non-cash (gain)/expense on revaluation of the carrying value of the $-denominated bank loans and short-term shareholder loans	(6,572)	(6,022)	(95)	3,843
	$ 13,814	**(707)**	**45,197**	**3,878**

Long-term debt

Shareholder loan

Luxco granted Sirona Holding a loan of €151.0 million in connection with the MDP Transaction. The loan accrues interest at 7.5% per annum. In connection with the Exchange Sirona Dental Systems, Inc. took over the shareholder loan from Luxco. Effective June 20, 2006 (closing of the Exchange) the shareholder loan is eliminated on consolidation. The interest is being accumulated until the end of the loan term on June 30, 2015, when the loan and the interest is required to be repaid. From October 1, 2005 through June 20, 2006 interest of €8.3 million ($10.1 million) has been accreted.

Explanation of Responses:

Senior Term Loans

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

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

Each of the senior term loans has a five year maturity and is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 75 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

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

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

Debt issuance costs of $5.6 million were incurred in relation to the new financing and were capitalized as deferred charges.

Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations and commercial commitments as of September 30, 2007:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			$'000s		
Long-term debt	$ 551,716	$ 11,574	$ 162,042	$ 378,100	$
Operating lease obligations	48,879	6,843	10,324	7,916	23,796
Pension	22,715	1,159	4,326	4,648	12,582
Purchase commitments	50,347	44,482	5,713	101	51
Total	$ 673,657	$ 64,058	$ 182,405	$ 390,765	$ 36,429

The amounts disclosed above include capitalized interest of $9.7 million on long-term debt.

Off-Balance Sheet Arrangements

Customers can finance their purchases of Sirona products from their respective dealer through financial institutions. Prior to March 2003, Sirona offered to guarantee up to 10% of the total liability due to the financial institution from the customer in the event the customer defaulted on their payments. However, the contracts negotiated with the dealers, who sold the products to the third-party customers, granted Sirona a right of recourse against the dealer in such event. Sirona ceased issuing these guarantees after March 2003. The arrangements were generally provided for a five-year period and therefore the related guarantees issued by Sirona are expected to expire by 2008.

At September 30, 2007 and 2006, the maximum potential amount of future undiscounted payments that could be required to be made was $6.3 million and $5.8 million, respectively. However, these amounts may be recovered from dealers pursuant to the recourse arrangements described above. No related asset or liability has been recorded in Sirona's consolidated financial statements as of September 30, 2007 or 2006.

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 €0.9 million ($1.3 million at the €/$ exchange rate of September 30, 2007) to an unrelated property development company, who constructed an office building based on Sirona's specifications on the site. Sirona leased the building from the property development company through an 18-year lease. Rental payments started in April 2007 when the building was ready for occupancy. Under the terms of the lease, rent is fixed at €1.2 million ($1.7 million at the €/$ exchange rate of September 30, 2007) 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 has no other off-balance sheet financing arrangements.

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

Sirona recognizes revenue, net of related discounts and allowances, when persuasive evidence of the arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and title and risk of loss has passed to customers based on the shipping terms. Returns of products, excluding warranty related returns, are infrequent and insignificant. Revenue related to products that contain software which is more than incidental to the product is recognized in accordance with SOP 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." For orders which contain one or more elements to be delivered at a future date, but do not include software that is more than incidental to the other elements, the Company recognizes revenue in accordance with EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." For revenue on certain CEREC and GALILEOS units recognized in accordance with both SOP 97-2 and EITF 00-21, the Company allocates revenues between the various elements using the relative fair value method because evidence of fair value exists for all elements. Under the relative fair value method, as applied by the Company, the revenue is allocated between the elements of the arrangement in proportion to the fair value of each element. The revenue allocated to the service contract is deferred until the service is provided.

The revenue allocated to the CEREC or GALILEOS product sold, which contains software and hardware the functionality of which is dependent on the software and for which the software is integral (i.e., software-related hardware), is recognized as revenue upon transfer of the risk and rewards of ownership. The fair value of the product and the service contract is based on the price charged when the same element is sold separately to customers or based on the renewal rate of the service contract.

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.

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 granted, whichever is later. The Company estimates volume discounts based on the individual customer's historical and estimated future product purchases.

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.

Pensions and 401(k) Plan

Sirona has both defined benefit and defined contribution pension plans, as well as an early retirement plan.

As of September 30, 2007, the Company adopted the recognition provisions of FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). This standard requires employers to fully recognize the obligations associated with single-employer defined benefit pension plans in their financial statements. In detail SFAS 158 requires an employer to recognize on its balance sheet the funded status of a benefit plan measured as the difference between plan assets at fair value and the benefit obligation as of the end of the employer's fiscal year. Changes in the funded status will be recognized in other comprehensive income until they are amortized as a component of net periodic benefit cost. The adjustments to adopt SFAS 158 were recorded as a component of accumulated other comprehensive income.

The impact due to the adoption of SFAS 158 as of September 30, 2007 is summarized in the following table and reflects the recognition of the unrecognized actuarial gains as of September 30, 2007 within accumulated other comprehensive income, net of related tax effect:

	Before Application of Statement 158	Adjustments	After Application of Statement 158
		$'000s	
Deferred tax assets (non-current)	$ 4,249	$ (1,755)	$ 2,494
Total assets	1,659,498	(1,755)	1,657,743
Liability for pension benefits	55,821	(6,371)	49,450
Total liabilities	1,054,564	(6,371)	1,048,193
Accumulated other comprehensive income	40,372	4,616	44,988
Total stockholders' equity	604,450	4,616	609,066

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 4.50% at September 30, 2006 to 5.25% at September 30, 2007 thereby affecting the amount of pension expense recorded during each period.

Plan assets consist of contributions made by Sirona to a pension support fund of an insurance company, the custodian, which in turn invests these contributions. The insurance company guarantees the employees the investments will generate a minimum return of 3.25%. The plan assets are invested in equity securities (31.9%), fixed income securities (53.1%) and other assets (15.0%).

As of September 30, 2007 there were actuarial gains that will be amortized through the corridor approach method during the years of service remaining beginning fiscal year 2008. The reasons for the appearance of these gains are the increase of the retirement age in Germany and the increase of the discount rate.

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.

Sirona 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. Eligible employees are those who have attained the age of 55 or who will attain the age of 55 by calendar year 2009 and have been accepted to participate in the ATZ plan. The ATZ plan can cover a period between the ages of 58 to 63 of the participating employees and is split into an active service period, where the employees work full time for Sirona, and an inactive service period, where the employees do not work for the Company. During the active service period, the employees receive 50% 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. Sirona 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. Sirona recognizes the bonus component over the period from the point at which the employee signs the ATZ contract until 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, 2007, Sirona had recorded valuation allowances against its deferred tax assets in the amount of $5.4 million. Further information on income taxes is provided in Note 12 to the consolidated financial statements appearing elsewhere in this report.

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.

Impairment of Indefinite-Lived Assets

Sirona tests goodwill for impairment on an annual basis by comparing the fair value of its reporting units to their carrying values. Key assumptions in determining fair value are the assessment of future cash flows and the appropriate discount rate. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances would include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. If the carrying amount of a reporting unit exceeds its fair value, goodwill impairment loss is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value requires a fair value exercise similar to a business combination where the individual assets and liabilities are valued at fair value with the difference between the fair value of the reporting unit being the implied fair value of goodwill.

Sirona evaluates trademarks, which are considered indefinite-lived intangible assets, for impairment at least annually or whenever events or circumstances indicate their carrying value might be impaired. In performing this assessment, Sirona's management considers operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. The carrying value of trademarks is considered impaired when their carrying value exceeds their 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 projected cash flows discounted at a rate commensurate with the risk involved.

Purchase Accounting

Sirona has recorded a change in basis of the assets and liabilities acquired in the Exchange, the MDP Transaction and EQT Transaction. These transactions required the assets and liabilities to be recorded either at partial fair value or fair value as described in Notes 4 and 5 to Sirona's consolidated financial statements contained elsewhere in this document. In determining the fair value of assets and liabilities, Sirona is required to make certain key assumptions that could materially impact the value of the assets or liabilities recorded.

In valuing the intangible assets, the key assumptions include the valuation method selected, the cash flow projections, the risk based discount rate, the replacement costs and/or the applicable royalty rates. Sirona used its historical experience, budgets and similar assumptions used in the medical devices industry in formulating these assumptions.

In valuing property, plant and equipment, the fair values were derived from posted values for comparable assets and replacement values.

Fair value of liabilities was determined to be equivalent to the predecessors' carrying value or acquired company's fair value except for pension obligations, which were valued at the project benefit obligation measured in accordance with Statement of Financial Accounting Standard No. 87, Employer's Accounting for Pensions.

Recent Accounting Pronouncements Not Yet Adopted

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

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

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes*" which is an interpretation of FASB Statement 109, "*Accounting for Income Taxes.*" FIN 48 requires management to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the "more-likely than not" recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. FIN 48 is effective for the Company's fiscal year ending September 30, 2008. The Company is still determining the effect FIN 48 will have on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sirona's primary market risk exposure is interest rate risk associated with short and long-term bank loans bearing variable interest rates. To manage this interest rate risk exposure, Sirona enters into interest rate swap agreements. Sirona is also exposed to foreign currency risk, which can adversely affect our sales and operating profits. To manage this risk, Sirona enters into forward exchange contracts.

The following discussion should be read in conjunction with Notes 2 and 15 to Sirona's audited consolidated financial statements appearing elsewhere in this Report, which provide further information on Sirona's derivative instruments.

Interest Rate Sensitivity

To reduce the exposure associated with Sirona's variable rate debt, Sirona has entered into interest rate swap agreements that limit the variable rate for portions of the bank loans. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations Long-term debt" for further details.

As of September 30, 2007, the interest rate swaps had notional amounts of $359.6 million and a fair value of $0.3 million. The variable benchmark interest rates associated with these instruments ranged from 3.5% to 5.24%. A hypothetical, instantaneous increase of one percentage point in the interest rates applicable to the variable interest rate debt would have increased the interest expense for the year ended September 30, 2007 by approximately $4.8 million.

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 other currencies represented 51%, 39% and 10%, respectively, of total sales for fiscal 2007. In order to hedge portions of the transactional exposure to fluctuations in exchange rates between the U.S. dollar and the Euro, 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 protect Sirona against the short-term effects of changes in the exchange rates. Sirona does not apply hedge accounting to these forward foreign currency contracts.

The table below provides information, as of September 30, 2007, 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 on 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. 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.

As of September 30, 2007	Expected Maturity Date 2007	2008	2009	2010	2011	Beyond 2011	Total	Fair Value
					$'000s			
Receivables:								
U.S. Dollar	$ 32,082	$					$ 32,082	$ 32,082
Japanese Yen	5,375						5,375	5,375
Australian Dollar	3,489						3,489	3,489
Danish Krone	1,089						1,089	1,089
Chinese Yuan Renminbi	1,703						1,703	1,703
UK Sterling	114						114	114
Swiss Francs	7						7	7
	$ 43,859	**$**					**$ 43,859**	**$ 43,859**
Forward Exchange Contracts:								
U.S. dollar notional amount	$ 45,000							$ 1,759
Average contract exchange rate	$ 1.3699							

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included as a separate section of this Annual Report on Form 10-K, beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer (principal executive officer) and chief financial officer (principal financial officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of September 30, 2007. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2007, the Company's disclosure controls and procedures are effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms, and is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk

Explanation of Responses:

that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on our assessment, management believes that, as of September 30, 2007, our internal control over financial reporting is effective based on those criteria.

The independent registered public accounting firm which audited the Company's financial statements included in this Form 10-K has issued an attestation report on the Company's internal control over financial reporting. Please see attestation report on page F-5.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On December 4, 2007, the Compensation Committee of the Board of Directors of the Company approved cash bonus awards to certain named executive officers pursuant to the Company's bonus plans and additional discretionary cash awards. Mr. Jost Fischer, President and Chief Executive Officer received €182,900 pursuant to the Company's EVA Plan and received an additional discretionary cash bonus award of €60,000; Ms. Simone Blank, Executive Vice President and Chief Financial Officer received €100,300 pursuant to the Company's EVA Plan and received an additional discretionary cash bonus of €50,000; Mr. Jeffrey Slovin, Executive Vice President and Chief Operating Officer of U.S. Operations received $189,000 based on the bonus formula found in his prior 2004 employment agreement and received an additional discretionary cash bonus of $61,000; and Mr. Theo Haar, Executive Vice President Human Resources and Services received €36,250 pursuant to the Company's EVA Plan and received an additional discretionary cash bonus of €50,000.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item not set forth herein is incorporated by reference to the proxy statement for our 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2008.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item not set forth herein is incorporated by reference to the proxy statement for our 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2008.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item not set forth herein is incorporated by reference to the proxy statement for our 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item not set forth herein is incorporated by reference to the proxy statement for our 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2008.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item not set forth herein is incorporated by reference to the proxy statement for our 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2008.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements, See Index to Financial Statements on Page F-1

(b) The following Exhibits are included in this report:

Exhibit No.	Item Title
2.1	Exchange Agreement, by and among Sirona Holdings Luxco S.C.A, Blitz 05-118 GmbH and Schick Technologies, Inc., dated September 25, 2005 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on September 26, 2005)
2.2	Amendment No. 1 to Exchange Agreement, dated May 11, 2006 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on May 16, 2006)
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, File No. 333-33731, filed on June 30, 1997)
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to Form 8-K filed on June 20, 2006)
3.3	Bylaws of the Company effective as of November 1, 2005 (incorporated by reference to Exhibit 3.2 to Form 8-K, filed on March 8, 2006)
4.1	Form of Common Stock certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 333-33731, filed on June 30, 1997)
10.1	1996 Employee Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K, filed on July 13, 2001)
10.2	Amendment to 1996 Employee Stock Option Plan (incorporated by reference to the Company's definitive proxy statement on Schedule 14A, filed on May 16, 2006)
10.3	1997 Stock Option Plan for Non-Employee Directors, as amended (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K, filed on June 18, 2003)
10.4	Sirona Dental Systems, Inc. Equity Incentive Plan (incorporated by reference to the Company's definitive proxy statement on Schedule 14A, filed on January 26, 2007)
10.5	Form of Stock Option Notice under Sirona Dental Systems, Inc. Equity Incentive Plan (incorporated by reference to Form 8-K filed on February 28, 2007)
10.5	Distributorship Agreement, dated April 6, 2000, by and between Schick Technologies, Inc. and Patterson Dental Company (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K, filed on June 29, 2000)**
10.6	Amendment No. 1 to Distributorship Agreement, dated July 1, 2005 by and between Schick Technologies, Inc. and Patterson Dental Company (incorporated by reference to Exhibit 10.1 to Form 10-Q/A, filed on March 24, 2006)**
10.7	Consulting and Non-Competition Agreement between Schick Technologies, Inc. and David B. Schick, dated May 7, 2004 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K, filed on June 25, 2004)

