

SCHICK TECHNOLOGIES INC
Form 10-Q
February 03, 2006

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, 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 **11-3374812**

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification Number)

30-00 47th Avenue **11101**
Long Island City, New York (Zip Code)

(Address of principal executive offices)

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

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

As of January 31, 2006, 16,259,199 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 December 31, 2005 (unaudited) and March 31, 2005</u> | <u>Page 1</u> |
| | <u>Consolidated Statements of Income for the three and nine months ended December 31, 2005 and 2004 (unaudited)</u> | <u>Page 2</u> |
| | <u>Consolidated Statements of Changes in Stockholders' Equity as of December 31, 2005 and 2004 (unaudited)</u> | <u>Page 3</u> |
| | <u>Consolidated Statements of Cash Flows for the nine months ended December 31, 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 12</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>Page 12</u> |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> | <u>Page 12</u> |
| Item 1. | <u>Legal Proceedings</u> | <u>Page 12</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>Page 12</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 13</u> |
| Item 6. | <u>Exhibits</u> | <u>Page 13</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>December 31,</u> | <u>March 31,</u> |
|--|---------------------|------------------|
| | <u>2005</u> | |
| | <u>(unaudited)</u> | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 13,902 | \$ 39,725 |
| Short-term investments | 35,100 | |
| Accounts receivable, net of allowance for doubtful accounts of \$57 | 15,221 | 5,663 |
| Inventories | 5,160 | 3,545 |
| Prepayments and other current assets | 765 | 780 |
| Deferred income taxes | 4,329 | 5,681 |
| | <u>74,477</u> | <u>55,394</u> |
| Equipment, net | 1,279 | 1,317 |
| Goodwill, net | 266 | 266 |
| Deferred income taxes | 365 | 270 |
| Other assets | 813 | 287 |
| | <u>77,200</u> | <u>57,534</u> |
| Total assets | \$ 77,200 | \$ 57,534 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 2,518 | \$ 1,903 |
| Accrued salaries and commissions | 2,171 | 1,590 |
| Income taxes payable | 1,726 | |
| Deposits from customers | 38 | 30 |
| Warranty obligations | 660 | 446 |
| Deferred revenue | 7,196 | 4,316 |
| | <u>14,309</u> | <u>8,285</u> |
| Total current liabilities | 14,309 | 8,285 |
| 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; 16,202,405 and 16,034,230 shares issued and outstanding, respectively) | 162 | 160 |
| Additional paid-in capital | 48,360 | 46,765 |
| Retained earnings | 14,369 | 2,324 |
| | <u>62,891</u> | <u>49,249</u> |
| Total stockholders' equity | 62,891 | 49,249 |

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

| | <u>December 31,</u> | <u>March 31,</u> |
|--|---------------------|-------------------|
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |
| Total liabilities and stockholders' equity | \$ 77,200 | \$ 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 December 31, | | Nine months ended December 31, | |
|--|------------------------------------|------------|-----------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Revenue, net | \$ 22,105 | \$ 16,813 | \$ 51,899 | \$ 38,564 |
| Total cost of sales | 6,426 | 4,144 | 15,586 | 10,325 |
| Gross profit | 15,679 | 12,669 | 36,313 | 28,239 |
| Operating expenses: | | | | |
| Selling and marketing | 2,360 | 2,235 | 7,028 | 5,222 |
| General and administrative | 1,862 | 1,723 | 5,192 | 4,992 |
| Research and development | 1,204 | 1,456 | 3,563 | 3,873 |
| Acquisition and merger related expenses | 285 | | 1,392 | |
| Termination of consulting agreement | 650 | | 650 | |
| Total operating costs | 6,361 | 5,414 | 17,825 | 14,087 |
| Income from operations | 9,318 | 7,255 | 18,488 | 14,152 |
| Other income (expense) | | | | |
| Interest income | 313 | 111 | 888 | 288 |
| Other income | 30 | | 29 | |
| Total other income | 343 | 111 | 917 | 288 |
| Income before income taxes | 9,661 | 7,366 | 19,405 | 14,440 |
| Provision for income taxes | 3,651 | 2,968 | 7,360 | 5,757 |
| Net income | \$ 6,010 | \$ 4,398 | \$ 12,045 | \$ 8,683 |
| Basic earnings per share | \$ 0.37 | \$ 0.28 | \$ 0.75 | \$ 0.57 |
| Diluted earnings per share | \$ 0.33 | \$ 0.25 | \$ 0.67 | \$ 0.50 |
| Weighted average common shares (basic) | 16,174,611 | 15,440,891 | 16,088,995 | 15,189,316 |
| Weighted average common shares (diluted) | 18,027,735 | 17,359,203 | 17,857,607 | 17,212,293 |

