

SCHICK TECHNOLOGIES INC
Form 10-Q
August 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 June 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)

**30-00 47th Avenue
Long Island City, New York**

(Address of principal executive offices)

11-3374812

(I.R.S. Employer
Identification Number)

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).

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Yes No

As of August 4, 2005, 16,052,623 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 June 30, 2005 (unaudited) and March 31, 2005</u> | Page 1 |
| | <u>Consolidated Statements of Income for the three months ended June 30, 2005 and 2004 (unaudited)</u> | Page 2 |
| | <u>Consolidated Statements of Stockholders' Equity as of June 30, 2005 and 2004 (unaudited)</u> | Page 3 |
| | <u>Consolidated Statements of Cash Flows for the three months ended June 30, 2005 and 2004 (unaudited)</u> | Page 4 |
| | <u>Notes to Consolidated Financial Statements (unaudited)</u> | Page 5 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | Page 8 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | Page 12 |
| Item 4. | <u>Controls and Procedures</u> | Page 12 |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> | Page 12 |
| Item 1. | <u>Legal Proceedings</u> | Page 12 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | Page 13 |
| Item 3. | <u>Defaults Upon Senior Securities</u> | Page 13 |
| Item 4. | <u>Submission of Matters to a Vote of Security Holders</u> | Page 13 |
| Item 5. | <u>Other Information</u> | Page 13 |
| Item 6. | <u>Exhibits</u> | Page 13 |
| <u>SIGNATURES</u> | | Page 14 |
| <u>CERTIFICATIONS</u> | | |

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

| | <u>June 30,</u> | <u>March 31,</u> |
|--|--------------------|------------------|
| | <u>2005</u> | |
| | <u>(unaudited)</u> | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 45,249 | \$ 39,725 |
| Accounts receivable, net of allowance for doubtful accounts of \$57 | 6,072 | 5,663 |
| Inventories | 3,785 | 3,545 |
| Prepayments and other current assets | 558 | 780 |
| Deferred income taxes | 5,084 | 5,681 |
| | <u>60,748</u> | <u>55,394</u> |
| Total current assets | | |
| Equipment, net | 1,330 | 1,317 |
| Goodwill | 266 | 266 |
| Deferred income taxes | 284 | 270 |
| Other assets | 292 | 287 |
| | <u>62,920</u> | <u>57,534</u> |
| Total assets | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 2,347 | \$ 1,903 |
| Accrued salaries and commissions | 1,030 | 1,590 |
| Income taxes payable | 1,561 | |
| Deposits from customers | 26 | 30 |
| Warranty obligations | 507 | 446 |
| Deferred revenue | 4,239 | 4,316 |
| | <u>9,710</u> | <u>8,285</u> |
| Total current liabilities | | |
| 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; 16,046,394 and 16,034,230 shares issued and outstanding, respectively) | 160 | 160 |
| Additional paid-in capital | 47,094 | 46,765 |
| Retained Earnings | 5,956 | 2,324 |
| | <u>53,210</u> | <u>49,249</u> |
| Total stockholders' equity | | |
| Total liabilities and stockholders' equity | <u>\$ 62,920</u> | <u>\$ 57,534</u> |

The accompanying notes 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 June 30, | |
|--|--------------------------------|-------------------|
| | 2005 | 2004 |
| Revenue, net | \$ 15,683 | \$ 10,881 |
| Cost of sales | 4,699 | 3,209 |
| Gross profit | <u>10,984</u> | <u>7,672</u> |
| Operating expenses: | | |
| Selling and marketing | 2,326 | 1,456 |
| General and administrative | 1,815 | 1,985 |
| Research and development | 1,125 | 1,112 |
| Total operating costs | <u>5,266</u> | <u>4,553</u> |
| Income from operations | <u>5,718</u> | <u>3,119</u> |
| Other income | | |
| Interest income | 251 | 93 |
| Total other income (expense) | <u>251</u> | <u>93</u> |
| Income before income taxes | 5,969 | 3,212 |
| Provision for income taxes | <u>2,337</u> | <u>1,413</u> |
| Net income | <u>\$ 3,632</u> | <u>\$ 1,799</u> |
| Basic earnings per share | <u>\$ 0.23</u> | <u>\$ 0.12</u> |
| Diluted earnings per share | <u>\$ 0.21</u> | <u>\$ 0.10</u> |
| Weighted average common shares (basic) | <u>16,035,862</u> | <u>15,027,703</u> |
| Weighted average common shares (diluted) | <u>17,701,617</u> | <u>17,209,736</u> |