10.8	Transaction Services Agreement by and between Blitz F04-506 GmbH, Sirona Dental Services GmbH & Co KG, Sirona Dental Systems GmbH, MDP IV Offshore GP, LP and Harry M. Jansen Kraemer, Jr., dated July 6, 2005 (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K, filed on December 11, 2006)
10.9	Registration Agreement between the Company and Luxco, dated as of June 20, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
10.10	Employment Agreement between the Company and Jeffrey T. Slovin, dated as of June 20, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
10.11	Employment Agreement between the Company and Michael Stone, dated as of June 20, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
10.12	Transition and Severance Agreement between the Company and Zvi Raskin, dated as of June 14, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
10.13	Employment Agreement between Sirona Beteiligungs- und Verwaltungsgesellschaft mbH (represented by its shareholder Sirona Dental Systems SARL) and Jost Fischer, dated as of January 25, 2002 (incorporated by reference to Exhibit 10.5 to Form 10-Q, filed on August 9, 2006)
10.14	Employment Agreement between Sirona Beteiligungs- und Verwaltungsgesellschaft mbH (represented by its shareholder Sirona Dental Systems SARL) and Simone Blank, dated as of June 27, 2001 (incorporated by reference to Exhibit 10.6 to Form 10-Q, filed on August 9, 2006)
10.15	Employment Agreement between Sirona Beteiligungs- und Verwaltungsgesellschaft mbH (represented by its shareholder Sirona Dental Systems SARL) and Theo Haar, dated as of June 27, 2001 (incorporated by reference to Exhibit 10.7 to Form 10-Q, filed on August 9, 2006)
10.16	Consolidated and Restated Amendment to Distributorship Agreement between Sirona Dental Systems GmbH and Patterson Companies, Inc. (incorporated by reference to Exhibit 10.8 to Form 10-Q, filed on August 9, 2006)**
10.17	Senior Facilities Agreement (incorporating amendments made on December 5, 2006 and January 19, 2007) among Sirona Dental Systems, Inc., Schick Technologies, Inc., Sirona Dental Systems GmbH, Sirona Dental Services GmbH, Sirona Dental Systems LLC, Sirona Holding GmbH, Sirona Immobilien GmbH, J.P. Morgan PLC, UBS Limited, JPMorgan Chase Bank, N.A., and J.P. Morgan Europe Limited, dated November 22, 2006 (incorporated by reference to Exhibit 10.1 to Form 10-Q, filed May 10, 2007)
10.18	Description of the Sirona Dental Systems, Inc. EVA Plan
10.34	Employment Agreement between Schick Technologies, Inc. and Jeffrey T. Slovin, dated June 9, 2004 (superseded by the employment agreement dated June 20, 2006 (the "2006 employment agreement) incorporated by reference as Exhibit 10.10 to this Form 10-K, except for the bonus information contained in Section IV referenced in the 2006 employment agreement)
14.1	Code of Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K, filed on June 25, 2004)

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16.1	Letter from Grant Thornton LLP to the Securities and Exchange Commission confirming statements made about it by Company in connection with changes to the Company's certifying accountant (incorporated by reference to Exhibit 16.1 to Form 8-K, filed June 26, 2006)
21.1	List of Subsidiaries of Company*
23.1	Consent of Independent Registered Public Accounting Firm*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Section 1350 Certification of Chief Executive Officer*
32.2	Section 1350 Certification of Chief Financial Officer*

Compensatory plan or arrangement

*
Filed herewith

**
Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

December 7, 2007

SIRONA DENTAL SYSTEMS, INC.

By: /s/ JOST FISCHER

Jost Fischer
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JOST FISCHER Jost Fischer	Chairman of the Board and Director, President and Chief Executive Officer (Principal Executive Officer)	December 7, 2007
/s/ SIMONE BLANK Simone Blank	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	December 7, 2007
/s/ NICHOLAS W. ALEXOS Nicholas W. Alexos	Director	December 7, 2007
/s/ DAVID BEECKEN David Beecken	Director	December 7, 2007
/s/ WILLIAM K. HOOD William K. Hood	Director	December 7, 2007
/s/ ARTHUR D. KOWALOFF Arthur D. Kowaloff	Director	December 7, 2007
/s/ HARRY M. JANSEN KRAEMER, JR. Harry M. Jansen Kraemer, Jr.	Director	December 7, 2007

/s/ TIMOTHY D. SHEEHAN Timothy D. Sheehan	Director	December 7, 2007
/s/ JEFFREY T. SLOVIN Jeffrey T. Slovin	Director	December 7, 2007
/s/ TIMOTHY P. SULLIVAN Timothy P. Sullivan	Director	December 7, 2007

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2007
AND SEPTEMBER 30, 2006
AND
FOR THE YEARS ENDED SEPTEMBER 30, 2007
AND SEPTEMBER 30, 2006
AND FOR THE PERIODS FROM
JULY 1, 2005 TO SEPTEMBER 30, 2005 (SUCCESSOR)
AND
OCTOBER 1, 2004 TO JUNE 30, 2005 (PREDECESSOR 2)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FIRM

The Board of Directors
Sirona Dental Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Sirona Dental Systems, Inc. and subsidiaries (Successor) as of September 30, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years ended September 30, 2007 and 2006 and the period from July 1, 2005 to September 30, 2005 (Successor periods), and the consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH and subsidiaries (Predecessor 2) for the period from October 1, 2004 to June 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned Successor consolidated financial statements present fairly, in all material respects, the financial position of Sirona Dental Systems, Inc. and subsidiaries as of September 30, 2007 and 2006, and the results of their operations and their cash flows for the Successor periods, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the aforementioned Predecessor 2 consolidated financial statements present fairly, in all material respects, the results of operations and cash flows for Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH and subsidiaries for the Predecessor 2 periods, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sirona Dental Systems, Inc.'s internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 7, 2007 expressed an unqualified opinion on the effectiveness Sirona Dental Systems, Inc.'s internal control over financial reporting.

As discussed in Notes 2 and 5 to the consolidated financial statements, effective June 30, 2005, the Sirona Dental Services GmbH acquired all of the outstanding stock of Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the period before the acquisition and, therefore, is not comparable.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Frankfurt, Germany
December 7, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FIRM

The Board of Directors
Sirona Dental Systems, Inc.:

We have audited Sirona Dental Systems, Inc.'s internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sirona Dental Systems, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sirona Dental Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sirona Dental Systems, Inc. and subsidiaries (Successor) as of September 30, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years ended September 30, 2007 and 2006 and the period from July 1, 2005 to September 30, 2005 (Successor periods), and the consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Sirona Dental Systems Beteiligungs-und Verwaltungs GmbH and subsidiaries (Predecessor 2) for the period from October 1, 2004 to June 30, 2005 (Predecessor 2 period), and our report dated December 7, 2007 contains an explanatory paragraph that states that the financial information for the periods after the acquisition of Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH described in notes 2 and 5 to the consolidated financial statements is presented on a different cost basis than that for the period before the acquisition and, therefore, is not comparable.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Frankfurt, Germany
December 7, 2007

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Note	Successor September 30, 2007	Successor September 30, 2006
		$'000 (except for share amounts)	
ASSETS			
Current assets			
Cash and cash equivalents		$ 99,842	$ 80,560
Restricted cash		908	953
Accounts receivable, net of allowance for doubtful accounts of $1,475 and $837, respectively	8	87,074	66,090
Inventories, net	9	74,834	57,303
Deferred tax assets	12	9,040	4,671
Prepaid expenses and other current assets		18,801	16,074
Income tax receivable	12	3,758	
Total current assets		**294,257**	**225,651**
Property, plant and equipment, net of accumulated depreciation and amortization of $31,037 and $18,139, respectively	10	80,523	61,042
Goodwill	11	677,506	613,549
Investments		1,254	750
Intangible assets, net of accumulated amortization of $156,776 and $66,242, respectively	11	597,302	618,993
Other non-current assets		4,407	17,370
Deferred tax assets	12	2,494	3,649
Total assets		**1,657,743**	**1,541,004**
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade accounts payable		$ 46,190	$ 30,303
Short-term debt and current portion of long-term debt	14	23,041	14,738
Income taxes payable	12	5,543	10,434
Deferred tax liabilities	12	3,264	3,208
Accrued liabilities and deferred income	13	84,348	65,203
Total current liabilities		**162,386**	**123,886**
Long-term debt	15	540,143	518,634
Deferred tax liabilities	12	192,808	243,491
Other non-current liabilities		13,406	18,128
Pension related provisions	22	49,450	48,167
Deferred income	16	90,000	100,589
Total liabilities		**1,048,193**	**1,052,895**
Minority interest		**484**	**263**
Shareholders' equity			

		Successor	Successor
Preferred stock ($0.01 par value; 5,000,000 shares authorized; none issued and outstanding)			
Common stock ($0.01 par value; 95,000,000 shares authorized: 54,765,285 and 54,608,134 shares issued and outstanding)		548	546
Additional paid-in capital		603,570	582,447
Excess of purchase price over predecessor basis		(49,103)	(49,103)
Retained earnings/(accumulated deficit)		9,063	(47,406)
Accumulated other comprehensive income	7	44,988	1,362
Total shareholders' equity		**609,066**	**487,846**
Total liabilities, minority interest and shareholders' equity		**$ 1,657,743**	**$ 1,541,004**

The accompanying notes are an integral part of these financial statements

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	Successor Year ended September 30, 2007	Successor Year ended September 30, 2006	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005
		$'000 (except per share amounts)			
Revenue	23	$ **659,949**	$ **520,604**	$ **105,071**	$ **358,285**
Cost of sales	23	355,475	278,685	71,614	199,463
Gross profit		**304,474**	**241,919**	**33,457**	**158,822**
Selling, general and administrative expense		203,597	148,715	34,544	93,236
Research and development		46,945	33,107	7,863	21,700
Provision for doubtful accounts and notes receivable		217	348	(192)	(127)
Write off of in-process research and development			6,000	33,796	
Net other operating (income)/expense		(162)	1,733	(723)	(384)
Operating income/(loss)		**53,877**	**52,016**	**(41,831)**	**44,397**
Foreign currency transactions (gain)/loss, net		(16,794)	(9,873)	601	749
Loss/(gain) on derivative instruments		169	(719)	(1,682)	4,383
Interest expense, net	21	28,166	54,275	11,087	22,774
Loss on debt extinguishment		21,145			
Other (income)		(586)			(129)
Income/(loss) before taxes and minority interest		**21,777**	**8,333**	**(51,837)**	**16,620**
Income tax (benefit)/provision		(34,877)	7,360	(5,796)	5,444
Minority interest		185	218	(6)	50
Net income/(loss)		$ **56,469**	$ **755**	$ **(46,035)**	$ **11,126**
Income per share					
Basic	17	$ 1.03	0.02	N/A	N/A
Diluted	17	$ 1.02	0.02	N/A	N/A

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common share capital	**Amount of common shares issued**	**Additional paid-in capital**	**Excess of purchase price over predecessor basis**	**Retained earnings/ (accumulated deficit)**	**Accumulated other comprehensive income/(loss)**	**Total**
			$'000s (except for amount of common shares issued)				
Balances as of September 30, 2004	**$ 629**		**$ 51,757**	**$**	**$ (34,358)**	**$ (752)**	**$ 17,276**
Comprehensive income:							
Net income					11,126		11,126
Cumulative translation adjustment						(1,287)	(1,287)
Total comprehensive income					11,126	(1,287)	9,839
Balances as of June 30, 2005	**629**		**51,757**		**(23,232)**	**(2,039)**	**27,115**
Restructuring adjustments	(599)		71,939	(49,103)	21,106	1,852	45,195
	30		**123,696**	**(49,103)**	**(2,126)**	**(187)**	**72,310**
Successor							
Comprehensive loss:							
Net loss					(46,035)		(46,035)
Cumulative translation adjustment						417	417
Total comprehensive loss					(46,035)	417	(45,618)
Balances as of September 30, 2005	**30**		**123,696**	**(49,103)**	**(48,161)**	**230**	**26,692**
Successor		36,972,480					
Issuance of common stock in Exchange	516	17,617,433	455,007				455,523
Issuance of common stock upon excercise of options		18,221	160				160
Stock compensation			3,537				3,537
Tax benefit of stock options exercised			47				47
Comprehensive loss:							
Net income					755		755
Cumulative translation adjustment						1,132	1,132
Total comprehensive income					755	1,132	1,887
Balances as of September 30, 2006	**546**	**54,608,134**	**582,447**	**(49,103)**	**(47,406)**	**1,362**	**487,846**
Successor							
Issuance of common stock upon excercise of options	2	159,384	1,392				1,394
Retirement of common stock		(2,233)					
Stock compensation			14,400				14,400
			5,331				5,331

	Common share capital	Amount of common shares issued	Additional paid-in capital	Excess of purchase price over predecessor basis	Retained earnings/ (accumulated deficit)	Accumulated other comprehensive income/(loss)	Total
Tax benefit of stock options exercised							
Comprehensive income:							
Net income					56,469		56,469
Cumulative translation adjustment						39,010	39,010
Total comprehensive income					56,469	39,010	95,479
Adjustment to initially apply SFAS 158, net of tax						4,616	4,616
Balances as of September 30, 2007	**$ 548**	**54,765,285**	**$ 603,570**	**$ (49,103)**	**$ 9,063**	**$ 44,988**	**$ 609,066**

