

SIRONA DENTAL SYSTEMS, INC.

Form 10-Q

May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____

Commission file number 000-22673

Sirona Dental Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3374812

(I.R.S. Employer Identification No.)

30-30 47th Avenue, Suite 500,

Long Island City, New York

(Address of principal executive offices)

11101

(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 No

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

Large accelerated
filer

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): Accelerated filer
Non-accelerated
filer

Smaller reporting
company

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

As of April 30, 2015, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 55,554,669.

FORWARD-LOOKING STATEMENTS

This Form 10-Q Quarterly Report contains forward-looking statements that involve risk and uncertainties. All statements, other than statements of historical facts, included in this report regarding the Company, its financial position, products, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements. When used in this report, words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “objectives,” “plans” and similar expressions, or the negatives thereof or variations thereon or comparable terminology as they relate to the Company, its products or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company’s management, as well as assumptions made by and information currently available to the Company’s management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of various factors, including, but not limited to, those contained in the “Risk Factors” set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2014. 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.

SIRONA DENTAL SYSTEMS, INC.
AND SUBSIDIARIES
FORM 10-Q
FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

TABLE OF CONTENTS

SECTION	PAGE
<u>PART I</u> <u>FINANCIAL INFORMATION</u> <i>(unaudited)</i>	
<u>Item 1</u> <u>Financial Statements</u>	1
<u>Consolidated Statements of Income for the six months ended March 31, 2015 and 2014</u>	1
<u>Consolidated Statements of Comprehensive Income for the six months ended March 31, 2015 and 2014</u>	2
<u>Consolidated Balance Sheets as of March 31, 2015 and September 30, 2014</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended March 31, 2015 and 2014</u>	4
<u>Notes to the Consolidated Financial Statements</u> <i>(condensed)</i>	6
<u>Note 1</u> <u>General</u>	6
<u>Note 2</u> <u>Basis of Presentation and Summary of Significant Accounting Policies</u>	6
<u>Note 3</u> <u>Accounting Standards Issued</u>	7
<u>Note 4</u> <u>Employee Share-Based Compensation</u>	8
<u>Note 5</u> <u>Net Other Operating Income (Loss)</u>	10

<u>Note 6</u>	<u>Derivative Instruments and Hedging Strategies</u>	11
<u>Note 7</u>	<u>Income Taxes</u>	12
<u>Note 8</u>	<u>Income per Share</u>	13
<u>Note 9</u>	<u>Segment Reporting</u>	13
<u>Note 10</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	16
<u>Note 11</u>	<u>Inventories, Net</u>	18
<u>Note 12</u>	<u>Product Warranty</u>	18
<u>Note 13</u>	<u>Fair Value Measurements</u>	18
<u>Item 2</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
<u>Item 4</u>	<u>Controls and Procedures</u>	39
<u>PART II OTHER INFORMATION</u>		
<u>Item 1</u>	<u>Legal Proceedings</u>	40
<u>Item 1A</u>	<u>Risk Factors</u>	40
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 3</u>	<u>Defaults upon Senior Securities</u>	40

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Item 4 Mine Safety Disclosures 41

Item 5 Other Information 41

Item 6 Exhibits 41

SIGNATURES 42

CERTIFICATIONS

iii

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****PART I****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF INCOME**

		Three months ended March 31,		Six months ended March 31,	
	<i>Notes</i>	2015	2014	2015	2014
<i>(In millions, except for share and per share amounts) (Unaudited)</i>					
REVENUE		\$257.3	\$282.7	\$550.3	\$581.4
Cost of goods sold		(113.5)	(131.2)	(243.6)	(267.2)
GROSS PROFIT		143.8	151.5	306.7	314.2
Selling, general and administrative expense		(82.1)	(87.2)	(169.9)	(175.2)
Research and development expense		(14.2)	(16.4)	(29.0)	(31.5)
Net other operating income (loss)	<i>5</i>	2.5	2.5	5.0	5.0
OPERATING INCOME		50.0	50.4	112.8	112.5
Gain (loss) on foreign currency transactions		0.9	2.0	(1.3)	(0.6)
Gain (loss) on derivative instruments	<i>6</i>	(2.7)	(1.5)	(2.3)	(0.9)
Interest income (expense)		(0.8)	(0.9)	(1.7)	(1.7)
Other income (expense)		(0.2)	(0.4)	0.5	(0.9)
INCOME BEFORE TAXES		47.2	49.6	108.0	108.4
Income tax benefit (expense)	<i>7</i>	(10.8)	(11.7)	(24.8)	(25.5)

NET INCOME	36.4	37.9	83.2	82.9
Net (income) loss attributable to noncontrolling interests	(0.4)	(0.6)	(1.2)	(1.4)
NET INCOME ATTRIBUTABLE TO SIRONA DENTAL SYSTEMS, INC.	\$36.0	\$37.3	\$82.0	\$81.5

INCOME PER SHARE

<i>(attributable to Sirona Dental Systems, Inc. common shareholders)</i>					8
Basic	\$0.65	\$0.67	\$1.48	\$1.48	
Diluted	\$0.64	\$0.66	\$1.46	\$1.45	
<i>Weighted average shares - basic</i>	55,563,362	55,309,421	55,495,258	55,186,566	
<i>Weighted average shares - diluted</i>	56,361,599	56,199,246	56,331,504	56,172,320	

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(In millions)</i>		Three months ended March 31,		Six months ended March 31,	
	<i>Notes</i>	2015	2014	2015	2014
<i>(Unaudited)</i>					
NET INCOME		\$36.4	\$ 37.9	\$83.2	\$ 82.9
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	10				
Cumulative translation adjustment		(110.8)	1.8	(145.2)	17.7
Derivative financial hedging instruments		0.2	0.1	0.1	0.2
Unrecognized elements of pension cost		(1.7)	-	(2.3)	0.1
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		(112.3)	1.9	(147.4)	18.0
TOTAL COMPREHENSIVE INCOME (LOSS)		(75.9)	39.8	(64.2)	100.9
Comprehensive (income) loss attributable to noncontrolling interests		(0.4)	(0.5)	(1.2)	(1.4)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SIRONA DENTAL SYSTEMS, INC. SHAREHOLDERS		\$(76.3)	\$ 39.3	\$(65.4)	\$ 99.5

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

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****CONSOLIDATED BALANCE SHEETS**

	March 31, September 30,		
<i>(In millions, except for share and par value amounts)</i>	<i>Notes</i>	2015	2014
<i>(Unaudited)</i>			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$400.3	\$382.8
Restricted cash		0.7	0.8
Accounts receivable, <i>net of allowance for doubtful accounts of \$2.2 and \$2.4, respectively</i>		135.6	115.6
Inventories, net	<i>11</i>	126.4	123.4
Deferred tax assets	<i>7</i>	31.4	29.7
Prepaid expenses and other current assets		31.6	26.8
Income tax receivable	<i>7</i>	7.7	8.0
TOTAL CURRENT ASSETS		733.7	687.1
Property, plant and equipment, <i>net of accumulated depreciation of \$168.0 and \$171.3, respectively</i>		194.1	221.0
Goodwill		553.9	629.3
Intangible assets, <i>net of accumulated amortization of \$467.6 and \$511.3, respectively</i>		213.5	252.8
Other non-current assets		4.2	5.3
Deferred tax assets	<i>7</i>	12.5	15.5
TOTAL ASSETS		\$1,711.9	\$1,811.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade accounts payable		\$55.0	\$59.9

