SIRONA DENTAL SYSTEMS, INC.
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2014

or

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____to _____

Commission file number 000-22673

Sirona Dental Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-3374812**

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

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

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

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No þ

As of April 30, 2014, the number of shares outstanding of the Registrant's Common Stock, par value $.01 per share, was 57,647,575.

SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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PART I

FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

		Three months ended March 31,		Six months ended March 31,	
(In millions, except for share and per share amounts) (Unaudited)	*Notes*	**2014**	2013	**2014**	2013
REVENUE		**$282.7**	$267.3	**$581.4**	$539.7
Cost of goods sold		**(131.2)**	(122.6)	**(267.2)**	(243.1)
GROSS PROFIT		**151.5**	144.7	**314.2**	296.6
Selling, general and administrative expense		**(87.2)**	(84.5)	**(175.2)**	(170.4)
Research and development expense		**(16.4)**	(15.1)	**(31.5)**	(29.2)
Net other operating income (loss)	***3***	**2.5**	2.5	**5.0**	9.4
OPERATING INCOME		**50.4**	47.6	**112.5**	106.4
Gain (loss) on foreign currency transactions		**2.0**	(1.4)	**(0.6)**	(6.0)
Gain (loss) on derivative instruments	***4***	**(1.5)**	(2.5)	**(0.9)**	(1.2)
Interest income (expense)		**(0.9)**	(0.8)	**(1.7)**	(1.8)
Other income (expense)		**(0.4)**	(0.4)	**(0.9)**	(0.7)
INCOME BEFORE TAXES		**49.6**	42.5	**108.4**	96.7
Income tax benefit (expense)	***5***	**(11.7)**	(10.2)	**(25.5)**	(25.4)
NET INCOME		**37.9**	32.3	**82.9**	71.3
Net (income) loss attributable to noncontrolling interests		**(0.6)**	(0.5)	**(1.4)**	(1.3)
NET INCOME ATTRIBUTABLE TO SIRONA DENTAL SYSTEMS, INC.		**$37.3**	$31.8	**$81.5**	$70.0
INCOME PER SHARE (*attributable to Sirona Dental Systems, Inc. common shareholders)*	***6***				
Basic		**$0.67**	$0.58	**$1.48**	$1.27

Diluted	**$0.66**	$0.56	**$1.45**	$1.24
Weighted average shares - basic	***55,309,421***	*54,928,332*	***55,186,566***	*55,083,264*
Weighted average shares - diluted	***56,199,246***	*56,202,296*	***56,172,320***	*56,384,483*

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(In millions) *(Unaudited)*	*Notes*	**Three months ended March 31,**		**Six months ended March 31,**	
		2014	**2013**	**2014**	**2013**
NET INCOME		**$37.9**	$ 32.3	**$82.9**	$ 71.3
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	*8*				
Cumulative translation adjustment		**1.8**	(23. 2)	**17.7**	(6.9)
Derivative financial hedging instruments		**0.1**	0.1	**0.2**	0.2
Unrecognized elements of pension cost		**-**	(0. 3)	**0.1**	(0.2)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**1.9**	(23.4)	**18.0**	(6.9)
TOTAL COMPREHENSIVE INCOME (LOSS)		**39.8**	8.9	**100.9**	64.4
Comprehensive (income) loss attributable to noncontrolling interests		**(0.5)**	(0.2)	**(1.4)**	(1.1)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SIRONA DENTAL SYSTEMS, INC. SHAREHOLDERS		**$39.3**	$ 8.7	**$99.5**	$ 63.3

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In millions, except for share and par value amounts) *(Unaudited)*	*Notes*	**March 31, 2014**	September 30, 2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$255.3**	$241.7
Restricted cash		**0.8**	0.7
Accounts receivable, *net of allowance for doubtful accounts of $1.6 and $1.6, respectively*		**151.0**	145.2
Inventories, net	***9***	**129.7**	109.2
Deferred tax assets	***5***	**32.2**	31.4
Prepaid expenses and other current assets		**27.4**	32.6
Income tax receivable	***5***	**1.6**	2.3
TOTAL CURRENT ASSETS		**598.0**	563.1
Property, plant and equipment, *net of accumulated depreciation of $169.0 and $ 156.7 , respectively*		**228.8**	182.7
Goodwill	***10***	**684.2**	672.1
Intangible assets, *net of accumulated amortization of $530.2 and $503.1, respectively*	***10***	**287.9**	301.7
Other non-current assets		**4.8**	5.6
Deferred tax assets	***5***	**17.3**	13.2
TOTAL ASSETS		**$1,821.0**	$1,738.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade accounts payable		**$58.2**	$73.2
Short-term financial liabilities	***11***	**1.6**	0.4
Income taxes payable	***5***	**9.8**	9.3
Deferred tax liabilities	***5***	**0.7**	0.7
Accrued liabilities and deferred income		**155.0**	162.5
TOTAL CURRENT LIABILITIES		**225.3**	246.1
Long-term financial liabilities	***13***	**78.0**	75.0
Deferred tax liabilities	***5***	**129.5**	131.5
Other non-current liabilities		**27.3**	27.4
Pension related provisions	***14***	**67.4**	66.0
Deferred income		**29.8**	34.4
TOTAL LIABILITIES		**557.3**	580.4

SHAREHOLDERS' EQUITY			
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; 57,647,248 shares issued; 55,347,500 shares outstanding at Mar. 31, 2014; 57,213,615 shares issued; 54,999,436 shares outstanding at Sept. 30, 2013*		**0.6**	0.6
Additional paid-in capital		**686.6**	674.2
Treasury stock*, at cost 2,299,748 shares held at cost at Mar. 31, 2014; 2,214,179 shares held at cost at Sept. 30, 2013*		**(118.1)**	(112.0)
Retained earnings		**665.7**	584.2
Accumulated other comprehensive income (loss)	***8***	**26.6**	8.6
TOTAL SIRONA DENTAL SYSTEMS, INC. SHAREHOLDERS' EQUITY		**1,261.4**	1,155.6
NONCONTROLLING INTERESTS		**2.3**	2.4
TOTAL SHAREHOLDERS' EQUITY		**1,263.7**	1,158.0
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**$1,821.0**	$1,738.4

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In millions, except for share amounts) *(Unaudited)*	*Notes*	**March 31, 2014**	2013
SIRONA DENTAL SYSTEMS, INC. SHAREHOLDERS' EQUITY			
NUMBER OF COMMON SHARES ISSUED AND OUTSTANDING			
Balance at beginning of period		**54,999,436**	55,051,673
Issuance of common stock upon exercise of options		**433,633**	270,574
Purchase of treasury stock		**(85,569)**	(385,080)
Balance at end of period		**55,347,500**	54,937,167
COMMON SHARE CAPITAL		**$0.6**	$0.6
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period		**674.2**	650.2
Issuance of common stock upon exercise of options and net effect of vesting of RSUs/PSUs		**5.4**	3.6
Stock compensation		**6.4**	8.4
Tax effect of stock options exercised and net effect of vesting of RSUs/PSUs		**0.6**	(2.4)
Purchase of shares from noncontrolling interests		**-**	(0.6)
Balance at end of period		**686.6**	659.2
TREASURY STOCK			
Balance at beginning of period		**(112.0)**	(69.1)
Purchase of treasury stock (at cost)		**(6.1)**	(23.9)
Balance at end of period		**(118.1)**	(93.0)
RETAINED EARNINGS			
Balance at beginning of period		**584.2**	437.5
Net income (loss)		**81.5**	70.0
Balance at end of period		**665.7**	507.5
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	*8*		
Balance at beginning of period		**8.6**	(29.8)
Other comprehensive income (loss)		**18.0**	(6.6)
Balance at end of period		**26.6**	(36.4)
TOTAL SIRONA DENTAL SYSTEMS, INC. SHAREHOLDERS' EQUITY		**$1,261.4**	$1,037.9
EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS			

Balance at beginning of period	**$2.4**	$3.0
Purchase of shares from noncontrolling interests	**-**	(0.8)
Dividend distribution to noncontrolling interests	**(1.5)**	(1.4)
Net income (loss) attributable to noncontrolling interests	**1.4**	1.3
Cumulative translation adjustment	**-**	(0.3)
TOTAL EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**$2.3**	$1.8
TOTAL SHAREHOLDERS' EQUITY	**$1,263.7**	$1,039.7