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
		$'000s		
Cash flows from operating activities				
Net income/(loss)	**$ 56,469**	**$ 755**	**$ (46,035)**	**$ 11,126**
Adjustments to reconcile net income/(loss) to net cash used in operating activities				
Minority interest	183	199		
Depreciation and amortization	96,378	62,931	15,392	44,155
Loss/(gain) on disposal of property, plant and equipment	157	(22)	(23)	(45)
(Gain)/loss on derivate instruments	169	(719)	(1,682)	4,383
Foreign currency transactions (gain)/loss	(16,794)	(9,873)	601	749
Accreted interest on long term debt	13,983	14,907	4,590	3,115
Deferred income taxes	(72,683)	(12,340)	1,198	(2,546)
Write off of in-process research and development		6,000	33,796	
Amortization of debt issuance cost	4,405	5,820	907	1,807
Loss on debt extinguishment	19,964			
Compensation expense from stock options	14,400	3,537		
Changes in assets and liabilities				
Accounts receivable and accounts receivable from related parties	(7,656)	(6,850)	10,287	(1,547)
Inventories	(7,133)	(529)	11,887	(2,869)
Prepaid expenses and other current assets	11,907	18,110	(15,474)	(13)
Restricted Cash	152	(222)	443	(276)
Other non-current assets	(4,544)	5,805	846	(51)
Trade accounts payable and accounts payable to related parties	14,186	(2,247)	4,195	(6,701)
Accrued liabilities and deferred Income	(24,196)	(5,985)	112,155	8,068
Other non-current liabilities	(11,913)	9,207	7,809	(6,809)
Income taxes receivable	(2,198)			
Income taxes payable	(6,061)	8,230	(3,489)	2,260
Net cash provided by operating activities	**79,175**	**96,714**	**137,403**	**54,806**
Cash flows from investing activities				
Investment in property, plant and equipment	(26,878)	(20,950)	(3,634)	(11,041)
Proceeds from sale of property, plant and equipment	577	804	741	191
Restricted short term investments/securities		717	(410)	(272)
Purchase of intangible assets	(260)	(1,531)	(398)	(586)
Purchase of long-term investments	(504)			
Aquisition of Sirona by MDP			(556,297)	
Acquisition of Sirona by EQT				(25,700)
Acquisition of businesses, net of cash acquired	(10,466)	14,643		

	Successor	Successor	Successor	Predecessor 2
Net cash used in investing activities	**(37,531)**	**(6,317)**	**(559,998)**	**(37,408)**

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

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
		$'000s		
Cash flows from financing activities				
Repayment of shareholder loans	$	$	$ (51,458)	$ 2,596
Repayments of long-term debt	(559,294)	(78,653)	(440,593)	(17,220)
Proceeds from borrowings	529,747		662,805	
Proceeds shareholder loan			181,960	
Debt issuance cost	(5,591)		(26,259)	
Common shares issued on share based compensation plans	1,394	160		
Tax effect of common shares exercised under share based compensation plans	4,156			
Capital infusion			122,392	
Net cash (used in)/provided by financing activities	**(29,588)**	**(78,493)**	**448,847**	**(14,624)**
Change in cash and cash equivalents	12,056	11,904	26,252	2,774
Effect of exchange rate change on cash & cash equivalents	7,226	2,715	(2,839)	877
Cash and cash equivalents at beginning of period	80,560	65,941	42,528	38,877
Cash and cash equivalents at end of period	**$ 99,842**	**$ 80,560**	**$ 65,941**	**$ 42,528**
Supplemental information				
Interest paid	$ 30,223	$ 32,456	$ 7,554	$ 22,274
thereof accreted Interest paid on repayment of long-term debt	8,594	0		
Interest capitalized	259	244	3	51
Income taxes paid/(received)	41,731	6,499	2,054	(1,393)
Accrued acquisition costs (non-cash investing activity)			3,580	
Acquisition of businesses, net of cash aquired				
Current assets	$ 14,682	19,450		
Property, plant and equipment	870	207,961		
Goodwill, licenses, customer lists and other non-current assets	11,773	289,048		
Current liabilities	(14,433)	(75,579)		
Other long term liabilities	(2,426)			
Shares and options exchanged		(455,523)		
	$ 10,466	**$ (14,643)**		

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

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and its operations

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

2. Basis of presentation and summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All amounts are reported in thousands of U.S. dollars ($), except per share amounts or as otherwise disclosed.

Principles of consolidation

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

On September 25, 2005 Schick Technologies, Inc. ("Schick"), which on June 20, 2006 was renamed as Sirona Dental Systems, Inc. ("Sirona" or the "Company"), entered into an Exchange Agreement with Sirona Holdings Luxco S.C.A. ("Luxco") and Sirona Holding GmbH ("Sirona Holding") providing for an issuance of 36,972,480 shares of Schick common stock to Luxco in exchange for Luxco's entire economic interest in Sirona Holding, which consists 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 €150,992 ($181,960) plus accrued interest (the "Exchange"). The Exchange closed on June 20, 2006. For accounting purposes, the Exchange has been accounted for as a reverse acquisition of Schick by Sirona Holding. The historical financial statements of Sirona Holding and its predecessors are the historical financial statements of the Company, and the acquisition by Sirona Holding of the assets and liabilities of Schick has been accounted for under the purchase method of accounting. Results of operations of Schick and its wholly owned subsidiary have been included in these annual financial statements from June 20, 2006, the effective date of the Exchange (see Note 4 The Exchange).

On June 30, 2005, Sirona Holdings Luxco S.C.A. ("Luxco"), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH (formerly Blitz 05-118 GmbH) and its wholly owned subsidiary Sirona Dental Services GmbH, to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the "MDP Transaction"). The MDP Transaction was accounted for in accordance with Emerging Issues Task Force Issue 88-16, Basis in Leveraged Buyout Transactions ("EITF 88-16"), in a manner similar to a business combination under FASB Statement No. 141, Business Combinations ("SFAS 141"). Certain members of Sirona management who were deemed to be in the control group held equity interests in Sirona Group prior to and subsequent to the MDP Transaction ("Continuing Shareholders"). The interests of the Continuing Shareholders have been reflected at the predecessor basis, resulting in 9.15% of each asset and liability acquired being valued at historical cost at June 30, 2005. The remaining 90.85% interest in each asset and liability was recognized at fair value at June 30, 2005.

On February 16, 2004, funds managed by EQT, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using four new legal entities headed by Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH to acquire 100% of the interest in Sirona Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the "EQT Transaction"). The EQT Transaction resulted in a change in control over the Sirona business and has, therefore, been accounted for as a business combination under SFAS 141. The carrying values of the assets and liabilities were adjusted to their fair value on February 16, 2004, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill. Refer to Note 5 Leveraged Buy-Out Transactions, for further discussion of the transactions and their impact on the Company's and its predecessors' consolidated financial statements. Since both transactions materially changed the carrying values recorded in the Company's and its predecessors' consolidated balance sheet, the following naming convention has been used to distinguish between periods for which the financial statements are not prepared on a comparable basis:

Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH Predecessor 2
October 1, 2004 June 30, 2005

Sirona Dental Systems, Inc. (now the parent of Sirona Holding GmbH) Successor
July 1, 2005 September 30, 2005
October 1, 2005 September 30, 2006
October 1, 2006 September 30, 2007

The accounting policies of the successor and predecessor entities have not changed, except for a change in basis resulting from purchase accounting.

Fiscal year

The Company's fiscal year ends on September 30.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from estimates. Some of the more significant estimates include allowances for doubtful accounts, inventory valuation reserves, purchase accounting assumptions, depreciable lives of assets, amortization periods, impairment of long-lived assets, deferred tax asset valuation allowance, pension reserves, provisions and warranty reserves.

Foreign currency

The functional currency for foreign operations has been determined in all cases to be the local currency. Assets and liabilities of foreign subsidiaries are translated at exchange rates on the balance sheet date; revenue and expenses are translated at the weighted average exchange rates for the interim periods within the full period. Operating cash flows are translated based on the weighted average exchange rates for the full period based on the net income line. Investing and financing cash flows are translated based on the exchange rate applicable to the respective transaction. The effects of these translation adjustments are recognized in shareholders' equity, as a component of accumulated other comprehensive income (loss). Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, as well as the fair value adjustment of forward foreign exchange contracts, are shown separately on the face of the consolidated statements of operations.

Comprehensive income

In addition to net income (loss), comprehensive income (loss) includes other charges or credits to equity other than those resulting from transactions with shareholders. Accumulated other comprehensive income relates to foreign currency translation adjustments related to the Company's foreign subsidiaries as well as to the pension adjustment resulting from the first time application of SFAS 158 "Employers' accounting for defined benefit pension and other postretirement plans". Components of comprehensive income are included within the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

Revenue recognition

Revenue, net of related discounts and allowances, is recognized when persuasive evidence of the arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and title and risk of loss has passed to customers based on the shipping terms. Returns of products, excluding warranty related returns, are infrequent and insignificant. Revenue related to products that contain software which is more than incidental to the product is recognized in accordance with SOP 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." For orders which contain one or more elements to be delivered at a future date, but do not include software that is more than incidental to the other elements, the Company recognizes revenue in accordance with EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." For revenue on certain CEREC and GALILEOS units recognized in accordance with both SOP 97-2 and EITF 00-21, the Company allocates revenues between the various elements using the relative fair value method because evidence of fair value exists for all elements. Under the relative fair value method, as applied by the Company, the revenue is allocated between the elements of the arrangement in proportion to the fair value of each element. The revenue allocated to the service contract is deferred until the service is provided.

The revenue allocated to the CEREC or GALILEOS product sold, which contains software and hardware the functionality of which is dependent on the software and for which the software is integral (i.e., software-related hardware), is recognized as revenue upon transfer of the risk and rewards of ownership. The fair value of the product and the service contract is based on the price charged when the same element is sold separately to customers or based on the renewal rate of the service contract.

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.

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 granted, whichever is later. The Company estimates volume discounts based on the individual customer's historical and estimated future product purchases.

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.

Research and development

Amounts spent by the Company for research and development (R&D) efforts are recorded as R&D expenses when incurred. R&D costs relate primarily to internal costs for salaries, direct overhead costs and outside vendors. The Company capitalizes costs of equipment used for general R&D if it has alternative future use. The depreciation related to this capitalized equipment is included in the Company's R&D costs. Software development costs incurred prior to the attainment of technological feasibility are considered R&D and are expensed as incurred.

Warranty expense

The Company offers warranties on its products for periods between one and three years. Estimated future warranty obligations related to product sales are charged to operations in the period in which the related revenue is recognized. These estimates are based on historical warranty experience and other relevant information of which the Company is aware. Estimated warranty expenses are recorded as an accrued liability and selling, general and administrative expense. During the years ended September 30, 2007 and September 30, 2006, warranty expense was $20,138 and $14,355, respectively. During the periods from July 1, 2005 to September 30, 2005, and October 1, 2004 to June 30, 2005, warranty expense was $3,807 and $10,138, respectively,

Shipping and handling costs

Shipping and handling costs charged to customers are included in revenues and the associated expense is recorded in cost of sales for all periods presented.

Advertising costs

Advertising costs are expensed as incurred and recorded within selling, general and administrative expense. During the years ended September 30, 2007 and September 30, 2006, advertising expense was $27,882 and $19,774 respectively. During the periods from July 1, 2005 to September 30, 2005, and October 1, 2004 to June 30, 2005, advertising expense was $4,865 and $14,742, respectively.

Pension benefits

The Company has both defined benefit and defined contribution pension plans, as well as an early retirement plan.

As of September 30, 2007, the Company adopted the recognition provisions of FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). This standard requires employers to fully recognize the obligations associated with single-employer defined benefit pension plans in their financial statements. In detail SFAS 158 requires an employer to recognize in its balance sheet the funded status of a benefit plan measured as the difference between plan assets at fair value and the benefit obligation as of the end of the employer's fiscal year. Changes in the funded status will be recognized in other comprehensive income until they are amortized as a component of net periodic benefit cost. The adjustments to adopt SFAS 158 were recorded as a component of accumulated other comprehensive income.

The impact due to the adoption of SFAS 158 as of September 30, 2007 is summarized in the following table and reflects the recognition of the unrecognized actuarial gains as of September 30, 2007 within accumulated other comprehensive income, net of related tax effect:

	Before Application of Statement 158	Adjustments	After Application of Statement 158
		$'000s	
Deferred tax assets (non-current)	$ 4,249	$ (1,755)	$ 2,494
Total assets	1,659,498	(1,755)	1,657,743
Liability for pension benefits	55,821	(6,371)	49,450
Total liabilities	1,054,564	(6,371)	1,048,193
Accumulated other comprehensive income	40,372	4,616	44,988
Total stockholders' equity	604,450	4,616	609,066

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 are also required. When purchase accounting is applied, pension liabilities are recognized for the projected benefit obligation in excess of plan assets.

For the defined contribution pension plans, the net pension cost is equal to 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 65. Eligible employees are those who have attained the age of 55 or who will attain the age of 55 by calendar year 2009 and have been accepted to participate in the ATZ plan. The ATZ plan can cover a period between the ages of 58 to 63 of the participating employees and is split into an active service period, where the employees work full time for the Company, and an inactive service period, where the employees do not work for the company. During the active service period, the employees receive 50% 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. The Company recognizes the bonus component over the period from the point at which the employee signs the ATZ contract until the end of the active service period.

Income Taxes

Differences between the basis of assets and liabilities for financial statement purposes and for tax return purposes are recorded as deferred tax assets or deferred tax liabilities in the accompanying consolidated financial statements. Deferred taxes represent the tax consequences in future years of these differences at each balance sheet date, based on the enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. The provision (benefit) for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities. A valuation allowance is established when it is more likely than not that the deferred tax assets are not realizable. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income as an adjustment to income tax expense in the period that includes the enactment date.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Restricted cash and restricted short-term investments

Restricted cash represents cash balances pledged as collateral to financial institutions that provide security for prepayments from customers and other bonds.

Accounts receivable

Accounts receivable are stated at the invoiced amount, less allowances for doubtful accounts. Collectibility of accounts receivable is regularly reviewed and is based upon managements' knowledge of customers and compliance with credit terms. The allowance for doubtful accounts is adjusted based on such evaluation, with a corresponding provision included in selling, general and administrative expense. Accounts receivable balances are written off when management deems the balances uncollectible.

