

SCHICK TECHNOLOGIES INC  
Form 10-Q  
November 09, 2005

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 September 30, 2005.

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

**SCHICK TECHNOLOGIES, 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 Number)

**30-00 47th Avenue**  
**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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 6, 2005, 16,170,463 shares of common stock, par value \$.01 per share, were outstanding.



SCHICK TECHNOLOGIES, INC.

TABLE OF CONTENTS

<u>PART I.</u>	<u>Financial Information</u>	
Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of September 30, 2005 (unaudited) and March 31, 2005</u>	<u>Page 1</u>
	<u>Consolidated Statements of Income for the three and six months ended September 30, 2005 and 2004 (unaudited)</u>	<u>Page 2</u>
	<u>Consolidated Statements of Stockholders' Equity as of September 30, 2005 and 2004 (unaudited)</u>	<u>Page 3</u>
	<u>Consolidated Statements of Cash Flows for the six months ended September 30, 2005 and 2004 (unaudited)</u>	<u>Page 4</u>
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>Page 5</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>Page 8</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>Page 13</u>
Item 4.	<u>Controls and Procedures</u>	<u>Page 13</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	<u>Page 13</u>
Item 1.	<u>Legal Proceedings</u>	<u>Page 13</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>Page 13</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>Page 13</u>
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	<u>Page 13</u>
Item 5.	<u>Other Information</u>	<u>Page 14</u>
Item 6.	<u>Exhibits</u>	<u>Page 14</u>
<u>SIGNATURES</u>		<u>Page 14</u>
<u>CERTIFICATIONS</u>		<u>Page 15</u>

---

**PART I. Financial Information****Item 1. Financial Statements**
**Schick Technologies, Inc. and Subsidiary  
 Consolidated Balance Sheets  
 (In thousands, except share amounts)**

	<u>September 30,</u>	<u>March 31,</u>
	<u>2005</u>	
	<u>(unaudited)</u>	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 45,071	\$ 39,725
Accounts receivable, net of allowance for doubtful accounts of \$57	6,236	5,663
Inventories	4,457	3,545
Prepayments and other current assets	1,880	780
Deferred income taxes	4,267	5,681
	<u>61,911</u>	<u>55,394</u>
Equipment, net	1,319	1,317
Goodwill, net	266	266
Deferred income taxes	320	270
Other assets	811	287
	<u>64,627</u>	<u>57,534</u>
	<u>\$ 64,627</u>	<u>\$ 57,534</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,082	\$ 1,903
Accrued salaries and commissions	1,251	1,590
Deposits from customers	35	30
Warranty obligations	575	446
Deferred revenue	3,536	4,316
	<u>8,479</u>	<u>8,285</u>
	<u>8,479</u>	<u>8,285</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock (\$0.01 par value; 2,500,000 shares authorized; none issued and outstanding)		
Common stock (\$0.01 par value; 50,000,000 shares authorized; 16,168,690 and 16,034,230 shares issued and outstanding, respectively)	162	160
Additional paid-in capital	47,627	46,765
Retained earnings	8,359	2,324
	<u>56,148</u>	<u>49,249</u>
	<u>56,148</u>	<u>49,249</u>

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

	<u>September 30,</u>	<u>March 31,</u>
Total liabilities and stockholders' equity	\$ 64,627	\$ 57,534

---

The accompanying footnotes are an integral part of these consolidated financial statements

**Schick Technologies, Inc. and Subsidiary**  
**Consolidated Statements of Income (unaudited)**  
(In thousands, except share and per share amounts)