The accompanying notes 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 | 19,924 | | 37 | | 37 |
| Tax benefit of stock options exercised | | | 26 | | 26 |
| Non cash compensation | | | 307 | | 307 |
| Net income | | | | 1,799 | 1,799 |
| Balance at June 30, 2004 | 15,046,394 | \$ 150 | \$ 44,996 | \$ (7,949) | \$ 37,197 |
| Balance at March 31, 2005 | 16,034,230 | \$ 160 | \$ 46,765 | \$ 2,324 | \$ 49,249 |
| Issuance of common stock | 13,387 | | 38 | | 38 |
| Tax benefit of stock options exercised | | | 94 | | 94 |
| Non cash compensation | | | 197 | | 197 |
| Net income | | | | 3,632 | 3,632 |
| Balance at June 30, 2005 | 16,047,617 | \$ 160 | \$ 47,094 | \$ 5,956 | \$ 53,210 |

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)

| | Three months ended June 30, | |
|--|--------------------------------|------------------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net income | \$ 3,632 | \$ 1,799 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Deferred taxes | 583 | 1,173 |
| Tax benefit of stock options exercised | 94 | 26 |
| Depreciation and amortization | 145 | 169 |
| Provision for excess and obsolete inventory | 138 | |
| Non-cash compensation | 197 | 307 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (409) | 1,260 |
| Inventories | (378) | (108) |
| Prepayments and other current assets | 211 | 320 |
| Other assets | (12) | (6) |
| Accounts payable and accrued expenses | (116) | (518) |
| Income taxes payable | 1,561 | 24 |
| Deposits from customers | (4) | 11 |
| Warranty obligations | 61 | 60 |
| Deferred revenue | (77) | (661) |
| Net cash provided by operating activities | 5,626 | 3,856 |
| Cash flows from investing activities | | |
| Capital expenditures | (151) | (98) |
| Net cash used in investing activities | (151) | (98) |
| Cash flows from financing activities | | |
| Net proceeds from issuance of common stock | 49 | 26 |
| Net cash provided by financing activities | 49 | 26 |
| Net increase in cash and cash equivalents | 5,524 | 3,784 |
| Cash and cash equivalents at beginning of period | 39,725 | 20,734 |
| Cash and cash equivalents at end of period | \$ 45,249 | \$ 24,518 |
| Interest paid | \$ | \$ |
| Income taxes paid | \$ 50 | \$ 150 |

The accompanying notes 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 months ended June 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 June 30, 2005, include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances have been eliminated.

Stock-based compensation

At June 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 SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | Three months ended June 30, | |
|---|------------------------------------|-------------------|
| | 2005 | 2004 |
| | <u> </u> | <u> </u> |
| Net income, as reported | \$ 3,632 | \$ 1,799 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 244 | 175 |
| | <u> </u> | <u> </u> |
| Proforma net income | \$ 3,388 | \$ 1,624 |
| | <u> </u> | <u> </u> |
| Earnings per share: | | |
| Basic - as reported | \$ 0.23 | \$ 0.12 |
| | <u> </u> | <u> </u> |
| Basic proforma | \$ 0.21 | \$ 0.11 |
| | <u> </u> | <u> </u> |
| Diluted - as reported | \$ 0.21 | \$ 0.10 |
| | <u> </u> | <u> </u> |
| Diluted proforma | \$ 0.19 | \$ 0.09 |
| | <u> </u> | <u> </u> |

Recently Issued Accounting Standards

Accounting Changes and Error Corrections

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (a replacement of APB Opinion No. 20 and FASB Statement No. 3) . SFAS No. 154 requires that changes in accounting principles be given retrospective application to prior periods financial statements. Previously most changes in accounting principle were recognized by

including in net income of the period of the change the cumulative effect of the change. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. The Company is evaluating the effect of SFAS No. 154 but believes there will not be any material effect on the financial statements.

Stock-Based Compensation

In December 2004 the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) (FAS 123R), Share-Based Payment . The statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and establishes fair-value-based measurement in accounting for share-based payment transactions with employees. FAS 123R is effective for public companies for years beginning after December 31, 2005. The Company is currently evaluating the effect of FAS 123R on its consolidated financial position, results of operations and cash flows.