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Short-term financial liabilities		23.2	1.5
Income taxes payable	7	1.9	6.1
Deferred tax liabilities	7	2.7	2.2
Accrued liabilities and deferred income		172.9	167.6
TOTAL CURRENT LIABILITIES		255.7	237.3
Long-term financial liabilities		55.4	78.0
Deferred tax liabilities	7	97.0	111.8
Other non-current liabilities		22.3	25.1
Pension related provisions		61.1	71.7
Deferred income		19.4	25.9
TOTAL LIABILITIES		510.9	549.8
SHAREHOLDERS' EQUITY			
Preferred stock (<i>\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding</i>)		0	0
Common stock (<i>\$0.01 par value; 95,000,000 shares authorized; 58,025,235 shares issued;</i>		0.6	0.6
<i>55,553,736 shares outstanding at Mar. 31, 2015;</i>			
<i>57,776,336 shares issued;</i>			
<i>55,364,617 shares outstanding at Sept. 30, 2014)</i>			
Additional paid-in capital		708.8	697.9
Treasury stock, <i>at cost</i>		(132.0)	(126.8)
<i>2,471,499 shares held at cost at Mar. 31, 2015;</i>			
<i>2,411,719 shares held at cost at Sept. 30, 2014</i>			
Retained earnings		841.9	759.9
Accumulated other comprehensive income (loss)	10	(220.2)	(72.8)
TOTAL SIRONA DENTAL SYSTEMS, INC. SHAREHOLDERS' EQUITY		1,199.1	1,258.8
NONCONTROLLING INTERESTS		1.9	2.4
TOTAL SHAREHOLDERS' EQUITY		1,201.0	1,261.2
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		\$1,711.9	\$1,811.0

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

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In millions)</i>	Six months ended March 31,	
	2015	2014
<i>(Unaudited)</i>		
OPERATING ACTIVITIES		
NET INCOME	\$ 83.2	\$ 82.9
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation and amortization	35.1	37.7
(Gain) loss on derivative instruments and foreign currency transactions	3.6	1.5
Deferred income taxes	(2.4)	(9.2)
Share-based compensation expense	6.6	6.4
Other adjustments	0.3	0.3
TOTAL ADJUSTMENTS TO RECONCILE NET INCOME TO OPERATING CASH FLOWS	43.2	36.7
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable	(36.3)	(5.2)
Inventories	(20.5)	(19.9)
Trade accounts payable	2.2	(16.3)
Other current and non-current assets	(9.2)	6.0
Other current and non-current liabilities	14.5	(6.4)
Current income taxes	(3.7)	1.1
EFFECT OF CHANGES IN ASSETS AND LIABILITIES ON OPERATING CASH FLOWS	(53.0)	(40.7)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	73.4	78.9
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(25.1)	(61.1)
Proceeds from sale of property, plant and equipment	0.4	0.4

Purchase of intangible assets	(0.3)	(0.2)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$ (25.0)	\$ (60.9)

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

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In millions)</i>	Six months ended	
	March 31,	
	2015	2014
<i>(Unaudited)</i>		
FINANCING ACTIVITIES		
Purchase of treasury stock	(5.2)	(6.1)
Dividend distributions to noncontrolling interest	-	(1.5)
Common shares issued under share based compensation plans	3.4	5.4
Tax effect of common shares issued under share based compensation plans	(3.0)	(3.5)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(4.8)	(5.7)
CHANGE IN CASH AND CASH EQUIVALENTS	43.6	12.3
Effect of exchange rate change on cash and cash equivalents	(26.1)	1.3
Cash and cash equivalents at beginning of period	382.8	241.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 400.3	\$ 255.3
SUPPLEMENTAL INFORMATION		
GENERAL		
Interest paid	\$ 1.1	\$ 1.7
Interest capitalized	0.1	0.2
Income taxes paid	22.9	28.8

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

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*condensed*)

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.

2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). All amounts are reported in millions of U.S. Dollars (\$), except per share amounts or as otherwise disclosed.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Use of Estimates

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 condensed 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, 2014.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

In the opinion of management, all adjustments considered necessary to present fairly the Company's financial position as of March 31, 2015, and the results of operations and cash flows for the six months ended March 31, 2015 and 2014, respectively, as applicable to interim periods have been made. The results of operations for the six months ended March 31, 2015 are not necessarily indicative of the operating results for the full fiscal year or future periods.

Foreign Currency

The functional currency for foreign operations has been determined in all cases to be the local currency. Assets and liabilities of foreign subsidiaries are translated into U.S. Dollars using period-end exchange rates, while revenues and expenses are translated into U.S. Dollars using weighted average exchange rates for the period. Resulting adjustments are recorded in shareholders' equity as a component of *accumulated other comprehensive income*. Gains or losses resulting from transactions in other than the functional currency are reflected in the consolidated statements of income in *Gain (loss) on foreign currency transactions*, except for intra-group transactions of a long-term nature, which are recorded in shareholders' equity as a component of *accumulated other comprehensive income*.

3 ACCOUNTING STANDARDS ISSUED

Changes to accounting principles generally accepted in the United States ("U.S. GAAP") are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs"). The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either (i) not applicable, (ii) are expected to have a minimal impact on our consolidated financial statements, or (iii) their adoption had an immaterial impact on our consolidated financial statements.

ADOPTED

There were no ASUs adopted during the current period, which had a material impact on our consolidated financial statements.

NOT YET ADOPTED

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides updated guidance on revenue recognition principles that will supersede most current conceptual and industry-specific revenue recognition guidance and thus enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The key principle of this updated guidance is that entities should recognize revenue to depict the transfer of goods or services to customers at an amount reflecting the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance prescribes a five-step analysis of transactions to determine how and when to recognize revenue. In addition, the new guidance provides for capitalization of certain costs of obtaining or fulfilling a contract with a customer as well as enhanced disclosure requirements to enable a better understanding of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2016, which corresponds to the Company's fiscal year beginning October 1, 2017, with early adoption not permitted. The new guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are evaluating the expected impact of adoption on our consolidated financial statements.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

4 EMPLOYEE SHARE-BASED COMPENSATION

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

EQUITY INCENTIVE PLAN

Stock options, restricted stock shares, restricted stock units (“RSU”), and performance-based stock units (“PSU”) have been issued to employees, directors, and consultants under the Company’s 2006 Equity Incentive Plan (“2006 Plan”). The 2006 Plan provides for granting in total up to 4,550,000 stock options, incentive stock, restricted stock shares, RSU’s, and PSU’s. The 2006 Plan received stockholder approval at the Company’s Annual Meeting of Stockholders held on February 27, 2007, and was amended on February 25, 2009. To cover the exercise of options and vesting of RSU’s and PSU’s, the Company generally issues new shares from its authorized but unissued share pool. As of March 31, 2015, 226,318 shares were available for future grant under the 2006 Plan.

At the Company’s Annual Meeting of Stockholders held on February 25, 2015, stockholders approved the Company’s new 2015 Long-Term Incentive Plan (“2015 Plan”) to replace the 2006 Plan. The 2015 Plan provides for granting in total up to 6,825,000 stock options, incentive shares, restricted stock shares, RSU’s, PSU’s, and other forms of equity-based awards to employees, directors, consultants, and advisers. Shares under the new 2015 Plan were first registered pursuant to a registration statement dated April 2, 2015, and were therefore not yet available for grant as of March 31, 2015.

Restricted and Performance-Based Stock Units

In the six months ended March 31, 2015, the Company granted 118,544 RSU's and 37,004 PSU's with an average value of \$86.00, representing the average of closing prices of the Company's common stock at the grant dates.

RSU's and PSU's generally vest in annual tranches over a period of three to five 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, 2015, the Company granted 160,262 stock options with a weighted average exercise price of \$86.00 and weighted average fair value of \$22.90 at the grant date. Grants generally vest over a period of four to five years. All grants expire ten years after the date of the grant.

The fair value of options granted under the 2006 Plan was 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.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015**

Black-Scholes Assumptions	Six months ended	Year ended
	March 31, 2015	September 30, 2014
Expected Volatility	26.77%	33.27%
Risk-free rate	1.58%	1.35%
Expected term	5 years	5 years
Expected dividends	-	-

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, 2015:

Compensation Expense <i>(In millions)</i>	Three months ended		Six months ended	
	March 31, 2015	2014	March 31, 2015	2014
Compensation expense ⁽¹⁾	\$3.5	\$ 3.0	\$6.6	\$ 6.4

⁽¹⁾ For the first half of fiscal years 2015 and 2014, this included a compensation charge of \$0.3 million and \$0.9 million, respectively, for share-based awards in connection with the CFO Transition.