	Three months ended September 30,		Six months ended September 30,	
	2005	2004	2005	2004
Revenue, net	\$ 14,111	\$ 10,870	\$ 29,794	\$ 21,751
Total cost of sales	4,461	2,972	9,160	6,181
Gross profit	9,650	7,898	20,634	15,570
Operating expenses:				
Selling and marketing	2,342	1,531	4,668	2,987
General and administrative	1,515	1,284	3,330	3,269
Research and development	1,234	1,305	2,359	2,417
Acquisition and merger related expenses	1,107		1,107	
Total operating costs	6,198	4,120	11,464	8,673
Income from operations	3,452	3,778	9,170	6,897
Other income (expense)				
Interest income	324	84	575	177
Other expense	(1)		(1)	
Total other income (expense)	323	84	574	177
Income before income taxes	3,775	3,862	9,744	7,074
Provision (benefit) for income taxes	1,372	1,376	3,709	2,789
Net income	\$ 2,403	\$ 2,486	\$ 6,035	\$ 4,285
Basic earnings per share	\$ 0.15	\$ 0.16	\$ 0.38	\$ 0.28
Diluted earnings per share	\$ 0.13	\$ 0.14	\$ 0.34	\$ 0.25
Weighted average common shares (basic)	16,056,514	15,099,299	16,046,188	15,063,501
Weighted average common shares (diluted)	17,843,577	17,230,852	17,772,542	17,219,421

The accompanying footnotes are an integral part of these consolidated financial statements



**Schick Technologies, Inc. and Subsidiary**  
**Consolidated Statements of Changes in Stockholders Equity (unaudited)**  
(In thousands, except share amounts)

	Common Stock		Additional Paid -in Capital	Retained Earnings	Total Stockholders Equity
	Shares	Amount			
Balance at March 31, 2004	15,026,470	\$ 150	\$ 44,626	\$ (9,748)	\$ 35,028
Issuance of common stock	158,135	2	264		266
Tax benefit of stock options exercised			123		123
Non cash compensation			393		393
Net income				4,285	4,285
Balance at September 30, 2004	15,184,605	\$ 152	\$ 45,406	\$ (5,463)	\$ 40,095
Balance at March 31, 2005	16,034,230	\$ 160	\$ 46,765	\$ 2,324	\$ 49,249
Issuance of common stock	134,460	2	284		286
Tax benefit of stock options exercised			204		204
Non cash compensation			374		374
Net income				6,035	6,035
Balance at September 30, 2005	16,168,690	\$ 162	\$ 47,627	\$ 8,359	\$ 56,148

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



**Schick Technologies, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows (unaudited)**  
(In thousands)

	Six months ended September 30,	
	2005	2004
Cash flows from operating activities		
Net income	\$ 6,035	\$ 4,285
Adjustments to reconcile net income to net cash provided by operating activities		
Non-cash compensation	374	393
Depreciation and amortization	284	345
Deferred income taxes	1,364	2,296
Tax benefit of stock options exercised	204	123
Provision for excess and obsolete inventory	142	15
Changes in assets and liabilities:		
Accounts receivable	(573)	(330)
Inventories	(1,054)	(117)
Prepayments and other current assets	(1,102)	(9)
Other assets	(38)	(26)
Accounts payable, accrued expenses, salaries and commissions	840	(473)
Income taxes payable	17	17
Deposits from customers	5	12
Warranty obligations	129	90
Deferred revenue	(780)	(796)
Net cash provided by operating activities	5,830	5,825
Cash flows from investing activities		
Other	(500)	
Capital expenditures	(272)	(385)
Net cash used in investing activities	(772)	(385)
Cash flows from financing activities		
Net proceeds from issuance of common stock	288	267
Net cash provided by financing activities	288	267
Net increase in cash and cash equivalents	5,346	5,707
Cash and cash equivalents at beginning of period	39,725	20,734
Cash and cash equivalents at end of period	\$ 45,071	\$ 26,441
Income taxes paid	\$ 3,196	\$ 201

The accompanying footnotes are an integral part of these consolidated financial statements



**Schick Technologies, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements (unaudited)**  
**(in thousands, except share and per share amounts)**

**1. Basis of Presentation**

The consolidated financial statements of Schick Technologies, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and the rules of the Securities and Exchange Commission (the SEC) for quarterly reports on Form 10-Q, and do not include all of the information and footnote disclosures required by US GAAP for complete financial statements. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended March 31, 2005 included in the Company's Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation of results of operations for the interim periods. The results of operations for the three and six months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year ending March 31, 2006.

The consolidated financial statements of the Company, at September 30, 2005, include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances have been eliminated.