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended March 31,	
(In millions) *(Unaudited)*	**2014**	2013
OPERATING ACTIVITIES		
NET INCOME	**$ 82.9**	$ 71.3
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation and amortization	**37.7**	36.5
(Gain) loss on derivative instruments and foreign currency transactions	**1.5**	7.2
Deferred income taxes	**(9.2)**	5.4
Share-based compensation expense	**6.4**	8.4
Other adjustments	**0.3**	0.4
TOTAL ADJUSTMENTS TO RECONCILE NET INCOME TO OPERATING CASH FLOWS	**36.7**	57.9
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable	**(5.2)**	2.7
Inventories	**(19.9)**	(25.3)
Trade accounts payable	**(16.3)**	16.1
Other current and non-current assets	**6.0**	(7.1)
Other current and non-current liabilities	**(6.4)**	(21.9)
Current income taxes	**1.1**	(3.9)
EFFECT OF CHANGES IN ASSETS AND LIABILITIES ON OPERATING CASH FLOWS	**(40.7)**	(39.4)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**78.9**	89.8
INVESTING ACTIVITIES		
Investment in property, plant and equipment	**(61.1)**	(22.3)
Proceeds from sale of property, plant and equipment	**0.4**	0.1
Purchase of intangible assets	**(0.2)**	-
Acquisition of business, net of cash acquired	**-**	(35.0)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**$ (60.9)**	$ (57.2)

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended March 31,	
(In millions) *(Unaudited)*	**2014**	2013
FINANCING ACTIVITIES		
Repayments of short-term and long-term debt	**$ -**	$ (0.1)
Purchase of treasury stock	**(6.1)**	(23.9)
Purchase of shares from noncontrolling interest	**-**	(0.9)
Dividend distributions to noncontrolling interest	**(1.5)**	(1.4)
Common shares issued under share based compensation plans	**5.4**	3.6
Tax effect of common shares issued under share based compensation plans	**(3.5)**	(3.3)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(5.7)**	(26.0)
CHANGE IN CASH AND CASH EQUIVALENTS	**12.3**	6.6
Effect of exchange rate change on cash and cash equivalents	**1.3**	(1.4)
Cash and cash equivalents at beginning of period	**241.7**	151.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 255.3**	$ 156.3

SUPPLEMENTAL INFORMATION
GENERAL

Interest paid	**$ 1.7**	$ 1.6
Interest capitalized	**0.2**	0.1
Income taxes paid	**28.8**	32.7

ACQUISITION OF BUSINESS

Current assets	**$ -**	$ 5.2
Non-current assets	**-**	61.2
Current liabilities	**-**	(7.8)
Non-current liabilities	**-**	(12.0)
	-	46.6
Cash paid	**-**	(36.7)
Settlement of balances	**-**	(4.5)
Fair value of liabilities incurred	**$ -**	$ 5.4

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. GENERAL

The Company and its Operations

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

Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end consolidated financial data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

In the opinion of management, all adjustments considered necessary to present fairly the Company's financial position as of March 31, 2014, and the results of operations and cash flows for the six months ended March 31, 2014 and 2013, respectively, as applicable to interim periods have been made. The results of operations for the six months ended March 31, 2014 are not necessarily indicative of the operating results for the full fiscal year or future periods.

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

Fiscal year

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

Principles of consolidation

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

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. EMPLOYEE SHARE-BASED COMPENSATION

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

Equity Incentive Plan

Stock options, restricted stock shares, restricted stock units ("RSU"), and performance-based stock units ("PSU") have been issued to employees, directors, and consultants under the Company's 2006 Equity Incentive Plan ("2006 Plan"). The 2006 Plan provides for granting in total up to 4,550,000 stock options, incentive stock, restricted stock shares, RSU's, and PSU's. The 2006 Plan received stockholder approval at the Company's Annual Meeting of Stockholders held on February 27, 2007, and was amended on February 25, 2009. To cover the exercise of options and vesting of RSU's and PSU's, the Company generally issues new shares from its authorized but unissued share pool. As of March 31, 2014, 497,074 shares were available for future grant under the 2006 Plan.

Restricted and Performance-Based Stock Units

In the six months ended March 31, 2014, the Company granted 149,469 RSU's and 43,466 PSU's with an average value of $67.36, representing the average of closing prices of the Company's common stock at grant dates.

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

Stock Options

In the six months ended March 31, 2014, the Company granted 224,565 stock options with a weighted average exercise price of $67.77 and weighted average fair value of $21.28 at the grant date. Grants generally vest over four years. All grants expire ten years after the date of the grant.

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

Black-Scholes Assumptions	**Six months ended March 31, 2014**	Year ended September 30, 2013
Expected Volatility	**33.27%**	38.23%
Risk-free rate	**1.35%**	0.70%
Expected term	**5 years**	5 years
Expected dividends	**-**	-

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Compensation Costs

The following table summarizes compensation expense charged to income for stock-based compensation and additional information for the three and six months ended March 31, 2014:

Compensation Expense	**Three months ended March 31,**		**Six months ended March 31,**	
(In millions, except where noted)	**2014**	2013	**2014**	2013
Compensation expense [(1), (2)]	**$ 3.0**	$ 2.3	**$ 6.4**	$ 8.4

[(1)] For the first half of fiscal year 2014, this included a compensation charge of $0.9 for share-based awards in connection with the CFO Transition.

[(2)] For the first half of fiscal year 2013, this includes a compensation charge of $3.8 for the modification of share based awards in connection with the Transition Agreement for the former CEO and Chairman.

Restricted and Performance-Based Stock Unit Activity

The following is a summary of Sirona's RSU and PSU activity for the six months ended March 31, 2014:

RSU and PSU Activity	Six months ended March 31, 2014			
	Restricted stock units		Performance-based stock units	
	Number of shares	Weighted average market price at grant	Number of shares	Weighted average market price at grant
Outstanding at beginning of period	570,928	$46.37	13,000	$36.78
Granted	149,469	67.57	43,466	66.63
Vested	(182,329)	37.68	(13,000)	36.78
Forfeited	(23,615)	48.49	-	-
Outstanding at end of period	514,453	$55.51	43,466	$66.63

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Stock Option Activity

The following is a summary of Sirona's stock option activity for the six months ended March 31, 2014:

Stock Option Activity	**Six months ended March 31,**	
(In millions, except for price and where noted)	**2014**	
	Number of options	**Weighted average exercise price**
Outstanding at beginning of period	1,778,102	$21.93
Granted	224,565	67.77
Exercised	(299,155)	17.67
Forfeited	(28,900)	51.68
Outstanding at end of period	1,674,612	$28.33
thereof vested and exercisable	*1,287,526*	

3. NET OTHER OPERATING INCOME (LOSS)

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

Net Other Operating Income (Loss)	**Three months ended March 31,**		**Six months ended March 31,**	
(In millions)	**2014**	2013	**2014**	2013
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	**$ 2.5**	$ 2.5	**$ 5.0**	$ 5.0
Gain from patent infringement settlement	**-**	-	**-**	4.4
Net other operating income (loss)	**$ 2.5**	$ 2.5	**$ 5.0**	$ 9.4

The gain from a patent infringement settlement for the six months ended March 31, 2013 , represents amounts received related to prior years.

4. DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES

Our operations are exposed to market risks from changes in foreign currency exchange rates and interest rates. In the normal course of business, these risks are managed through a variety of strategies, including the use of derivatives.

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SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Interest Rate Risk

The Company is exposed to interest rate risk associated with fluctuations in the interest rates on its variable interest rate debt. In order to manage this risk, the Company enters into interest rate swap agreements, when appropriate, based upon market conditions.

Foreign Currency Exposure

Although the U.S. Dollar is Sirona’s reporting currency, it conducts its business in many currencies, and its local functional currency varies depending on the country of operation, which exposes the Company to market risk associated with foreign currency exchange rate movements. The Company hedges certain foreign currency transaction exposure through foreign exchange forward contracts.

Cash Flow Hedges

Interest Rate

The Company uses interest rate swaps to convert a portion of its debt's variable interest rate to a fixed interest rate. Interest rate swaps have been established for 100% of the interest for the Facility A Term Loan under the New Senior Facilities Agreement until November 2016. The interest rate swaps fix the LIBOR element of interest payable on

100% of the principal amount of the Facility A Term Loan for defined three month interest periods over the entire term of the loan. The defined interest rates fixed for each three month interest period range from 1.270% to 1.285%. Settlement of the swaps is required on a quarterly basis. These swaps are designated as hedging instruments under ASC 815. The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments.

Foreign Currency

The Euro is the functional currency for many of Sirona's subsidiaries, including its primary sales and manufacturing operations in Germany. During the periods under review, the U.S. Dollar/Euro exchange rate fluctuated significantly, thereby impacting Sirona's financial results. In order to hedge portions of the transactional exposure to fluctuations in exchange rates, based on forecasted and firmly-committed cash flows, Sirona enters into foreign exchange forward contracts (currently: USD, AUD, and JPY). These forward foreign currency contracts are intended to reduce short-term effects of changes in exchange rates. The Company enters into forward contracts that are considered to be economic hedges but which are not considered hedging instruments under ASC 815. As of March 31, 2014, these contracts had notional amounts totaling $55.4 million. These agreements are relatively short-term (generally not exceeding six months).