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, 2015:

RSU and PSU Activity	Six months ended March 31, 2015			
	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	491,781	\$55.81	42,566	\$ 66.63
Granted	118,544	86.00	37,004	86.00
Vested	(167,012)	45.69	-	-
Forfeited	(4,387)	61.32	-	-
Outstanding at end of period	438,926	\$67.75	79,570	\$ 75.64

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

STOCK OPTION ACTIVITY

The following is a summary of Sirona's stock option activity for the six months ended March 31, 2015:

Stock Option Activity	Six months ended March 31, 2015	Weighted average exercise price
	Number of options	
Outstanding at beginning of period	1,560,592	\$29.13
Granted	160,262	86.00
Exercised	(136,026)	24.98
Forfeited	(2,100)	39.11
Outstanding at end of period	1,582,728	\$35.24
<i>thereof vested and exercisable</i>	<i>1,167,388</i>	

5 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		Six months ended	
	March 31, 2015	2014	March 31, 2015	2014
<i>(In millions)</i>				
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	\$2.5	\$ 2.5	\$5.0	\$ 5.0

DEFERRED INCOME

Effects of remeasurement of the Patterson Exclusivity Payment from U.S. Dollar to Euro are reflected in the statement of income. For the periods under report, these effects were as follows:

Deferred Income	Three months ended		Six months ended	
	March 31, 2015	2014	March 31, 2015	2014
(Patterson Exclusivity Payment)				
<i>(In millions)</i>				
Foreign currency transaction gain (loss) resulting from the remeasurement of the deferred income related to the Patterson exclusivity payment	\$(3.2)	\$ -	\$(4.2)	\$ 0.8

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

6 DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES

RISKS AND EXPOSURE

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.

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 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. These instruments were immaterial for all periods under report. 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, 2015, these contracts had notional amounts totaling \$41.4 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, 2015 is described in Note 13 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:

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****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	
	March 31, 2015	2014	March 31, 2015	2014
<i>(In millions)</i>				
Interest rate swap contracts	\$ -	\$ 0.1	\$0.1	\$ 0.2
Total	\$ -	\$ 0.1	\$0.1	\$ 0.2

Derivatives Not Designated as Hedging Instruments

Amount of Gain (Loss) Recognized in Income on Derivative Instruments	Three months ended		Six months ended	
	March 31, 2015	2014	March 31, 2015	2014
<i>(In millions)</i>				
Foreign exchange contracts	\$(2.7)	\$(1.5)	\$(2.3)	\$(0.9)

*Affected Line Item in
the Statement of
Income*

Gain (loss) on derivative instruments, net

7 INCOME TAXES

For the first six months of fiscal year 2015, an estimated effective tax rate of 23.0% has been applied (*prior year period: 23.5%*). The income tax provision for the first six months ended March 31, 2015, was \$24.8 million (*prior year period: \$25.5 million*). The actual effective tax rate for fiscal year 2014 was 23.0%.

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, 2015, 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, 2015, the approximate amount of undistributed foreign earnings amounted to \$614 million. Because of the availability of U.S. foreign tax credits as well as other factors, it is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****8 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,	
<i>(In millions, except share and per share amounts)</i>	2015	2014	2015	2014
Net income attributable to Sirona Dental Systems, Inc. common shareholders	\$36.0	\$37.3	\$82.0	\$81.5
Weighted average shares outstanding – basic	55,563,362	55,309,421	55,495,258	55,186,566
Dilutive effect of stock-based compensation ⁽¹⁾	798,237	889,825	836,246	985,754
Weighted average shares outstanding – diluted	56,361,599	56,199,246	56,331,504	56,172,320
Net income per share				
Basic	\$0.65	\$0.67	\$1.48	\$1.48
Diluted	\$0.64	\$0.66	\$1.46	\$1.45

⁽¹⁾ There were no stock options excluded from the computation of diluted earnings per share for the periods under report.

9 SEGMENT REPORTING**SEGMENT RESULTS**

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.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015**

Segment Performance	Three months ended		Six months ended	
	March 31,		March 31,	
<i>(In millions)</i>	2015	2014	2015	2014
Revenue External				
Dental CAD/CAM Systems	\$101.7	\$ 108.9	\$200.0	\$ 214.7
Imaging Systems	80.7	87.9	188.6	193.7
Treatment Centers	49.2	57.1	103.2	111.5
Instruments	25.7	28.8	58.5	61.5
Total	\$257.3	\$ 282.7	\$550.3	\$ 581.4

Segment performance measure**(gross profit)**

Dental CAD/CAM Systems	\$71.2	\$ 73.0	\$139.6	\$ 146.3
Imaging Systems	45.8	49.7	109.2	111.2
Treatment Centers	21.3	23.5	42.8	44.7
Instruments	10.3	11.2	23.7	24.7
Total Segments	\$148.6	\$ 157.4	\$315.3	\$ 326.9

RECONCILIATION OF THE RESULTS OF THE SEGMENT PERFORMANCE MEASURE TO THE CONSOLIDATED STATEMENTS OF INCOME

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, 2015 and 2014 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.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****Reconciliation of Segment Performance
Measure to Consolidated Statement of
Income***(In millions)*

	Three months ended		Six months ended	
	March 31, 2015	2014	March 31, 2015	2014
Consolidated revenue	\$257.3	\$ 282.7	\$550.3	\$ 581.4
Segment performance measure (gross profit)				
Total segments	148.6	157.4	315.3	326.9
Differences management reporting vs. U.S. GAAP (including step-up depreciation and amortization and certain other corporate items)	(4.8)	(5.9)	(8.6)	(12.7)
Consolidated gross profit	143.8	151.5	306.7	314.2
Selling, general and administrative expense	(82.1)	(87.2)	(169.9)	(175.2)
Research and development expense	(14.2)	(16.4)	(29.0)	(31.5)
Net other operating income (loss)	2.5	2.5	5.0	5.0
Gain (loss) on foreign currency transactions	0.9	2.0	(1.3)	(0.6)
Gain (loss) on derivative instruments	(2.7)	(1.5)	(2.3)	(0.9)
Interest income (expense)	(0.8)	(0.9)	(1.7)	(1.7)
Other income (expense)	(0.2)	(0.4)	0.5	(0.9)
Income before taxes	\$47.2	\$ 49.6	\$108.0	\$ 108.4

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, 2015 compared to the three and six months ended March 31, 2014 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		Six months ended	
<i>(In millions, except for percent amounts)</i>	March 31,		March 31,	
Top Customers	2015	2014	2015	2014
Revenues				
Patterson Dental Company, Inc.	35%	29%	35%	31%
Henry Schein, Inc.	14%	13%	14%	13%
Total of customers > 10% revenues	49%	42%	49%	44%
 Accounts Receivable				
Patterson Dental Company, Inc.			\$49.9	\$ 46.9
Henry Schein, Inc.			13.0	9.1
 Total Accounts Receivable of customers > 10% revenues			\$62.9	\$ 56.0

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****10 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)*(In millions)*

	Three months ended			
	March 31,			
	2015			
	Cumulative	Unrecognized	Net gain (loss)	Total
	translation	elements of	from hedging	
	adjustments	pension cost	instruments	
Balance at beginning of period	\$ (120.0)	\$ 12.6	\$ (0.5)	\$ (107.9)
Current increase (decrease)	(110.8)	(2.3)	0.2	(112.9)
Income tax (expense) benefit	-	0.6	-	0.6
Balance at end of period	(230.8)	10.9	(0.3)	(220.2)
Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders	\$ (230.8)	\$ 10.9	\$ (0.3)	\$ (220.2)

Accumulated Other Comprehensive Income (Loss)*(In millions)*

	Three months ended			
	March 31,			
	2014			
	Cumulative	Unrecognized	Net gain (loss)	Total
	translation	elements of	from hedging	
	adjustments	pension cost	instruments	
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

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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

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****Accumulated Other Comprehensive
Income (Loss)***(In millions)*

	Six months ended			
	March 31,			
	2015			
	Cumulative	Unrecognized	Net gain (loss)	Total
	translation	elements of	from hedging	
	adjustments	pension cost	instruments	
Balance at beginning of period	\$ (85.6)	\$ 13.2	\$ (0.4)	\$ (72.8)
Current increase (decrease)	(145.2)	(3.2)	0.1	(148.3)
Income tax (expense) benefit	-	0.9	-	0.9
Balance at end of period	(230.8)	10.9	(0.3)	(220.2)
Balance at end of period attributable to Sirona Dental Systems, Inc. shareholders	\$ (230.8)	\$ 10.9	\$ (0.3)	\$ (220.2)