Inventory

Inventory is carried at the lower of cost or market value. Cost is determined using standard costing, which approximates the weighted average cost method. In addition to direct material and direct labor costs, certain costs related to the overhead and production expenses are included in inventory. Inventory reserves are provided for risks relating to slow moving, unmarketable and obsolete items.

Investments in companies

The Company uses the equity method of accounting for investments in associated companies over which the Company has significant influence but does not have effective control.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost plus the fair value of asset retirement costs, if any and if reasonably estimable, less accumulated depreciation. As a result of the transactions described in Note 5 Leveraged Buy-Out Transactions, a new cost basis was established and adjustments were recorded to record property, plant and equipment assets at fair value in connection with the EQT Transaction and 90.85% of fair value in connection with the MDP Transaction. Additions, improvements and major renewals, which extend the useful life of the asset, are capitalized; maintenance and repairs are expensed as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in current operating income. Development costs for external use software incurred after the establishment of technological feasibility are capitalized and amortized to cost of revenues on a straight-line basis over the expected useful life of the software. Costs of software developed for internal use incurred during the development of the application are capitalized and amortized to operating expense on a straight-line basis over the expected useful life of the software. Prepayments for property, plant & equipment are classified as property, plant and equipment and are not depreciated until the assets are received and placed into service.

The cost of plant and equipment is depreciated using the straight-line method over the following estimated useful lives of the respective assets.

Buildings	25 to 50 years
Building improvements and leasehold improvements	5 to 10 years
Machinery and technical equipment	3 to 10 years
Software and software licenses	3 to 5 years

Finite-lived intangible assets

Finite-lived intangible assets are amortized according to the pattern in which the economic benefit of the asset is used up over their estimated useful lives, as shown below.

Patents and licenses	10 13 years
Technologies and Dealer Relationships	1 13 years

Impairment of long-lived and finite-lived assets

Long lived assets held for use by the Company are reviewed for impairment whenever events or circumstances provide evidence that suggests the carrying amount of the asset may not be recoverable. The Company performs ongoing impairment analysis on intangible assets related to new technology. Determination of whether an impairment exists is based upon a comparison of the identifiable undiscounted cash flows of the assets or groups of assets to the carrying amount of the assets or groups of assets. If impaired, the resulting charge reflects the excess of the asset's carrying amount over its fair value.

Goodwill and indefinite-lived intangible assets

Goodwill and indefinite lived intangible assets, consisting of certain trademarks are not amortized, but are tested for impairment on an annual basis as of September 30, or whenever events or circumstances indicate that the carrying amount may not be recoverable. These impairment tests are based upon a comparison of the fair value of the reporting units to their respective carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the goodwill impairment loss is measured as the excess of the carrying amount of goodwill over its implied fair value. If impairment is identified on indefinite-lived intangibles, the resulting charge reflects the excess of the asset's carrying amount over its fair value.

Other non-current assets

Other non-current assets and prepaid expenses are mainly comprised of capitalized debt issuance costs. The costs are amortized using the effective interest method. The unamortized balance of such debt issuance costs was $3,369 and $16,780 as of September 30, 2007 and 2006, respectively. As result of the refinancing in November 2006 unamortized debt issuance costs were written off and debt issuance costs for the new loans were capitalized (refer to Note 15 Long-term debt).

Derivative financial instruments

The Company enters into forward foreign currency contracts in order to manage currency risks arising from its forecasted and firmly committed foreign currency denominated cash flows. The Company enters into these contracts to limit the foreign exchange rate risk for periods generally not to exceed six months. The Company also enters into interest rate swaps to manage its interest rates on its long term debt.

The Company does not utilize financial instruments for speculative purposes. The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standard No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("FAS 133"). FAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting. The Company has not designated any of its derivatives as qualifying for hedge accounting under FAS 133. All derivatives instruments are therefore recognized as either assets or liabilities in the consolidated balance sheet at fair value. The fair value of the forward foreign currency contracts and interest rate swaps are included within prepaid and other current assets and the change in fair value is recognized within "Gains (losses) on derivative instruments" in the consolidated statement of operations.

Fair value of financial instruments

Financial instruments consist of cash, accounts receivable, accounts payable and other accrued expenses that approximate fair value because of the short-term nature of these items. The fair value of the foreign currency forward contracts and interest rate swaps are estimated by obtaining quotes from financial institutions.

At September 30, 2007, the foreign exchange forward contracts outstanding had notional amounts of $45,000 ($26,150 as at September 30, 2006) and a fair value asset of $1,767 (liability of $(107) as at September 30, 2006), with the unrealized fair value gain for the year ended September 30, 2007 of $1,544 (year ended September 30, 2006, $1,377).

At September 30, 2007, the interest rate swaps and collars had notional amounts of $359,622 ($337,358 as at September 30, 2006), and a fair value of $303 ($1,838 as at September 30, 2006), with the unrealized fair value loss for the year ended September 30, 2007 of $(1,713) (year ended September 30, 2006 of $(659)).

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk include cash and cash equivalents and accounts receivable. Sirona has two customers accounting for more than 10% of revenue for the years ended September 30, 2007 and September 30, 2006. The accounts receivables from these customers amount in the aggregate to $17,284 and $20,073 as of September 30, 2007 and September 30, 2006, respectively.

3. Recent accounting pronouncements not yet adopted

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

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

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes*" which is an interpretation of FASB Statement 109, "*Accounting for Income Taxes.*" FIN 48 requires management to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the "more-likely than not" recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. FIN 48 is effective for the Company's fiscal year ending September 30, 2008. The Company is still determining the effect FIN 48 will have on its consolidated financial statements.

4. The Exchange

On September 25, 2005, Schick, a Delaware corporation, which on June 20, 2006 was renamed Sirona Dental Systems, Inc., entered into an Exchange Agreement with Sirona Holdings Luxco S.C.A. and 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 €150,992 plus accrued interest totaling $205,566 as of June 20, 2006. It was also agreed that Schick shareholders would receive a special $2.50 per share cash dividend.

At a special meeting, which took place on June 14, 2006, Schick's shareholders approved the Exchange Agreement and the amendment to the Amended and Restated Certificate of Incorporation to increase Schick's authorized shares of capital stock and to change Schick's corporate name to Sirona Dental Systems, Inc., and the amendment of Schick's 1996 Stock Option Plan. The fiscal year was changed from March 31 to September 30, Sirona Holding's year end.

The Exchange was completed on June 20, 2006 and Schick has been included in the Company's consolidated statement of operations since then. The cash dividend was paid on June 23, 2006. Sirona Holding is deemed to be the acquiring company under U.S. GAAP because Luxco, Sirona Holding's shareholder, has a controlling ownership interest in the combined company, Sirona Holding's designees to the board represent a majority of the directors and Sirona Holding's senior management represents a majority of management.

The transaction was accounted for as a purchase business combination in accordance with FASB Statement No. 141, Business Combinations ("SFAS 141"). The carrying values of Schick's assets and liabilities were adjusted to their fair values on June 20, 2006, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill.

The purchase price was comprised of 17,615,660 Schick shares outstanding on June 20, 2006. Based on the average of the closing prices for a range of trading days (September 22, 2005 through September 28, 2005, inclusive) around the announcement date of September 26, 2005 of the Exchange Agreement, the fair value is $24.96 per share, or approximately $439,687. The purchase price also includes the estimated fair value of 862,220 vested stock options which were not exercised prior to the Exchange ($15,363), 458,179 unvested stock options ($8,111), reduced by the unvested options relating to services to be provided in the future ($7,638), and direct acquisition costs of $7,338. The fair value of the vested and unvested options was estimated using the Black-Scholes model and assumptions as follows: the relevant exercise price, a market price of $24.96 (average of closing prices around the Exchange announcement date), volatility of 34.0%, estimated life of five years, and a risk free rate of

3.73%. The cost of the acquired business is reduced by the unearned portion of the unvested options relating to services to be provided in the future (see Note 7 Employee Share-Based Compensation).

The total purchase price of Schick in the Exchange was as follows:

		$'000s
Purchase price		
Schick common stock	$	439,687
Schick restricted vested options		15,363
Schick unvested options		8,111
Schick unvested options relating to services to be provided in the future		(7,638)
Sirona direct transaction costs		7,338
	$	**462,861**

The allocation of the purchase price was finalized in the quarter ended December 31, 2006 as follows:

		$'000s
Current assets	$	41,431
Property, plant and equipment		1,335
Intangible assets subject to amortization		132,300
Trade name not subject to amortization		24,000
In process research and development		6,000
Goodwill		124,302
Receivable from Luxco		205,566
Other assets		1,060
Total assets		**535,994**
Current liabilities		(12,445)
Deferred taxes		(60,688)
Total liabilities assumed		**(73,133)**
Purchase Price	**$**	**462,861**

The Company believes the acquisition will strengthen its competitive position in the technology-driven Imaging Systems segment by uniting research and development capabilities to accelerate product developments and expanding its global presence, particularly in the significant U.S. market, and is expected to provide certain synergies.

Schick designs, develops and manufactures digital imaging systems for the dental market. Schick currently manufactures and markets a variety of digital imaging products including an intra-oral digital radiography system (CDR® and CDR Wireless), a digital panoramic radiography sensor (CDRPan®) and integrated device (CDRPanX), an intra-oral camera system (USBCam®), and a DC dental x-ray generator (SDX). The fair value of in process research and development (IPR&D) projects relate to these Intra-Oral products. IPR&D was appraised using discounted future probable cash flows on a project by project basis. Cash inflows from significant projects were forecast to commence in the 1-2 years following the acquisition date. The cash flows derived from IPR&D projects were discounted at a rate of 13%. The Company believes the rate used was appropriate given the risks associated with the technologies including their incomplete status. No alternative future use was identified for IPR&D

projects so the entire $6,000 value of those assets was charged to the income statement at the acquisition date, included in the write off in-process research and development line item, for the year ended September 30, 2006.

A summary of the identifiable intangible assets acquired is as follows:

	Fair value	Weighted average amortization period
Developed technologies	$ 127,000	10 years
Dealer relationships	3,300	10 years
CDR trademark	2,000	20 years
Schick trademark	24,000	indefinite

The fair value of the technology assets was determined by using an earnings-based valuation method. The useful life was determined based on the expected use of the technology, any legal provisions that may limit the useful life of the technology, the effects of known advances, obsolescence, demand and competition and the level of maintenance expenses required to obtain the future cash flows of the technology. Based on these factors, technologies were assigned useful lives of 10 years.

The fair value of the dealer relationships was determined using the replacement cost valuation method, which considered the cost which would have been incurred to search, engage and train the new dealers to service Schick's products. The remaining useful life of a contractual dealer relationship relates to the estimated average period of 10 years after which an existing dealer needs to be retrained, similar to a new dealer.

The fair values of the trademarks were determined using the relief from royalty method and assumed royalty rates ranging from 0.25% to 2.0%. The Company deems the Schick trademark to be an indefinite lived intangible asset as it is used worldwide, can be separated from other assets, does not have any legal, regulatory, contractual, competitive, economic or other factors that limit its useful live, and requires no material levels of maintenance to retain its cash flow. As such, that trademark is not currently subject to amortization. The Company evaluates the useful life of trademarks each year to determine whether facts and circumstances continue to support an indefinite life for this asset.

5. Leveraged Buy-out transactions

MDP Transaction

On June 30, 2005, Sirona Holdings Luxco S.C.A. ("Luxco"), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH (formerly Blitz 05-118 GmbH) and its wholly owned subsidiary Sirona Dental Services GmbH to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the "MDP Transaction"). Results of operations for the Sirona businesses subsequent to that date have been included in the successor period in the consolidated statements of operations and cash flows.

The purchase price, comprising cash paid and direct acquisition costs, was €464,590, consisting of €454,990 paid in cash and €9,600 of direct acquisition costs. The purchase price was denominated in Euros and translated to U.S. dollars at the exchange rate prevailing on the date of the transaction of 1.2051. The purchase price denominated in U.S. dollars is $559,877.

The transaction was accounted for in accordance with Emerging Issues Task Force Issue 88-16, Basis in Leveraged Buyout Transactions ("EITF 88-16"), in a manner similar to a business combination under FASB Statement No. 141, Business Combinations ("SFAS 141"). Certain members of Sirona management who were deemed to be in the control group held equity interests in Sirona Group prior to and subsequent to the MDP Transaction ("Continuing Shareholders"). The interests of the continuing Shareholders have been reflected at the predecessor basis, resulting in 9.15% of each asset and liability acquired being valued at historical cost at June 30, 2005. The remaining 90.85% interest in each asset and liability was recognized at fair value at June 30, 2005. The application of the preceding guidance to the book and fair values of the acquired assets resulted in a difference between the purchase price in the acquisition (€464,590) and the recorded value of the acquired assets. This difference was recorded as a reduction to the shareholders' equity of Sirona.

In connection with the leveraged buy-out transaction, Sirona incurred debt of €700,992 ($844,765) to finance the purchase price and repay the shareholder loan granted by the sellers and repay other existing debt of €301,012 ($362,261). The debt comprised €550,000 ($662,805) of bank loans and a shareholder loan of €150,992 ($181,960) granted by Luxco.

The purchase price was allocated to the assets acquired and liabilities assumed as of June 30, 2005 and the difference between the purchase price allocation and the fair value of the net assets was recorded as goodwill. However, due to the continuing ownership by management, the assets and liabilities were carried over from the Predecessor 2 balance sheet upon closing to the extent that management had an ownership interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH. A contra equity account named "Excess of purchase price over predecessor basis" has been recorded in the successor period to reflect the predecessor basis of management that acquired an interest in Sirona Holding GmbH. The purchase price allocation was based on information available and expectations and assumptions deemed reasonable by management.

In process research and development (IPR&D) was appraised using discounted future probable cash flows on a project by project basis. Cash inflows from significant projects were forecast to commence in the 1-2 years following the date of the valuation exercise. Discount rates of between 25-30% were applied to the cash flows, depending on level of risk associated with the project. In process research and development (IPR&D) projects primarily relate to (i) 3D-Imaging, (ii) enhancements to the CAD/CAM system's hardware and software and (iii) a new treatment center platform.