The fair value carrying amount of the Company's derivative instruments at March 31, 2014 is described in Note 15 Fair Value Measurements.

The following tables summarize the impact of gains and losses from the fair value changes of the Company's derivative instruments reported in our condensed consolidated statements of income for the periods under report:

Derivatives Designated as Cash Flow Hedging Instruments

Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income	**For the three months ended**		**For the six months ended**	
(In millions)	**March 31, 2014**	2013	**March 31, 2014**	2013
Interest rate swap contracts	**$ 0.1**	$ 0.2	**$ 0.2**	$ 0.4

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Derivatives Not Designated as Hedging Instruments

Amount of Gain (Loss) Recognized in Income on Derivative Instruments	**For the three months ended March 31,**		**For the six months ended March 31,**		
(In millions)	**2014**	2013	**2014**	2013	*Affected Line Item in the Statement of Income*
Foreign exchange contracts	**$ (1.5)**	$ (2.5)	**$ (0.9)**	$ (1.2)	*Gain (loss) on derivative instruments, net*

5. INCOME TAXES

For the first six months of fiscal year 2014, an estimated effective tax rate of 23.5% has been applied. The income tax provision for the first six months ended March 31, 2014, was $25.5 million. For the first six months of fiscal year 2013, a 24.0% estimated effective tax rate was applied. Additionally, a tax expense was recorded for $2.2 million from a non-cash remeasurement of deferred tax assets and liabilities resulting from a local trade tax rate increase at our principal German operations, which was enacted and was effective in the first quarter of fiscal year 2013. Excluding this amount, the effective tax rate for fiscal year 2013 was 23.7%.

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

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

The Company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because as of March 31, 2014, it remained management’s intention to continue to indefinitely reinvest such earnings in foreign operations. In making this determination, the Company also evaluates its expected cash requirements in the United States. These earnings relate to ongoing operations and, as of March 31, 2014, the approximate amount of undistributed foreign earnings amounted to $448 million. Because of the availability of U.S. foreign tax credits as well as other factors, it is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

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6. INCOME PER SHARE

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

Income per Share	**Three months ended March 31,**		**Six months ended March 31,**	
(In millions, except share and per share amounts)	**2014**	2013	**2014**	2013
Net income attributable to Sirona Dental Systems, Inc. common shareholders	**$37.3**	$31.8	**$81.5**	$70.0
Weighted average shares outstanding - basic	**55,309,421**	54,928,332	**55,186,566**	55,083,264
Dilutive effect of stock-based compensation	**889,825**	1,273,964	**985,754**	1,301,219
Weighted average shares outstanding - diluted	**56,199,246**	56,202,296	**56,172,320**	56,384,483
Net income per share				
Basic	**$0.67**	$0.58	**$1.48**	$1.27
Diluted	**$0.66**	$0. 56	**$1.45**	$1.24

There were no stock options excluded from the computation of diluted earnings per share for the three and six months ended March 31, 2014 and March 31, 2013.

7. SEGMENT REPORTING

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

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Segment Performance	**Three months ended March 31,**		**Six months ended March 31,**	
(In millions)	**2014**	2013	**2014**	2013
Revenue External				
Dental CAD/CAM Systems	**$ 108.9**	$ 103.6	**$ 214.7**	$ 199.2
Imaging Systems	**87.9**	83.6	**193.7**	180.6
Treatment Centers	**57.1**	54.7	**111.5**	108.1
Instruments	**28.8**	25.4	**61.5**	51.8
Total	**$ 282.7**	$ 267.3	**$ 581.4**	$ 539.7
Segment performance measure				
Dental CAD/CAM Systems	**$ 73.0**	$ 69.8	**$ 146.3**	$ 137.4
Imaging Systems	**49.7**	49.8	**111.2**	108.1
Treatment Centers	**23.5**	21.9	**44.7**	43.1
Instruments	**11.2**	10.8	**24.7**	23.0
Total Segments	**157.4**	152.3	**326.9**	311.6

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

The following table provides a reconciliation of the total results of operations of the Company’s business segments under management reporting to the consolidated financial statements. The differences shown between management reporting and U.S. GAAP for the three and six months ended March 31, 2014 and 2013 are due to the impact of purchase accounting and certain other corporate items. These effects are not included in the segment performance measure as the Company does not believe these to be representative of the performance of each segment.

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Reconciliation of Segment Performance Measure to Consolidated Statement of Operations	**Three months ended March 31,**		**Six months ended March 31,**	
(In millions)	**2014**	2013	**2014**	2013
Consolidated revenue	**$282.7**	$ 267.3	**$581.4**	$ 539.7
Segment performance measure				
Total segments	**157.4**	152.3	**326.9**	311.6
Differences management reporting vs. U.S. GAAP (including corporate items and step-up depreciation and amortization and certain other corporate items)	**(5.9)**	(7. 6)	**(12.7)**	15.0
Consolidated gross profit	**151.5**	144. 7	**314.2**	296.6
Selling, general and administrative expense	**(87.2)**	(84.5)	**(175.2)**	(170.4)
Research and development expense	**(16.4)**	(15.1)	**(31.5)**	(29.2)
Net other operating income (loss)	**2.5**	2.5	**5.0**	9.4
Gain (loss) on foreign currency transactions	**2.0**	(1.4)	**(0.6)**	(6.0)
Gain (loss) on derivative instruments	**(1.5)**	(2.5)	**(0.9)**	(1.2)
Interest income (expense)	**(0.9)**	(0.8)	**(1.7)**	(1.8)
Other income (expense)	**(0.4)**	(0.4)	**(0.9)**	(0.7)
Income before taxes	**$49.6**	$ 42. 5	**$108.4**	$ 96.7

Concentration of Revenue

A substantial portion of our revenue comes from two distributors accounting for more than 10% of revenues. Patterson Companies, Inc. (“Patterson”) and Henry Schein, Inc. (“Henry Schein”) accounted for revenues and accounts receivable for the three and six months ended March 31, 2014 compared to the three and six months ended March 31, 2013 as shown in the table below. These revenues were earned across all segments, with a significant portion of revenues with Patterson being earned in the CAD/CAM and Imaging segments. No other customer accounted for more than 10% of revenues.

Concentration of Revenue	**Three months ended March 31,**		**Six months ended March 31,**	
(In millions, except for percent amounts)	**2014**	2013	**2014**	2013
Top Customers				
Revenues				
Patterson Dental Company, Inc.	**29%**	32%	**31%**	33%
Henry Schein, Inc.	**13%**	15%	**13%**	14%
Total of customers > 10% revenues	**42%**	47%	**44%**	47%
Accounts Receivable				
Patterson Dental Company, Inc.			**$ 46.9**	$ 45.7
Henry Schein, Inc.			**9.1**	8.2
Total Accounts Receivable of customers > 10% revenues			**$ 56.0**	$ 53.9

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8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components and development of accumulated other comprehensive income (loss) for the periods under report are as follows:

Accumulated Other Comprehensive Income (Loss)	**Three months ended March 31, 2014**			
(In millions)	**Cumulative translation adjustments**	**Unrecognized elements of pension cost**	**Net gain (loss) from hedging instruments**	**Total**
Balance at beginning of period	**$18.7**	**$6.5**	**$(0.6)**	**$24.6**
Current increase (decrease)	**1.8**	**-**	**0.1**	**1.9**
Balance at end of period	**20.5**	**6.5**	**(0.5)**	**26.5**
Other comprehensive income (loss) attributable to noncontrolling interests, net of tax	**(0.1)**	**-**	**-**	**(0.1)**
Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders	**$20.6**	**$6.5**	**$(0.5)**	**$26.6**

Accumulated Other Comprehensive Income (Loss)	**Three months ended**

(In millions)	**March 31, 2013**			
	Cumulative translation adjustments	**Unrecognized elements of pension cost**	**Net gain (loss) from hedging instruments**	**Total**
Balance at beginning of period	$(17.8)	$5.6	$(1.1)	$(13.3)
Current increase (decrease)	(23. 2)	(0. 3)	0.2	(23.3)
Income tax (expense) benefit	-	-	(0.1)	(0.1)
Balance at end of period	(41.0)	5. 3	(1.0)	(36.7)
Other comprehensive income (loss) attributable to noncontrolling interests, net of tax	(0.3)	-	-	(0.3)
Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders	$(40. 7)	$5. 3	$(1.0)	$(36.4)