**Accumulated Other Comprehensive
Income (Loss)***(In millions)*

	Six months ended			
	March 31,			
	2014			
	Cumulative	Unrecognized	Net gain (loss)	Total
	translation	elements of	from hedging	
	adjustments	pension cost	instruments	
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

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****11 INVENTORIES, NET**

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

Inventories	March 31, September 30,	
<i>(In millions)</i>	2015	2014
Finished goods	\$94.5	\$86.8
Work in progress	12.6	14.3
Raw materials	37.3	39.7
Inventories, gross	144.4	140.8
Inventory reserve	(18.0)	(17.4)
Inventories, net	\$126.4	\$123.4

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,	
<i>(In millions)</i>	2015	2014	2015	2014
Balance at beginning of the period	\$7.3	\$ 10.2	\$7.6	\$ 9.7
Accruals for warranties issued	4.7	4.9	9.4	10.5
Warranty settlements made	(4.6)	(5.1)	(9.4)	(10.4)
Translation adjustment	(0.7)	-	(0.9)	0.2
Balance at end of the period	\$6.7	\$ 10.0	\$6.7	\$ 10.0

13 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.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

ASC 820 establishes and prioritizes the following three levels of inputs that may be used to measure fair value:

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.

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.

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, 2015			
	Quoted Prices	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	in Active Markets for Identical Instruments (Level 1)			
		Foreign Exchange		
<i>(In millions)</i>				
Assets				
Cash Equivalents	\$218.0	\$-	\$-	\$218.0
(money market funds)				
Liabilities				
Derivative Liabilities	-	(3.5)	-	(3.5)
Business Combination-related liabilities	-	-	(12.4)	(12.4)
Total	\$218.0	\$(3.5)	\$(12.4)	\$202.1

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015**

Assets and Liabilities Measured at Fair Value - Recurring Basis	September 30,			
	2014 Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<i>(In millions)</i>				
Assets				
Cash Equivalents	\$211.2	\$-	\$-	\$211.2
(money market funds)				
Liabilities				
Derivative Liabilities	-	(1.5)	-	(1.5)
Business Combination-related liabilities	-	-	(14.2)	(14.2)
Total	\$211.2	\$(1.5)	\$(14.2)	\$195.5

The change in the fair value of the business acquisition-related liabilities was a \$1.8 million decrease for the period under report, and a total for all acquisitions of \$0.3 million (expense) and \$0.4 million (income) was recorded in other income (expense) in the income statement for the three and six months ended March 31, 2015, respectively.

In the Company's March 31, 2015 and September 30, 2014 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.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

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

INTRODUCTION

Except as otherwise indicated or unless context otherwise requires, the terms "Sirona", the "Company", "we", "us", and "our" refer to Sirona Dental Systems, Inc. and its consolidated subsidiaries.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide the reader of our financial statements with a narrative, from the perspective of our management, on our business, financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior year.

Our MD&A should be read in conjunction with the 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, 2014. 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 "Operations Review" in this Item and elsewhere in this Report.

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

Non-GAAP Financial Measures

Certain income statement information is presented on an adjusted basis. Such information represents non-GAAP financial measures. Sirona supplementally presents this information because it believes doing so facilitates a better comparison of its operating results from period to period without regard to certain significant items, which management believes do not reflect Sirona's operating performance in the ordinary, ongoing and customary course of its operations. For a listing and definitions of our current non-GAAP financial measures as well as a reconciliation of these measures to the most comparable GAAP measure, please refer to "Non-GAAP Financial Measures" within "Operations Review" in this MD&A.

EXECUTIVE OVERVIEW OF SIRONA'S BUSINESS AND PERFORMANCE

Business

Sirona 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 over 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 29 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. Sirona has the broadest product portfolio in the industry and is capable of fully outfitting and integrating a dental practice.

The majority of our revenues derive from the manufacture and sale of dental equipment. In addition, we also provide sales and after-sales service support to dentists and distributors through our growing sales and service infrastructure.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Sirona manages its commercial operations on both a product and geographic basis and maintains four segments: 1) *Dental CAD/CAM Systems*, 2) *Imaging Systems*, 3) *Treatment Centers*, and 4) *Instruments*. Products from each category are marketed in all geographical sales regions.

Our business has grown substantially in the past several fiscal years, driven by numerous high-tech product introductions, a continued expansion of our global sales and service infrastructure, and strong relationships with key distribution partners, namely Patterson in the U.S. and Henry Schein in Europe.

Current Performance at a Glance

The following is a synopsis of our performance for the six months ended March 31, 2015:

Revenue: For the six months ended March 31, 2015, reported revenue decreased 5.3%. On a Local Currency basis, total revenues were up 2.9% over a strong first half year in 2014, where revenues grew 10.0% Local Currency. We continued to see growing demand for our Imaging products, while overall CAD/CAM demand remained steady. Instruments continued to be our strongest growing segment and benefitted from our expanded state-of-the-art manufacturing facility in Bensheim, Germany. Treatment Centers saw an increase in demand, especially for our comfort line and our new Intego economy treatment center. Geographically, Local Currency growth was driven equally by U.S. and International Markets.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Operating Income: Gross profit decreased by \$7.5 million, primarily as the result of the decrease in reported revenues. Gross profit margin benefitted from foreign exchange developments and improved to 55.7% (*prior year period: 54.0%*). We continue to invest in the expansion of our sales and service infrastructure in key markets and in research and development for new products and services; however, the benefits from foreign exchange translation more than offset these investments. As a result, SG&A expenses decreased \$5.3 million, while R&D expenses were below the prior-year period by \$2.5 million. Operating income increased \$0.3 million, or 0.3%, compared to the same period last year.

Net Income: Net income attributable to Sirona shareholders was \$82.0 million, an increase of \$0.45 million, or 0.6%, over the prior year.

Cash Position: At March 31, 2015, the Company had cash and cash equivalents of \$400.3 million and total debt of \$78.6 million, resulting in net cash of \$321.7 million, or an increase of \$18.4 million compared to September 30, 2014.

Significant Factors Affecting Our Operating Performance

Foreign Currency Fluctuations

Fluctuations in exchange rates impact Sirona's financial results. Although the U.S. Dollar is Sirona's reporting currency, Sirona conducts its business in many currencies, and its functional currencies vary depending on the country of operation. As a percent of total revenues, sales and operating expenses⁽¹⁾ in Euro, U.S. Dollar, and all other currencies⁽²⁾ for the six months ended March 31, 2015 were approximately as follows:

- (1) *cost of goods sold, SG&A, R&D, and other operating expenses*
- (2) *most importantly: Japanese Yen, Australian Dollar, Chinese Yuan Renminbi, and Brazilian Real*

The single most significant 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. The following table presents the relevant U.S. Dollar/Euro exchange rate information for the period(s) under report:

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****Fluctuations in Exchange Rates
(USD/EUR)***(In U.S. Dollars)*

Exchange rate used to calculate items in Sirona's financial statements:

	Three months ended		Six months ended	
	March 31, 2015	2014	March 31, 2015	2014
Period-end ⁽¹⁾	\$1.0742	\$ 1.3798	\$1.0742	\$ 1.3798
Average ⁽²⁾	1.1285	1.3704	1.1894	1.3656
Fluctuations during the period:				
Low ⁽³⁾	\$1.0527	\$ 1.3506	\$1.0527	\$ 1.3386
High ⁽⁴⁾	1.2155	1.3956	1.2814	1.3956

⁽¹⁾ Closing rate as of the balance sheet date.⁽²⁾ Average exchange rate for the period.⁽³⁾ Lowest daily exchange rate for the period.⁽⁴⁾ Highest daily exchange rate for the period.

Although Sirona does not apply hedge accounting for foreign currency derivatives, it has entered into foreign exchange forward contracts to help mitigate foreign currency exposure. As these agreements are 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 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 Senior Facilities Agreement. However, intra-group loans and other intra-group monetary assets and liabilities are often 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.

The MDP Transaction and the Exchange

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.

