

SIRONA DENTAL SYSTEMS, INC.

Form 10-Q

February 05, 2009

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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 December 31, 2008

or

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

Commission file number 000-22673

Sirona Dental Systems, Inc.

(Exact name of registrant as specified in charter)

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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)
Registrant's telephone number, including area code: (718) 937-5765	

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

As of February 2, 2009, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 54,838,522.

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SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED DECEMBER 31, 2008

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

	December 31, 2008 (unaudited) \$ 000s (except per share amounts)	September 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 143,681	\$ 149,663
Restricted cash	961	934
Accounts receivable, net of allowance for doubtful accounts of \$1,906 and \$1,741, respectively	106,687	80,319
Inventories, net	75,518	77,733
Deferred tax assets	14,752	12,199
Prepaid expenses and other current assets	15,243	21,407
Income tax receivable	12,934	12,505
Total current assets	369,776	354,760
Property, plant and equipment, net of accumulated depreciation and amortization of \$53,197 and \$47,992, respectively	97,522	100,134
Goodwill	669,435	683,075
Investments	1,584	1,584
Intangible assets, net of accumulated amortization of \$259,951 and \$246,539, respectively	486,209	514,601
Other non-current assets	3,388	3,661
Deferred tax assets	677	1,190
Total assets	\$ 1,628,591	\$ 1,659,005
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY		
Current liabilities		
Trade accounts payable	\$ 32,894	\$ 39,803
Short-term debt and current portion of long-term debt	94,248	9,093
Income taxes payable	7,176	4,544
Deferred tax liabilities	246	1,650
Accrued liabilities and deferred income	84,264	85,309
Total current liabilities	218,828	140,399
Long-term debt	454,212	544,350
Deferred tax liabilities	167,051	174,420
Other non-current liabilities	8,547	11,489
Pension related provisions	46,235	47,378
Deferred income	77,500	80,000
Total liabilities	972,373	998,036
Minority interest	162	626

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Shareholders equity		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)		
Common stock (\$0.01 par value; 95,000,000 shares authorized; 54,865,995 shares issued; and 54,840,279 and 54,865,995 shares outstanding)	549	549
Additional paid-in capital	624,566	620,732
Treasury stock (25,716 at cost)	(264)	
Excess of purchase price over predecessor basis	(49,103)	(49,103)
Retained earnings	44,061	38,502
Accumulated other comprehensive income	36,247	49,663
Total shareholders equity	656,056	660,343
Total liabilities, minority interest and shareholders equity	\$ 1,628,591	\$ 1,659,005

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

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

(UNAUDITED)

	Three months ended December 31,	
	2008	2007
	\$ 000s (except per share amounts)	
Revenue	\$ 179,721	\$ 200,106
Cost of sales	92,720	105,737
Gross profit	87,001	94,369
Selling, general and administrative expense	57,422	55,886
Research and development	11,058	13,708
Provision for doubtful accounts and notes receivable	225	57
Net other operating income	(3,461)	(2,500)
Operating income	21,757	27,218
Foreign currency transactions loss/(gain), net	3,592	(5,886)
Loss on derivative instruments	4,967	2,218
Interest expense, net	6,064	6,746
Income before taxes and minority interest	7,134	24,140
Income tax provision	1,998	7,242
Minority interest	(423)	(87)
Net income	\$ 5,559	\$ 16,985
Income per share		
- Basic	\$ 0.10	\$ 0.31
- Diluted	\$ 0.10	\$ 0.31
Weighted average shares basic	54,862,708	54,768,324
Weighted average shares diluted	55,130,373	55,436,741

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

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

(UNAUDITED)

	Three months ended December 31,	
	2008	2007
	\$ 000s	
Cash flows from operating activities		
Net income	\$ 5,559	\$ 16,985
Adjustments to reconcile net income to net cash used in operating activities		
Minority interest	(423)	(87)
Depreciation and amortization	22,221	26,123
Loss on disposal of property, plant and equipment	15	
Loss on derivative instruments	4,967	2,218
Loss/(Gain) on foreign currency transactions	3,592	(5,886)
Deferred income taxes	(7,355)	(5,510)
Amortization of debt issuance cost	299	318
Compensation expense from stock options	3,835	3,660
Changes in assets and liabilities		
Accounts receivable	(30,726)	(25,834)
Inventories	(364)	2,108
Prepaid expenses and other current assets	(632)	5,089
Restricted cash	(46)	(11)
Other non-current assets	(224)	5
Trade accounts payable	(7,020)	(7,853)
Accrued interest on long-term debt	5,864	(7,347)
Accrued liabilities and deferred income	(645)	(6,238)
Other non-current liabilities	(2,592)	(1,601)
Income taxes receivable	(662)	302
Income taxes payable	2,763	6,196
Net cash provided by/(used in) operating activities	(1,574)	2,637
Cash flows from investing activities		
Investment in property, plant and equipment	(4,852)	(5,226)
Proceeds from sale of property, plant and equipment	283	
Purchase of intangible assets	(52)	14
Sale of businesses, net of cash sold	4,985	
Net cash provided by/(used in) investing activities	364	(5,212)
Cash flows from financing activities		
Repayments of short-term and long-term debt	(1,153)	(10,121)
Purchase of treasury stock	(264)	
Common shares issued under share based compensation plans		122
Tax effect of common shares exercised under share based compensation plans		82
Net cash used in financing activities	(1,417)	(9,917)