The fair values of these projects and estimated costs to complete at June 30, 2005 were:

Project	**Fair value**	**Estimated Cost**
	$'000s	
3 D Imaging	$ 9,310	$ 7,000
CAD/CAM enhancements	10,310	8,000
New Treatment Center platforms	10,295	8,000
Other	3,882	2,000

No alternative future use was identified for these assets, and therefore the entire value of those assets was charged to the income statement, included in the write off in-process research and development line item, for the three month period to September 30, 2005.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

As of June 30, 2005	**$'000s**
Current assets	$ 176,691
Property, plant and equipment	49,724
Intangible assets subject to amortization	407,903
Trademarks not subject to amortization	93,488
In process research and development	33,797
Goodwill	469,198
Other assets	13,702
Total assets	**1,244,503**
Current liabilities	176,663
Non-current liabilities	355,477
Deferred taxes	201,589
Total liabilities assumed	**733,729**
Excess purchase price over predecessor basis	**49,103**
Purchase price	**$ 559,877**

	$'000s	**Weighted average amortization period**
Licensing agreements, patents and similar rights	$ 124,264	13 years
Technologies	273,930	10 years
Dealer relationships	9,709	10 years
	$ 407,903	

Technology assets include trade secrets, production processes, CAD drawings, parts lists, blueprints and software for products that reached technological feasibility.

The fair value of the technology assets was determined by using an earnings-based valuation method. The useful life was determined based on the expected use of the technology by Sirona, any legal provisions that may limit the useful life of the technology, the effects of known advances, obsolescence, demand and competition and the level of maintenance expense required to obtain the future cash flows of the technology. Based on these factors, technologies were assigned useful lives of 1 to 13 years.

The fair value of the dealer relationships was determined using the replacement cost valuation method, which considered the cost which would have been incurred to search, engage and train the new dealers. The remaining useful life of a contractual dealer relationship relates to the estimated average period of 10 years after which an existing dealer needs to be retrained, similar to a new dealer.

The fair values of the trademarks were determined using the relief from royalty method and assumed royalty rates ranging from 0.25% to 1.0%. The Company deems trademarks to be indefinite lived intangible assets as the trademarks are used worldwide, can be separated from any other asset, do not have any legal, regulatory, contractual competitive, economic or other factors that limit their useful lives, and require no material levels of maintenance to retain their cash flow. As such, trademarks are not currently subject to amortization. The Company evaluates the useful life of trademarks each year to determine whether facts and circumstances continue to support an indefinite life for these assets. The transaction resulted in goodwill due to the significant growth prospects and industry dynamics as well as the experienced management team which are not recognized as a separate asset.

EQT Transaction

On February 16, 2004, funds managed by EQT, directors, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using four new legal entities headed by Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH to acquire 100% of the interest in Sirona Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the "EQT Transaction"). The transaction resulted in a change in control over the Sirona business and has, therefore, been accounted for as a business combination under SFAS 141. The carrying values of the assets and liabilities were adjusted to their fair value on February 16, 2004, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill. There was no shareholder interest that continued to be carried at predecessor basis. Results of operations for the Sirona businesses from the date of this transaction until the MDP Transaction have been included in the Predecessor 2 period in the consolidated statement of operations and cash flows.

The purchase price, comprising cash paid and direct acquisition costs, was €309,873 consisting of €284,167 paid at closing, a €20,000 holdback payment, subject to possible indemnification claims by EQT, and €5,706 of direct acquisition costs. Payment of €20,000 was made on December 15, 2004 at the expiration of the indemnification period, as no claims were made. In connection with the leveraged buy-out transaction, Sirona incurred debt of €338,566 ($419,923) to finance the purchase price and repay the shareholder loan granted by the sellers and repay other existing debt of €109,918 ($136,331). The debt incurred comprised €300,000 ($372,090) of bank loans and a shareholder loan of €38,566 ($47,833) granted by EQT.

The carrying values of the assets and liabilities were stepped up to their fair values on February 16, 2004 and the difference between the purchase price and the fair value of the net assets was recorded as goodwill. The purchase price was denominated in Euros and translated to U.S. Dollars at the exchange rate prevailing on the date of the transaction of 1.2403. The purchase price denominated in U.S. dollars was $384,335.

The purchase price allocation was based on information available and expectations and assumptions deemed reasonable by management.

IPR&D was appraised using discounted future probable cash flows on a project by project basis. Cash inflows from significant projects were forecast to commence in the 1-2 years following the date of the valuation exercise. Discount rates of between 25-30% were applied to the cash flows, depending on level of risk associated with the project. No alternative future use was identified for these assets, and therefore the entire value of those assets was charged to the income statement, included in the write off in-process research and development line item, for the three month period to September 30, 2004.

The following table summarizes the purchase price allocation for the transaction:

As of February 16, 2004	$'000s
Current assets	$ 191,310
Property, plant and equipment	56,122
Intangible assets subject to amortization	393,980
Trademarks not subject to amortization	86,945
In process research and development	20,217
Goodwill	67,989
Other assets	9,038
Total assets	**825,601**
Current liabilities	107,455
Non-current liabilities	147,964
Deferred taxes	185,847
Total liabilities assumed	**441,266**
Purchase price	**$ 384,335**

		Weighted average amortization period
Licensing agreements, patents and similar rights	$ 122,739	13 years
Technologies	258,962	10 years
Dealer relationships	12,279	10 years
	$ 393,980	

Technology assets include trade secrets, production processes, CAD drawings, parts lists, blueprints and software products that reached technological feasibility.

The fair value of the technology assets was determined by using an earnings-based valuation method. The useful life was determined based on the expected use of the technology by Sirona, any legal provisions that may limit the useful life of the technology, the effects of known advances, obsolescence, demand and competition and the level of maintenance expense required to obtain the future cash flows of the technology. Based on these factors, technologies were assigned useful lives of 1 to 13 years.

The fair value of the dealer relationships was determined using the replacement cost valuation method, which considered the cost which would have been incurred to search, engage and train the new dealers. The remaining useful life of a contractual dealer relationship relates to the estimated average period of 10 years after which an existing dealer needs to be retrained, similar to a new dealer.

The fair values of the trademarks were determined using the relief from royalty method and assumed royalty rates ranging from 0.25% to 1.0%. The Company deems trademarks to be indefinite lived intangible assets as the trademarks are used worldwide, can be separated from any other asset, do not have any legal, regulatory, contractual competitive, economic or other factors that limit their useful lives, and require no material levels of maintenance to retain their cash flow. As such, trademarks are not currently subject to amortization. The Company evaluates the useful life of trademarks each year to determine whether facts and circumstances continue to support an indefinite life for these assets.

Pro Forma Information on Business Combinations

The pro forma condensed consolidated information for the year ended September 30, 2005 gives effect to the Exchange and the MDP Transaction as if they had occurred on October 1, 2004; the pro forma information for the year ended September 30, 2006 gives effect to the Exchange as if it had occurred on October 1, 2005.

	Fiscal year ended	
	September 30, 2006(1)	**September 30, 2005(2)**
	$'000s (except for share amounts)	
Revenue	$ 575,899	$ 523,817
Cost of Sales	305,609	308,061
Gross profit	**270,290**	**215,756**
Operating expenses/(income):		
Selling general and administrative expense	171,615	158,750
Research and development	37,067	34,462
Provision for doubtful accounts and notes receivable	348	(319)
Net other operating expenses	1,732	
Operating income	**59,528**	**22,863**
Foreign currency transaction (gain)/loss	(9,873)	1,350
(Gain)/loss on derivative instruments	(719)	2,701
Interest expense, net	43,207	39,814
Other (income)	(30)	(128)
Income/(loss) before income taxes and minority interest	**26,943**	**(20,874)**
Income tax provision/(benefit)	10,704	(7,584)
Minority interest	218	44
Net income/(loss)	**$ 16,021**	**$ (13,334)**
Income/(loss) per share basic	$ 0.29	$ (0.24)
Income/(loss) per share diluted	$ 0.29	$ (0.24)
Weighted average shares basic	54,608,134	54,588,140
Weighted average shares basic and diluted	54,683,307	54,588,140

(1) Gives pro forma effect to the Exchange, as if it occurred on October 1, 2005.

(2) Gives pro forma effect to the Exchange and the MDP Transaction as if the transactions occurred on October 1, 2004.

6. Employee Share-Based Compensation

FASB Statement No. 123 (Revised 2004), Share-Based Payment ("SFAS 123(R)") requires that all share-based compensation arrangements, including grants of stock option awards to employees, be recognized based on the estimated fair value of the share-based payment award. The historical financial information of the Company is based on Sirona Holding's financial information prior to the Exchange which closed on June 20, 2006. Sirona Holding was a non-public entity and did not grant any share-based payment awards prior to the June 20, 2006 Exchange. The share-based awards assumed or issued in connection with the Exchange are subject to the guidance of SFAS 123(R). As there were no share-based awards issued by Sirona Holding prior to the Exchange, the adoption of SFAS 123(R) did not result in any transitional adjustments or a requirement to provide pro forma disclosures for prior periods.

In connection with the reverse acquisition of Schick effected by the Exchange, share-based awards outstanding under Schick's 1996 Stock Option Plan (the "Plan") and 1997 Stock Option Plan for Non-Employee Directors (the "Directors Plan") continue to be outstanding. At the date of the Exchange, 862,220 vested and 458,179 unvested options were outstanding (see note 4). Stock options granted under the assumed stock option plans have a contractual life of 10 years from the date of grant and requisite service periods of 2 to 4 years. The Company does not expect to repurchase these shares within the next 12 months.

The Plan permitted incentive and non-qualified options to purchase shares of common stock to be granted to employees, directors and consultants. The 1996 Plan allowed for the issuance of 4,700,000 options and expired on April 22, 2006. Accordingly, no further options may be granted under the Plan.

The Directors Plan stipulated that the exercise price of non-qualified options granted under that plan must equal or exceed 85% of the fair market value of the common stock as of the date of grant of the option, and no option may be exercisable after ten years from the date of grant. The Company has never granted options at less than market on the date of grant. The Directors Plan also provided that certain awards will become fully vested and/or exercisable upon a change in control (as defined in the Directors Plan) subject to certain restrictions. At September 30, 2006, 7,000 shares were available for grant, which expired in fiscal 2007, as the Directors Plan expired.

In contemplation of the Exchange, Schick conditionally granted to certain employees and consultants options to purchase 1,530,000 shares of Schick common stock as of September 25, 2005. The options granted were conditional on the Exchange closing. Upon the June 20, 2006 closing of the Exchange, the date of grant for accounting purposes, the conditional options commenced vesting over a four year period.

In fiscal year 2007 the Company granted 680,000 stock options under a new Equity Incentive Plan (the "New Plan"). The stock options vest over a period of four years and expire ten years after the date of the grant. The New Plan provides for granting in total up to 2,275,000 stock options to employees and directors.

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

	Year ended September 30, 2007	Year ended September 30, 2006
Expected Volatility	44%	34%
Risk-free rate	4.02% 4.20%	3.73%
Expected term	5 6.25 years	5 6.25 years
Expected dividends		

Compensation expense of $14.4 million has been charged against income for stock-based compensation for the year ended September 30, 2007. This charge was recorded within selling, general and administration for $12.3 million, research and development for $1.3 million and cost of sales for $0.9 million. The total income tax benefit recognized in the income statement for the share-based compensation arrangements was $2.7 million, for the fiscal year ended September 30, 2007. Share-based compensation expense for the year ended September 30, 2006 amounted to $3.5 million, as Sirona did not grant any share-based awards prior to the Exchange.

The following is a summary of Sirona's stock option activity for the years ended September 30, 2007 and September 30, 2006:

	Year ended September 30, 2007	
	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,859,678	$ 19.13
Granted	680,000	37.72
Exercised	(159,384)	9.30
Expired	(803)	22.97
Forfeited	(25,000)	39.46
Outstanding at end of period	3,354,491	23.22

	Year ended September 30, 2006	
	Number of options	Weighted average exercise price
Outstanding at beginning of period		
Schick awards assumed in Exchange and included in purchase accounting	1,320,399	$ 11.16
Conditional Schick awards not reflected in purchase accounting	1,530,000	25.10
Granted	60,000	42.50
Exercised	(18,221)	9.79
Expired		
Forfeited	(32,500)	25.10
Outstanding at end of period	2,859,678	19.13
Exercisable at end of point	1,026,761	11.19

There were 159,384 options exercised during the year ended September 30, 2007. The total intrinsic value of options exercised for the fiscal year ended September 30, 2007 was $1.4 million. The aggregate intrinsic value of stock options exercisable at September 30, 2007 was $22.3 million and these options have a weighted average remaining contractual life of seven years. The aggregate intrinsic value of stock options outstanding at September 30, 2007 was approximately $77.9 million and these options have a weighted-average remaining contractual life of 7.8 years.

There were 18,221 options exercised during the year ended September 30, 2006. The total intrinsic value of options exercised for the fiscal year ended September 30, 2006 was $0.5 million. The aggregate intrinsic value of stock options exercisable at September 30, 2006 was $22.3 million and these options have a weighted average remaining contractual life of 6.9 years. The aggregate intrinsic value of stock options outstanding at September 30, 2006 was approximately $39.5 million and these options have a weighted-average remaining contractual life of 8.6 years.

A summary of the status of Sirona's non-vested options as of September 30, 2007, and the changes during the year ended September 30, 2007, is presented below:

	Year ended September 30, 2007	
Nonvested stock options	**Number of options**	**Weighted average grant date fair value $**
Nonvested at beginning of period	1,832,917	$ 25.08
Granted	680,000	14.51
Vested	(547,074)	24.65
Forfeited	(25,000)	15.34
Nonvested at September 30, 2007	1,940,843	21.63

A summary of the status of Sirona's non-vested options as of September 30, 2006, and the changes during the year ended September 30, 2006, is presented below:

	Year ended September 30, 2006	
Nonvested stock options	**Number of options**	**Weighted average grant date fair value $**
Schick awards assumed in Exchange and included in purchase accounting		
Nonvested at beginning of period	1,320,399	$ 23.43
Conditional Schick awards not reflected in purchase accounting	1,530,000	24.17
Granted	60,000	15.46
Vested	(1,026,761)	26.08
Forfeited	(32,500)	20.83
Nonvested at September 30, 2006	1,832,917	25.08

As of September 30, 2007, there was $37.6 million of total compensation cost to be recognized in future periods related to outstanding non-vested share-based compensation awards. The cost is expected to be recognized over a weighted-average period of 2.5 years. The cash received and the

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actual tax benefit realized for the tax deductions from option exercises was $10.6 million and $4.2 million for the year ended September 30, 2007. The total fair value of options vested for the year ended September 30, 2007 is $18.3 million.