*Stock-based compensation*

At September 30, 2005, the Company has stock-based compensation plans. As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for stock-based compensation arrangements with employees under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three months ended		Six months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 2,403	\$ 2,486	\$ 6,035	\$ 4,285
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	344	171	588	346
Proforma net income	\$ 2,059	\$ 2,315	\$ 5,447	\$ 3,939
Earnings per share:				
Basic - as reported	\$ 0.15	\$ 0.16	\$ 0.38	\$ 0.28
Basic - proforma	\$ 0.13	\$ 0.15	\$ 0.34	\$ 0.26
Diluted - as reported	\$ 0.13	\$ 0.14	\$ 0.34	\$ 0.25
Diluted - proforma	\$ 0.12	\$ 0.14	\$ 0.31	\$ 0.24

**2. Inventories**

Inventories, net of reserves, are comprised of the following:

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

	September 30, 2005	March 31,
	<u>                    </u>	<u>                    </u>
Raw materials	\$ 2,879	\$ 2,171
Work-in-process	302	218
Finished goods	1,276	1,156
	<u>                    </u>	<u>                    </u>
Total inventories	\$ 4,457	\$ 3,545
	<u>                    </u>	<u>                    </u>

### 3. Earnings Per Share

Basic earnings per share are calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per share are calculated by dividing net income by the average number of common shares outstanding assuming dilution, the calculation of which assumes that all stock options and warrants whose exercise prices are less than the average market price during the period are exercised at the beginning of the period and the proceeds used by the Company to purchase shares at the average market price for the period. The following is the reconciliation from basic to diluted shares for the three and six months ended September 30, 2005 and 2004:

	Three months ended September 30, 2005	2004	Six months ended September 30, 2005	2004
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Basic shares	16,056,514	15,099,299	16,046,188	15,063,501
Dilutive:				
Options	1,740,270	1,339,410	1,679,561	1,365,144
Warrants	46,793	792,143	46,793	790,776
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Diluted shares	17,843,577	17,230,852	17,772,542	17,219,421
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

The Company excluded 110,225 and 87,061 options from the computation of diluted earnings per share for the three months ended September 30, 2005 and 2004, respectively, because they are anti-dilutive. The Company excluded 93,325 and 110,150 options from the computation of diluted earnings per share for the six months ended September 30, 2005 and 2004, respectively, because they are anti-dilutive.

### 4. Proposed Business Combination with Sirona Dental Systems

On September 26, 2005, the Company announced that it had entered into a definitive agreement to combine its business with Sirona Dental Systems Group. The transaction is structured as a stock-for-stock tax-free exchange in which the Company will issue Sirona's parent company 36.97 million new shares of the Company's Common Stock in exchange for 100% of that parent's economic interest in Sirona. Sirona's owners will have an ownership interest in the combined company of 67%, with current Company shareholders holding the remainder. The Company's shareholders will also receive a \$2.50 per share cash dividend, which is expected to be declared prior to the closing of this transaction.

Management believes that the transaction will create a global leader in high-tech dental equipment with a strong global presence and a breadth of products. It is expected that the merged company will be renamed Sirona Dental Systems, Inc., with corporate headquarters to be located at Sirona's facilities in Bensheim, Germany and U.S. headquarters at the Company's facilities in New York.

The merger has been unanimously approved by both companies' Boards of Directors and is expected to close in the first calendar quarter of 2006. It is subject to approval by the Company's shareholders, clearance by appropriate regulatory agencies, preparation of Sirona's financial statements in accordance with United States GAAP and other customary closing conditions. Voting agreements in support of the transaction have been signed by shareholders holding approximately 37% of the Company's issued and outstanding common shares.

Sirona's Chief Executive Officer, Jost C. Fischer, will become Chairman, President and Chief Executive Officer of the combined Sirona Dental Systems, Inc. Jeffrey T. Slovin, Schick's President and Chief Executive Officer, will become Executive Vice President of the combined company and Chief Operating Officer of U.S. Operations. Sirona's Chief Financial Officer, Simone Blank, will become Executive Vice President

and Chief

## Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Financial Officer of the combined company. Sirona will hold seven seats on the combined company's board, with Schick holding three seats.