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

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Change in cash and cash equivalents	(2,627)	(12,492)
Effect of exchange rate change on cash and cash equivalents	(3,355)	2,476
Cash and cash equivalents at beginning of period	149,663	99,842
Cash and cash equivalents at end of period	\$ 143,681	\$ 89,826
Supplemental information		
Interest paid	\$ (704)	\$ 14,217
Interest capitalized	220	101
Income taxes paid	6,864	6,205
Sale of businesses, net of cash sold		
Current assets	\$ 5,899	\$
Non-current assets	291	
Current liabilities	(1,205)	
	\$ 4,985	\$

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. General

The Company and its Operations

Sirona Dental Systems, Inc. (Sirona , Company , we , us or our) and its subsidiaries manufacture high quality, technologically advanced dental equipment and systems solutions for the global dental equipment market. We offer a broad range of products across all major segments of the dental equipment market including CAD/CAM systems, digital and film based intra oral and panoramic imaging systems, treatment centers and instruments. We acquired Schick Technologies, Inc. in 2006, which further expanded our global presence and product offerings and strengthened our research and development capabilities. Sirona has served equipment dealers and dentists worldwide for more than 125 years. Sirona's headquarters are located in Long Island City, New York with its primary facility located in Bensheim, Germany, as well as other support, manufacturing, assembling and sales & service facilities located elsewhere throughout the world.

Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

In the opinion of management, all adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company's financial position as of December 31, 2008 and September 30, 2008 and the results of operations and cash flows for the three months ended December 31, 2008 and 2007, as applicable to interim periods have been made. The results of operations for the three months ended December 31, 2008 are not necessarily indicative of the operating results for the full fiscal year or future periods.

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

Fiscal year

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

Principles of consolidation

The consolidated financial statements include, after eliminating inter-company transactions and balances, the accounts of Sirona Dental Systems, Inc. and its subsidiaries.

Fair Value Measurements

On October 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements* for assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 does not establish requirements for any new fair value measurements but it does apply to existing pronouncements in which fair value measurements are already required. SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly

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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.

SFAS No. 157 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. SFAS No. 157 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.

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 as of December 31, 2008:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	\$ 000s			
Assets				
Derivative Assets	\$	\$ 580	\$	\$ 580
Liabilities				
Derivative Liabilities	\$	\$ 10,416	\$	\$ 10,416

Derivative assets and derivative liabilities are classified in the Company's December 31, 2008 Condensed Consolidated Balance Sheet as Prepaid expenses and other current assets and Accrued liabilities and deferred income, respectively.

As allowed by FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, the Company has elected to defer until October 1, 2009 the adoption of SFAS No. 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. Accordingly, the Company has not applied SFAS No. 157 to inventories, property, plant and equipment, or intangible assets with definite useful lives.

As allowed by SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which was adopted effective October 1, 2008, the Company did not elect the fair value option for any eligible financial instruments as of December 31, 2008.

Table of Contents**2. Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations* (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R will become effective for our fiscal year beginning October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*, (SFAS 160), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB No. 51), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, previously referred to as minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheet within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and noncontrolling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. SFAS 160 is effective for fiscal years beginning after December 15, 2008, which corresponds to the Company's fiscal year beginning October 1, 2009. The Company is currently evaluating the potential impact of adopting SFAS 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161), which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The objective of the guidance is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for interim and annual periods beginning after November 15, 2008, which corresponds to the Company's quarterly period beginning January 1, 2009. Management is currently evaluating the impact SFAS 161 will have on the Company's consolidated financial statements, but it currently does not expect the effect to be material.

3. Employee Share-Based Compensation

The total stock compensation expense for the Company's stock option plans amounted to \$3,835 for the three months ended December 31, 2008. These expenses include the impact of the stock option grant discussed below.

