SIRONA DENTAL SYSTEMS, INC.
Form 10-Q
February 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended December 31, 2010

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)

Delaware	**11-3374812**

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

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 þ **No** ¨

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

Yes þ **No** ¨

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

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

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

Yes ¨ **No** þ

As of February 2, 2011, the number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 55,438,512.

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SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

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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, 2010 (unaudited)	September 30, 2010
		$ 000s (except per share amounts)	
ASSETS			
Current assets			
Cash and cash equivalents		$ 265,347	$ 251,767
Restricted cash		676	703
Accounts receivable, net of allowance for doubtful accounts of $1,478 and $1,681, respectively		107,743	82,952
Inventories, net	**5**	73,554	74,027
Deferred tax assets	**9**	23,451	20,570
Prepaid expenses and other current assets		16,415	24,139
Income tax receivable	**9**	1,678	3,533
Total current assets		**488,864**	**457,691**
Property, plant and equipment, net of accumulated depreciation and amortization of $95,342 and $90,713, respectively		104,138	102,686
Goodwill	**6**	645,847	656,465
Investments		2,277	2,317
Intangible assets, net of accumulated amortization of $369,655 and $371,303, respectively	**6**	343,971	362,722
Other non-current assets		2,750	2,229
Deferred tax assets	**9**	4,693	8,827
Total assets		**$ 1,592,540**	**$ 1,592,937**
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts payable		$ 40,522	$ 42,737
Short-term debt and current portion of long-term debt	**7**	367,819	2,935
Income taxes payable	**9**	9,262	7,748
Deferred tax liabilities	**9**	936	1,456
Accrued liabilities and deferred income		85,808	105,209
Total current liabilities		**504,347**	**160,085**
Long-term debt	**8**		367,801
Deferred tax liabilities	**9**	129,804	138,190
Other non-current liabilities		6,251	6,556
Pension related provisions	**12**	51,935	52,672
Deferred income		57,500	60,000

Total liabilities		**749,837**	**785,304**
Shareholders equity			
Preferred stock ($0.01 par value; 5,000,000 shares authorized; none issued and outstanding)			
Common stock ($0.01 par value; 95,000,000 shares authorized; 55,466,082 shares issued and 55,438,359 shares outstanding at Dec. 31, 2010, and 55,333,304 shares issued and 55,305,581 shares outstanding at Sept. 30, 2010)		555	553
Additional paid-in capital		656,709	652,698
Treasury stock (27,723 shares at cost)		(284)	(284)
Excess of purchase price over predecessor basis		(49,103)	(49,103)
Retained earnings		224,238	181,846
Accumulated other comprehensive income	**4**	7,770	19,701
Total Sirona Dental Systems, Inc. shareholders equity		**839,885**	**805,411**
Noncontrolling interests		2,818	2,222
Total shareholders equity		**842,703**	**807,633**
Total liabilities and shareholders equity		**$ 1,592,540**	**$ 1,592,937**

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 INCOME

(UNAUDITED)

	Financial Statement Notes	Three months ended December 31, 2010	Three months ended December 31, 2009
		$ 000s (except per share amounts)	
Revenue		**$ 235,646**	**$ 214,823**
Cost of sales		105,232	102,453
Gross profit		**130,414**	**112,370**
Selling, general and administrative expense		63,323	59,852
Research and development		13,510	11,465
Provision for doubtful accounts and notes receivable		68	64
Net other operating income	**13**	(2,500)	(2,500)
Operating income		**56,013**	**43,489**
(Gain) on foreign currency transactions, net		(761)	(633)
Loss/(Gain) on derivative instruments	**14**	1,635	(1,023)
Interest expense, net		950	5,202
Other (income)/expense		(866)	380
Income before taxes		**55,055**	**39,563**
Income tax provision	**9**	12,112	7,913
Net income		42,943	31,650
Less: Net income attributable to noncontrolling interests		551	475
Net income attributable to Sirona Dental Systems, Inc.		**$ 42,392**	**$ 31,175**
Income per share (attributable to Sirona Dental Systems, Inc. common shareholders):	**10**		
- Basic		$ 0.77	$ 0.57
- Diluted		$ 0.75	$ 0.55
Weighted average shares basic		55,337,040	54,968,399
Weighted average shares diluted		56,852,620	56,356,288