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

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 | 904,237 | 9 | 378 | | 387 |
| Tax benefit of stock options exercised | | | 229 | | 229 |
| Non cash compensation | | | 783 | | 783 |
| Net income | | | | 8,683 | 8,683 |
| Balance at December 31, 2004 | 15,930,707 | \$ 159 | \$ 46,016 | \$ (1,065) | \$ 45,110 |
| Balance at March 31, 2005 | 16,034,230 | \$ 160 | \$ 46,765 | \$ 2,324 | \$ 49,249 |
| Issuance of common stock | 168,175 | 2 | 474 | | 476 |
| Tax benefit of stock options exercised | | | 451 | | 451 |
| Non cash compensation | | | 670 | | 670 |
| Net income | | | | 12,045 | 12,045 |
| Balance at December 31, 2005 | 16,202,405 | \$ 162 | \$ 48,360 | \$ 14,369 | \$ 62,891 |

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)

| | Nine months ended December 31, | |
|--|-----------------------------------|-----------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net income | \$ 12,045 | \$ 8,683 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Non-cash compensation | 670 | 783 |
| Depreciation and amortization | 426 | 544 |
| Deferred income taxes | 1,257 | 5,100 |
| Tax benefit of stock options exercised | 451 | 229 |
| Provision for excess and obsolete inventory | 142 | 89 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (9,558) | (4,982) |
| Inventories | (1,757) | (719) |
| Prepayments and other current assets | 38 | 22 |
| Other assets | (50) | 3 |
| Accounts payable, accrued expenses, salaries and commissions | 1,196 | 1,032 |
| Income taxes payable | 1,726 | (8) |
| Deposits from customers | 8 | 69 |
| Warranty obligations | 214 | 183 |
| Deferred revenue | 2,880 | (66) |
| Net cash provided by operating activities | 9,688 | 10,962 |
| Cash flows from investing activities | | |
| Investment - other | (500) | |
| Purchase of short-term investments | (35,100) | (14,984) |
| Capital expenditures | (364) | (531) |
| Net cash used in investing activities | (35,964) | (15,515) |
| Cash flows from financing activities | | |
| Net proceeds from issuance of common stock | 453 | 379 |
| Net cash provided by financing activities | 453 | 379 |
| Net decrease in cash and cash equivalents | (25,823) | (4,174) |
| Cash and cash equivalents at beginning of period | 39,725 | 20,734 |
| Cash and cash equivalents at end of period | \$ 13,902 | \$ 16,560 |
| Income taxes paid | \$ 3,882 | \$ 353 |

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 nine months ended December 31, 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 December 31, 2005, include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances have been eliminated.

Stock-based compensation

At December 31, 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 | | Nine months ended | |
|---|--------------------|----------|-------------------|----------|
| | December 31, | | | |
| | 2005 | 2004 | 2005 | 2004 |
| Net income, as reported | \$ 6,010 | \$ 4,398 | \$ 12,045 | \$ 8,683 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 406 | 168 | 994 | 514 |
| Proforma net income | \$ 5,604 | \$ 4,230 | \$ 11,051 | \$ 8,169 |
| Earnings per share: | | | | |
| Basic - as reported | \$ 0.37 | \$ 0.28 | \$ 0.75 | \$ 0.57 |
| Basic - proforma | \$ 0.35 | \$ 0.27 | \$ 0.69 | \$ 0.54 |
| Diluted - as reported | \$ 0.33 | \$ 0.25 | \$ 0.67 | \$ 0.50 |
| Diluted - proforma | \$ 0.31 | \$ 0.24 | \$ 0.62 | \$ 0.47 |

2. Short-term investments

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

At December 31, 2005 the Company had \$35 million in market rate marketable securities held for sale that have been classified as short-term investments. At June 30 and September 30, 2005 the Company had approximately \$10 million of similar securities that have been classified as cash equivalents.