For more detailed information concerning factors affecting our operating results, please refer to "Significant Factors that Affect Sirona's Results of Operations" in the MD&A section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****OPERATIONS REVIEW*****CURRENT QUARTER*****Operations Review**

	Three months ended					
	March 31,				Change	
	2015		2014			
<i>(In millions, except for percent amounts)</i>						
REVENUE	\$257.3	100.0%	\$282.7	100.0%	\$(25.4)	(9.0%)
<i>Dental CAD/CAM Systems</i>	<i>101.7</i>	<i>39.5%</i>	<i>108.9</i>	<i>38.5%</i>	<i>(7.2)</i>	<i>(6.6%)</i>
<i>Imaging Systems</i>	<i>80.7</i>	<i>31.4%</i>	<i>87.9</i>	<i>31.1%</i>	<i>(7.2)</i>	<i>(8.2%)</i>
<i>Treatment Centers</i>	<i>49.2</i>	<i>19.1%</i>	<i>57.1</i>	<i>20.2%</i>	<i>(7.9)</i>	<i>(13.8%)</i>
<i>Instruments</i>	<i>25.7</i>	<i>10.0%</i>	<i>28.8</i>	<i>10.2%</i>	<i>(3.1)</i>	<i>(10.8%)</i>
COST OF GOODS SOLD	(113.5)	(44.1%)	(131.2)	(46.4%)	17.7	(13.5%)
GROSS PROFIT ⁽¹⁾	143.8	55.9%	151.5	53.6%	(7.7)	(5.1%)
<i>Dental CAD/CAM Systems</i>	<i>71.2</i>	<i>70.0%</i>	<i>73.0</i>	<i>67.0%</i>	<i>(1.8)</i>	<i>(2.5%)</i>
<i>Imaging Systems</i>	<i>45.8</i>	<i>56.8%</i>	<i>49.7</i>	<i>56.5%</i>	<i>(3.9)</i>	<i>(7.8%)</i>
<i>Treatment Centers</i>	<i>21.3</i>	<i>43.3%</i>	<i>23.5</i>	<i>41.2%</i>	<i>(2.2)</i>	<i>(9.4%)</i>
<i>Instruments</i>	<i>10.3</i>	<i>40.1%</i>	<i>11.2</i>	<i>38.9%</i>	<i>(0.9)</i>	<i>(8.0%)</i>
<i>Corporate (unallocated)</i>	<i>(4.8)</i>		<i>(5.9)</i>		<i>1.1</i>	<i>(18.6%)</i>
Selling, general and administrative expense	(82.1)	(31.9%)	(87.2)	(30.8%)	5.1	(5.8%)
Research and development	(14.2)	(5.5%)	(16.4)	(5.8%)	2.2	(13.4%)
Net other operating income (expense)	2.5	1.0%	2.5	0.9%	-	0.0%
OPERATING INCOME	50.0	19.4%	50.4	17.8%	(0.4)	(0.8%)
Gain (loss) on foreign currency transactions, net	0.9	0.3%	2.0	0.7%	(1.1)	(55.0%)
Gain (loss) on derivative instruments	(2.7)	(1.0%)	(1.5)	(0.5%)	(1.2)	80.0%
Interest expense, net	(0.8)	(0.3%)	(0.9)	(0.3%)	0.1	(11.1%)
Other income (expense)	(0.2)	(0.1%)	(0.4)	(0.1%)	0.2	(50.0%)
INCOME BEFORE TAXES	47.2	18.3%	49.6	17.5%	(2.4)	(4.8%)
Income tax provision	(10.8)	(4.2%)	(11.7)	(4.1%)	0.9	(7.7%)

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NET INCOME	36.4	14.1%	37.9	13.4%	(1.5)	(4.0%)
Less: Net income attributable to noncontrolling interests	(0.4)	(0.2%)	(0.6)	(0.2%)	0.2	(33.3%)
NET INCOME ATTRIBUTABLE TO SIRONA DENTAL SYSTEMS, INC.	\$36.0	14.0%	\$37.3	13.2%	\$(1.3)	(3.5%)

(1) Percentages refer to the percent of *total* revenues except for segment gross profit information, where percentages refer to segment gross profit margin.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Revenue

For the three months ended March 31, 2015, revenue was \$257.3 million, a decrease of \$25.4 million, or 9.0% (*increased 2.0% Local Currency*). Local Currency growth of 2.0% was offset by an 11.0% unfavorable foreign exchange impact on our reported revenue. This was driven by the further weakening of the Euro and other major currencies (such as Australian Dollar, Brazilian Real, Japanese Yen, etc.) during the quarter and impacted all segments. Revenue developed by segment and geographically as follows:

By *segment*:

CAD/CAM Systems (*decreased 6.6% - up 2.9% Local Currency*): Segment revenues were \$101.7 million (*prior year period: \$108.9 million*), a decrease of \$7.2 million reported compared to an increase of \$3.2 million in Local Currency. Local Currency growth was primarily driven by new-user demand. Overall revenue growth was led by Germany.

Imaging Systems (*decreased 8.2% - down 0.7% Local Currency*): Segment revenues were \$80.7 million (*prior year period: \$87.9 million*), a decrease of \$7.2 million reported compared to a decrease of \$0.6 million in Local Currency. Overall, Local Currency revenues were relatively flat compared to the prior-year period. Revenues were impacted by declines in certain international markets.

Treatment Centers (*decreased 13.8% - up 2.2% Local Currency*): Segment revenues were \$49.2 million (*prior year period: \$57.1 million*), a decrease of \$7.9 million reported compared to an increase of \$1.3 million in Local Currency. Our Treatment Center segment continued to witness steady increase in demand, led by our Intego and Sinius treatment centers. Growth was especially strong in Europe.

Instruments (*decreased 10.8% - up 6.1% Local Currency*): Segment revenues were \$25.7 million (*prior year period: \$28.8 million*), a decrease of \$3.1 million reported compared to an increase of \$1.8 million in Local Currency. Instruments continued to be our fastest-growing segment. Local Currency revenue growth was driven by international markets as a result of strong demand for our hygiene products and handpieces.

Geographically:

U.S. (*increased 8.6%*): The U.S. continued to deliver solid revenue growth, driven by strong demand for our Imaging products.

International Markets (*decreased 15.3% - decreased 0.4% Local Currency*): Overall, Local Currency revenues were flat compared to the prior-year period. Reported revenues were significantly impacted by the further weakening of the Euro and other major currencies.

Cost of Goods Sold and Gross Profit

Cost of Goods Sold

For the three months ended March 31, 2015, cost of goods sold was \$113.5 million, a decrease of \$17.7 million, or 13.5%. Cost of goods sold as a percentage of sales decreased to 44.1% (*prior year period: 46.4%*). Cost of goods sold benefited mainly from the weakening of the Euro during the period. Amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets, included in cost of goods sold, declined by \$2.3 million compared to the prior-year period.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Gross Profit

For the three months ended March 31, 2015, gross profit was \$143.8 million, a decrease of \$7.7 million, or 5.1%, compared to a decrease in revenue of \$25.4 million, or 9.0%. Gross profit margin was 55.9% (*prior year period: 53.6%*). The 2.3% increase in the gross profit margin was mainly due to the abovementioned favorable foreign exchange effects of 3.1%, which more than offset the 0.8% negative operational impact.

By segment, gross profit and gross profit margin developed in the three months ended March 31, 2015, compared to the three months ended March 31, 2014 as follows:

CAD/CAM Systems: Segment gross profit was \$71.2 million (*prior year period: \$73.0 million*), a decrease of \$1.8 million compared to a decrease of \$7.2 million in reported segment revenue. Segment gross profit margin was 70.0% (*prior year period: 67.0%*). The 3.0% improvement was primarily due to foreign exchange fluctuations.

Imaging Systems: Segment gross profit was \$45.8 million (*prior year period: \$49.7 million*), a decrease of \$3.9 million compared to a decrease of \$7.2 million in reported segment revenue. Segment gross profit margin was 56.8% (*prior year period: 56.5%*). The 0.3% improvement was primarily due to benefits from the weakening of the Euro, which was offset by unfavorable product mix.