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Accumulated Other Comprehensive Income (Loss)	**Six months ended March 31, 2014**			
(In millions)	**Cumulative translation adjustments**	**Unrecognized elements of pension cost**	**Net gain (loss) from hedging instruments**	**Total**
Balance at beginning of period	**$2.9**	**$6.4**	**$(0.7)**	**$8.6**
Current increase (decrease)	**17.7**	**0.1**	**0.2**	**18.0**
Balance at end of period	**20.6**	**6.5**	**(0.5)**	**26.6**
Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders	**$20.6**	**$6.5**	**$(0.5)**	**$26.6**

Accumulated Other Comprehensive Income (Loss)	**Six months ended March 31, 2013**			
(In millions)	**Cumulative translation adjustments**	**Unrecognized elements of pension cost**	**Net gain (loss) from hedging instruments**	**Total**
Balance at beginning of period	$(34.0)	$5.5	$(1.2)	$(29.7)
Current increase (decrease)	(6.9)	(0.2)	0.4	(6.7)
Income tax (expense) benefit	-	-	(0.2)	(0.2)
Balance at end of period	(40.9)	5.3	(1.0)	(36.6)
Other comprehensive income (loss) attributable to noncontrolling interests, net of tax	(0.2)	-	-	(0.2)
Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders	$(40.7)	$5.3	$(1.0)	$(36.4)

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9. INVENTORIES, NET

The components of net inventories for the periods under report are as follows:

Inventories	**March 31,**	September 30,
(In millions)	**2014**	2013
Finished goods	**$94.7**	$72.6
Work in progress	**13.2**	14.4
Raw materials	**40.8**	37.5
Inventories, gross	**148.7**	124.5
Inventory reserve	**(19.0)**	(15.3)
Inventories, net	**$129.7**	$109.2

10. INTANGIBLE ASSETS AND GOODWILL

The components and development of intangible assets and goodwill for the periods under report are as follows:

Intangible Assets	**March 31, 2014**			September 30, 2013		
(In millions)	**Gross**	**Accum. amort.**	**Net**	Gross	Accum. amort.	Net
Patents & Licenses	**$155.5**	**$(107.5)**	**$48.0**	$152.2	$(99.1)	$53.1
Trademarks	**133.1**	**(0.8)**	**132.3**	130.8	(0.8)	130.0
Technologies and dealer relationships	**498.3**	**(421.9)**	**76.4**	491.3	(403.2)	88.1
In-process research & development (IPR&D)	**31.2**	**-**	**31.2**	30.5	-	30.5
	818.1	**(530.2)**	**287.9**	804.8	(503.1)	301.7
Goodwill	**684.2**	**-**	**684.2**	672.1	-	672.1
Total intangible assets	**$1,502.3**	**$(530.2)**	**$972.1**	$1,476.9	$(503.1)	$973.8

The change in the value of intangible assets from September 30, 2013 to March 31, 2014, is mainly attributable to (i) normal amortization for the current fiscal year and (ii) foreign currency fluctuations, with an impact of $15.6 million.

The total carrying value of IPR&D of $31.2 million as of March 31, 2014, represented a single project. The remaining estimated cost to complete the project was $3.0 million. The project is 65% through the development phase; the remaining steps prior to product release are further development, prototype finalization and testing,

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integration and field testing, and regulatory approvals. The percentage of completion for the full project is 50%, and we anticipate project completion in the second half of 2015.

11. SHORT-TERM FINANCIAL LIABILITIES

The components of short-term financial liabilities for the periods under report are as follows:

Short-Term Financial Liabilities	**March 31,**	September 30,
(In millions)	**2014**	2013
Bank loans		
Accrued interest on long-term bank loans	**$ 0.3**	$ 0.3
Other short-term bank loans	**0.2**	0.1
Bank loans	**0.5**	0.4
Other short-term financial liabilities	**1.1**	-
Short-Term Financial Liabilities	**$ 1.6**	$ 0.4

12. PRODUCT WARRANTY

The following table provides the components of and changes in the product warranty accrual for the periods under report:

Product Warranty	**Three months ended**		**Six months ended**	
	March 31,		**March 31,**	
(In millions)	**2014**	2013	**2014**	2013
Balance at beginning of the period	**$10.2**	$8.5	**$9.7**	$8.5
Accruals for warranties issued	**4.9**	5.3	**10.5**	9.2
Warranty settlements made	**(5.1)**	(4.9)	**(10.4)**	(8.9)
Translation adjustment	**-**	(0.2)	**0.2**	(0.1)
Balance at end of the period	**$10.0**	$8.7	**$10.0**	$8.7

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13. LONG-TERM FINANCIAL LIABILITIES

The components of long-term financial liabilities for the periods under report are as follows:

Long-Term Financial Liabilities *(In millions, except percentages)*	**March 31, 2014**	September 30, 2013
Bank loans		
New Senior Term Loan ("Facility A" Term Loan, variable rate) repayable in two installments in November 2015 and November 2016 *(Actual interest rate as of March 31, 2014: 2.8775%)*	**$75.3**	$75.3
Bank loans	**75.3**	75.3
Other long-term financial liabilities	**3.0**	-
	78.3	75.3
Less current portion	**(0.3)**	(0.3)
Long-Term Financial Liabilities	**$78.0**	$75.0

Senior Term Loans

New Senior Facilities Agreement

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

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

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

The New Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from March 31, 2012 onwards, the applicable margin varies depending on the Company’s leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the New Senior Facilities

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Agreement) between 160 basis points and 215 basis points for the Facility A Term Loan, 85 basis points and 140 basis points for the Revolving Facility B, and 110 basis points and 165 basis points for the Revolving Facility C.

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

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

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

14. PENSION PLANS

The components of net periodic benefit costs for the periods under report are as follows:

Components of Net Benefit Costs	**Three months ended**		**Six months ended**	
	March 31,		**March 31,**	
(In millions)	**2014**	2013	**2014**	2013
Service cost, net	**$-**	$ -	**$(0.1)**	$ (0.1)
Interest cost	**(0.6)**	(0.6)	**(1.1)**	(1.1)
Amortization of actuarial gain (loss)	**-**	(0.1)	**(0.1)**	(0.1)
Net periodic benefit cost	**$(0.6)**	$ (0.7)	**$(1.3)**	$ (1.3)

15. FAIR VALUE MEASUREMENTS

The Company applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and the credit risk of the Company and counterparties to the arrangement.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC 820 establishes and prioritizes the following three levels of inputs that may be used to measure fair value:

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Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis for the periods under report:

Assets and Liabilities Measured at Fair Value - Recurring Basis	**March 31,**			
	2014			
(In millions)	**Quoted Prices in Active Markets for Identical Instruments (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		Foreign Exchange		

Assets				
Cash Equivalents (money market funds)	**$ 137.7**	**$ -**	**$ -**	**$ 137.7**
Derivative Assets	**-**	**0.4**	**-**	**0.4**
Liabilities				
Derivative Liabilities	**-**	**(0.4)**	**-**	**(0.4)**
Business Acquisition-related liabilities	**-**	**-**	**(13.9)**	**(13.9)**
Total	**$ 137.7**	**$ -**	**$ (13.9)**	**$ 123.8**

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Assets and Liabilities Measured at Fair Value - Recurring Basis	**September 30, 2013**			
(In millions)	**Quoted Prices in Active Markets for Identical Instruments (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		Foreign Exchange		
Assets				
Cash Equivalents (money market funds)	$ 31.3	$ -	$ -	$ 31.3
Derivative Assets	-	0.9	-	0.9
Liabilities				
Derivative Liabilities	-	(0.1)	-	(0.1)
Business Acquisition-related liabilities	-	-	(13.4)	(13.4)
Total	$ 31.3	$ 0.8	$ (13.4)	$ 18.7

The change in the fair value of the business acquisition-related liabilities was $0.5 million, and a total for all acquisitions of $0.3 million and $0.7 million was recorded in other income (expense) in the income statement for the three and six months ended March 31, 2014, respectively.

In the Company’s March 31, 2014 and September 30, 2013 Condensed Consolidated Balance Sheet, derivative assets and derivative liabilities are classified as prepaid expenses and other current assets and accrued liabilities and deferred income, respectively.

The Company did not elect the fair value option for any other eligible financial instruments**.**

Fair value of financial instruments

Financial instruments consist of cash, cash equivalents, accounts receivable, accounts payable, foreign currency forward contracts, interest rate swaps, and certain liabilities related to business acquisitions primarily resulting from earn-out features. The carrying amounts of cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values because of the short maturity and nature of these items. The fair value of the foreign currency forward contracts and interest rate swaps is determined by the estimated cash flows of those contracts and swaps. The fair values of the acquisition-related liabilities are based on discounted valuations of commercial assumptions made by Company management of stipulations governed in the underlying purchase agreements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Condensed Consolidated Financial Statements included elsewhere in this report and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Actual results and the timing of certain events may differ significantly from those projected in forward-looking statements due to a number of factors, including those set forth in "Results of Operations" in this Item and elsewhere in this Report.