2. Inventories

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

| | June 30, | 2005 | March 31, |
|-------------------|----------|-------|-----------|
| | | | |
| Raw materials | \$ | 2,280 | \$ 2,171 |
| Work-in-process | | 311 | 218 |
| Finished goods | | 1,194 | 1,156 |
| | | | |
| Total inventories | \$ | 3,785 | \$ 3,545 |
| | | | |

3. Earnings Per Share

Basic earnings per share are calculated by dividing net income by the average number of common shares outstanding during the period. 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 quarter are exercised at the beginning of the period and the proceeds used by Schick Technologies, Inc. to purchase shares at the average market price for the period. The following is the reconciliation from basic to diluted shares for the three months ended June 30, 2005 and 2004:

| | Three months ended June 30, | 2005 | 2004 |
|----------------|-----------------------------|------------|------------|
| | | | |
| Basic shares | | 16,035,862 | 15,027,703 |
| Dilutive: | | | |
| Options | | 1,572,170 | 1,392,634 |
| Warrants | | 93,585 | 789,399 |
| | | | |
| Diluted shares | | 17,701,617 | 17,209,736 |
| | | | |

The Company excluded 76,425 and 133,239 options from the computation of diluted earnings per share for the three months ended June 30, 2005 and 2004, respectively, because they are anti-dilutive.

4. Contingencies, Commitments and Other

Product Liability

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.

SEC Investigation

In June 2005, the Securities and Exchange Commission (SEC) civil action, against the Company, its former chief executive officer, and its former vice president of sales and marketing, which has previously been reported by the Company, was settled against all defendants. On June 20, 2005, final judgment was entered by the court reflecting the terms of the parties' settlement, and the SEC action was dismissed. Under the terms of the settlement, the Company neither admitted nor denied the allegations contained in the SEC Complaint and consented to the entry of an order permanently enjoining it from violating the books and records, periodic reporting and internal control provisions contained in Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 and Rules 12b-20, 13a-1 and 13a-13 promulgated thereunder. The settlement agreement did not require any monetary payment by the Company. The Company believes that it will not incur any further legal fees or indemnification costs in connection with this matter.

The following is a summary of the events leading up to the settlement of the SEC action:

In August 1999, the Company, through its outside counsel, contacted the Division of Enforcement of the SEC to advise it of certain matters related to the Company's restatement of earnings for interim periods of fiscal 1999. The SEC subsequently conducted an investigation of the Company and certain individuals, including current and former officers and employees of the Company, pursuant to a Formal Order of Investigation. The Company cooperated with the SEC staff throughout the course of the investigation.

On November 14, 2003, the SEC filed a civil action in the United States District Court for the Eastern District of New York against the Company, its former chief executive officer, and its former vice president of sales & marketing. The SEC complaint alleged fraud, and books and records and reporting violations under Sections 10(b), 13(a) and 13(b)(2) of the Securities Exchange Act and various rules promulgated thereunder in connection with the financial statements included in the Company's reports on Form 10-Q for the quarters ended June 30, September 30 and December 31, 1998. The SEC complaint sought to enjoin the Company from future violations of those provisions of the Exchange Act and the rules thereunder, as well as disgorgement of any allegedly ill-gotten gains. With respect to the other defendants, the complaint sought injunctive relief, civil penalties, disgorgement and an officer/director bar. In June 2005, this action was settled, as described above.

Litigation

The Company is named as a party in other legal proceedings which are not described herein because they are not material. In addition, the Company could become 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. Recent court decisions and legislative activity may increase the Company's exposure for any of these types of claims. 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.

Other

Sales to a single customer approximated 66% and 55% of net revenue for the three months ended June 30, 2005 and 2004, respectively. Amounts due from that customer approximated 52% and 49% of net accounts receivable at June 30, 2005 and March 31, 2005, respectively, substantially all of which have been collected subsequent to those dates.

5. Income Taxes

Income tax expense for the three months ended June 30, 2005 and 2004 are summarized as follows:

| | June 30, | |
|--------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| Current taxes | \$ 1,754 | \$ 212 |
| Deferred taxes | 583 | 1,201 |
| Total tax expense | \$ 2,337 | \$ 1,413 |

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 risks and uncertainties relating to the Company's dependence on its products, its exclusive North American distributor, its foreign distributors, its key personnel and key suppliers; the possibility of changing economic and competitive conditions; technological developments; competition; market uncertainties; fluctuation in results and seasonality; litigation; control of the Company by certain stockholders; and other risks and uncertainties, including those detailed in the Company's 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®) and integrated device (CDRPanX), an intra-oral camera system (USBCam®), and a DC dental x-ray generator (SDX). The Company also manufactures and sells a bone mineral density assessment device (accuDEXA®) which it developed to assist in the diagnosis and treatment of osteoporosis.