Treatment Centers: Segment gross profit was \$21.3 million (*prior year period: \$23.5 million*), a decrease of \$2.2 million compared to a decrease of \$7.9 million in reported segment revenue. Segment gross profit margin was 43.3% (*prior year period: 41.2%*). The 2.1% improvement was driven by improved product mix, with strong sales of our comfort line and our new Intego treatment center.

Instruments: Segment gross profit was \$10.3 million (*prior year period: \$11.2 million*), a decrease of \$0.9 million compared to a decrease of \$3.1 million in reported segment revenue. Segment gross profit margin was 40.1% (*prior*

year period: 38.9%). The 1.2% improvement was primarily the result of foreign exchange fluctuations.

Selling, General, and Administrative

For the three months ended March 31, 2015, SG&A expense was \$82.1 million, a decrease of \$5.1 million, or 5.8%.

The decrease in SG&A expense was primarily driven by the weakening of the Euro and other major currencies. SG&A expense for the period included \$3.1 million of marketing expenditures for the International Dental Show (“IDS”) that was held in March in Germany. We continue to invest in the expansion of our sales and service infrastructure in growth markets.

Research and Development

R&D expense for the three months ended March 31, 2015, was \$14.2 million, a decrease of \$2.2 million, or 13.4%.

The decrease was mostly driven by the weakening of the Euro. As a percentage of revenue, R&D expense was 5.5% (*prior year period: 5.8%*).

Net Other Operating Income (Loss)

Net other operating income (loss) for the three months ended March 31, 2015, compared to the three months ended March 31, 2014 was as follows:

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****Net Other Operating Income (Loss)***(In millions)*

Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment

Three months ended	
March 31,	
2015	2014
\$2.5	\$ 2.5

Gain (Loss) on Foreign Currency Transactions and Derivative Instruments***Foreign Currency Transactions***

The gain on foreign currency transactions for the three months ended March 31, 2015 amounted to \$0.9 million (*prior year period: gain of \$2.0 million*). The components of these results are as follows:

Gain (Loss) on Foreign Currency Transactions*(In millions)*

Unrealized non-cash foreign exchange gain (loss) from translation adjustment of deferred income related to the Patterson exclusivity payment

Unrealized non-cash foreign exchange gain (loss) on short-term intra-group loans

Gain (loss) on other foreign currency transactions ⁽¹⁾**Gain (Loss) on Foreign Currency Transactions**

Three months ended	
March 31,	
2015	2014
\$(3.2)	\$ -
(0.3)	(0.3)
4.4	2.3
\$0.9	\$ 2.0

⁽¹⁾ For the three months ended March 31, 2015 and 2014, the gain (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.

Derivative Instruments

For the three months ended March 31, 2015, the loss on derivative instruments was \$2.7 million (*prior year period: loss of \$1.5 million*). In both periods, the results related to foreign currency hedges.

Income Tax Provision

For the three months ended March 31, 2015, Sirona recorded a profit before income taxes of \$47.2 million (*prior year period: \$49.6 million*), an income tax provision of \$10.8 million (*prior year period: \$11.7 million*), and an estimated effective tax rate applied for the quarter of 23.0% (*prior year period: 23.5%*). The estimated effective tax rate is primarily driven by the expected mix of earnings across different jurisdictions.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015****YEAR-TO-DATE****Operations Review**

**Six months ended
March 31,
2015**

2014

Change

(In millions, except for percent amounts)

REVENUE	\$550.3	100.0%	\$581.4	100.0%	\$(31.1)	(5.3%)
<i>Dental CAD/CAM Systems</i>	200.0	36.3%	214.7	36.9%	(14.7)	(6.8%)
<i>Imaging Systems</i>	188.6	34.3%	193.7	33.3%	(5.1)	(2.6%)
<i>Treatment Centers</i>	103.2	18.8%	111.5	19.2%	(8.3)	(7.4%)
<i>Instruments</i>	58.5	10.6%	61.5	10.6%	(3.0)	(4.9%)
COST OF GOODS SOLD	(243.6)	(44.3%)	(267.2)	(46.0%)	23.6	(8.8%)
GROSS PROFIT ⁽¹⁾	306.7	55.7%	314.2	54.0%	(7.5)	(2.4%)
<i>Dental CAD/CAM Systems</i>	139.6	69.8%	146.3	68.1%	(6.7)	(4.6%)
<i>Imaging Systems</i>	109.2	57.9%	111.2	57.4%	(2.0)	(1.8%)
<i>Treatment Centers</i>	42.8	41.5%	44.7	40.1%	(1.9)	(4.3%)
<i>Instruments</i>	23.7	40.5%	24.7	40.2%	(1.0)	(4.0%)
<i>Corporate (unallocated)</i>	(8.6)		(12.7)		4.1	(32.3%)
Selling, general and administrative expense	(169.9)	(30.9%)	(175.2)	(30.1%)	5.3	(3.0%)
Research and development	(29.0)	(5.3%)	(31.5)	(5.4%)	2.5	(7.9%)
Net other operating income (expense)	5.0	0.9%	5.0	0.9%	-	0.0%
OPERATING INCOME	112.8	20.5%	112.5	19.3%	0.3	0.3%
Gain (loss) on foreign currency transactions, net	(1.3)	(0.2%)	(0.6)	(0.1%)	(0.7)	116.7%
Gain (loss) on derivative instruments	(2.3)	(0.4%)	(0.9)	(0.2%)	(1.4)	155.6%
Interest expense, net	(1.7)	(0.3%)	(1.7)	(0.3%)	-	0.0%
Other income (expense)	0.5	0.1%	(0.9)	(0.2%)	1.4	(155.6%)
INCOME BEFORE TAXES	108.0	19.6%	108.4	18.6%	(0.4)	(0.4%)
Income tax provision	(24.8)	(4.5%)	(25.5)	(4.4%)	0.7	(2.7%)
NET INCOME	83.2	15.1%	82.9	14.3%	0.3	0.4%
Less: Net income attributable to noncontrolling interests	(1.2)	(0.2%)	(1.4)	(0.2%)	0.2	(14.3%)
NET INCOME ATTRIBUTABLE TO SIRONA DENTAL SYSTEMS, INC.	\$82.0	14.9%	\$81.5	14.0%	\$0.5	0.6%

(1) Percentages refer to the percent of *total* revenues except for segment gross profit information, where percentages refer to segment gross profit margin.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Revenue

For the six months ended March 31, 2015, revenue was \$550.3 million, a decrease of \$31.1 million, or 5.3% (*increased 2.9% Local Currency*). Local Currency growth of 2.9% was offset by an 8.2% unfavorable foreign exchange impact on our reported revenue. This was driven by the weakening of the Euro and other major currencies (such as Australian Dollar, Brazilian Real, Japanese Yen, etc.) during the period under report and impacted all segments. Revenue developed by segment and geographically as follows:

By *segment*:

CAD/CAM Systems (*decreased 6.8% - up 0.5% Local Currency*): Segment revenues were \$200.0 million (*prior year period: \$214.7 million*), a decrease of \$14.7 million reported compared to an increase of \$1.0 million in Local Currency. Local Currency revenues were more or less flat compared to the prior year. Growth in new-user demand offset declines in trade-up activities.

Imaging Systems (*decreased 2.6% - up 2.7% Local Currency*): Segment revenues were \$188.6 million (*prior year period: \$193.7 million*), a decrease of \$5.1 million reported compared to an increase of \$5.2 million in Local Currency. Local Currency revenue growth was driven by the U.S., where we continue to experience robust demand for our intra-oral and Orthophos product lines.

Treatment Centers (*decreased 7.4% - up 5.3% Local Currency*): Segment revenues were \$103.2 million (*prior year period: \$111.5 million*), a decrease of \$8.3 million reported compared to an increase of \$5.9 million in Local Currency. Our Treatment Center segment continued to witness steady increase in demand, led by our Sinius and new Intego treatment centers. Our Intego treatment center has steadily gained traction since its launch. Segment growth was especially strong in Europe.

Instruments (*decreased 4.9% - up 7.7% Local Currency*): Segment revenues were \$58.5 million (*prior year period: \$61.5 million*), a decrease of \$3.0 million reported compared to an increase of \$4.8 million in Local Currency. In

Local Currency, Instruments continued to be our fastest-growing segment. Local Currency revenue growth was driven by international markets as a result of strong demand for our hygiene products and handpieces.