Certain revenue information is presented on a constant currency basis ("Constant Currency"). This information is a non-GAAP financial measure. Sirona supplementally presents this revenue information because it believes doing so facilitates a comparison of its operating results from period to period without regard to changes resulting solely from fluctuations in currency rates. Because of the historical predominance of the Euro to its operations, Sirona calculates Constant Currency revenue growth by comparing current-period revenues to prior-period revenues with both periods converted at the U.S. Dollar/Euro average foreign exchange rate for each month of the current period. Currently, our Constant Currency calculation does not adjust for fluctuations in any other currency, most importantly the Japanese Yen, Chinese Yuan Renminbi, Australian Dollar, and Brazilian Real.

All amounts in this section are reported in millions of U.S. Dollars ($), except as otherwise disclosed.

This report contains forward-looking statements that involve risk and uncertainties. All statements, other than statements of historical facts, included in this report regarding the Company, its financial position, products, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements. When used in this report, words such as "anticipate," "believe," "estimate," "expect," "intend," "objectives," "plans similar expressions, or the negatives thereof or variations thereon or comparable terminology as they relate to the Company, its products or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of various factors, including, but not limited to, those contained in the "Risk

Factors" set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. All forward looking statements speak only as of the date of this Report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events other than required by law.

Overview

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

Sirona has a long tradition of innovation in the dental industry. The Company introduced the first dental electric drill approximately 130 years ago, the first dental X-ray unit approximately 100 years ago, the first dental computer-aided design/computer-aided manufacturing (CAD/CAM) system 28 years ago, and numerous other significant innovations in dentistry. Sirona continues to make significant investments in research and development ("R&D"), and its track record of innovative and profitable new products continues today with numerous product

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launches including: CAD/CAM for Everyone with CEREC 4.2 software, a further-differentiated milling product line, as well as Apollo DI (launched in March 2013), the Omnicam camera unit and Schick 33 (both launched in August 2012), the Orthophos XG 3D imaging unit (launched in March 2011), Sinius treatment center (launched in March 2011), CEREC 4.0 software (launched in March 2011), the Galileos and CEREC combination (launched in September 2009), the CEREC AC unit (launched in January 2009), the Galileos Compact 3D imaging system (launched in July 2008), the TENEO treatment center (launched in July 2008), and the CAD/CAM milling unit MC XL (launched in fiscal year 2007).

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

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

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

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

In fiscal year 2013, Sirona revenues increased 11.7% Constant Currency over a strong prior year, when revenues grew 12.6% Constant Currency. Revenues were exceptionally strong in the U.S., which increased 18.2%, and Germany, which increased 23.4% Constant Currency. In Germany, we particularly benefitted from orders following the International Dental Show (“IDS”) in Cologne in March 2013, where we introduced a record 25 new products, a successful trade-up program in the CAD/CAM segment, as well as last-edition sales of our renowned M1+ treatment center unit. U.S. revenues benefitted from (i) strong demand for our Imaging and CAD/CAM products, (ii) the impact of implementation of the Medical Device Tax in 2013 and anticipated changes in tax benefits in the first quarter, (iii) the delivery of Omnicam trade-ups particularly in the third and fourth quarters, and (iv) the expanded agreement with Patterson. On a segment basis, we experienced very strong growth in our CAD/CAM segment, where we benefitted from the Omnicam launch in August 2012, trade-up programs, as well as a generally-increasing demand for products in this segment. Our new CEREC Omnicam camera further strengthens Sirona’s leadership position in the CAD/CAM market. Notable Omnicam features include: video streaming, digitization of jaw structures in their natural color, and powderless scanning of tooth surfaces. In addition, our Imaging and Treatment Center segments performed very well, with year-over-year Constant Currency revenue growth of 9.5% and 5.8%, respectively. Gross profit increased by $67.4 million, which was partially offset by a $37.2 million increase in SG&A expenses. SG&A expenses include a total of $8.6 million related to the transition agreements for the former Chairman and CEO, filed as an Exhibit to the Company’s Annual Report on Form 10-K on November 16, 2012 (the “Transition Agreement”), and the departing EVP and CFO, filed as an exhibit to the Company’s third quarter Quarterly Report on Form 10-Q on August 2, 2013 (the “Separation Agreement”). The major drivers of the residual increase in SG&A expenses of $28.6 million were the continued strategic expansion of our sales and service infrastructure in key growth markets and expenses related to the

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biennial IDS of $3.5 million. As a result, operating income increased 14.5%. Operating income includes a year-over-year decrease in amortization of $7.2 million. Net income was negatively impacted by losses from the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily driven by the fluctuations between the Yen/Euro, Euro/U.S. Dollar, and Brazilian Real/Euro exchange rates. Operating cash flow remained strong and increased 15.2% over the comparative prior-year period.

For the six months ended March 31, 2014, we reported revenue growth of 7.7%. On a Constant Currency basis, total revenues were up 4.6% over a strong first half in fiscal year 2013, where revenues grew 11.4% Constant Currency. Revenues were exceptionally strong in the U.S. with an increase of 8.8% and non-German, international markets, where revenues grew 12.4%, or 7.8% Constant Currency. In the U.S., we particularly benefited from the ongoing Omnicam trade-up program as well as robust demand for our best-in-class Schick 33 Sensor; while in the non-German international markets, the strong growth was due to increased project business and the increased success of our expanded sales infrastructure. On a segment basis, we experienced very strong growth in our Instruments segment, up 18.7%, or 13.9% Constant Currency, where we benefited from a strong project business and increased capacity at our new manufacturing facility. In addition, our CAD/CAM and Imaging segments performed well, with year-over-year Constant Currency revenue growth rates in the first six months of 4.9% and 5.0%, respectively. Gross profit increased by $17.6 million, which was partially offset by a $4.8 million increase in SG&A expenses. The major drivers of the increase in SG&A expenses were the increased sales volume and the continued strategic expansion of our sales and service infrastructure in key growth markets. As a result, operating income increased 5.7%, more than compensating for the headwinds from foreign exchange rate fluctuations. Operating cash flow decreased 12.1% over the comparative prior-year period, with an overall higher increase in working capital.

Significant Factors that Affect Sirona's Results of Operations

The MDP Transaction and the Exchange

On June 30, 2005, Sirona Holdings Luxco S.C.A. (''Luxco''), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH

(formerly Blitz 05-118 GmbH) and its wholly owned subsidiary Sirona Dental Services GmbH, to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the ‘‘MDP Transaction’’). In May 2011, Luxco sold all of its remaining 9,747,480 shares of Sirona common stock pursuant to an underwritten follow-on public offering.

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

Sirona’s cost of goods sold, R&D, SG&A expense and operating results have been and will continue to be materially affected by depreciation and amortization costs resulting from the step-up to fair value of Sirona’s assets and liabilities.

Foreign Currency Fluctuations

Although the U.S. Dollar is Sirona’s reporting currency, it conducts its business in many currencies, and its functional currencies vary depending on the country of operation. For the six months ended March 31, 2014, Sirona’s revenues denominated in Euro, U.S. Dollar, and a number of other currencies (most importantly: Japanese Yen, Chinese Yuan Renminbi, Australian Dollar, and Brazilian Real) represented approximately 43 %, 34%, and 23%, respectively. Sirona’s operating expenses denominated in Euro, U.S. Dollar, and a number of other currencies represented approximately 67 %, 17%, and 16%, respectively. Fluctuations in exchange rates impact Sirona’s financial results. The major influencing factor is the U.S. Dollar/Euro exchange rate. During the periods under review, the U.S. Dollar/Euro exchange rate has fluctuated significantly. Between October 1, 2012 and March 31, 2014, the U.S. Dollar/Euro exchange rate used to calculate items included in Sirona’s financial statements varied from a low of $1.2710 to a high of $1.3956. The average exchange rate for

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the three and six months ended March 31, 2014, was $1.36560 and varied from $1.34970 to $1.38260. For the three and six months ended March 31, 2013, an average exchange rate converting Euro denominated revenues into U.S. Dollars of $1.32086 was applied.

Although Sirona does not apply hedge accounting, it has entered into foreign exchange forward contracts to help mitigate foreign currency exposure. As of March 31, 2014, these contracts had notional amounts totaling $55.4 million. As these agreements are relatively short-term (generally not exceeding six months) and do not cover all underlying exposures, continued fluctuation in exchange rates could materially affect Sirona's results of operations.

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

Fluctuations in Quarterly Operating Results

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

- the timing of new product introductions by us and our competitors;
- timing of industry tradeshows, particularly the IDS;
- changes in relationships with distributors;
- the timing of operational decisions by distributors and end users;

- developments in government reimbursement policies;
- changes in product mix;
- our ability to supply products to meet customer demand;
- fluctuations in manufacturing costs;
- tax incentives;
- currency fluctuations; and
- general economic and political conditions, as well as those specific to the healthcare industry and related industries.