The transaction will be presented for approval at a special meeting of Company shareholders to be scheduled following the conversion of Sirona's financial statements to U.S. GAAP. In connection with the shareholders meeting, the Company intends to file proxy materials with the Securities and Exchange Commission. These proxy materials will set forth additional details and other information concerning the transaction, which investors should carefully read before making a decision regarding the transaction. In connection with this transaction, the Company has hired an investment banking company whose fees are payable on the closing of the transaction.

During the three months ended September 30, 2005, the Company charged \$1.1 million to operations for acquisition-related expenses, including \$0.8 million for the Sirona transaction. Additionally, \$0.3 million was charged to operations in connection with other potential acquisitions.

The foregoing statements regarding the proposed transaction between the Company and Sirona include forward-looking statements within the meaning of Section 27 of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Words such as seek, intend, may, believe, will, project, plan, estimate, expect, anticipate and other similar statements of a forward-looking nature identify forward-looking statements. Some or all of the results anticipated by these forward-looking statements may not occur and are based on the Company's current expectations and beliefs, and involve a number of risks and uncertainties that could cause actual results to differ materially from those stated or implied by the forward-looking statements. Those risks and uncertainties include, but are not limited to: 1) the possibility that the companies may be unable to obtain shareholder or regulatory approvals required for the proposed transaction or that such approvals take longer to obtain than expected; 2) difficulties in successfully integrating the businesses and operations of the two companies; 3) unexpected costs in connection with the proposed transaction; 4) the combined company may be unable to achieve cost-saving synergies; 5) the businesses may suffer as a result of uncertainty surrounding the proposed transaction; and 6) the industry may be subject to future regulatory or legislative actions. Additional risks and uncertainties include the effects of competition (in particular the response to the proposed transaction in the marketplace), the effects of general economic and other factors beyond the control of Sirona and Schick, and other risks and uncertainties described from time to time in Schick's public filings with United States Securities and Exchange Commission.

### 5. Income Taxes

The following table summarizes income tax expense for the three and six months ended September 30, 2005 and 2004:

	Three months ended		Six months ended	
	September 30			
	2005	2004	2005	2004
Current - Federal and state	\$ 591	\$ 158	\$ 2,344	\$ 370
Deferred - Federal and state	781	1,218	1,365	2,419
Net income tax expense	\$ 1,372	\$ 1,376	\$ 3,709	\$ 2,789

### 6. Contingencies and Other

#### *Product Liability and Litigation*

The Company is subject to the risk of product liability and other liability claims in the event that the use of its products results in personal injury or other claims. Although the Company has not experienced any product liability claims to date, any such claims could have an adverse impact on the Company. The Company maintains insurance coverage related to product liability claims, but there can be no assurance that product liability or other claims will not exceed its insurance coverage limits, or that such insurance will continue to be available on commercially acceptable terms, or at all. In addition, the Company may be a party to a variety of legal actions such as





employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims and intellectual property related litigation.

In addition, because of the nature of its business, the Company is subject to a variety of legal actions relating to its business operations. In some cases, substantial punitive damages may be sought. The Company currently has insurance coverage for some of these potential liabilities. Other potential liabilities may not be covered by insurance, insurers may dispute coverage, or the amount of insurance may not be sufficient to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance and insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

#### *Lawsuit Challenging Terms of Proposed Business Combination*

On September 28, 2005, a complaint was filed in the Delaware Court of Chancery with respect to the proposed combination between the Company, Sirona Holdings Luxco S.C.A. ( Sirona Holdings ) and Blitz 05-118 GmbH ( Blitz ). The complaint purports to be filed by a stockholder of the Company as a class action. It names the Company, its Directors, Sirona Holdings, Sirona Holdings S.A., Madison Dearborn Partners, LLC, and related parties, as Defendants.

The complaint alleges, among other things, that the terms of the contemplated transaction are unfair to the Company's public shareholders and that the members of the Board of Directors violated their fiduciary duties by, among other things, failing to maximize shareholder value in a sale of control of the Company, and that they have effectively made an acquisition of the Company untenable for any third party other than Sirona.

The plaintiff seeks, among other things, class action certification, a preliminary and permanent injunction against consummation of the proposed transaction, rescission should the transaction be consummated, compensatory damages to the class, and attorneys' fees and expenses.