As of September 30, 2006, there was $41.3 million of total compensation cost to be recognized in future periods related to outstanding non-vested share-based compensation awards. The cost is expected to be recognized over a weighted-average period of 2.75 years. The cash received and the actual tax benefit realized for the tax deductions from option exercises was $0.2 million and $32 for the year ended September 30, 2006. The total fair value of options vested for the year ended September 30, 2006 is $2.3 million.

7. Comprehensive Income

Comprehensive income for the fiscal year ended September 30, 2007 was $95,479 comprising net income of $56,469 and cumulative translation adjustment of $39,010.

Comprehensive income for the fiscal year ended September 30, 2006 was $1,887 comprising net income of $755 and cumulative translation adjustment of $1,132.

Comprehensive (loss)/income for the three month period ended September 30, 2005 and for the nine-month periods ended June 30, 2005 was ($45,618) and $9,839, respectively. These amounts were comprised of net (loss)/income of ($46,035) and net income of $11,126, respectively, and cumulative translation adjustments of $417 and ($1,287), respectively.

8. Accounts receivable

The allowance for doubtful accounts was developed as follows:

		Additions			
	Balance at beginning of period	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			$'000s		
Successor					
For the year ended September 30, 2007	$ 837	$ 758	$	$ 120	$ 1,475
For the year ended September 30, 2006	402	647		212	837
From July 1, 2005 to September 30, 2005		402			402
Predecessor 2					
From October 1, 2004 to June 30, 2005	526	427		462	491

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9. Inventories, net

	Successor September 30, 2007	Successor September 30, 2006
	$'000s	
Finished goods	$ 40,000	$ 28,382
Work in progress	13,647	11,688
Raw materials	32,136	25,630
	85,783	**65,700**
Inventory reserve	(10,949)	(8,397)
	$ 74,834	**$ 57,303**

In the fiscal year ended September 30, 2007, $4,300 of general and administrative cost was charged to inventory (year ended September 30, 2006, $4.214; July 1, 2005 to September 30, 2005, $1,091; October 1, 2004 to June 30, 2005, $3,728).

In the fiscal year ended September 30, 2007, $442 of general and administrative cost remained in inventory (September 30, 2006, $401).

10. Property, plant and equipment, net

	Gross	Accumulated Depreciation and Amortization	Net
		$'000s	
Successor			
September 30, 2007			
Land	$ 13,280	$	$ 13,280
Buildings, building improvements and leasehold improvements	17,411	3,327	14,084
Machinery and technical equipment	57,798	22,837	34,961
Software and software licences	18,025	4,873	13,152
Prepayments for property, plant and equipment	5,046		5,046
	$ 111,560	**$ 31,037**	**$ 80,523**

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	Gross	Accumulated Depreciation and Amortization	Net
		$'000s	
Successor			
September 30, 2006			
Land	$ 11,859	$	$ 11,859
Buildings, building improvements and leasehold improvements	14,841	1,775	13,066
Machinery and technical equipment	34,992	14,263	20,729
Software and software licences	13,101	2,101	11,000
Prepayments for property, plant and equipment	4,388		4,388
	$ 79,181	**$ 18,139**	**$ 61,042**

Depreciation and amortization expense for the year ended September 30, 2007 was $14,646, for the year ended September 30, 2006, $13,771 and for the twelve month period ended September 30, 2005, $16,192 (October 1, 2004 to June 30, 2005, $12,738, July 1, 2005 to September 2005, $3,454).

Amortization expense includes amortization of capitalized software development costs for the year ended September 30, 2007 of $1,424, for the year ended September 30, 2006 of $270 and for the twelve month period ended September 30, 2005 of $995 (October 1, 2004 to June 30, 2005, $840, July 1, 2005 to September 2005, $155). Buildings and leasehold improvements includes office space that is leased under operating leases to third parties with a historical cost of $1,521 and $1,719 and carrying amount of $1,217 and $675 at September 30, 2007 and 2006, respectively.

11. Intangible assets and goodwill

The Company performed the required annual impairment tests as of September 30 in each year and identified no impairment.

Amortization expense for finite-lived identifiable intangible assets for the year ended September 30, 2007 was $78,994, for the year ended September 30, 2006 was $52,813 and for the twelve month period ended September 30, 2005, $43,355 (October 1, 2004 to June 30, 2005, $31,417, July 1, 2005 to September 30, 2005, $11,938). The annual estimated amortization expense related to these intangible assets for the fiscal years 2008, 2009, 2010, 2011 and 2012 is $85,181, $71,790, $60,874, $53,731 and $49,220, respectively.

The following table presents details of intangible assets, related accumulated amortization and goodwill:

	Gross	Accumulated amortization	Net
		$'000s	
Successor			
September 30, 2007			
Patents & Licenses	$ 148,218	$ 32,183	$ 116,035
Trademarks	136,058	128	135,930
Technologies and dealer relationships	469,555	124,465	345,090
Prepayments for intangible assets	247		247
	754,078	156,776	597,302
Goodwill	677,506		677,506
Total intangible assets	**$ 1,431,584**	**$ 156,776**	**$ 1,274,808**

	Gross	Accumulated amortization	Net
		$'000s	
Successor			
September 30, 2006			
Patents & Licenses	$ 132,736	$ 17,168	$ 115,568
Trademarks	124,282	28	124,254
Technologies and dealer relationships	428,217	49,046	379,171
	685,235	66,242	618,993
Goodwill	613,549		613,549
Total intangible assets	**$ 1,298,784**	**$ 66,242**	**$ 1,232,542**

The change in the value of goodwill and of intangible assets from September 30, 2006 to September 30, 2007 is mainly attributable to a change in the exchange rate with an impact of $58,079 on goodwill and $54,749 on intangible assets. Goodwill of $6,679 and customer lists of $5,094 have been acquired as part of the acquisition of two entities in fiscal year 2007. Goodwill has also been reduced by $801 as a result of tax benefits received from exercises subsequent to the Exchange, of options vested and included in the determination of purchase price at the time of the Exchange.

12. Income taxes

The income tax (provision) benefit is comprised of the following:

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	**Year ended September 30, 2006**	**July 1, 2005 to September 30, 2005**	**October 1, 2004 to June 30, 2005**
		$'000s		
Current				
Domestic (U.S.)	$ (12,741)	$ (2,031)	$	$
Foreign	(25,834)	(16,784)	(182)	(7,643)
Total Current	(38,575)	(18,815)	(182)	(7,643)
Deferred				
Domestic (U.S.)	10,754	2,444	57	10
Foreign	62,698	9,011	5,921	2,189
Total Deferred	73,452	11,455	5,978	2,199
Total	**$ 34,877**	**$ (7,360)**	**$ 5,796**	**$ (5,444)**

The significant components of deferred tax assets and liabilities of continuing operations included in the consolidated balance sheets are:

	Successor		Successor	
	At September 30, 2007		**At September 30, 2006**	
	Current assets (liabilities)	**Non-current assets (liabilities)**	**Current assets (liabilities)**	**Non-current assets (liabilities)**
		$'000s		
Employee benefit accruals	$ 66	$ 1,678	$ 62	$ 7,497
Goodwill amortization for tax purposes (historical tax deductible goodwill)		(8,306)		(5,520)
Debt issuance costs		(2,013)	(1,232)	(5,939)
Inventory reserve	4,051		3,410	
Receivables			(245)	
Property, plant and equipment		(5,123)		(5,987)
Intangible assets		(177,315)		(232,168)
Long term debt			(247)	(2,033)
Deferred income	772	(4,247)		(1,697)
Tax loss carryforward		7,282	1,361	8,963
Valuation allowances on tax loss carryforwards		(5,350)		(3,208)
Other	887	3,080	(1,646)	250
Total	5,776	(190,314)	1,463	(239,842)

	Successor		Successor	
Deferred tax assets current and non-current	9,040	2,494	4,671	3,649
Deferred tax liabilities current and non-current	(3,264)	(192,808)	(3,208)	(243,491)
Net deferred tax asset (liability)	$ 5,776	$ (190,314)	$ 1,463	$ (239,842)

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In August 2007 a new tax law was enacted in Germany which becomes effective January 1, 2008. The new law reduces corporate tax rates in Germany and resulted in a revaluation of the net deferred tax liabilities, providing the Company with a benefit of $45,563.

In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon sufficient taxable income within the carry-back years and the generation of future taxable income during the periods in which those temporary differences and tax loss carry-forwards become deductible. Management considers taxable income in the carry back years, if carry back is permitted in the tax law, the projected future taxable income (including the realization of future taxable temporary differences), and tax planning strategies in making this assessment.

As of September 30, 2007 the Company had $22,284 of gross tax loss carry-forwards subject to expiration as follows:

Year of expiration	**Losses**
	$'000s
2009	$ 1,612
2010	425
2011	1,087
2012	2,513
2013	2,040
2014 2025	4,796
Subtotal	12,473
Indefinite	9,811
Total	**$ 22,284**

The Company recognized a valuation allowance of $5,350 at September 30, 2007 ($3,208 at September 30, 2006) on deferred tax assets relating to tax loss carry-forwards of $7,282, as management believes that it is more likely than not that the benefits of those existing tax loss carry-forwards will not be realized within the period those tax losses are deductible.

The difference between the applicable statutory tax rate and the Company's income tax (provision) benefit included in the consolidated statements of operations consisted of the following: The statutory tax rate since 2006 is the U.S. federal tax rate as a result of the Exchange (described in Note 4). The

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expected tax rate of prior periods is the German Corporation tax rate, the applicable tax rate before the Exchange.

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	**Year ended September 30, 2006**	**July 1, 2005 to September 30, 2005**	**October 1, 2004 to June 30, 2005**
		$'000s		
Income/(loss) before income taxes and minority interest	$ 21,777	$ 8,333	$ (51,837)	$ 16,620
Computed tax (provision)/benefit	(7,620)	(2,917)	19,128	(6,133)
Foreign tax differential	(97)	(314)	(352)	(2,584)
Non deductible expenses	(2,545)	(127)	(23)	(179)
Permanent differences relating to German trade taxes	(2,503)	(2,600)	(1,283)	(1,101)
Subpart F income net of tax credit	(482)	(372)		
IPR&D		(2,100)	(12,471)	
Tax income from prior periods	(4,168)	(1,039)		3,812
Permanent differences	7,992	1,723	(79)	
Additional state taxes	(392)	(420)		
Change in tax rate	46,165			
Change in valuation allowance	(1,784)	574		
Other	311	232	876	741
Benefit/(provision) for income taxes	**$ 34,877**	**$ (7,360)**	**$ 5,796**	**$ (5,444)**

The permanent differences primarily include the effects of non-taxable interest.

The components of income (loss) before income taxes and minority interests are:

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	**Year ended September 30, 2006**	**July 1, 2005 to September 30, 2005**	**October 1, 2004 to June 30, 2005**
		$'000s		
Germany	$ 7,206	$ 15,756	$ (50,015)	$ 23,936
United States	17,376	(4,374)	(131)	(419)
Other Foreign	(2,805)	(3,049)	(1,691)	(6,897)
	$ 21,777	$ 8,333	$ (51,837)	$ 16,620

None of the goodwill recognized in the Exchange or for the business combinations in the current year is tax deductible. The portion of capitalized goodwill that is deductible for tax purposes as a result of the MDP and EQT Transactions as of June 30, 2005 and February 17, 2004 was $88,219 and $72,281, respectively.

	Balance at Beginning of Period	Charged/ (credited) to Cost and Expenses	Addition Charged to Other Accounts	Deductions	Balance at End of Period
			$'000s		
Valuation allowance deferred tax asset					
For the year ended September 30, 2007	$ 3,208	$ 2,181		39	$ 5,350
For the year ended September 30, 2006	3,782	(574)			3,208

Income taxes on cumulative earnings of foreign subsidiaries have not been provided for because such earnings are intended to be indefinitely reinvested in those operations.

The German tax authorities examined the tax returns for the fiscal years 2001-2004. The results of the tax examination were discussed during a meeting with the representatives of the German tax authority and are fully reflected in our financial statements. We do not expect fiscal years 2001-2004 to be subject to further investigations.

13. Accrued liabilities and deferred income

	Successor September 30, 2007	Successor September 30, 2006
	$'000s	
Employee benefits (e. g. bonuses, vacation, overtime, Christmas payment)	$ 27,129	$ 26,779
Product warranty	12,547	10,879
Other provisions	15,933	12,648
Deferred Income	13,515	1,905
Property Taxes	968	1,526
Other liabilities	14,256	11,466
	$ 84,348	**$ 65,203**

14. Short-term debt and current portion of long-term debt

Short-term debt relates to the Company's revolving credit facility utilized in the amount of Euro 7 million ($9.9 million, repaid October 31, 2007) as of September 30, 2007, as well as the current portion of long-term debt, other short-term debt and accrued interest on long-term debt totaling $13.1 million and $14.7 million, as of September 30, 2007 and September 30, 2006, respectively.

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15. Long-term debt

	Successor	Successor
	September 30, 2007	September 30, 2006
	$'000s	
Bank loans		
Senior syndicated loan, Tranches A, variable rate repayable in semi-annual installments starting September 2006 through June 2012	$	$ 118,013
Senior syndicated loan, Tranches B, variable rate repayable at end of term in June 2013		158,587
Senior syndicated loan, Tranche C, interest at EURIBOR plus 3.25%, repayable in full at end of term in June 2014		139,574
Mezzanine loan, interest at EURIBOR plus 9.5%, repayable in full at end of term in June 2015		115,344
Senior term loan, Tranche A1, variable rate repayable in annual installments starting November 2009 through November 2011	153,066	
Senior term loan, Tranche A2, variable rate repayable in annual installments starting November 2009 through November 2011	396,692	
Other debt	1,958	1,854
	551,716	**533,372**
Less current portion	11,573	14,738
	$ 540,143	**$ 518,634**

The table below reflects the contractual maturity dates of the various borrowings at September 30, 2007:

Year ending September 30,	**$'000s**
2008	$ 11,573
2009	81,021
2010	81,021
2011	378,101
2012	
Thereafter	
	$ 551,716

The amounts disclosed above do not include interest, except for the 2008 amount, which includes interest of $9,654.