On October 1, 2008, and December 8, 2008 the Company granted 20,000 and 1,106,700 stock options under the Equity Incentive Plan (the 2006 Plan), respectively. The stock options vest over a period of four years and expire ten years after the date of the grant. The exercise price of such options may not be less than 100% of the fair market value of a share of the Company's common stock as determined by the closing price as of the date of the grant. The 2006 Plan provides for granting in total up to 2,275,000 stock options to employees, directors and consultants and received stockholder approval at the Company's Annual Meeting of Stockholders held on February 27, 2007.

The fair values of the stock options granted under the 2006 Plan were estimated using the Black-Scholes option pricing model and the assumptions set forth in the following table. The exercise price is equal to the fair market value of Sirona's stock at the grant date. The expected volatility is determined based on the Company's historical stock volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant and has a term equal to the expected life of the options. The expected life represents the period of time the options are expected to be outstanding based on anticipated 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.

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	December 2008-Grant	October 2008-Grant
Exercise price	\$ 11.90	\$ 21.32
Expected volatility	51%	51%
Risk-free rate	1.76%	2.87%
Expected life	5 years	5 years
Expected dividends		
Grant date fair value	\$5.51	\$10.45

In December 2008 the Company offered eligible optionees (optionees who held options with an exercise price of \$21.32 or higher) the ability to exchange up to 1,041,500 out of the money stock options granted under the 2006 Stock Option Plan for options of the same aggregate value. The replacement options have an exercise price equal to the closing market price on January 21, 2009, the date the offer expired, and extended vesting terms. Holders of 1,000,500 eligible options agreed to accept 421,428 replacement options with an exercise price of \$11.73. Accordingly, 579,072 have been put back into the plan and are available for future grant.

4. Comprehensive Income

	Three months ended December 31, 2008 2007	
	\$ 000s	
Net Income	\$ 5,559	\$ 16,985
Other Comprehensive Income	(13,416)	16,670
Total Comprehensive Income	\$ (7,857)	\$ 33,655

Other comprehensive income for the three months ended December 31, 2008 relates to the cumulative translation adjustment and the pension obligation adjustment. The cumulative translation adjustment for the three months ended December 31, 2008 includes unrealized non-cash losses on intra-group foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements in the amount of \$8,131, the cumulative translation adjustment resulting from the translation of the financial statements of subsidiaries with functional currencies other than the U.S. Dollar in the amount of \$5,167 and the pension obligation adjustment includes the amortization of actuarial gains in the amount of \$118. Other comprehensive income for the three months ended December 31, 2007 includes unrealized non-cash gains on intra-group foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements in the amount of \$11,544, the cumulative translation adjustment resulting from the translation of the financial statements of subsidiaries with functional currencies other than the U.S. Dollar in the amount of \$5,164 and the pension obligation adjustment includes the amortization of actuarial gains in the amount of \$38.

Table of Contents**5. Inventories, Net**

	December 31, 2008	September 30, 2008
	\$ 000s	
Finished goods	\$ 38,308	\$ 39,591
Work in progress	13,967	15,028
Raw materials	35,554	34,867
	87,829	89,486
Inventory reserve	(12,311)	(11,753)
	\$ 75,518	\$ 77,733

6. Intangible Assets and Goodwill

	Gross	Accumulated amortization \$ 000s	Net
As of December 31, 2008			
Patents and licenses	\$ 146,530	\$ 47,696	\$ 98,834
Trademarks	134,429	253	134,176
Technologies and dealer relationships	464,954	212,002	252,952
Prepayments for intangible assets	247		247
	746,160	259,951	486,209
Goodwill	669,435		669,435
Total intangible assets	\$ 1,415,595	\$ 259,951	\$ 1,155,644
As of September 30, 2008			
Patents and licenses	\$ 150,129	\$ 45,607	\$ 104,522
Trademarks	137,245	228	137,017
Technologies and dealer relationships	473,519	200,704	272,815
Prepayments for intangible assets	247		247
	761,140	246,539	514,601
Goodwill	683,075		683,075
Total intangible assets	\$ 1,444,215	\$ 246,539	\$ 1,197,676

The change in the value of goodwill from September 30, 2008 to December 31, 2008 relates to changes in exchange rates of \$14,292 and a subsequent purchase price adjustment of \$652 (EUR 500) related to an earn-out provision from a prior year acquisition.

Table of Contents**7. Short-Term Debt and Current Portion of Long-Term Debt**

Short-term debt and current portion of long-term debt also includes accrued interest on long-term debt that is payable within the next twelve months. The balance at December 31, 2008 also includes the scheduled repayment of \$80.2 million in November 2009.