The Company believes that the allegations contained in the complaint are completely unfounded and without merit.

#### *Other*

Sales to a single customer approximated 65% and 56% of revenue for the three months ended September 30, 2005 and 2004, respectively. Sales to a single customer approximated 66% and 56% of revenue for the six months ended September 30, 2005 and 2004, respectively. Amounts due from that customer approximated 63% and 49% of net accounts receivable at September 30, 2005 and March 31, 2005, respectively, substantially all of which have been collected subsequent to those dates.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. The words or phrases "believes", "may", "should", "will likely result", "estimates", "projects", "anticipates", "expects" or similar expressions and variations thereof are intended to identify such forward-looking statements. Actual results, events and circumstances could differ materially from those set forth in such statements due to various factors. Such factors include uncertainties as to the future sales volume of the Company's products, the Company's dependence on its exclusive North American distributor and on its foreign distributors, the Company's dependence on products and technology, competition, changing economic and competitive conditions in the medical and dental digital radiography markets, dependence on key personnel, the Company's ability to manage growth, fluctuation in results and seasonality, governmental approvals and investigations, technological developments, protection of technology utilized by the Company, patent infringement claims and other litigation, potential need for additional financing and other risks and uncertainties, including those detailed in the Company's other filings with the Securities and Exchange Commission.

## **General**

The Company designs, develops and manufactures digital imaging systems for the worldwide dental and medical markets. In the field of dentistry, the Company currently manufactures and markets a variety of digital imaging products including an intra-oral digital radiography system (CDR® and CDR Wireless ), a digital panoramic radiography sensor (CDRPan®), an integrated digital panoramic radiography device (CDRPanX ), an intra-oral camera system (USBCam®) and a DC dental x-ray generator (SDX ). The Company has also developed a bone mineral density assessment device (accuDEXA®) to assist in the diagnosis and treatment of osteoporosis, which was introduced in December 1997.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect amounts reported in the accompanying consolidated financial statements and related footnotes. These estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information the Company believes to be reasonable under the circumstances. There can be no assurance that actual results will conform to the Company's estimates and assumptions, and that reported results of operations will not be materially adversely affected by the need to make accounting adjustments to reflect changes in these estimates and assumptions from time to time. The following policies are those that the Company believes to be the most sensitive to estimates and judgments.

### ***Accounts Receivable***

The Company reports accounts receivable net of reserves for uncollectible accounts. The majority of the Company's accounts receivable (63% and 49% at September 30, 2005 and March 31, 2005, respectively) are due from its exclusive domestic distributor, Patterson Dental Company ( Patterson ). Other accounts receivable were due from international distributors and the U.S. military. Credit is extended to distributors on varying terms between 30 and 90 days. Most international credit is underwritten by credit insurance. The Company provides an allowance for doubtful accounts based upon analysis of the accounts receivable aging. The Company writes off accounts receivable when they become uncollectible. Subsequently received payments are credited to operations.

### ***Inventories***

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market value. Cost is determined principally on the standard cost method for manufactured goods and on the average cost method for other inventories, each of which approximates actual cost on the first-in, first-out method. The Company establishes reserves for inventory estimated to be obsolete, unmarketable or slow moving inventory equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those anticipated or if changes in technology affect the Company's products, additional inventory reserves may be required.

### ***Revenue Recognition***

Revenues from sales of the Company's hardware and software products are recognized at the time of shipment to customers, and when no significant obligations exist and collectibility is probable. With respect to products shipped to its exclusive domestic distributor, the Company defers revenue until Patterson ships such inventory from its distribution centers. The Company provides its exclusive domestic distributor with a 30-day return policy but allows for an additional 15 days, and accordingly, recognizes allowances for estimated returns pursuant to such policy at the time of shipment.

The Company sells its CDR® digital radiography products in the international market through independent regional distributors, generally pursuant to written distribution agreements. Among other matters, foreign distribution agreements address exclusivity, territory, minimum purchase requirements, product pricing, term of agreement and termination. The Company's post-shipment obligation to foreign dealers is limited to

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

warranty coverage, as discussed below. Foreign distributors do not have the right to return product. The Company occasionally grants volume discounts to foreign distributors. These are accounted for, by the Company, as a reduction of revenues when earned.