Geographically:

U.S. (*increased 4.5%*): Revenues benefited primarily from strong demand for our Imaging products.

International Markets (*decreased 9.7% - increased 2.2% Local Currency*): Reported revenues were negatively impacted by the weakening of the Euro and other major currencies by 11.9%. Treatment Centers and Instruments were the main drivers of our 2.2% Local Currency growth in International Markets.

Cost of Goods Sold and Gross Profit

Cost of Goods Sold

For the six months ended March 31, 2015, cost of goods sold was \$243.6 million, a decrease of \$23.6 million, or 8.8%. Cost of goods sold as a percentage of sales decreased to 44.3% (*prior year period: 46.0%*). Cost of goods sold benefitted mainly from the weakening of the Euro during the period. Amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets, included in cost of goods sold, declined by \$4.7 million compared to the prior-year period.

Gross Profit

For the six months ended March 31, 2015, gross profit was \$306.7 million, a decrease of \$7.5 million, or 2.4%, compared to a decrease in revenue of \$31.1 million, or 5.3%. Gross profit margin was 55.7% (*prior year period: 54.0%*). The 1.7% increase in the gross profit margin was mainly due to the abovementioned favorable foreign exchange effects of 2.2%, which more than offset the 0.5% negative operational impact.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

By segment, gross profit and gross profit margin developed in the six months ended March 31, 2015 compared to the six months ended March 31, 2014 as follows:

CAD/CAM Systems: Segment gross profit was \$139.6 million (*prior year period: \$146.3 million*), a decrease of \$6.7 million compared to a decrease of \$14.7 million in reported segment revenue. Segment gross profit margin was 69.8% (*prior year period: 68.1%*). The 1.7% improvement was primarily due to foreign exchange fluctuations.

Imaging Systems: Segment gross profit was \$109.2 million (*prior year period: \$111.2 million*), a decrease of \$2.0 million compared to a decrease of \$5.1 million in reported segment revenue. Segment gross profit margin was 57.9% (*prior year period: 57.4%*). The 0.5% improvement was primarily due to benefits from the weakening of the Euro.

Treatment Centers: Segment gross profit was \$42.8 million (*prior year period: \$44.7 million*), a decrease of \$1.9 million compared to a decrease of \$8.3 million in reported segment revenue. Segment gross profit margin was 41.5% (*prior year period: 40.1%*). The 1.4% improvement was driven by improved product mix, with strong sales of our comfort line and our new Intego treatment center.

Instruments: Segment gross profit was \$23.7 million (*prior year period: \$24.7 million*), a decrease of \$1.0 million compared to a decrease of \$3.0 million in reported segment revenue. Segment gross profit margin was 40.5% (*prior year period: 40.2%*). The 0.3% improvement was primarily the result of foreign exchange fluctuations.

Selling, General, and Administrative

For the six months ended March 31, 2015, SG&A expense was \$169.9 million, a decrease of \$5.3 million, or 3.0%.

The decrease in SG&A expense was primarily driven by the weakening of the Euro and other major currencies. SG&A expense for the period included \$3.1 million of marketing expenditures for the International Dental Show (“IDS”) that was held in March in Germany. We continue to investment in the expansion of our sales and service

infrastructure in growth markets.

Research and Development

R&D expense for the six months ended March 31, 2015, was \$29.0 million, a decrease of \$2.5 million, or 7.9%.

The decrease was mainly driven by the weakening of the Euro. As a percentage of revenue, R&D expense was 5.3% (prior year period: 5.4%).

Net Other Operating Income

Net other operating income for the six months ended March 31, 2015, compared to the six months ended March 31, 2014 was as follows:

Net Other Operating Income (Loss)	Six months ended March 31,	
<i>(In millions)</i>	2015	2014
Income resulting from the amortization of the deferred income related to the Patterson exclusivity payment	\$5.0	\$ 5.0

Table of Contents

SIRONA DENTAL SYSTEMS, INC.
AND SUBSIDIARIES
FORM 10-Q
FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

Gain (Loss) on Foreign Currency Transactions and Derivative Instruments*Foreign Currency Transactions*

The loss on foreign currency transactions for the six months ended March 31, 2015 amounted to \$1.3 million (*prior year period: loss of \$0.6 million*). The components of these results are as follows:

Gain (Loss) on Foreign Currency Transactions	Six months ended	
	March 31, 2015	2014
<i>(In millions)</i>		
Unrealized non-cash foreign exchange gain (loss) from translation adjustment of deferred income related to the Patterson exclusivity payment	\$(4.2)	\$ 0.8
Unrealized non-cash foreign exchange gain (loss) on short-term intra-group loans	(0.8)	1.2
Gain (loss) on other foreign currency transactions ⁽¹⁾	3.7	(2.6)
Gain (Loss) on Foreign Currency Transactions	\$(1.3)	\$ (0.6)

⁽¹⁾ For the six months ended March 31, 2015 and 2014, the gain (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.

Derivative Instruments

For the six months ended March 31, 2015, the loss on derivative instruments was \$2.3 million (*prior year period: loss of \$0.9 million*). In both periods, the results related to foreign currency hedges.

Income Tax Provision

For the six months ended March 31, 2015, Sirona recorded a profit before income taxes of \$108.0 million (*prior year period: \$108.4 million*), an income tax provision of \$24.8 million (*prior year period: \$25.5 million*), and an estimated effective tax rate applied for the first six months of 23.0% (*prior year period: 23.5%*). The estimated effective tax rate is primarily driven by the expected mix of earnings across different jurisdictions.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

NON-GAAP FINANCIAL MEASURES (unaudited)

To supplement our consolidated financial statements, operations review, and our business outlook, we currently use the following non-GAAP financial measures (unaudited):

Local Currency,
Non-GAAP Adjusted Net Income, and
Non-GAAP Adjusted Earnings Per Diluted Share,

Management recognizes that the use of these non-GAAP measures has limitations, including the fact that they might not be comparable with similar non-GAAP measures used by other companies and that management must exercise judgment in determining which types of charges and other items should be excluded from its non-GAAP financial measures. Management currently compensates for these limitations by providing full disclosure of each non-GAAP financial measure and a reconciliation to the most directly comparable GAAP measure. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding Sirona's operating performance in the ordinary, ongoing and customary course of its operations. Accordingly, management excludes the impact of acquisition-related intangible depreciation and amortization in order to compare our underlying financial performance to prior periods, certain charges and income related to currency revaluation of assets and liabilities that do not reflect our period-to-period core operating performance, and to the extent relevant in a particular period, any other significant cash or non-cash items that management does not view as indicative of its ongoing operating performance. Each item is evaluated on an individual basis, taking into consideration both quantitative and qualitative aspects of their nature. We believe that

both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management's internal evaluation of period-to-period comparisons. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making, and (2) they are provided to and used by our institutional investors and the analyst community to facilitate comparisons with prior and subsequent reporting periods.

Local Currency

Certain revenue information is presented on a local currency basis (“Local Currency”). 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. Sirona calculates Local Currency revenue growth by comparing current-period revenues to prior-period revenues with both periods converted at the U.S. Dollar/local currency average foreign exchange rate for each month of the prior period for the currencies in which we do business.