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, 2010	2009
	$ 000s	
Cash flows from operating activities		
Net income	**$ 42,943**	**$ 31,650**
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	19,207	21,779
Loss on disposal of property, plant and equipment		3
Loss/(gain) on derivative instruments	1,635	(1,023)
Gain on foreign currency transactions	(761)	(633)
Deferred income taxes	(5,550)	(6,347)
Amortization of debt issuance cost	303	295
Share-based compensation expense	1,911	3,939
Changes in assets and liabilities		
Accounts receivable	(26,679)	(21,129)
Inventories	(531)	1,627
Prepaid expenses and other current assets	7,448	8,987
Restricted cash	14	
Other non-current assets	(653)	235
Trade accounts payable	(1,734)	3,412
Accrued interest on long-term debt		1,393
Accrued liabilities and deferred income	(17,696)	(6,569)
Other non-current liabilities	98	(2,900)
Income taxes receivable	1,845	(113)
Income taxes payable	1,519	5,969
Net cash provided by operating activities	**23,319**	**40,575**
Cash flows from investing activities		
Investment in property, plant and equipment	(8,961)	(4,233)
Proceeds from sale of property, plant and equipment	341	45
Purchase of intangible assets		(6)
Purchase of long-term investments		(166)
Net cash used in investing activities	**(8,620)**	**(4,360)**

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

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	Three months ended December 31, 2010	2009
	$ 000s	
Cash flows from financing activities		
Common shares issued under share based compensation plans	1,515	1,056
Tax effect of common shares exercised under share based compensation plans	725	624
Net cash provided by financing activities	**2,240**	**1,680**
Change in cash and cash equivalents	16,939	37,895
Effect of exchange rate change on cash and cash equivalents	(3,359)	(3,113)
Cash and cash equivalents at beginning of period	251,767	181,098
Cash and cash equivalents at end of period	**$ 265,347**	**$ 215,880**
Supplemental information		
Interest paid	$ 1,089	$ 4,783
Interest capitalized	114	121
Income taxes paid	13,556	7,633

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

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 elsewhere in the world.

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, 2010.

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, 2010 and September 30, 2010 and the results of operations and cash flows for the three months ended December 31, 2010 and 2009, respectively, as applicable to interim periods have been made. The results of operations for the three months ended December 31, 2010 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.

2. Recently Issued Accounting Pronouncements

Adopted

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance for multiple-deliverable revenue arrangements (ASU 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force)*. This new guidance establishes a selling price hierarchy for determining the selling price of a deliverable, replaces the term *fair value* in the revenue allocation with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant, replaces the *residual method* of allocation with the *relative selling-price method* , and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables applying this method, including proportional allocation of any discounts to each deliverable.

In October 2009, the FASB also issued new accounting guidance for revenue arrangements that include both tangible products and software elements (ASU 2009-14, *Certain Revenue Arrangements that Include Software Elements a consensus of the FASB Emerging Issues Task Force)*. This new guidance removes from the scope of the software revenue recognition guidance in ASC 985-605, *Software Revenue Recognition*, those tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality. In addition, this guidance requires that hardware components of a tangible product containing software components always be excluded from the software revenue recognition guidance as well as provides further guidance on determining which software, if any, relating to the tangible product also would be excluded from the scope of software revenue recognition guidance.

The Company adopted these standards at the beginning of its first quarter of fiscal year 2011 for applicable arrangements that were entered into or materially modified on or after October 1, 2010. Implementation of these standards did not have a material impact on the Company s condensed consolidated financial statements in the period under report and is not expected to significantly affect the timing and pattern of revenue recognition in future periods.

The Company s main revenue stream results from the delivery of dental equipment. The Company also enters into revenue arrangements that consist of multiple deliverables of its product and service offerings. Additionally, certain products, primarily in our CAD/CAM and Imaging segments, may contain embedded software that functions together with the product to deliver the product s essential functionality.