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

Effective Tax Rate

Sirona's effective tax rate may vary significantly from period to period and, as a global enterprise, can be influenced by many factors. These factors include, but are not limited to, changes to statutory tax rates in the jurisdictions where the Company has operations, changes in the mix of earnings amongst jurisdictions with differing statutory tax rates (including the result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns, tax planning initiatives, tax characteristics of income, changes in exchange rates, as well as the timing and deductibility of expenses for tax purposes.

The Company's effective tax rate differs from the U.S. federal statutory rate of 35% primarily as a result of lower statutory tax rates on foreign earnings at the Company's operations outside of the United States. The Company makes no provision for deferred U.S. income taxes on undistributed foreign earnings because, as of March 31, 2014, it remained management's intention to continue to indefinitely reinvest such earnings in operations outside of the United States. The distribution of lower-taxed foreign earnings to the U.S. would generally increase the Company's effective tax rate.

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Results of Operations

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Revenue

Revenue for the three months ended March 31, 2014 was $282.7 million, an increase of $15.4 million, or 5.7%, as compared with the three months ended March 31, 2013. On a Constant Currency basis , adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate , total revenue increased by 2.9% (excluding the favorable impact of the Euro development but including the unfavorable impacts from fluctuations in all other currencies). By segment, Instruments increased 13.4% (up 9.3% Constant Currency), Imaging Systems increased 5.0% (up 2.8% Constant Currency), CAD/CAM Systems increased 5.0% (up 2.5% Constant Currency), and Treatment Centers increased 4.6% (up 0.8% Constant Currency).

Instruments segment revenue growth was driven by international markets, especially in the hygiene and price-volume categories. Imaging segment revenues were strong in other international markets, driven by our intraoral and Orthophos product lines. CAD/CAM segment revenues were particularly strong in the U.S. and non-German, international markets, benefiting from new-user demand for our best-in-class products. Our Treatment Center segment faced a challenging year-over-year comparison due to strong revenues from the last-edition program for our well-renowned M1+ unit in the prior year and the IDS in Germany. All Segments were positively impacted by increased sales prior to a planned consumption tax increase in Japan.

Revenues in the U.S. for the three months ended March 31, 2014 increased by 4.5% compared to the prior-year period. U.S. revenues continued to benefit from strong demand for our Imaging and CAD/CAM products. Revenue outside the U.S. increased 6.2%. On a Constant Currency basis , adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate , international revenues increased by 2.3%. International sales growth was driven by strong growth in non-European, international markets, partially offset by the weakening of major currencies in those markets.

Cost of Goods Sold

Cost of goods sold for the three months ended March 31, 2014 was $131.2 million, an increase of $8.6 million, or 7.0%, as compared with the three months ended March 31, 2013. Gross profit as a percentage of revenue was 53.6% compared to 54.1% in the prior year period.

Cost of goods sold included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $8. 2 million for the three months ended March 31, 2014 compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $9.2 million for the three months ended March 31, 2013. Excluding these amounts, cost of goods sold as a percentage of revenue was 43.5% for the three months ended March 31, 2014 compared with 42.4% for the three months ended March 31, 2013, and therefore gross profit as a percentage of revenue was 56.5%, compared to 57.6% in the prior year period. The decrease in the gross profit margin was mainly due to product and regional mix, including the impact of foreign exchange rate fluctuations due to the weakening of major currencies versus the Euro.

Gross Profit

We use gross profit, excluding the impacts of the MDP Transaction and the Exchange, to monitor segment performance. By segment, gross profit developed in the three months ended March 31, 2014, compared to the three months ended March 31, 2013 as follows: Treatment Centers increased 7.3%, CAD/CAM Systems increased 4.6%, Instruments increased 3.7%, and Imaging Systems decreased 0.2%.

Gross profit for the Instruments segment was above the prior year due to the increase in general sales levels, especially in the hygiene category. The decrease in gross profit margin was mainly driven by inefficiencies from the ramp-up of expanded manufacturing capacity as well as product and regional mix. The CAD/CAM segment gross profit benefited from increased sales levels and unit growth in both chair-side and inLab product lines; however, the gross profit margin was below the prior year. The decrease in gross profit margin was mainly driven by product and regional mix, including the impact of foreign exchange rate fluctuations. The Imaging Systems segment gross profit benefited from an increase in

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sales; however, the segment gross profit margin was below the prior year mainly due to targeted promotions, price concessions in certain international markets, and unfavorable impacts from foreign exchange fluctuations; all of which were partly offset by cost reductions. The Treatment Center segment gross profit faced a tough year-over-year comparison due to the last-edition promotion of our renowned M1+ unit in the prior year but benefited from a positive regional and product mix in the standard category. The negative impact of foreign exchange rate fluctuations on gross profit margin was more than offset by productivity gains and distribution efficiencies. For more information, see Note 8 to our condensed consolidated financial statements for revenues and gross profit by segment for each of the fiscal periods under report.

Selling, General and Administrative

For the three months ended March 31, 2014, SG&A expense was $87.2 million, an increase of $2.7 million, or 3.2%, as compared with the three months ended March 31, 2013.

SG&A expense for the three months ended March 31, 2014 included an additional $1.6 million for the CFO transition, $0.6 million of amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets, and $3.0 million of other non-cash share-based compensation expense.

SG&A expense for the three months ended March 31, 2013 included $0.6 million of amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets, and $2.2 million of other non-cash share-based compensation expense.

Excluding the above amounts, as a percentage of revenue, SG&A expense was 28.9% for the three months ended March 31, 2014, as compared with 30.4% for the three months ended March 31, 2013.

Research and Development

R&D expense for the three months ended March 31, 2014, was $16.4 million, an increase of $1.3 million compared to the three months ended March 31, 2013.

The increase was driven by the timing of projects and foreign exchange rate fluctuations. As a percentage of revenue, R&D expense was 5.8% for the three months ended March 31, 2014, compared to 5.6% for the three months ended March 31, 2013.

Net Other Operating Income (Loss)

Net other operating income (loss) for the three months ended March 31, 2014 was a gain of $2.5 million compared to a gain of $2.5 million for the three months ended March 31, 2013. In both periods, the gain represented income resulting from the amortization of the deferred income related to the Patterson exclusivity payment.

Gain (Loss) on Foreign Currency Transactions

The gain on foreign currency transactions for the three months ended March 31, 2014 amounted to $2.0 million and compares to a loss of $1.4 million for the three months ended March 31, 2013. The components of these results are as follows:

Gain (Loss) on Foreign Currency Transactions	**Three months ended March 31,**	
(In millions)	**2014**	2013
Unrealized non-cash foreign exchange gain (loss) from translation adjustment of deferred income related to the Patterson exclusivity payment	**$ -**	$ (1.3)
Unrealized non-cash foreign exchange gain (loss) on short-term intra-group loans	**(0.3)**	(2.6)
Gain (loss) on other foreign currency transactions	**2.3**	2.5
Gain (Loss) on Foreign Currency Transactions	**$ 2.0**	$ **(1.4)**

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Gain (Loss) on Derivative Instruments

The loss of $1.5 million on derivative instruments for the three months ended March 31, 2014 compared to a loss of $2.5 million for the three months ended March 31, 2013. In both periods, the loss related to foreign currency hedges.

Interest Expense, Net

Net interest expense for the three months ended March 31, 2014, was $0.9 million, compared to $0.8 million for the three months ended March 31, 2013.

Income Tax Provision

For the three months ended March 31, 2014 and 2013, Sirona recorded a profit before income taxes of $49.6 million and $42.5 million, respectively. The income tax provision for the three months ended March 31, 2014 and 2013, was $11.7 million and $10.2 million, respectively. The estimated effective tax rate applied for the second quarter of fiscal year 2014 was 23.5% and compares to an estimated effective tax rate of 24.0% applied for the second quarter of fiscal 2013. The income tax provision for the three months ended March 31, 2013, also included the effect from a local trade tax increase at our principal German operations, which was enacted and declared effective beginning in that quarter. This tax rate change resulted in a tax expense of $2.2 million, primarily from a non-cash remeasurement of deferred tax assets and liabilities. Excluding this amount, the effective tax rate in fiscal year 2013 was 23.7%. The estimated effective tax rate is primarily driven by the expected mix of earnings across different jurisdictions.

Net Income

Net income for the three months ended March 31, 2014 was $37.9 million, an increase of $5.6 million, as compared with the three months ended March 31, 2013. Major influencing factors on net income were:

- the increase in gross profit, mainly due to increased sales;
- an increase in SG&A expense due to the expanded global sales and service infrastructure, expenses related to the CFO transition, and foreign exchange rate fluctuations;
- additional net gains from foreign currency balance sheet exposure and derivative instruments; and
- an increase in income tax expense due to higher income.