Amounts received from customers in advance of product shipment are classified as deposits from customers. Revenues from the sale of extended warranties on the Company's products are recognized on a straight-line basis over the life of the extended warranty, which is generally a one-year period. Deferred revenues relate to extended warranty fees paid by customers prior to the performance of extended warranty services, and to certain shipments to Patterson described above.

**Warranties**

The Company records a liability for an estimate of costs that it expects to incur under its basic limited warranty when product revenue is recognized. Factors affecting the Company's warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. The Company periodically assesses the adequacy of its warranty liability based on changes in these factors.

The following table reconciles aggregate warranty liability for the three and six months ended September 30, 2005 and 2004:

	Three months ended		Six months ended	
	September 30,			
	2005	2004	2005	2004
Beginning balance	\$ 507	\$ 270	\$ 446	\$ 210
Warranties recorded in period	869	587	1,602	1,269
Warranties paid in period	(801)	(557)	(1,473)	(1,179)
Balance end of period	\$ 575	\$ 300	\$ 575	\$ 300

The Company records revenues on extended warranties on a straight-line basis over the term of the related warranty contracts (generally one year). Deferred revenues related to extended warranties were \$2.0 million and \$2.2 million at September 30, 2005 and March 31, 2005, respectively.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or the entire deferred tax asset will not be realized.

**Contractual Obligations and Commercial Commitments**

The following table summarizes contractual obligations and commercial commitments at September 30, 2005:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	Total	Less Than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	\$ 914	\$ 515	\$ 399		
Employment agreements	773	525	248		
Consulting agreements	581	340	241		
Total Contractual Cash Obligations	\$ 2,268	\$ 1,380	\$ 888		



## Results of Operations

Net revenues for the three months ended September 30, 2005 increased \$3.2 million (30%) to \$14.1 million as compared to \$10.9 million in fiscal 2005. The increase was due to increased sales of the CDR® radiography and intraoral camera products. CDR® product sales increased \$3.3 million (35%) to \$12.8 million (91% of the Company's revenues) from \$9.5 million (87% of revenue) in fiscal 2005. The Company believes that the sales increases are a result of increasing acceptance and adoption of its products by dental customers and an increased commitment from its dealers, including Patterson and distributors in Europe and Asia. Warranty revenue for the three months ended September 30, 2005 decreased \$55 (5%) to \$1.2 million (8% of revenue) from \$1.2 million in the same period of the prior year (11% of revenue). The Company believes that the reduction of warranty revenue will continue as increasing numbers of the Company's legacy customers transition to Patterson for their service and warranty needs and revenues from Patterson increase. Total domestic revenue for the three months ended September 30, 2005 increased \$3.3 million (42%) to \$11.0 million (78% of revenue) from \$7.8 million (72% of revenue) in fiscal 2005. Domestically, Patterson revenues increased 52% and other domestic revenues (principally from sales to the government) increased 44%. Total international revenue for the three months ended September 30, 2005 was unchanged at \$3.1 million (22% and 28% of revenue, respectively). By region, sales to Europe decreased \$0.1 million (4%) to \$1.8 million from \$1.9 million in fiscal 2005 and sales to Asia decreased \$0.4 million (47%) to \$0.5 from \$0.9 million in fiscal 2005. Sales outside of Europe and Asia increased \$0.5 million (142%) to \$0.8 million from \$0.3 million in fiscal 2005.