Revenue, net of related discounts and allowances, is recognized when products or equipment have been shipped, when persuasive evidence of the arrangement exists, the price is fixed or determinable, collectability is reasonably assured, title and risk of loss has passed to customers based on the shipping terms, no significant obligations remain, and allowances for discounts, returns, and customer incentives can be reliably estimated. The Company offers discounts to its distributors if certain conditions are met. Discounts and allowances are primarily based on the volume of products purchased or targeted to be purchased by the individual customer or distributor. Discounts are deducted from revenue at the time of sale or when the discount is offered, whichever is later. The Company estimates volume discounts based on the individual customer s historical and estimated future product purchases. Returns of products, excluding warranty related returns, are infrequent and insignificant. Amounts received from customers in advance of product shipment are classified as deferred income until the revenue can be recognized in accordance with the Company s revenue recognition policy.

Services: Service revenue is generally recognized ratably over the contract term as the specified services are performed. Amounts received from customers in advance of rendering of services are classified as deferred income until the revenue can be recognized upon rendering of those services.

Extended Warranties: The Company offers its customers an option to purchase extended warranties on certain products. The Company recognizes revenue on these extended warranty contracts ratably over the life of the contract. The costs associated with these extended warranty contracts are recognized when incurred.

Multiple-Element Arrangements (MEAs): Arrangements with customers may include multiple deliverables, including any combination of equipment, services, and extended warranties. The deliverables included in the Company s MEAs are separated into more than one unit of accounting when (i) the delivered equipment has value to the customer on a stand-alone basis, and (ii) delivery of the undelivered service element(s) is probable and substantially in the control of the Company. Based on the new accounting guidance adopted October 1, 2010, arrangement consideration is then allocated to each unit, delivered or undelivered, based on the relative selling price (RSP) of each unit of accounting based first on vendor-specific objective evidence (VSOE) if it exists and then based on estimated selling price (ESP).

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VSOE In most instances, products are sold separately in stand-alone arrangements. Services are also sold separately through renewals of contracts with varying periods. The Company determines VSOE based on its pricing and discounting practices for the specific product or service when sold separately, considering geographical, customer, and other economic or marketing variables, as well as renewal rates or stand-alone prices for the service element(s).

ESP The estimated selling price represents the price at which the Company would sell a product or service if it were sold on a stand-alone basis. When VSOE does not exist for all elements, the Company determines ESP for the arrangement element based on sales, cost and margin analysis, as well as other inputs based on its pricing practices. Adjustments for other market and Company-specific factors are made as deemed necessary in determining ESP.

After separating the elements into their specific units of accounting, total arrangement consideration is allocated to each unit of accounting according to the nature of the revenue as described above and application of the RSP method. Total recognized revenue is limited to the amount not contingent upon future transactions.

3. Employee Share-Based Compensation

Stock compensation expense under the Company s stock option plans amounted to $1,911 and $3,939 for the three months ended December 31, 2010 and 2009, respectively. These expenses include the effect of previous stock options, restricted stock unit (RSU) grants, and performance-based stock unit (PSU) grants.

On November 22, 2010, the Company granted 232,700 RSU s and 12,800 PSU s under its 2006 Equity Incentive Plan (2006 Plan) . The RSU grants vest over a period of four years (one third each during fiscal years 2013, 2014 and 2015). The PSU s were granted to three executive officers of the Company and vest three years from the date of grant provided the Company achieves earnings targets specified in the grant. The value of each RSU and PSU grant is determined by the closing price at the date of grant of $36.78.

On December 8, 2009, the Company granted 188,000 RSU s under the 2006 Plan. The RSU grants vest over a period of four years (one third each at December 8, 2011, 2012 and 2013). The value of each RSU is determined by the closing price at the date of grant of $34.45.

The 2006 Plan provides for granting in total up to 4,550,000 stock options, incentive stock, and RSU s to employees, directors, and consultants and received stockholder approval at the Company s Annual Meeting of Stockholders held on February 27, 2007, and was amended on February 25, 2009. As of December 31, 2010, 1,393,837 shares were available for future grant under the 2006 Plan.