Net income for the three months ended March 31, 2014 included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations (i.e. the Exchange and the MDP Transaction - deal related amortization and depreciation) of $8.8 million ($6.7 million net of tax) and a loss on the revaluation of short-term intra-group loans of $0.3 million ($0.2 million net of tax).

Sirona's net income for the three months ended March 31, 2013 included :

- $3.5 million in SG&A expenses related to the IDS;
- increased research and development costs in preparation for the IDS;
- losses in the total amount of $4.0 million from foreign currency transactions and derivative instruments;
- deal related amortization and depreciation of assets acquired in past business combinations of $9.8 million ($7.4 million net of tax); and
- a currency revaluation loss on the Patterson exclusivity payment of $1.3 million ($1.0 million net of tax).

Six Months Ended March 31, 2014 Compared to Six Months Ended March 31, 2013

Revenue

Revenue for the six months ended March 31, 2014 was $581.4 million, an increase of $41.7 million, or 7.7%, as compared with the six months ended March 31, 2013. On a Constant Currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, total revenue increased by 4.6%. By segment, Instruments increased 18.7% (up 13.9% Constant Currency), CAD/CAM Systems increased 7.7% (up 4.9% Constant Currency), Imaging Systems increased 7.2% (up 5.0% Constant Currency), and Treatment Centers increased 3.2% (down 1.1% Constant Currency).

CAD/CAM segment revenues grew 4.9% Constant Currency and benefited from Omnicam trade-ups and a generally increasing demand for products in this segment. Growth was broad-based, particularly strong in the U.S and certain international markets despite the unfavorable impact of foreign currency fluctuations in many non-Euro

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markets. The Imaging segment was up 5.0% Constant Currency. Sales were particularly strong in the U.S. and international markets outside of Germany. We continue to experience robust demand for our Orthophos product line. In our Treatment Centers segment, sales were particularly strong in non-Euro international markets. Demand for our Sinius treatment center continued to be robust. Revenues in the Instruments segment were up 13.9% Constant Currency, mostly driven by non-European, international markets.

Revenues in the U.S. for the six months ended March 31, 2014 were exceptionally strong, with an increase of 8.8% compared to the prior-year period. U.S. revenues benefited from (i) strong demand for our Imaging and CAD/CAM products; (ii) the delivery of Omnicam trade-ups and new customer sales; and (iii) the expanded agreement with Patterson. Revenue outside the U.S. increased by 7.2%. On a Constant Currency basis, adjusting for the fluctuations in the U.S. Dollar/Euro exchange rate, these revenues increased by 2.8%. Sales growth in non-European, international markets was particularly driven by an exceptionally strong performance in Japan and China, but negatively impacted by foreign currency fluctuations.

Revenue growth on a Constant Currency basis was mainly volume driven. Prices in general remained stable, with the exception of pricing concessions in the Imaging product lines.

Cost of Goods Sold

Cost of goods sold for the six months ended March 31, 2014 was $267.2 million, an increase of $24.1 million, or 9.9%, as compared with the six months ended March 31, 2013. Gross profit as a percentage of revenue was 54.0% compared to 55.0% in the prior year period. Cost of goods sold included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $ 17.0 million for the six months ended March 31, 2014 compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of $18.2 million for the six months ended March 31, 2013. Excluding these amounts, cost of goods sold as a percentage of revenue was 43.0% for the six months ended March 31, 2014 compared to 41.7% six months ended March 31, 2013, and therefore gross profit as a percentage of revenue was 57.9% compared to 58.3% in the prior-year period. The slight decrease in gross profit margin compared with the six months ended March 31, 2013 was mainly due to product and regional mix, including the impact of foreign exchange rate

fluctuations due to strengthening of the Euro and the weakening of certain other major currencies, especially the Yen, Australian Dollar, and Brazilian Real, all of which were partly offset by production cost reductions in Euro markets.

Gross Profit

We use gross profit, excluding the impacts of the MDP Transaction and the Exchange, to monitor segment performance. By segment, gross profit developed in the six months ended March 31, 2014 compared to the six months ended March 31, 2013 as follows: Instruments increased 7.4%, CAD/CAM Systems increased 6.5%, Treatment Centers increased 3.7%, and Imaging Systems increased by 2.9%. The gross profit margins of all segments were negatively impacted by unfavorable foreign exchange fluctuations.

The CAD/CAM segment gross profit benefited from the strong increase in sales; however, gross profit margin was below the prior year. The decrease in gross profit margin was mainly driven by product mix, due to an increasing share of Omnicam sales from the delivery of trade-ups. The Imaging Systems segment gross profit benefited from a strong increase in sales; whereas, gross profit margin was driven by product mix within the extra-oral product lines and price concessions in certain international markets, partly offset by cost reductions. The increase in the Treatment Center segment gross profit and gross profit margin was driven by increased volume and an improvement in regional and product mix. Gross profit and gross profit margin for the Instruments segment were below the prior-year level. The decrease in gross profit margin was mainly driven by increased sales in the price-volume category and production inefficiencies, partly offset by increased sales in the hygiene category. For more information, see Note 7 to our condensed consolidated financial statements for revenues and gross profit by segment for each of the fiscal periods under report.

Selling, General and Administrative

For the six months ended March 31, 2014, SG&A expense was $175.2 million, an increase of $4.8 million, or 2.8%, as compared with the six months ended March 31, 2013.

SG&A expenses for the six months ended March 31, 2014 included $2.3 million for the CFO Transition, amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of $1.2 million, and other non-cash share-based compensation expense in the amount of $6.4 million.

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SG&A expense for the six months ended March 31, 2013 included $7.3 million for the Transition Agreement with the former Chairman and CEO, which includes a $3.8 million non-cash charge for the modification of share-based awards, amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of $1.2 million, and other non-cash share-based compensation expense in the amount of $8.2 million.

Excluding the above amounts, as a percentage of revenue, SG&A expense was 28.4% for the six months ended March 31, 2014, as compared with 29.1% for the six months ended March 31, 2013.

Research and Development

R&D expense for the six months ended March 31, 2014, was $31.5 million, an increase of $2.3 million. The increase is mainly driven by the timing of projects.

R&D expense included non-cash share-based compensation expense in the amount of $0.1 million for the six months ended March 31, 2013. Excluding this amount, as a percentage of revenue, R&D expense remained steady at 5.4% for the six months ended March 31, 2014 and the six months ended March 31, 2013.

Net Other Operating Income

Net other operating income for the six months ended March 31, 2014 compared to the six months ended March 31, 2013 was as follows:

Net Other Operating Income (Loss)

(In millions)	**Six months ended March 31, 2014**	2013
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	**$ 5.0**	$ 5.0
Gain (loss) from patent infringement settlement	**-**	4.4
Net other operating income (loss)	**$ 5.0**	$ 9.4

The gain from patent settlement for the six months ended March 31, 2013 , represents amounts received for past lost profits in an out-of-court settlement of a patent defense suit in the normal course of business.

Gain (Loss) on Foreign Currency Transactions

The loss on foreign currency transactions for the six months ended March 31, 2014 amounted to $0.6 million and compares to a loss of $6.0 million for the six months ended March 31, 2013. The components of these results are as follows:

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Gain (Loss) on Foreign Currency Transactions	**Six months ended March 31,**	
(In millions)	**2014**	2013
Unrealized non-cash foreign exchange gain (loss) from translation adjustment of deferred income related to the Patterson exclusivity payment	**$ 0.8**	$ (0.3)
Unrealized non-cash foreign exchange gain (loss) on short-term intra-group loans	**1.2**	(0.8)
Gain (loss) on other foreign currency transactions [(1)]	**(2.6)**	(4.9)
Gain (Loss) on Foreign Currency Transactions	**$ (0.6)**	$ **(6.0)**

[(1)] For the six months ended March 31, 2014, the loss on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by the fluctuations between the Yen/Euro, Euro/U.S. Dollar, and Real/Euro exchange rates. For the six months ended Marc h 31, 2013, the gain on other foreign currency transactions related to the revaluation of short-term assets and liabilities and realized transactions, both of which were primarily impacted by fluctuations in the Euro/U.S. Dollar exchange rate.

Gain (Loss) on Derivative Instruments

The loss of $0.9 million on derivative instruments for the six months ended March 31, 2014 compared to a loss of $1.2 million for the six months ended March 31, 2013. In both periods, these amounts related to unrealized non-cash gains and losses on foreign currency hedges.

Interest Expense, Net

Net interest expense for the six months ended March 31, 2014, was $1.7 million, compared to $1.8 million for the six months ended March 31, 2013.