Net revenues for the six months ended September 30, 2005 increased \$8.0 million (37%) to \$29.8 million from \$21.8 million in fiscal 2005. The increase was due to increased sales of the CDR® radiography and intraoral camera products. CDR® product sales increased \$8.3 million (44%) to \$27.2 million (92% of revenue) from \$18.9 million (87% of revenue) in fiscal 2005. Warranty revenue for the six months ended September 30, 2005 decreased \$129 to \$2.3 million (8% of revenue) from \$2.5 million (11% of revenue) in fiscal 2005. Total domestic revenue for the six months ended September 30, 2005 increased \$7.5 million (48%) to \$22.9 million (77% of revenue) from \$15.4 million (71% of revenue) in fiscal 2005. Domestically, Patterson revenues increased 62% and other domestic revenues (principally from sales to the government) increased 27%. Total international revenue for the six months ended September 30, 2005 increased \$0.6 million (9%) to \$6.9 million (23% of revenue) from \$6.3 million (29% of revenue) in fiscal 2005. By region, sales to Europe increased \$0.5 million (15%) to \$4.1 million from \$3.6 million in fiscal 2005 and sales to Asia decreased \$0.4 million (24%) to \$1.6 from \$2.0 million in fiscal 2005. Sales outside of Europe and Asia increased \$0.5 million (73%) to \$1.2 million from \$0.7 million in fiscal 2005.

Total cost of sales for the three months ended September 30, 2005 increased \$1.5 million (50%) to \$4.5 million (31.6% of revenue) from \$3.0 million (27.3% of revenue) in fiscal 2005. The increase in the relative total cost of sales (4.3%) was due to increased revenues generated from non intraoral digital radiographic products which have a lower profit margin than do the Company's other products.

Total cost of sales for the six months ended September 30, 2005 increased \$3.0 million (48%) to \$9.2 million (30.7% of revenue) from \$6.2 million (28.4% of revenue) in fiscal 2005. The increase in the relative total cost of sales (2.3%) is due to increased revenues generated from non intraoral dental radiographic products which have a lower profit margin than do the Company's other products.

Selling and marketing expenses for the three months ended September 30, 2005 increased \$0.8 million (53%) to \$2.3 million (17% of revenue) from \$1.5 million (14% of revenue) in fiscal 2005. The increases result primarily from higher commission, payroll, promotional, marketing, training and trade show expenses, including \$0.4 million in seasonal promotional and training activities.

Selling and marketing expenses for the six months ended September 30, 2005 increased \$1.7 million (56%) to \$4.7 million (16% of revenue) from \$3.0 million (14% of revenue) in fiscal 2005. Increases are attributable to the items discussed above.

## Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

General and administrative expenses for the three months ended September 30, 2005 increased \$0.2 million (18%) to \$1.5 million (11% of revenue) from \$1.3 million (12% of revenue) in fiscal 2005. The increase in general and administrative expenses was primarily attributable to a \$0.3 increase in non-cash payroll costs.

General and administrative expenses for the six months ended September 30, 2005 were \$3.3 million, unchanged as compared to fiscal 2005 (11% of revenue and 15% of revenue, respectively). Decreases in legal expenses offset increases in non cash payroll costs.

Research and development expenses for the three months ended September 30, 2005 decreased \$0.1 million (5%) to \$1.2 million (9% of revenue) from \$1.3 million (12% of revenue) in fiscal 2005. The change is attributable to decreased non-cash charges related to the technical consulting agreement with the Company's former CEO.

Research and development expenses for the six months ended September 30, 2005 were \$2.4 million, unchanged as compared to fiscal 2005 (8% and 11% of revenue, respectively). The decrease was attributable to the items discussed above.

During the three and six months ended September 30, 2005, the Company charged \$1.1 million to operations for acquisition related expenses including \$0.8 million for the Sirona transaction. Additionally, \$0.3 million was charged to operations in connection with other potential acquisitions.

Interest income increased for the three months and six months ended September 30, 2005 due to an increase in the cash balance held by the Company in a money market account.

Income before income tax for the three months ended September 30, 2005 decreased \$0.1 million (2%) to \$3.8 million, from \$3.9 million in the same period of the previous year for the reasons described above.

Income before income tax for the six months ended September 30, 2005 increased \$2.7 million (38%) to \$9.8 million from \$7.1 million in the same period of the previous year.

Income tax expense for the three months ended September 30, 2005 was unchanged at \$1.4 million..

Income tax expense for the six months ended September 30, 2005 increased \$0.9 million to \$3.7 million from \$2.8 million in fiscal 2005. This increase is the result of increased income before income taxes.

Net income for the three months ended September 30, 2005 decreased \$0.1million (3%) to \$2.4 million from \$2.5 million in fiscal 2005. The decrease is the result of the items discussed above.

