

SIRONA DENTAL SYSTEMS, INC.

Form 10-Q

February 03, 2012

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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, 2011

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) 482-2011

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

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 January 31, 2012, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 55,726,698.

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SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED DECEMBER 31, 2011

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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**

(UNAUDITED)

	Financial Statement Notes	December 31, 2011 (unaudited) \$ 000s (except per share amounts)	September 30, 2011
ASSETS			
Current assets			
Cash and cash equivalents		\$ 105,679	\$ 345,859
Accounts receivable, net of allowance for doubtful accounts of \$1,879 and \$1,868, respectively		121,783	97,853
Inventories, net	5	88,630	93,028
Deferred tax assets	9	25,466	25,014
Prepaid expenses and other current assets		10,337	15,477
Income tax receivable	9	2,421	4,193
Total current assets		354,316	581,424
Property, plant and equipment, net of accumulated depreciation and amortization of \$114,749 and \$111,832, respectively		126,956	131,044
Goodwill	6	631,722	653,799
Investments		2,450	2,453
Restricted cash			655
Intangible assets, net of accumulated amortization of \$411,084 and \$412,428, respectively	6	324,625	346,442
Other non-current assets		4,877	2,884
Deferred tax assets	9	7,014	7,427
Total assets		\$ 1,451,960	\$ 1,726,128
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts payable		\$ 37,048	\$ 48,697
Short-term debt and current portion of long-term debt	7	55,011	368,403
Income taxes payable	9	10,928	6,811
Deferred tax liabilities	9	693	1,108
Accrued liabilities and deferred income		92,681	110,207
Total current liabilities		196,361	535,226
Long-term debt	8	75,000	
Deferred tax liabilities	9	130,292	138,327
Other non-current liabilities		17,613	16,978
Pension related provisions	12	47,641	49,677
Deferred income		47,500	50,000
Total liabilities		514,407	790,208
Shareholders equity			
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)			

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Common stock (\$0.01 par value; 95,000,000 shares authorized;

56,353,051 shares issued and 55,707,723 shares outstanding at Dec. 31, 2011;

56,292,420 shares issued and 55,815,323 shares outstanding at Sept. 30, 2011	564	563
Additional paid-in capital	687,517	685,617
Treasury stock (at cost)		
645,328 shares held at cost at Dec. 31, 2011;		
477,097 shares held at cost at Sept. 30, 2011	(26,770)	(19,749)
Excess of purchase price over predecessor basis	(49,103)	(49,103)
Retained earnings	341,916	303,639
Accumulated other comprehensive (loss)/income	4	(19,121)
Total Sirona Dental Systems, Inc. shareholders' equity	935,003	932,276
Noncontrolling interests	2,550	3,644
Total shareholders' equity	937,553	935,920
Total liabilities and shareholders' equity	\$ 1,451,960	\$ 1,726,128

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

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

(UNAUDITED)

	Financial Statement Notes	Three months ended December 31,	
		2011 \$ '000s (except per share amounts)	2010
Revenue		\$ 258,116	\$ 235,646
Cost of sales		119,333	105,232
Gross profit		138,783	130,414
Selling, general and administrative expense		73,646	63,323
Research and development		13,286	13,510
Provision for doubtful accounts and notes receivable		39	68
Net other operating income		(2,500)	(2,500)
Operating income		54,312	56,013
Loss/(gain) on foreign currency transactions, net		2,230	(761)
Loss on derivative instruments	13	436	1,635
Interest expense, net		903	950
Other expense/(income)		262	(866)
Income before taxes		50,481	55,055
Income tax provision	9	11,611	12,112
Net income		38,870	42,943
Less: Net income attributable to noncontrolling interests		593	551
Net income attributable to Sirona Dental Systems, Inc.		\$ 38,277	\$ 42,392
Income per share (attributable to Sirona Dental Systems, Inc. common shareholders):	10		
- Basic		\$ 0.69	\$ 0.77
- Diluted		\$ 0.67	\$ 0.75
Weighted average shares - basic		55,783,648	55,337,040
Weighted average shares - diluted		57,121,505	56,852,620

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(UNAUDITED)