Shareholder loan

Luxco granted Sirona Holding a loan of €150,992 in connection with the MDP Transaction. The loan accrues interest at 7.5% per annum. In connection with the Exchange, Sirona Dental Systems, Inc.

took over the shareholder loan from Luxco. Effective June 20, 2006 (closing of the transaction) the shareholder loan is eliminated on consolidation. The interest is being accumulated until the end of the loan term on June 30, 2015, when the loan and the interest is required to be repaid. From October 1, 2005 through June 20, 2006 interest of €8,305 ($10,086) has been accreted.

Senior Term Loans

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

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

Each of the senior term loans has a five year maturity and is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 75 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

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

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

Debt issuance costs of $5.6 million were incurred in relation to the new financing and were capitalized as deferred charges.

Debt Extinguishment

The retirement of the borrowings under the Company's previous credit facilities, the senior syndicated loan tranches A, B and C and the mezzanine loan facility, was accounted for as a debt extinguishment in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". The unscheduled repayment of the mezzanine facility by the Company resulted in a prepayment fee of Euro 0.9 million ($1.2 million). In addition, $19.9 million of unamortized debt issuance costs relating to the previous credit facilities were written off in the period. As a result, a loss on debt extinguishment totalling $21.1 million was recognized in the year ended September 30, 2007.

16. Deferred income

On June 30, 2005, Sirona and its largest distributor, Patterson, amended the terms of an existing distribution agreement to extend Patterson's rights as exclusive distributor of certain Sirona products within the United States and Canada from October 1, 2007 through September 30, 2017. As consideration for the extension of its exclusivity rights, Patterson made a one-time payment of $100 million to Sirona in July 2005. Sirona recorded the full amount of the payment as deferred revenue and will begin amortizing the amount into revenue on a straight-line basis over ten years beginning October 1, 2007. In the event of termination by Patterson for certain breaches of contract by Sirona, Sirona has to refund to Patterson the unearned portion of the $100 million payment as liquidated damages. Depending on the reason for termination, the amount of liquidated damages declines (i) on a straight line basis beginning in fiscal 2008 or (ii) by $15 million per year in each of fiscal 2008 through fiscal 2012 and by $5 million per year thereafter. Sirona accounts for the deferred revenue related to the Patterson payment as a monetary liability. The deferred income is amortized straight line over the term of the contract at $10 million per year. Effects of remeasurement of the amount from U.S. dollar to EURO are reflected currently in the statement of operations. Sirona recognized $11.3 million gain and $5.0 million in foreign currency transaction gain in the statements of operations for the years ended September 30, 2007 and 2006, respectively.

17. Income per share

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

	Year ended September 30, 2007	Year ended September 30, 2006
	$'000 except for share amounts	
Net income	$ 56,469	$ 755
Weighted average shares outstanding basic	54,701,997	41,884,704
Dilutive effect of stock options	836,465	321,933
Weighted average shares outstanding diluted	55,538,462	42,206,637
Net income per share		
Basic	$ 1.03	$ 0.02
Diluted	$ 1.02	$ 0.02

Stock options to acquire 585,000 shares of Sirona's common stock that were granted in connection with the Plan were not included in the computation of diluted earnings per share for the twelve month ended September 30, 2007, because the options' underlying exercise prices were greater than the average market price of Sirona's common stock for the period.

Stock options to acquire 60,000 shares of Sirona's common stock that were granted in connection with the Directors Plan were not included in the computation of diluted earnings per share for the twelve month ended September 30, 2006, because the options' underlying exercise prices were greater than the average market price of Sirona's common stock for the period.

Share and per share information is not presented for periods prior to the Exchange because such information is not meaningful. The MDP transaction, which was closed on July 1, 2005, created a new basis of accounting and resulted in presentation of "Predecessor" and "Successor" financial statements. With a different basis of accounting and only one share outstanding during the Predecessor period, the EPS results would not provide comparable information.

18. Commitments and contingencies

Operating lease commitments

The Company leases certain vehicles and IT equipment from unrelated third parties. The leases are non-cancellable and have terms of greater than one year. During the year ended September 30, 2007 leasing expense was $6,287 (year ended September, 30, 2006 $3,336; July 1, 2005 to September 2005, $255; October 1, 2004 to June 30, 2005, $753).

In July 2005, Sirona entered into a sale and leaseback agreement regarding unused land on the site of the major facility in Bensheim. The land was sold for € 901 ($ 1,279 at the €/$ exchange rate of September 30, 2007) to an unrelated property development company, who constructed an office building based on Sirona's specifications on the site. Sirona leased the property from the property development company through an 18-year lease. Under the terms of the lease, rent is fixed at €1,202 ($1,705 at the €/$ exchange rate of September 30, 2007) per annum until 2013. After 2013, rent is subject to adjustment according to an inflation index. Rental payments started in April 2007 when the building was ready for occupancy. The land remains an asset on Sirona's balance sheet and the building will be accounted for as an operating lease.

Furthermore, the Company rents space in New York, Salzburg, Charlotte and other locations.

Future minimum lease payments under non-cancelable operating lease agreements as of September 30, 2007 are as follows:

Year ending September 30,		**$'000s**
2008	$	6,843
2009		5,650
2010		4,674
2011		3,971
2012		3,945
Thereafter		23,796
	$	**48,879**

Guarantees

Customers can finance their purchase of Sirona products from the respective dealer through financial institutions. Prior to March 2003, Sirona would offer to guarantee up to 10% of the total liability due to the financial institution from Sirona customers if the customer defaulted on their payments. However, the contracts negotiated with the dealers, who sold the products to the third party customers, granted Sirona a right of recourse against the dealer if the customer defaulted on their payments. The Company ceased issuing these guarantees after March 2003. The arrangements were generally provided for a five year period; therefore the related guarantees issued by Sirona are expected to expire by 2008. Under U.S. GAAP, only guarantees issued after December 31, 2002 are required to be measured at fair value and recognized in Sirona's financial statements.

Contingencies

The Company may be involved in lawsuits, claims, investigations and proceedings, including patent and commercial matters that arise in the ordinary course of business. At September 30, 2007, there are no such matters pending that the Company expects to be material in relation to its business, consolidated financial position, results of operations or cash flows.

19. Product warranty

The following table provides the changes in the product warranty accrual for the year ended September 30, 2007

		Successor		**Successor**
		Year ended September 30, 2007		**Year ended September 30, 2006**
		$'000s		
Opening balance	$	10,879	$	9,276
Accruals for warranties issued during the period		20,560		15,453
Warranty settlements made during the period		(20,138)		(14,355)
Translation adjustment		1,246		505
Closing balance	**$**	**12,547**	**$**	**10,879**

20. Unconditional purchase commitments

As of September 30, 2007, the Company had unconditional purchase commitments of $50,347, mainly for purchases of raw material and components. The commitments are due in fiscal year 2008 ($44,482), in fiscal years 2009 and 2010 ($5,713) and thereafter ($152).

21. Interest

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
	$'000s			
Interest expense	$ (32,011)	$ (45,675)	$ (8,990)	$ (21,306)
Interest expense from related parties		(10,086)	(2,939)	(2,594)
Interest income	3,845	1,486	842	1,126
	$ (28,166)	**$ (54,275)**	**$ (11,087)**	**$ (22,774)**

22. Pension plans

Defined benefit plans

In Germany the Company traditionally had an unfunded defined benefit pension plan whose benefits are based primarily on years of service and wage and salary group. As of January 1, 2001, the Company replaced its unfunded defined benefit pension plan with a new defined contribution plan. All new hires after that date only receive defined contributions to a pension plan based on a percentage of the employee's eligible compensation. However, due to grandfathering provisions for certain existing employees hired before that date, the Company continues to be obligated to provide pension benefits which are at a minimum equal to benefits that would have been available under the terms of the traditional defined benefit plans (Grandfathered Benefit). The Grandfathered Benefit and contributions to the Company's pension plan made for those employees after January 1, 2001 are included in the disclosures for defined benefit plans. The Company accounts for the Grandfathered Benefit by recognizing the higher of the defined contribution obligation or the defined benefit obligation for the minimum benefit.

In addition, the Company offers defined contribution benefits under the terms of a Section 401(k) plan to employees in the U.S.

The Company uses an actuarial measurement date of September 30.

Change in the projected benefit obligation and plan assets for all of the Company's defined benefit plans is as follows:

	Successor Year ended September 30, 2007	Successor Year ended September 30, 2006
	$'000s	
Projected benefits obligation at beginning of period	$ 53,388	$ 48,547
Service cost	1,304	1,149
Interest cost	2,219	1,941
Actuarial (gain)	(5,123)	(431)
Investment earnings	342	304
Benefits paid	(872)	(723)
Currency translation	6,255	2,601
Projected benefit obligation at end of period	57,513	53,388
Fair value of plan assets at beginning of period	6,030	4,656
Actual return on plan assets	342	304
Employer's contribution	924	1,268
Benefits paid	(23)	(51)
Currency Translation	790	(147)
Fair value of plan assets at end of period	8,063	6,030
Funded status	$ (49,450)	$ (47,358)

Components of net periodic benefit costs are as follows:

	Successor Year ended September 30, 2007	Successor Year ended September 30, 2006	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005
	$'000s			
Service cost	$ 1,304	$ 1,149	$ 906	$ 247
Interest cost	2,219	1,941	476	1,563
Other				
Net periodic benefit cost	$ 3,523	$ 3,090	$ 1,382	$ 1,810

The accumulated benefit obligation as of September 30, 2007 and 2006 was $48,374 and $46,248, respectively.

The reconciliation of the funded status of the Company's defined benefit plans to the amounts recognized on the balance sheets is as follows:

	Successor	Successor
	September 30, 2007	**September 30, 2006**
	$'000s	
Funded status	$ (49,450)	$ (47,358)
Recognized pension provision	(55,821)	(48,167)
Unrecognized net (loss)/gain	$ 6,371	$ 809

As of September 30, 2007, the Company adopted the recognition provision of SFAS 158 and recognized the funded status in its balance sheet. The adjustments to adopt to SFAS 158 were recorded as a component of accumulated other comprehensive income.

To the extent the defined benefit obligation is recognized for the Grandfather Benefit, the long-term estimated rate of return on plan assets is 5% per annum. This rate was based on an appropriate long-term rate for the plan assets held.

The benefits expected to be paid in cash of the following five years, and in aggregate for the fiscal years thereafter, are as follows:

Year ending September 30,	**$'000s**
2008	$ 1,159
2009	2,139
2010	2,187
2011	2,280
2012	2,368
5 Years thereafter	12,582
	$ 22,715

The contributions expected to be made in each of the following five years and in aggregate thereafter are as follows:

Year ending September 30,	**$'000s**
2008	$ 1,451
2009	1,485
2010	1,525
2011	1,549
2012	1,537
5 Years thereafter	20,427
	$ 27,974

Weighted-average assumptions used to determine both benefit obligations and net periodic benefit costs are as follows:

	Successor			Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
Discount rate	5.25%	4.50%	4.25%	5.75%

The plan assets consist of contributions made by Sirona to a pension fund managed by an insurance company as custodian, which invests these funds. The insurance company guarantees a minimum return on the contributions. The expected long term return on plan assets is estimated to be 5%. This rate is based on an estimated long term return rate for the type of plan assets held.

The Company's weighted average asset allocations by the insurance company by asset category are as follows:

	Successor	Successor
	September 30, 2007	September 30, 2006
Equity securities	31.9%	34.8%
Fixed income securities	53.1%	52.0%
Other	15.0%	13.2%
	100.0%	100.0%

Defined contribution plans

The Company made contributions of $434 to the German plan for the year ended September 30, 2007, and $358 to the German plan for the year ended September 30, 2006.

Contributions to the U.S. plans were $494 for the 12 month period ended September 30 2007, and $259 for the 12 month period ended September 30, 2006. The Company is obligated to match employee contributions as defined in the plan.

23. Segment reporting

Description of segments. Sirona manages its business on both a product and geographic basis and has four reporting segments; Dental CAD/CAM Systems, Imaging Systems, Treatment Centers, and Instruments. There are two regional sales organizations, USA and Other World Markets, which distribute Sirona's products globally through a network of independent distributors to dental practices, clinics and laboratories. The Electronic Center is a shared facility that manufactures electronic components and provides services for all Sirona segments, and to a very limited extent, external parties. Further shared functions including customer service, logistics, site management, IT and administration are operated centrally.

Description of the Company's segments:

Dental CAD/CAM Systems. Dental CAD/CAM Systems products comprise CAD/CAM chairside systems for the dentist (CEREC) as well as CAD/CAM systems for the laboratories, such as inlab, inEOS and a central manufacturing service for copings and bridge-frameworks. The CEREC system allows dentists to prepare restorations in an "out-of-mouth pre-shaped' process and insert them into the patient's mouths during a single appointment.

Imaging Systems. Imaging systems products comprise a broad range of equipment for diagnostic imaging in the dental practice, using both film-based and digital technologies. Sirona has developed a broad range of imaging systems for 3D, panoramic and intra-oral applications.

Treatment Centers. Sirona's treatment centers comprise a broad range, from standard dentist chairs to sophisticated centers with integrated diagnostic, hygiene and ergonomic functionalities, such as C2+ and M1+, as well as specialist centers used in preventative treatment (ProFeel+) and for training purposes.

Instruments. Sirona offers a wide range of handpiece products, encompassing handheld and power-operated handpieces for cavity preparation, endodontics, periodontology and prophylaxis. The handpieces are supplemented by multi-function tips, supply and suction hoses, as well as care and hygiene systems for handpiece preparation. Sirona's handpieces are often sold as complete packages in combination with treatment centers. The division also supplies parts for other divisions, especially Treatment Units (OEM turbines and tubes) and CAD/CAM Systems.