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 allowance for uncollectible accounts. The Company primarily sells on open credit terms to its exclusive domestic distributor, Patterson Dental Company (Patterson) and to the U.S. Government, and upon signed purchase orders to hospitals and universities. The majority of the Company's accounts receivable (63% and 58%, at June 30, 2005 and March 31, 2005, respectively) are due from Patterson. The Company's international sales are generally prepaid, guaranteed by irrevocable letter of credit or underwritten by credit insurance. In a limited number of cases, international dealers are granted open credit terms. Warranty shipments are prepaid. Revenue from customers is subject to agreements allowing limited rights of return.

Accordingly, the Company reduces revenue recognized for estimated future returns. The estimate of future returns is adjusted periodically based upon historical rates of return. The Company provides an allowance for doubtful accounts based upon its analysis of aged accounts receivable.

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

The Company recognizes revenue when each of the following four criteria is met: 1) a contract or sales arrangement exists; 2) products have been shipped and title has been transferred or services have been rendered; 3) the price of the products or services is fixed or determinable; and 4) collectibility is reasonably assured. 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. 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. Revenue from shipments to foreign customers is recognized at the time of shipment in accordance with foreign sales orders. With respect to products shipped to its exclusive domestic distributor, the Company defers revenue until Patterson ships such inventory from its distribution centers. Amounts received from customers in advance of product shipment are classified as deposits from customers. The Company records as revenue shipping and handling charges invoiced to customers. The cost of shipping and handling is recorded in cost of sales. 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 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 warranty liability for the three months ended June 30, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|------------------------------|-------------------|-------------------|
| Beginning balance | \$ 446 | \$ 210 |
| Warranties charged in period | 976 | 622 |
| Warranties paid in period | (915) | (562) |
| | <u> </u> | <u> </u> |
| Balance end of period | \$ 507 | \$ 270 |
| | <u> </u> | <u> </u> |

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 warranty were \$2.3 and \$2.2 million at June 30, 2005 and March 31, 2005, respectively. Services costs are expensed as incurred.

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.

Goodwill and Other Intangible Assets

Effective April 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , which established financial accounting and reporting for acquired goodwill and other intangible assets and superseded Accounting Principles Board Opinion (APB) No. 17, Intangible Assets . Under SFAS No. 142, goodwill and indefinite-lived purchased intangible assets are no longer amortized but are reviewed at least annually for impairment. The Company has elected to perform this review annually as of February 28.

Identifiable intangible assets that have finite lives continue to be amortized over their estimated useful lives. Other intangible assets include costs incurred to secure patents and deferred financing costs, and are included in other assets. Finite-lived purchased intangible assets are amortized principally by the straight-line method over their expected period of benefit. Costs incurred to secure patents are amortized by the straight-line method over periods of five years.

Long-lived assets and intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Contractual Obligations and Commercial Commitments

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

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | | |
|---|------------------------|---------------------|--------------|--------------|------------------|
| | Total | Less Than 1 year | 1-3 years | 4-5 years | After 5 years |
| Operating leases | \$ 1,041 | \$ 510 | \$ 531 | | |
| Consulting and non-compete agreement | 666 | 340 | 326 | | |
| Employment agreements | 922 | 587 | 335 | | |
| Total Contractual Cash Obligations | \$ 2,629 | \$ 1,437 | \$ 1,192 | \$ | \$ |

Results of Operations

Net revenues for the three months ended June 30, 2005 increased \$4.8 million (44%) to \$15.7 million from \$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 \$5.0 million (53%) to \$14.4 million (92% of the Company's net revenues) from \$9.4 million (87% of the Company's net revenues) in fiscal 2005. The Company believes that the increase in sales is a result of growing acceptance of its products by dental customers and sales of the Company's new panoramic product. CDR® warranty revenue for the three months ended June 30, 2005 declined 6% to \$1.2 million (8% of the Company's net revenues compared to 12% in fiscal 2005). Domestic product revenue for the three months ended June 30, 2005 increased \$4.3 million (67%) to \$10.7 million (68% of the Company's net revenues) from \$6.4 million in fiscal 2005 (59% of the Company's net revenues). International revenue for the three

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

months ended June 30, 2005 increased \$0.6 million (19%) to \$3.8 million (24% of the Company's net revenues) from \$3.2 million in fiscal 2005 (29% of the Company's net revenues).