3. Inventories

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

| | December 31, 2005 | March 31, 2005 |
|-------------------|----------------------|-------------------|
| Raw materials | \$ 2,989 | \$ 2,171 |
| Work-in-process | 321 | 218 |
| Finished goods | 1,850 | 1,156 |
| Total inventories | \$ 5,160 | \$ 3,545 |

4. 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 nine months ended December 31, 2005 and 2004:

| | Three months ended December 31, 2005 | 2004 | Nine months ended December 31, 2005 | 2004 |
|----------------|---|------------|--|------------|
| Basic shares | 16,174,611 | 15,440,891 | 16,088,995 | 15,189,316 |
| Dilutive: | | | | |
| Options | 1,853,124 | 1,457,509 | 1,737,417 | 1,342,905 |
| Warrants | | 460,803 | 31,195 | 680,072 |
| Diluted shares | 18,027,735 | 17,359,203 | 17,857,607 | 17,212,293 |

The Company excluded 87,061 options from the computation of diluted earnings per share for the three months ended December 31, 2004, because they are anti-dilutive. The Company excluded 102,454 options from the computation of diluted earnings per share for the nine months ended December 31, 2004, because they are anti-dilutive.

5. 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 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 during the first half of calendar 2006. It is subject to approval by the Company's shareholders 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.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

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 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. In connection with the shareholders meeting, the Company intends to file proxy materials with the Securities and Exchange Commission. 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 December 31, 2005 the Company charged an additional \$0.3 million to operations for acquisition related expenses. During the three months ended September 30, 2005, the Company charged \$1.4 million, to operations for acquisition-related expenses including \$1.1 million for the Sirona merger. Additionally, \$0.3 million was charged to operations in connection with other potential acquisitions.

6. Income Taxes

The following table summarizes income tax expense for the three and nine months ended December 31, 2005 and 2004:

| | <u>Three months ended</u> | | <u>Nine months ended</u> | |
|------------------------------|---------------------------|-----------------|--------------------------|-----------------|
| | <u>December 31</u> | | | |
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Current - Federal and state | \$ 3,759 | \$ 58 | \$ 6,103 | \$ 428 |
| Deferred - Federal and state | (108) | 2,910 | 1,257 | 5,329 |
| Net income tax expense | <u>\$ 3,651</u> | <u>\$ 2,968</u> | <u>\$ 7,360</u> | <u>\$ 5,757</u> |

7. 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 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

As previously disclosed, 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. and Blitz 05-118 GmbH. There were no material developments relating to such action during the quarter ended December 31, 2005.

Other

During the three months ended December 31, 2005, the Company charged \$650 to operations for one-time expenses incurred to terminate the technical consulting agreement with David Schick, the Company's former CEO. These expenses included non-cash (\$112) and cash (\$538) charges. The one-time payment represented the balance of the fees that were payable to him pursuant to the agreement. Mr. Schick was concurrently notified that he was relieved of all further consulting obligations under the agreement, and that the non-compete provisions contained in the agreement continued to remain in effect.

Sales to a single customer approximated 74% of revenue for the three months ended December 31, 2005 and 2004. Sales to a single customer approximated 69% and 64% of revenue for the nine months ended December 31, 2005 and 2004, respectively. Amounts due from that customer approximated 84% and 49% of net accounts receivable at December 31, 2005 and March 31, 2005, respectively.

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(R) and CDR Wireless(TM)), a digital panoramic radiography sensor (CDRPan(R)), an integrated digital panoramic radiography device (CDRPanX(TM)), an intra-oral camera system (USBCam(R)) and a DC dental x-ray generator (SDX(TM)).

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 (84% and 49% at December 31, 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(R) 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 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 nine months ended December 31, 2005 and 2004:

| | Three months ended | | Nine months ended | |
|-------------------------------|---------------------------|-------------|--------------------------|-------------|
| | December 31, | | | |
| | 2005 | 2004 | 2005 | 2004 |
| Beginning balance | \$ 507 | \$ 270 | \$ 446 | \$ 210 |
| Warranties recorded in period | 1,016 | 650 | 2,550 | 1,770 |
| Warranties paid in period | (863) | (527) | (2,336) | (1,587) |
| Balance end of period | \$ 660 | \$ 393 | \$ 660 | \$ 393 |

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 \$2.2 million at December 31, 2005 and March 31, 2005.