Net income for the six months ended September 30, 2005 increased \$1.7 million (41%) to \$6.0 million from \$4.3 million in fiscal 2005. The increase is the result of the items discussed above.

### Liquidity and Capital Resources

At September 30, 2005, the Company had \$45.1 million in cash and cash equivalents and \$53.4 million in working capital, as compared to \$39.7 million in cash and cash equivalents and \$47.1 million in working capital at March 31, 2005.

During the six months ended September 30, 2005 cash provided by operations was unchanged from fiscal 2005 at \$5.8 million. Increases in cash were primarily provided by the Company's operating profit. This increase was offset by a reduction in non-cash charges (principally deferred income taxes) and by increases in accounts receivable, inventory and prepayments (including \$1.1 million from the payment of estimated income taxes). These reductions in cash were offset by an increase in accounts payable and accrued expenses. Sales to a single customer approximated 66% and 56% of revenue for the six months ended September 30, 2005 and 2004, respectively. Amounts due from that customer approximated 63% and 49% of net accounts receivable at September 30, 2005 and March 31, 2005, respectively, substantially all of which have been collected subsequent to those dates. The increase in net accounts receivable is the result of increased product shipments during the six months ended September 30, 2005. For the six months ended September 30, 2005 capital expenditures decreased \$0.1 million to \$0.3 million from \$0.4 million in fiscal 2005.

Management believes that its existing capital resources and other potential sources of credit are adequate to meet its current cash requirements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

None.

**Item 4. Controls and Procedures**

- a) Under the supervision and with the participation of the Company's management, including its chief executive officer and principal financial officer, the Company has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2005. They have concluded that these disclosure controls provide reasonable assurance that the Company can collect, process and disclose, within the time periods specified in the SEC's rules and forms, the information required to be disclosed in its periodic Exchange Act reports. The Company's officers have also concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and principal financial officer, so as to allow timely decisions regarding required disclosure.
- b) There have been no significant changes in the Company's internal controls or in other factors that could significantly affect its internal controls subsequent to the date of their most recent evaluation.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

On September 28, 2005, a complaint was filed in the Delaware Court of Chancery with respect to the proposed combination between the Company, Sirona Holdings Luxco S.C.A. ( Sirona Holdings ) and Blitz 05-118 GmbH ( Blitz ). The complaint purports to be filed by a stockholder of the Company as a class action. It names the Company, its Directors, Sirona Holdings, Sirona Holdings S.A., Madison Dearborn Partners, LLC, and related parties, as Defendants.

The complaint alleges, among other things, that the terms of the contemplated transaction are unfair to the Company's public shareholders and that the members of the Board of Directors violated their fiduciary duties by, among other things, failing to maximize shareholder value in a sale of control of the Company, and that they have effectively made an acquisition of the Company untenable for any third party other than Sirona.

The plaintiff seeks, among other things, class action certification, a preliminary and permanent injunction against consummation of the proposed transaction, rescission should the transaction be consummated, compensatory damages to the class, and attorneys' fees and expenses.

The Company believes that the allegations contained in the complaint are without merit.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not Applicable.

**Item 3. Defaults Upon Senior Securities**

Not Applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not Applicable.



**Item 5. Other Information**

Not Applicable.

**Item 6. Exhibits**

- 3.2 Bylaws of the Company, as amended. (Incorporated by reference to Exhibit 3.2 to the Company's Report on Form 8-K dated November 2, 2005.)
- 10.2 Distributorship Agreement by and between Schick Technologies, Inc. and Patterson Dental Company, made and entered into as of April 6, 2000. (This copy omits information for which confidential treatment has been requested.)
- 31.1 Certification of Chief 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 Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. ss. 1350.

**SCHICK TECHNOLOGIES, INC.**

**SIGNATURE**

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

SCHICK TECHNOLOGIES, INC.

Date: November 9, 2005

By: /S/ Jeffrey T. Slovin

Jeffrey T. Slovin  
Chief Executive Officer

By: /S/ Ronald Rosner

Ronald Rosner  
Director of Finance and Administration  
(Principal Financial Officer)