Adjusted Net Income and Adjusted Earnings per Diluted Share

These non-GAAP measures (both attributable to Sirona’s shareholders) exclude, as applicable, the following:

- amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations,
- gains and losses on foreign currency transactions and derivative instruments,
- any tax effects related to the above, and

to the extent relevant in a particular period, any other significant cash or non-cash items that management does not view as indicative of its ongoing operating performance.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.
AND SUBSIDIARIES
FORM 10-Q
FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

The following tables reconcile the above non-GAAP financial measures to their most directly comparable GAAP financial measures for the period(s) under report:

Non-GAAP Financial Measures (GAAP reconciliation)	Three months ended	
<i>(In millions, except for per share and percent amounts)</i>	March 31,	2014
	2015	2014
GAAP Net Income attributable to Sirona shareholders	\$36.0	\$ 37.3
Adjustments (after tax ²⁾)	\$0.64¹⁾	\$0.66¹⁾
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$5.0	6.7
(Gain) loss on foreign currency transactions, net	(0.7)	(1.5)
(Gain) loss on derivative instruments	2.1	1.1
Other items:		
Compensation charge for expenses in connection with the CEO/CFO Transition	0.2	1.2
Adjusted Net Income attributable to Sirona shareholders	\$42.6	\$ 44.9
¹⁾ per diluted share	\$0.76¹⁾	\$0.80¹⁾
²⁾ tax impact calculated using estimated effective tax rate of	23.0%	23.5%
Non-GAAP Financial Measures (GAAP reconciliation)	Six months ended	
<i>(In millions, except for per share and percent amounts)</i>	March 31,	2014
	2015	2014
GAAP Net Income attributable to Sirona shareholders	\$82.0	\$ 81.5
Adjustments (after tax ²⁾)	\$1.46¹⁾	\$1.45¹⁾
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$10.5	14.0
(Gain)/loss on foreign currency transactions, net	1.0	0.5
(Gain)/loss on derivative instruments	1.8	0.7

Other items:

Non-recurring legal and other advisory expense	0.9	-		
Compensation charge for expenses in connection with the CEO/CFO Transition	0.4	2.2		
Adjusted Net Income attributable to Sirona shareholders	\$96.6	\$1.71¹⁾	\$ 98.9	\$1.76¹⁾
¹⁾ per diluted share				
²⁾ tax impact calculated using estimated effective tax rate of	23.0%		23.5%	

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

LIQUIDITY AND CAPITAL RESOURCES

Summary

Historically, Sirona's principal uses of cash, apart from operating requirements (including research and development efforts), 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.

At March 31, 2015, the Company had cash and cash equivalents of \$400.3 million and total debt of \$78.6 million, resulting in net cash of \$321.7 million. We believe our ability to generate cash from operating activities is one of our fundamental strengths. The near-term outlook for our business remains strong, and we expect to continue generating significant cash flows from operations throughout the remainder of fiscal 2015. The Company typically does not raise capital through issuance of stock; instead, we use debt financing to lower our overall cost of capital and increase our return on shareholders' equity. We believe that our operating cash flows, available cash, and available but unused revolving credit facilities, in combination, provide us with the necessary financial flexibility to fund our working capital needs, research and development efforts, and anticipated capital expenditures for the foreseeable future.

We have significant operations outside of the U.S. and earn a significant portion of our consolidated operating income and income before taxes through our foreign subsidiaries. Cash and cash equivalents of \$320.5 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.

Debt Financing

On November 14, 2011, the Company entered into a senior facilities agreement (the “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 Senior Facilities Agreement were used to retire the outstanding borrowings under the Company's previous credit facilities. Please see “Senior Facilities Agreement” within this section for a complete description of this Senior Facilities Agreement.

The 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, 2015, the most recent period for which this ratio was calculated, the Company was in compliance. The Debt Cover Ratio was not meaningful in the absence of net debt.

Cash Flows

The following table summarizes our cash flows from operating, investing, and financing activities for each of the periods under report:

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****FORM 10-Q****FOR THE FISCAL QUARTER ENDED MARCH 31, 2015**

Cash Flows	Six months ended		Change	
	March 31,			
<i>(In millions, except for percent amounts)</i>	2015	2014	absolute	%
Net cash provided by (used in):				
OPERATING activities	\$73.4	\$ 78.9	\$(5.5)	(7.0%)
INVESTING activities	(25.0)	(60.9)	35.9	58.9%
FINANCING activities	(4.8)	(5.7)	0.9	15.8%
Increase (decrease) in cash during the period	\$43.6	\$ 12.3	\$31.3	254.5%

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 \$73.4 million for the six months ended March 31, 2015 (*prior year period: \$78.9 million*), or a decrease of \$5.5 million compared to an increase of \$0.5 million in net income.

Influencing factors on operating cash flows were:

In the first six months of fiscal 2015, the favorable adjustments to reconcile net income to net operating cash flow increased by \$6.5 million over the prior-year period. Driving factors for this increase were:

- o \$2.1 million more favorable adjustment from derivative instruments and foreign currency transactions,
- o \$2.6 million less favorable adjustment from depreciation and amortization due to decreasing amortization resulting from the step-up to fair value of tangible and intangible assets, and

- o \$6.8 million more favorable impacts from net deferred taxes related to normal, ongoing business.
- o The remaining changes only had a minor impact on the decrease in net cash provided by operating activities.

In the first six months of fiscal 2015, the unfavorable effect of changes in assets and liabilities resulted in an increase over the prior-year period of \$12.3 million. The factors for this change were:

Receivables and inventories changed by \$31.7 million compared to the prior year. This negative development was primarily driven by the \$31.1 million increase in receivables. The higher increase in receivables in the current-year period resulted primarily from the purchasing pattern of Patterson, our largest distributor, with low shipments in August and September 2014.

Trade accounts payable and other assets and liabilities changed by \$24.2 million compared to the prior year. This positive development reflects the timing of supplier payments.

Current income tax liabilities changed by \$4.8 million compared to the prior year. This negative development was due to the timing of income tax payments.

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, asset disposals, and divestitures.

Net cash used in investing activities was \$25.0 million for the six months ended March 31, 2015 (*prior year period: \$60.9 million*), or a decrease of \$35.9 million.

The investing cash outflow in the six months ended March 31, 2015 represented capital expenditures in the course of normal operating activities.

For the six months ended March 31, 2014, net cash used in investing activities represented:

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

- the acquisition of the main administrative building in Bensheim, Germany for \$26.7 million,
- the completion of the expansion of the new instruments manufacturing facility in Bensheim, Germany, and capital expenditures in the course of normal operating activities.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities was \$4.8 million for the six months ended March 31, 2015 (*prior year period: \$5.7 million*), or a decrease of \$0.9 million. The year-over-year change was mainly driven by \$2.0 million lower proceeds from shares issued under share based compensation plans, \$0.9 million fewer purchases of treasury shares in the first six months of 2015, largely offset by the absence of dividend distributions to noncontrolling interests in the current year.

Capital Resources

Senior Facilities Agreement

On November 14, 2011, the Company entered into the 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 Senior Facilities Agreement were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement includes: (1) a term loan in an aggregate principal amount of \$75 million ("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.

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 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 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 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 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.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

As of March 31, 2015 and September 30, 2014, the Facility A Term Loan was fully drawn to the amount of \$75.0 million. The Revolving Facilities B and C remained undrawn as of March 31, 2015 and September 30, 2014.

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Please see Note 3 to the unaudited consolidated financial statements for any discussions of recently issued accounting standards that have not yet been adopted.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

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, 2014.

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, 2015. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2015, 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, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

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, 2014.

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, 2015 are set forth in the table below:

Issuer Purchase of Equity Securities

<i>(In millions, except share and per share amounts)</i>	Total Number of Shares	Average Price Paid	Total Number of Shares	Approximate Dollar Value
----------------------------------------------------------	-------------------------------	---------------------------	-------------------------------	---------------------------------

	Purchased	per Share	Purchased as Part of Publicly Announced Program ⁽¹⁾	of Shares that May Yet Be Purchased Under the Programs
January 1 - January 31, 2015	-	\$-	-	\$72.3
February 1 - February 28, 2015	-	-	-	72.3
March 1 - March 31, 2015	45,430	87.99	45,430	68.3

⁽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.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

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 Taxonomy Labels Linkbase Document***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document***
*	Filed herewith
**	

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income for the quarter ended March 31, 2015 and 2014, (ii) Consolidated Statements of Comprehensive Income for the quarter ended March 31, 2015 and 2014, (iii) Consolidated Balance Sheets as of March 31, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the quarter ended March 31, 2015 and 2014, and (v) Notes to Consolidated Condensed Financial Statements (condensed).

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

AND SUBSIDIARIES

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2015

SIGNATURES

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

Date: May 8, 2015

Sirona Dental Systems, Inc.

By: /s/ Stephan Mitsdoerffer
Stephan Mitsdoerffer,

Chief Accounting Officer

(Principal Accounting Officer)

(Duly authorized signatory)

By: /s/ Ulrich Michel
Ulrich Michel,

Executive Vice President and Chief

Financial Officer
(Principal Financial Officer)

(Duly authorized signatory)