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 December 31, 2005:

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | | |
|---|-------------------------------|-----------------------------|----------------------|----------------------|--------------------------|
| | Total | Less Than 1 year | 1-3 years | 4-5 years | After 5 years |
| Operating leases | \$ 789 | \$ 521 | \$ 268 | | |
| Employment agreements | 623 | 463 | 160 | | |
| Total Contractual Cash Obligations | \$ 1,412 | \$ 984 | \$ 428 | | |

Results of Operations

Net revenues for the three months ended December 31, 2005 increased \$5.3 million (32%) to \$22.1 million as compared to \$16.8 million in fiscal 2005. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products. CDR(R) product sales increased \$5.3 million (34%) to \$20.9 million (94% of the Company's revenues) from \$15.5 million (93% 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 internationally. Warranty revenue for the three months ended December 31, 2005 was unchanged at \$1.2 million (5% and 7% of revenue, respectively). Total domestic revenue for the three months ended December 31, 2005 increased \$3.8 million (29%) to \$16.9 million (77% of revenue) from \$13.1 million (78% of revenue) in fiscal 2005. Domestically, Patterson revenues increased 32% and other domestic revenues decreased 32%. Total international revenue for the three months ended December 31, 2005 increased \$1.5 million (60%) to \$4.0 million (18% of revenue) from \$2.5 million (15% revenue) in fiscal 2005. By region, sales to European distributors increased \$0.7 million (42%) to \$2.6 million from \$1.9 million in fiscal 2005 and sales to Asian distributors increased \$0.7 million (221%) to \$1.0 million from \$0.3 million in fiscal 2005. Sales to distributors other than European or Asian were unchanged at \$0.3 million.

Net revenues for the nine months ended December 31, 2005 increased \$13.3 million (35%) to \$51.9 million from \$38.6 million in fiscal 2005. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products. CDR(R) product sales increased \$13.6 million (39%) to \$48.1 million (93% of revenue) from \$34.5 million (90% of revenue) in fiscal 2005. Warranty revenue for the nine months ended December 31, 2005 decreased \$0.2 million (5%) to \$3.5 million (7% of revenue) from \$3.7 million (10% of revenue) in fiscal 2005. Total domestic revenue for the nine months ended December 31, 2005 increased \$11.4 million (44%) to \$37.4 million (72% of revenue) from \$26.0 million (67% of revenue) in fiscal 2005. Domestically, Patterson revenues increased \$11.5 million (47%) and other domestic revenues decreased 2%. Total international revenue for the nine months ended December 31, 2005 increased \$2.1 million (24%) to \$10.9 million (21% of revenue) from \$8.8 million (23% of revenue) in fiscal 2005. By region, sales to European distributors increased \$1.4 million (24%) to \$6.8 million from \$5.4 million in fiscal 2005 and sales to Asian distributors increased \$0.2 million (10%) to \$2.6 million from \$2.4 million in fiscal 2005. Sales to distributors other than European or Asian increased \$0.6 million (51%) to \$1.6 million from \$1.0 million in fiscal 2005.

Total cost of sales for the three months ended December 31, 2005 increased \$2.3 million (55%) to \$6.4 million (29.1% of revenue) from \$4.1 million (24.6% of revenue) in fiscal 2005. The increase in the relative total cost of sales (4.5%) was due to increased revenues generated from non intraoral digital radiographic products which have a lower profit margin to the Company than do its other products.

Total cost of sales for the nine months ended December 31, 2005 increased \$5.3 million (51%) to \$15.6 million (30.0% of revenue) from \$10.3 million (26.8% of revenue) in fiscal 2005. The increase in the relative total cost of sales (3.2%) is due to increased revenues generated

from non intraoral digital radiographic products which have a lower profit margin to the Company than do its other products.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Selling and marketing expenses for the three months ended December 31, 2005 increased \$0.2 million (6%) to \$2.4 million (11% of revenue) from \$2.2 million (13% of revenue) in fiscal 2005. The increases result primarily from higher commission and payroll employment related expenses.