The following tables reflect the results of the Company's reportable segments under the Company's management reporting system. The segment performance measure used to monitor segment performance is gross profit ("Segment Performance Measure"). Gross profit, which is based on the records as prepared under statutory German accounting standards, excluding the impact of the EQT Transaction and MDP Transaction, is considered to better reflect the performance of each segment as it eliminates the need to allocate centrally incurred costs and significant purchase accounting impacts that the Company does not believe are representative of the performance of the segments. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
		$'000s		
Revenue External				
Dental CAD/CAM Systems	$ 208,458	$ 183,810	$ 31,269	$ 137,699
Imaging Systems	225,711	132,726	27,211	72,963
Treatment Centers	143,040	130,108	33,235	95,908
Instruments	82,705	71,880	14,620	48,575
Total	**$ 659,914**	**$ 518,524**	**$ 106,335**	**$ 355,145**
Revenue Internal				
Dental CAD/CAM Systems	$	$	$	$
Imaging Systems	128	74		85
Treatment Centers	14	60		
Instruments	10,543	11,355	2,678	8,653
Intercompany elimination	(10,685)	(11,489)	(2,678)	(8,738)
Total	**$**	**$**	**$**	**$**
Revenue Total				
Dental CAD/CAM Systems	$ 208,458	$ 183,810	$ 31,269	$ 137,699
Imaging Systems	225,839	132,799	27,211	73,048
Treatment Centers	143,054	130,168	33,235	95,908
Instruments	93,248	83,236	17,298	57,228
Total	**$ 670,599**	**$ 530,013**	**$ 109,013**	**$ 363,883**
Segment performance measure				
Dental CAD/CAM Systems	$ 142,200	$ 135,678	$ 22,903	$ 98,677
Imaging Systems	133,475	67,686	11,195	29,377
Treatment Centers	56,660	49,112	13,074	32,996
Instruments	37,339	35,497	6,183	22,691
Total	**$ 369,674**	**$ 287,973**	**$ 53,355**	**$ 183,741**
Depreciation and amortization expense				
Dental CAD/CAM Systems	$ 2,715	$ 2,042	$ 746	$ 1,988
Imaging Systems	4,771	2,834	1,120	2,890
Treatment Centers	2,707	2,372	655	2,093
Instruments	2,803	2,722	756	1,785
Total	**$ 12,996**	**$ 9,970**	**$ 3,277**	**$ 8,756**

Reconciliation of the results of the segment performance measure to the consolidated statements of operations

The following table and discussion provide a reconciliation of the total results of operations of the Company's business segments under management reporting to the consolidated financial statements. As of October 1, 2006, the Company changed the basis of accounting for its management reporting from statutory German accounting standards to U.S. GAAP, the basis used to prepare the consolidated financial statements. As a result, the differences shown between management reporting and U.S. GAAP for the year ended September 30, 2007, are mainly due to the impact of purchase accounting. Purchase

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accounting effects are not included in gross profit as the Company does not believe these to be representative of the performance of each segment.

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

	Successor	Successor	Successor	Predecessor 2
	Year ended September 30, 2007	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005
		$'000s		
Revenue				
Total segments	$ 659,914	$ 518,524	$ 106,335	$ 355,145
Electronic centre	35	181	4	971
Differences management reporting vs U.S. GAAP		1,899	(1,268)	2,169
Consolidated revenue	**659,949**	**520,604**	**105,071**	**358,285**
Depreciation and amortization				
Total segments	12,996	9,970	3,277	8,756
Electronic Centre and corporate	2,267	1,864	383	1,179
Differences management reporting vs. US GAAP	78,376	55,020	11,732	34,220
Consolidated depreciation and amortization	**93,639**	**66,854**	**15,392**	**44,155**
Segment performance measure				
Total segments	369,674	287,973	53,355	183,741
Electronic centre and corporate	9,290	4,266	1,336	2,323
Differences management reporting vs. US GAAP	(74,490)	(50,320)	(21,234)	(27,242)
Consolidated gross profit	**304,474**	**241,919**	**33,457**	**158,822**
Selling, general and administrative expense	203,597	148,715	34,544	93,236
Research and development	46,945	33,107	7,863	21,700
Provision for doubtful accounts and notes receivable	217	348	(192)	(127)
Write off of in-process research and development		6,000	33,796	
Net other operating (income)/loss	(162)	1,733	(723)	(384)
Foreign currency transaction loss	(16,794)	(9,873)	601	749
Loss/(gain) on derivative instruments	169	(719)	(1,682)	4,383
Interest expense, net	28,166	54,275	11,087	22,774
Loss on debt extinguishment	21,145			
Other (income)	(586)			(129)
Income/(Loss) before income taxes and minority interest	**$ 21,777**	**$ 8,333**	**$ (51,837)**	**$ 16,620**

The adjustments that the Company records to reconcile management reporting to the consolidated financial statements prepared in accordance with U.S. GAAP primarily relate to the exclusion of amortization and depreciation related to the step-up to fair value of the intangible and tangible assets as a result of the EQT Transaction and the MDP Transaction. In addition, management reporting was

based on German GAAP which differs from U.S. GAAP until September 30, 2006. The main differences between management reporting based on German GAAP and U.S. GAAP applicable to the Company until September 30, 2006, included:

Revenue recognition

Management reporting recognizes revenue upon shipment of the product. For consolidated financial statements purposes, revenue is recognized upon risk of loss being transferred to the buyer, which depends in part on the shipping terms.

Provisions

Management reporting records provisions even though the occurrence of a loss may not be probable or a legal obligation may not exist. For consolidated financial statements purposes certain provisions such as the allowance for doubtful accounts and loss contingencies are recognized when a loss is probable and reasonably estimable.

Inventory

Management reporting does not include inventory overhead costs which relate to the production process. For consolidated financial statements purposes, these overhead costs are capitalized in inventory.

Pension expense

Management reporting measures pension expense using the entry age normal approach. For consolidated financial statements purposes, pension expense is recognized using the projected unit credit method.

Software cost capitalization

Management reporting does not capitalize costs relating to the development of software for internal use or software that is more than incidental to equipment that is intended to be sold. For consolidated financial statements purposes, certain costs that are incurred in the development stage are capitalized for software for internal use. For software developed and to be included in products that are intended to be sold, costs that are incurred after the software has achieved technological feasibility are capitalized until the software is available for market release.

Foreign currency accounting

Until September 30, 2005, Management reporting translated the income statements of foreign subsidiaries at the spot rate at the balance sheet date and only recognizes unrealized losses on foreign currency denominated receivables or payables. For consolidated financial statements purposes, the income statements of foreign subsidiaries are translated using a weighted average rate for the respective period, whereas foreign currency denominated receivables and payables are translated at the rate at the balance sheet date. Since October 2005 the method used in management reporting has been adjusted to be consistent with the method used in the consolidated financial statements.

Purchase accounting

Management reporting excludes amortization and depreciation related to the step-up to fair value of the intangible and tangible assets as a result of the EQT Transaction, the MDP Transaction and the Exchange. In addition, management reporting also excludes the incremental cost of sales due to the step up in value of inventory recognized in purchase accounting. For consolidated financial statements purposes, amortization and depreciation related to the step up of definite-lived intangibles and tangible assets are recognized and amortized over their estimated useful lives. In addition, incremental costs due to the step-up in value of inventory recognized in purchase accounting are expensed when revenue for the product is recognized.

The following information is presented in accordance with U.S. GAAP:

	Successor September 30, 2007	Successor September 30, 2006
	$'000s	
Total assets		
Dental CAD/CAM Systems	$ 781,994	$ 757,071
Imaging Systems	542,043	493,133
Treatment Centers	213,059	196,010
Instruments	120,647	94,790
Total	**$ 1,657,743**	**$ 1,541,004**
Goodwill		
Dental CAD/CAM Systems	$ 298,278	$ 272,810
Imaging Systems	223,217	198,049
Treatment Centers	95,833	87,650
Instruments	60,178	55,040
Total	**$ 677,506**	**$ 613,549**

	Germany	United States	Rest of World	Total
		$'000s		
Net Sales*				
October 1, 2006 to September 30, 2007	$ 140,571	$ 215,865	$ 303,513	**$ 659,949**
October 1, 2005 to September 30, 2006	118,378	156,720	245,506	**520,604**
July 1, 2005 to September 30, 2005	27,467	20,833	56,771	**105,071**
October 1, 2004 to June 30, 2005	101,414	103,457	153,414	**358,285**
Long-lived assets				
September 30, 2007	1,083,765	265,604	11,623	**1,360,992**
September 30, 2006	1,025,891	281,762	4,051	**1,311,704**

* Sales are allocated to the country in which the customer is located.

During the years ended September 30, 2007 and September 30, 2006 and for the periods from July 1, 2005 through September 30, 2005, and October 1, 2004 to June 30, 2005, revenues from two customers represented 45%, 45%, 29%, and 36% of net sales, respectively. No other customer accounted for more than 10% of revenues.

24. Related parties

Other related party transactions

MDP

In connection with the MDP Transaction a service agreement has been put in place between Sirona, MDP IV Offshore GP, LP and Harry M. Jansen Kraemer, who is a member of the Advisory Committee to the Board of Luxco Manager. This agreement provides for a one-time payment of €10,000 ($12,000) from Sirona to the other two parties for advice, support for negotiating the purchase agreement, preparation of financial models and projections and due diligence services for Sirona related to the MDP Transaction. The payment was made in the three month period ended September 30, 2005.

BERAG

The Company considers BERAG, an actuarial firm used by Sirona, to be a related party of Sirona. The Managing Director of BERAG, Dr. Blum, is also a member of the Supervisory Board of Sirona Dental Systems GmbH, a subsidiary of Sirona Dental Systems, Inc.

Sirona recorded expenses in relation to BERAG in each of the period being presented as follows; October 1, 2006 to September 30, 2007, $43; October 1, 2005 to September 30, 2006, $94; July 1, 2005 to September 30, 2005, $21; October 1, 2004 to June 30, 2005, $67. Amounts owed to BERAG as at September 30, 2007 and September 30, 2006, were $0 and $0, respectively.

Sirona Holdings S. C.A Luxembourg

Effective October 1, 2005, an advisory service agreement has been signed between the Company and Sirona Holdings S.C.A., Luxembourg. Under the agreement, Sirona will pay an annual fee to Sirona Holdings S.C.A., Luxembourg of €325 ($432), and Sirona Holdings S.C.A., Luxemburg will provide to Sirona certain advisory services regarding the structure, terms and condition of debt offerings by Sirona, financing sources and options, business development and other services.

25. Subsequent event

None

26. Unaudited quarterly information

The following is a summary of the Company's unaudited quarterly operating results for the years ended September 30, 2007 and 2006:

	Successor	Successor	Successor	Successor
	Sept 30, 2007	June 30, 2007	Mar 31, 2007	Dec 31, 2006
	$'000s (except for weighted average shares)			
Revenue	$ 177,941	$ 157,041	$ 150,168	$ 174,799
Cost of Sales	95,233	89,893	79,622	90,727
Gross profit	**82,708**	**67,148**	**70,546**	**84,072**
Operating expenses/(income):				
Selling, general and administrative expense	53,586	49,633	52,877	47,501
Research and development	12,800	11,811	12,054	10,280
Provision for doubtful accounts and notes receivable	(112)	96	(68)	301
Write off of in-process research and development				
Other operating (income)/expenses, net	(264)	130	122	(150)
Operating income	**16,698**	**5,478**	**5,561**	**26,140**
Foreign currency transactions (gain)/loss	(6,982)	(857)	(1,889)	(7,066)
Loss/(gain) on derivative instruments	2,385	(2,636)	911	(491)
Interest expense, net	7,231	5,769	6,207	8,959
Loss on debt extinguishment				21,145
Other (income)	(586)			
Income before income taxes and minority interest	**14,650**	**3,202**	**332**	**3,593**
Income tax (benefit)/provision	(37,372)	1,121	125	1,249
Minority interest	202	100	(143)	26
Net income	**$ 51,820**	**$ 1,981**	**$ 350**	**$ 2,318**
Net income per share basic	$ 0.95	$ 0.04	0.01	0.04
Net income per share diluted	$ 0.93	$ 0.04	0.01	0.04
Weighted average shares basic	54,756,709	54,746,515	54,683,295	54,621,818
Weighted average shares diluted	55,520,640	54,880,563	54,890,447	54,848,513

	Successor	Successor	Successor	Successor
	Sept 30, 2006	June 30, 2006	Mar 31, 2006	Dec 31, 2005
		$'000s		
Revenue	$ 135,542	$ 117,337	$ 131,843	$ 135,882
Cost of Sales	76,640	65,565	66,816	69,664
Gross profit	**58,902**	**51,772**	**65,027**	**66,218**
Operating expenses (income):				
Selling, general and administrative expense	47,603	33,470	35,339	32,303
Research and development	9,968	8,166	8,026	6,947
Write off of in-process research and development		6,000		
Provision for doubtful accounts and notes receivable	304	(138)	322	(140)
Other operating (income) expenses, net	(572)	622	1,376	308
Operating income	**1,599**	**3,652**	**19,964**	**26,800**
Foreign currency transactions loss/(gain)	(392)	(11,361)	(3,377)	5,257
Loss/(gain) on derivative instruments	3,050	(2,397)	(1,647)	275
Interest expense, net	10,382	14,893	13,545	15,455
Other income				
(Loss)/income+A3 before income taxes and minority interest	**(11,441)**	**2,517**	**11,443**	**5,813**
Income tax (benefit)/provision	(10,103)	7,983	6,976	2,504
Minority interest	150	45	23	(1)
Net (loss)/income	**$ (1,488)**	**$ (5,511)**	**$ 4,444**	**$ 3,310**
Net (loss) per share basic	$ (0.03)	$ (0.14)	N/A	N/A
Net (loss) per share diluted	$ (0.03)	$ (0.14)	N/A	N/A
Weighted average shares basic	54,599,627	38,908,289	N/A	N/A
Weighted average shares diluted	54,599,627	38,908,289	N/A	N/A

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