	Sirona Dental Systems, Inc. Shareholders									
	Common share capital	Number of common shares issued and outstanding	Additional paid-in capital	Treasury Stock \$ 000s (except for amount of common shares issued)	Excess of purchase price over predecessor basis	Retained earnings	Accumulated other comprehensive income/(loss)	Total Sirona Dental Systems, Inc. Shareholders	Noncontrolling Interests	Total
Balances as of September 30, 2010	\$ 553	55,305,581	\$ 652,698	\$ (284)	(49,103)	\$ 181,846	\$ 19,701	\$ 805,411	\$ 2,222	\$ 807,633
Issuance of common stock upon exercise of options	2	132,778	1,515					1,517		1,517
Stock compensation			1,911					1,911		1,911
Tax benefit of stock options exercised			585					585		585
Comprehensive income:										
Net income						42,392		42,392	551	42,943
Cumulative translation adjustment							(11,777)	(11,777)	45	(11,732)
Unrecognized elements of pension cost, net of tax							(154)	(154)		(154)
Total comprehensive income						42,392	(11,931)	30,461	596	31,057
Balances as of December 31, 2010	\$ 555	55,438,359	\$ 656,709	\$ (284)	(49,103)	\$ 224,238	\$ 7,770	\$ 839,885	\$ 2,818	\$ 842,703
Balances as of September 30, 2011	\$ 563	55,815,323	\$ 685,617	\$ (19,749)	(49,103)	\$ 303,639	\$ 11,309	\$ 932,276	\$ 3,644	\$ 935,920
Issuance of common stock upon exercise of options and	1	60,631	464					465		465

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vesting of RSUs/PSUs										
Purchase of treasury stock (at cost)	(168,231)		(7,021)				(7,021)			(7,021)
Stock compensation		2,093					2,093			2,093
Tax benefit of stock options exercised		(657)					(657)			(657)
Dividend distribution to noncontrolling interest								(1,689)		(1,689)
Comprehensive income:										
Net income				38,277			38,277		593	38,870
Cumulative translation adjustment					(30,241)		(30,241)		2	(30,239)
Unrecognized elements of pension cost, net of tax						250	250			250
Net loss on derivative financial instruments (hedging)						(439)	(439)			(439)
Total comprehensive income				38,277	(30,430)		7,847		595	8,442
Balances as of December 31, 2011	\$ 564	55,707,723	\$ 687,517	\$ (26,770)	(49,103)	\$ 341,916	\$ (19,121)	\$ 935,003	\$ 2,550	\$ 937,553

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, 2011 2010	
	\$ 000s	
Cash flows from operating activities		
Net income	\$ 38,870	\$ 42,943
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	19,255	19,207
Loss on derivative instruments	436	1,635
Loss/(gain) on foreign currency transactions	2,230	(761)
Deferred income taxes	(4,428)	(5,550)
Amortization of debt issuance cost	199	303
Share-based compensation expense	2,093	1,911
Changes in assets and liabilities		
Accounts receivable	(28,626)	(26,679)
Inventories	2,129	(531)
Prepaid expenses and other current assets	5,022	7,448
Restricted cash	646	14
Other non-current assets	(273)	(653)
Trade accounts payable	(10,478)	(1,734)
Accrued liabilities and deferred income	(17,060)	(17,696)
Other non-current liabilities	193	98
Income taxes receivable	1,741	1,845
Income taxes payable	4,389	1,519
Net cash provided by operating activities	16,338	23,319
Cash flows from investing activities		
Investment in property, plant and equipment	(7,875)	(8,961)
Proceeds from sale of property, plant and equipment		341
Purchase of intangible assets	(66)	
Net cash used in investing activities	(7,941)	(8,620)

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,	
	2011	2010
	\$ 000s	
Cash flows from financing activities		
Repayments of short-term and long-term debt	(366,646)	
Proceeds from borrowings	129,209	
Purchase of treasury stock	(7,020)	
Debt issuance cost	(2,289)	
Dividend distributions to noncontrolling interest	(1,689)	
Common shares issued under share based compensation plans	464	1,515
Tax effect of common shares exercised under share based compensation plans	(639)	725
Net cash (used in)/provided by financing activities	(248,610)	2,240
Change in cash and cash equivalents	(240,213)	16,939
Effect of exchange rate change on cash and cash equivalents	33	(3,359)
Cash and cash equivalents at beginning of period	345,859	251,767
Cash and cash equivalents at end of period	\$ 105,679	\$ 265,347
Supplemental information		
Interest paid	\$ 241	\$ 1,089
Interest capitalized	102	114
Income taxes paid	9,579	13,556

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

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. General

The Company and its Operations

Sirona Dental Systems, Inc. (Sirona, the Company, we, us, and our refer to Sirona Dental Systems, Inc. and its consolidated subsidiaries and their predecessors) is the leading manufacturer of high-quality, technologically advanced dental equipment, and is focused on developing, manufacturing and marketing innovative systems and solutions for dentists around the world. 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 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 and service facilities located around the globe.

Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end 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, 2011.

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, 2011, and the results of operations and cash flows for the three months ended December 31, 2011 and 2010, respectively, as applicable to interim periods have been made. The results of operations for the three months ended December 31, 2011 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. The Company applies the equity method of accounting for investments in associated companies over which the Company has significant influence but does not have effective control.

Business acquisitions

The Company acquires businesses as well as partial interests in businesses. Acquired businesses are accounted for using the acquisition method of accounting which requires that all assets and liabilities are recorded at their respective fair values. Any excess of the purchase price over

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estimated fair values of net assets is recorded as goodwill. The assumptions made in determining fair value assigned to acquired assets and liabilities as well as asset lives can materially impact the results of operations.

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company obtains information during due diligence and through other sources to arrive at respective fair values. Examples of factors and information that the Company uses to determine the fair values include: tangible and intangible asset evaluations and appraisals; evaluations of existing contingencies and liabilities; product line integration information; and information systems compatibilities. If the initial accounting for an acquisition is incomplete by the end of the quarter in which the acquisition occurred, the Company will record a provisional estimate in the financial statements. The provisional estimate will be finalized as soon as information becomes available but no later than one year from the acquisition date.

**2. Recently Issued Accounting Pronouncements
Not Yet Adopted**

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which clarifies certain principles or requirements for measuring fair value, including measuring the fair value of financial instruments that are managed within a portfolio and the application of premiums and discounts in a fair value measurement. In addition, ASU 2011-04 requires expanded fair value measurement disclosures including: (1) for Level 3 fair value measurements, qualitative information about unobservable inputs used, valuation processes applied, and the sensitivity of those measurements to changes in observable inputs; (2) for an entity's use of a nonfinancial asset in a manner other than its highest and best use, the reason for the difference; and (3) for items not measured at fair value but for which fair value disclosure is required, the hierarchical level in which the fair values were determined. ASU 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which corresponds to the Company's fiscal year beginning October 1, 2012, with early adoption not permitted for public entities. The Company is evaluating the potential impact of adoption.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires that all non-owner changes in shareholders' equity be presented either (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements. ASU 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011, which corresponds to the Company's fiscal year beginning October 1, 2012, with early adoption permitted. The Company is evaluating the potential impact of adoption.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which simplifies how entities test goodwill for impairment. An entity is now granted the option to first assess qualitative factors to determine whether events or circumstances exist leading to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount without having to immediately perform a two-step impairment test. If an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, the two-step impairment test becomes unnecessary. Otherwise, the two-step impairment test would apply. The option is also granted to skip the qualitative assessment and proceed directly with the regular two-step test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which corresponds to the Company's fiscal year beginning October 1, 2012, with early adoption permitted. Early adoption is also permitted for annual and interim impairment tests performed as of a date before September 15, 2011, if any entity's financial statements for the most recent annual or interim period have not yet been issued. The Company decided against early adoption for the fiscal year ending September 30, 2011, since the goodwill impairment testing was substantially completed prior to this date. The Company is evaluating the potential impact of future adoption.

3. 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

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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, RSU s, and PSU s. The

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 December 31, 2011, 1,006,767 shares were available for future grant under the 2006 Plan.

Restricted and Performance-Based Stock Units

In the three months ended December 31, 2011, the Company granted 184,100 RSU's on November 22, 2011, with a value of \$40.03, the closing price at the date of the grant.

RSU's and PSU's generally vest in annual tranches over a period of three to four years. The PSU's were granted to three executive officers of the Company and vest three years from the date of the grant provided the Company achieves earnings targets specified in the grant. All grants expire ten years after the date of 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 three months ended December 31, 2011, the Company granted 209,375 stock options on November 22, 2011, under the 2006 Plan with a weighted average exercise price of \$40.03 and weighted average fair value of \$14.15 at the grant date. Grants generally vest over four years. All grants expire ten years after the date of the grant.

The fair value of options granted under the 2006 Plan were estimated using the Black-Scholes option pricing model using assumptions in the following table. The exercise price is equal to the fair market