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4. Comprehensive Income/(Loss) and Change in Equity

	Three months ended December 31, Changes in Equity attributable to		
	Sirona Dental Systems, Inc.	**Noncontrolling Interests $ 000s**	**Total Change in Equity for the Period**
As of December 31, 2010			
Comprehensive Income/(Loss):			
Net Income	$ 42,392	$ 551	$ 42,943
Other Comprehensive Income/(Loss)			
Cumulative translation adjustments	(11,891)	45	(11,846)
Unrecognized elements of pension cost, net of tax	(40)		(40)
Total Other Comprehensive Loss	(11,931)	45	(11,886)
Total Comprehensive Income	**30,461**	**596**	**31,057**
Transactions with shareholders:			
Stock-based compensation activities	4,013		4,013
Total transactions with shareholders	4,013		4,013
Total Change in Equity for the period	$ 34,474	$ 596	$ 35,070

	Three months ended December 31, Changes in Equity attributable to		
	Sirona Dental Systems, Inc.	**Noncontrolling Interests $ 000s**	**Total Change in Equity for the Period**
As of December 31, 2009			
Comprehensive Income/(Loss):			
Net Income	$ 31,175	$ 475	$ 31,650
Other Comprehensive Income/(Loss)			
Cumulative translation adjustments	(10,780)	8	(10,772)
Unrecognized elements of pension cost, net of tax	(87)		(87)
Total Other Comprehensive Loss	(10,867)	8	(10,859)
Total Comprehensive Income	**20,308**	**483**	**20,791**
Transactions with shareholders:			
Stock-based compensation activities	5,791		5,791
Total transactions with shareholders	5,791		5,791
Total Change in Equity for the period	$ 26,099	$ 483	$ 26,582

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5. Inventories, net

	December 31, 2010	September 30, 2010
	$ 000s	
Finished goods	$ 41,791	$ 51,102
Work in progress	13,742	12,646
Raw materials	30,346	23,342
	85,879	**87,090**
Inventory reserve	(12,325)	(13,063)
	$ 73,554	**$ 74,027**

6. Intangible Assets and Goodwill

	Gross	Accumulated amortization	Net
		$ 000s	
As of December 31, 2010			
Patents & Licenses	$ 138,626	$ 64,423	$ 74,203
Trademarks	129,845	453	129,392
Technologies and dealer relationships	445,077	304,779	140,298
Prepayments for intangible assets	78		78
	713,626	369,655	343,971
Goodwill	645,847		645,847
Total intangible assets	**$ 1,359,473**	**$ 369,655**	**$ 989,818**

	Gross	Accumulated amortization	Net
		$ 000s	
As of September 30, 2010			
Patents & Licenses	$ 150,706	$ 71,965	$ 78,741
Trademarks	131,908	428	131,480
Technologies and dealer relationships	451,333	298,910	152,423
Prepayments for intangible assets	78		78
	734,025	371,303	362,722
Goodwill	656,465		656,465
Total intangible assets	**$ 1,390,490**	**$ 371,303**	**$ 1,019,187**

The change in the value of goodwill and of intangible assets from September 30, 2010 to December 31, 2010 is mainly attributable to foreign currency fluctuations, with a reduction of $10,477 in goodwill and $7,152 in intangible assets. Goodwill has been reduced by $141 as a result of tax benefits received subsequent to the Exchange for options that were vested and included in the determination of purchase price at the time of that acquisition.

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7. Short-Term Debt and Current Portion of Long-Term Debt

The components of short-term debt are as follows:

	December 31, 2010	September 30, 2010
	$ 000s	
Current Portion of long-term debt	$ 362,681	$
Accrued interest on long-term debt	$	$ 319
Other short-term debt	5,138	2,616
	$ 367,819	**$ 2,935**

8. Long-Term Debt

The components of long-term debt are as follows:

	December 31, 2010	September 30, 2010
	$ 000s	
Bank loans:		
Senior term loan, Tranche A1, variable rate repayable in November 2011	$	$ 105,063
Senior term loan, Tranche A2, variable rate repayable in November 2011		263,057
		368,120
Less current portion		319
	$	**$**