Selling and marketing expenses for the nine months ended December 31, 2005 increased \$1.8 million (35%) to \$7.0 million (14% of revenue) from \$5.2 million (14% of revenue) in fiscal 2005. Increases are attributable to the items discussed above and increases in advertising, promotions, training and trade shows.

General and administrative expenses for the three months ended December 31, 2005 increased \$0.1 million (8%) to \$1.9 million (8% of revenue) from \$1.7 million (10% of revenue) in fiscal 2005. The increase in general and administrative expenses was primarily attributable to legal fees and filing fees incurred to list the Company's stock on the NASDAQ market and legal fees incurred in connection with the stockholder law suit.

General and administrative expenses for the nine months ended December 31, 2005, increased \$0.2 million (4%) to \$5.2 million (10% of revenue) from \$5.0 million (13% of revenue) in fiscal 2005. Increases are attributable to the items discussed above.

Research and development expenses for the three months ended December 31, 2005 decreased \$0.3 million (17%) to \$1.2 million (5% of revenue) from \$1.5 million (9% of revenue) in fiscal 2005. The change is attributable to decreases in non-cash charges and research and development material purchases.

Research and development expenses for the nine months ended December 31, 2005 decreased \$0.3 million (8%) to \$3.6 million (7% of revenue) from \$3.9 million (9% of revenue) in fiscal 2005. The decrease was attributable to the items discussed above.

During the three and nine months ended December 31, 2005, the Company charged \$0.3 million and \$1.4 million, respectively to operations for acquisition related expenses including \$0.3 million and \$1.1 million, respectively, for the Sirona merger. Additionally, \$0.3 million was charged to operations during the nine months in connection with other potential acquisitions.

During the three months ended December 31, 2005, the Company charged \$650 to operations for one-time expenses incurred to terminate the technical consulting agreement with David Schick, the Company's former CEO. These expenses included non-cash (\$112) and cash (\$538) charges. The one-time payment represented the balance of the fees that were payable to him pursuant to the agreement. Mr. Schick was concurrently notified that he was relieved of all further consulting obligations under the agreement, and that the non-compete provisions contained in the agreement continued to remain in effect.

Interest income increased for the three months and nine months ended December 31, 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 December 31, 2005 increased \$2.3 million (31%) to \$9.7 million, from \$7.4 million in fiscal 2005 for the reasons described above.

Income before income tax for the nine months ended December 31, 2005 increased \$5.0 million (34%) to \$19.4 million from \$14.4 million in fiscal 2005.

Income tax expense for the three months ended December 31, 2005 increased \$0.7 million (23%) to \$3.7 million from \$3.0 million in fiscal 2005. This increase is the result of increased income before income taxes.

Income tax expense for the nine months ended December 31, 2005 increased \$1.6 million (28%) to \$7.4 million from \$5.8 million in fiscal 2005. This increase is the result of increased income before income taxes.

Net income for the three months ended December 31, 2005 increased \$1.6 million (37%) to \$6.0 million (27% of revenue) from \$4.4 (26%) million in fiscal 2005. The increase is the result of the items discussed above.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Net income for the nine months ended December 31, 2005 increased \$3.3 million (38%) to \$12.0 million (23% of revenue) from \$8.7 million (23% of revenue) in fiscal 2005. The increase is the result of the items discussed above.

Liquidity and Capital Resources

At December 31, 2005, the Company had \$49.0 million in cash, cash equivalents and short-term investments and \$60.5 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 nine months ended December 31, 2005 cash provided by operations decreased \$1.3 million to \$9.7 million from \$11.0 million in fiscal 2005. 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 and inventory. These reductions in cash were offset by increases in income taxes payable and deferred revenues. Sales to a single customer approximated 69% and 64% of revenue for the nine months ended December 31, 2005 and 2004, respectively. Amounts due from that customer approximated 84% and 49% of net accounts receivable at December 31, 2005 and March 31, 2005, respectively. The increase in net accounts receivable is the result of increased product shipments to Patterson during the nine months ended December 31, 2005. The Company collected \$12.5 million of this receivable through the end of January 2006. For the nine months ended December 31, 2005 capital expenditures decreased \$0.1 million to \$0.4 million from \$0.5 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 December 31, 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

As previously disclosed, 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. and Blitz 05-118 GmbH. There were no material developments relating to such action during the quarter ended December 31, 2005.

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

- 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: February 2, 2006

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)