8. Long-Term Debt

	December 31, 2008	September 30, 2008
		\$ 000s
Senior term loan, Tranche A1, variable rate repayable in annual installments starting November 2009 through November 2011	152,541	151,317
Senior term loan, Tranche A2, variable rate repayable in annual installments starting November 2009 through November 2011	393,633	398,156
Other debt	1,141	2,140
	547,315	551,613
Less current portion	93,103	7,263
	\$ 454,212	\$ 544,350

Senior Term Loans

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

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

Each of the senior term loans are to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the facilities bear interest at a margin of 55 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

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

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

Debt issuance costs of \$5.6 million were incurred in relation to the financing in November 2006 and were capitalized as deferred charges and are amortized using the effective interest method over the term of the loan.

9. Income Taxes

For fiscal year 2009, an estimated effective tax rate of 28% has been applied compared to an effective tax rate of 24% for fiscal year 2008. The 2009 effective tax rate has been impacted by the expected distribution of profits across different countries.

With limited exception, the Company and its subsidiaries are no longer subject to income tax examinations by any major tax jurisdiction for the years prior to 2005.

10. Income per Share

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

	Three months ended December 31,	
	2008	2007
	\$ 000s (except per share amounts)	
Net income	\$ 5,559	\$ 16,985
Weighted average shares outstanding - basic	54,862,708	54,768,324
Dilutive effect of stock options	267,665	668,417
Weighted average shares outstanding - diluted	55,130,373	55,436,741
Income per share		
Basic	\$ 0.10	\$ 0.31
Diluted	\$ 0.10	\$ 0.31

Stock options to acquire 3,981,700 shares and 561,000 shares of Sirona's common stock that were granted in connection with the Company's stock option Plans were not included in the computation of diluted earnings per share for the three months ended December 31, 2008 and 2007, respectively, because the options' underlying exercise prices were greater than the average market price of Sirona's common stock for the respective period.

Table of Contents**11. Product Warranty**

The following table provides the changes in the product warranty accrual for the three months ended December 31, 2008 and December 31, 2007:

	Three months ended December 31,	
	2008	2007
	\$ 000s	
Balance at beginning of the period	\$ 12,176	\$ 12,547
Accruals for warranties issued during the period	5,545	5,442
Warranty settlements made during the period	(5,047)	(4,921)
Translation adjustment	(293)	451
Balance at the end of the period	\$ 12,381	\$ 13,519

12. Pension Plans

Components of net periodic benefit costs are as follows:

	Three months ended December 31,	
	2008	2007
	\$ 000s	
Service cost	\$ 70	\$ 87
Interest cost	639	654
Amortization of actuarial gains	(118)	(38)
Net periodic benefit cost	\$ 591	\$ 703

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13. Segment Reporting

The following tables show 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 excluding the impact of the acquisition of control of the Sirona business by Sirona Holdings Luxco S.C.A. (Luxco), 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 acquisition of Schick Technologies, Inc. (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 effects that the Company does not believe to be representative of the performance of the segments. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

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	Three months ended December 31, 2008 2007 \$ 000s	
Revenue external		
Dental CAD/CAM Systems	\$ 53,683	\$ 61,973
Imaging Systems	64,984	68,048
Treatment Centers	39,077	44,530
Instruments	21,904	25,550
Total	179,648	200,101
Electronic Center and corporate	73	5
Total	\$ 179,721	\$ 200,106
Revenue internal		
Dental CAD/CAM Systems	\$	\$
Imaging Systems	22	20
Treatment Centers	11	4
Instruments	2,234	2,830
Intercompany elimination	(2,267)	(2,854)
Total		
Electronic Center and corporate	5,372	6,427
Intercompany elimination	(5,372)	(6,427)
Total	\$	\$
Revenue total		
Dental CAD/CAM Systems	\$ 53,683	\$ 61,973
Imaging Systems	65,006	68,068
Treatment Centers	39,088	44,534
Instruments	24,138	28,380
Total	181,915	202,955
Electronic Center and corporate	5,445	6,432
Total	\$ 187,360	\$ 209,387
Segment performance measure		
Dental CAD/CAM Systems	\$ 37,547	\$ 41,193
Imaging Systems	38,852	40,939
Treatment Centers	14,723	18,978
Instruments	9,980	11,743
Total	101,102	112,853
Electronic Center and corporate	2,095	2,138
Total	\$ 103,197	\$ 114,991
Depreciation and amortization expense		
Dental CAD/CAM Systems	\$ 977	\$ 1,008
Imaging Systems	1,172	