Income Tax Provision

For the six months ended March 31, 2014 and 2013, Sirona recorded a profit before income taxes of $108.4 million and $96.7 million, respectively. The income tax provision for the six months ended March 31, 2014 and 2013, was $25.5 million and $25.4 million, respectively. The estimated effective tax rate applied for the first six months of fiscal year 2014 was 23.5% and compares to an estimated effective tax rate of 24.0% (which excludes the effect from the local German tax rate increase described below) applied for the first six months of fiscal 2013 and an effective tax rate of 23.7% in fiscal year 2013. The income tax provision as of March 31, 2013, included the effect from a local trade tax increase at our principal German operations, which was enacted in and effective beginning in the first quarter of fiscal year 2013. This tax rate change resulted in a tax expense of $2.2 million, primarily from a non-cash remeasurement of deferred tax assets and liabilities. The estimated effective tax rate is primarily driven by the expected mix of earnings across different countries.

Net Income

Net income for the six months ended March 31, 2014 was $82.9 million, an increase of $11.6 million, as compared with the six months ended March 31, 2013. Major influencing factors on net income were:

- the increase in gross profit, mainly due to increased sales;
- an increase in SG&A expense due to the expanded global sales and service infrastructure, expenses related to the CFO transition, and foreign exchange rate fluctuations; and
- additional net losses from foreign currency balance sheet exposure and derivative instruments.

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Net income for the six months ended March 31, 2014 included amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations (i.e. the Exchange and the MDP Transaction - deal related amortization and depreciation) of $18.3 million ($14.0 million net of tax), a foreign currency gain on the deferred income from the Patterson exclusivity payment of $0.8 million ($0.6 million net of tax), and a gain on the revaluation of short-term intra-group loans of $1.2 million ($0.9 million net of tax).

Sirona's net income for the six months ended March 31, 2013 included :

- a gain from a patent infringement settlement;
- an increase in SG&A expense due to the expenses related to the Transition Agreement for the former Chairman and CEO of $7.3 million, which included a $3.8 million non-cash charge for the modification of share-based awards, and expenses related to the IDS of $3.5 million;
- losses in the total amount of $7.2 million from foreign currency transactions and derivative instruments;
- deal related amortization and depreciation of assets acquired in past business combinations of $19.4 million ($14.7 million net of tax);
- a currency revaluation loss on the Patterson exclusivity payment of $0.3 million ($0.2 million net of tax);
- a loss on the revaluation of short-term intra-group loans of $0.8 million ($0.6 million net of tax); and
- the effect from a non-cash remeasurement of deferred tax assets and liabilities resulting from a local trade tax rate increase at our principal German operations of $2.2 million.

Liquidity and Capital Resources

Historically, Sirona's principal uses of cash, apart from operating requirements (including research and development expenses), have been for interest payments, debt repayment, and acquisitions. Operating capital expenditures typically are approximately equal to operating depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona's and Schick's assets and liabilities required under purchase accounting). These expenditures may temporarily exceed operating depreciation for larger-scale infrastructure and other investment activities that the Company may undertake from time to time. The Company also

uses cash for occasional purchases of treasury shares pursuant to stock repurchase programs. Sirona believes that its operating cash flows and available cash will be sufficient to fund its working capital needs, research and development expenses, and anticipated capital expenditures for the foreseeable future.

Cash and cash equivalents of $144.1 million held by our foreign subsidiaries generally are not subject to restrictions prohibiting such amounts from being available in the United States. The distribution of lower-taxed foreign earnings to the United States, however, would generally increase our effective tax rate. It is management’s intention to continue to indefinitely reinvest such earnings in foreign operations.

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

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

The financial covenants require that the Company maintain a debt coverage ratio (“Debt Cover Ratio”) of consolidated total net debt to Consolidated Adjusted EBITDA, determined on the basis of the last twelve months, of no more than 3.00 to 1. The Company is required to determine its compliance with the covenants as of September 30 and March 31. As of March 31, 2014, the most recent period for which this ratio was calculated, the Company was in compliance.

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Cash Flows

Cash Flows	**Six months ended March 31,**		***Change***	
(In millions, except for percent amounts)	**2014**	2013	***absolute***	***%***
Net cash provided by (used in) OPERATING activities	**$ 78.9**	$ 89.8	***$ (10.9)***	***(12.1%)***
Net cash provided by (used in) INVESTING activities	**(60.9)**	(57.2)	***(3.7)***	***(6.5%)***
Net cash provided by (used in) FINANCING activities	**(5.7)**	(26.0)	***20.3***	***78.1%***
Increase (decrease) in cash during the period	**$ 12.3**	$ 6.6	***$ 5.7***	***86.4%***

Net Cash Provided by (Used in) 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 $78.9 million for the six months ended March 31, 2014 compared to $89.8 million for the six months ended March 31, 2013, or a decrease of $10.9 million despite an increase of $11.6 million in net income.

In the first six months of fiscal 2013, the Company recorded favorable impacts from taxes in the amount of $1.5 million; whereas, for the first six months of fiscal 2014, the net impact of tax-related items was unfavorable in the amount of $8.1 million. The first six months of fiscal 2013 was favorably impacted by the acquisition of a technology company and the impacts of the trade tax rate increase at our primary facility in Bensheim. Derivative instrument and foreign currency transactions resulted in $5.7 million fewer favorable adjustments to reconcile net income to net cash provided by operating activities in the first six months of fiscal 2014 compared to the same period in fiscal 2013. Lower current-period share-based compensation also resulted in $2.0 million less favorable adjustments versus the same prior-year period. Receivables and inventories increased by $2.5 million more in fiscal 2014 . Changes in trade accounts payable and other assets and liabilities were $ 3.8 million less favorable. The remaining changes only had a

minor impact on the decrease in net cash provided by operating activities.

Net Cash Provided by (Used in) Investing Activities

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

Net cash used in investing activities was $60.9 million for the six months ended March 31, 2014 compared to $57.2 million for the six months ended March 31, 2013, or an increase of $3.7 million.

The primary contributors to the investing cash outflow in the six months ended March 31, 2014 were (i) the acquisition of the main administrative building in Bensheim, Germany for $26.7 million, (ii) the completion of the expansion of the new instruments manufacturing facility in Bensheim, Germany, and (iii) capital expenditures in the course of normal operating activities. For the six months ended March 31, 2013, net cash used in investing activities represented (i) the acquisition of a technology company for $35.0 million, and (ii) capital expenditures in the course of normal operating activities.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities was $5.7 million for the six months ended March 31, 2014, compared to net cash used in financing activities of $26.0 million for the six months ended March 31, 2013, or a decrease of $20.3 million. The year-over-year decrease was mainly driven by $17.7 million fewer purchases of treasury shares in the first six months of 2014 and $1.8 million higher proceeds from shares issued under share based compensation plans.

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Capital Resources

Senior Facilities Agreement

New Senior Facilities Agreement

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

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

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

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

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

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Company's market risk as reported under Part II, Item 7A in its Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer (principal executive officer) and chief financial officer (principal financial officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of March 31, 2014. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2014, the Company's disclosure controls and procedures are effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms, and is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

There are currently no material legal proceedings pending.

ITEM 1A. RISK FACTORS

There are no material changes from risk factors as previously disclosed by the Company in Part I, Item 1A of its Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

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

Issuer Purchases of Equity Securities

The number and average price of shares repurchased during the three months ended March 31, 2014 are set forth in the table below:

Issuer Purchase of Equity Securities				
(In millions, except share and per share amounts)	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Program** [(1)]	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs**
January 1 - January 31, 2014	23,060	69.27	23,060	86.1
February 1 - February 28, 2014	9,643	69.84	9,643	85.5
March 1 - March 31, 2014	44,310	74.09	44,310	82.2
Total purchases in the period	**77,013**		**77,013**	

(1) In May 2013, the Company's Board of Directors announced a stock repurchase program (the "2013 Program") to purchase up to an additional aggregate of $100 million of its common stock in open market or privately-negotiated transactions effective through June 2016. The Company is not obligated to acquire any particular amount of common stock and may suspend the program at any time at its discretion without prior notice.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibits are included in this report:

Exhibit No.	Item Title
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Extension Labels Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended March 31, 2014 and 2013, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2014 and 2013, (iii) Condensed Consolidated Balance Sheets as of March 31, 2014 and September 30, 2013, (iv) Consolidated Statements of Changes in Shareholders' Equity for the six months ended March 31, 2014 and 2013, and (v) Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and 2013, and (vi) Notes to Condensed Consolidated Financial Statements.

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SIGNATURE

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

Date: May 9, 2014

Sirona Dental Systems, Inc.

By: /s/ Ulrich Michel
Ulrich Michel, Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting
Officer)
(Duly authorized signatory)