Cost of sales for the three months ended June 30, 2005 increased \$1.5 million (46%) to \$4.7 million (30.0% of net revenue) from \$3.2 million (29.5% of net revenue) in fiscal 2005. The increase in the relative total cost of sales (0.5%) was due primarily to the success of the Company's newest product offerings which have relatively lower gross margins.

Selling and marketing expenses for the three months ended June 30, 2005 increased \$0.9 million (60%) to \$2.3 million (15% of net revenue) from \$1.5 million (13% of net revenue) in fiscal 2005. Increases were primarily related to sales commissions, trade shows, and training events.

General and administrative expenses for the three months ended June 30, 2005, decreased \$0.2 million (9%) to \$1.8 million (12% of net revenue) from \$2.0 million (18% of net revenue) in fiscal 2005. The decrease in general and administrative expenses was primarily attributable to reduced non-cash charges to payroll and insurance cost reductions.

Research and development expenses for the three months ended June 30, 2005 were unchanged at \$1.1 million (7% and 10% of net revenue in fiscal 2006 and 2005, respectively).

Income from operations for the three months ended June 30, 2005 increased \$2.6 million (83%) to \$5.7 million from \$3.1 million in fiscal 2005.

Interest income for the three months ended June 30, 2005 increased \$0.2 million to \$0.3 million from \$0.1 million in fiscal 2005 as a result of an increase in the Company's cash available for investment.

Income before income taxes for the three months ended June 30, 2005 increased \$2.8 million (86%) to \$6.0 million from \$3.2 million in fiscal 2005.

Income tax expense for the three months ended June 30, 2005 increased \$0.9 million (65%) to \$2.3 million from \$1.4 million in fiscal 2005. The increase in income tax is the result of the increase in taxable income.

As a result of the above items, the Company's net income increased \$1.8 million (102%) to \$3.6 million (23% of revenue) for the three months ended June 30, 2005 from \$1.8 million (17% of revenue) in fiscal 2005.

Liquidity and Capital Resources

At June 30, 2005, the Company had \$45.2 million in cash and cash equivalents and working capital of \$51.0 million, as compared to \$39.7 million in cash and cash equivalents and working capital of \$47.1 million at March 31, 2005.

During the three months ended June 30, 2005 cash provided by operations increased \$1.8 million (46%) to \$5.6 million from \$3.9 million during the same period in fiscal 2005. Increases in cash were primarily provided by improved operating performance. Sales to a single customer approximated 66% and 55% of net revenue for the three months ended June 30, 2005 and 2004, respectively. Amounts due from that customer approximated 61% and 49% of net accounts receivable at June 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 sales activity during the three months ended June 30, 2005. Capital expenditures for the three months ended June 30, 2005 increased \$0.1 million to \$0.2 million from \$0.1 million in fiscal 2005.

Management believes that its existing capital resources and 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 principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 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.

- 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

In June 2005, the Securities and Exchange Commission (SEC) civil action, against the Company, its former chief executive officer, and its former vice president of sales and marketing, which has previously been reported by the Company, was settled against all defendants. On June 20, 2005, final judgment was entered by the court reflecting the terms of the parties' settlement, and the SEC action was dismissed. Under the terms of the settlement, the Company neither admitted nor denied the allegations contained in the SEC Complaint and consented to the entry of an order permanently enjoining it from violating the books and records, periodic reporting and internal control provisions contained in Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 and Rules 12b-20, 13a-1 and 13a-13 promulgated thereunder. The settlement agreement did not require any monetary payment by the Company. The Company believes that it will not incur any further legal fees or indemnification costs in connection with this matter.

The following is a summary of the events leading up to the settlement of the SEC action:

In August 1999, the Company, through its outside counsel, contacted the Division of Enforcement of the SEC to advise it of certain matters related to the Company's restatement of earnings for interim periods of fiscal 1999. The SEC subsequently conducted an investigation of the Company and certain individuals, including current and former officers and employees of the Company, pursuant to a Formal Order of Investigation. The Company cooperated with the SEC staff throughout the course of the investigation.

On November 14, 2003, the SEC filed a civil action in the United States District Court for the Eastern District of New York against the Company, its former chief executive officer, and its former vice president of sales & marketing. The SEC complaint alleged fraud, and books and records and reporting violations under Sections 10(b), 13(a) and 13(b)(2) of the Securities Exchange Act and various rules promulgated thereunder in connection with the financial statements included in the Company's reports on Form 10-Q for the quarters ended June 30, September 30 and December 31, 1998. The SEC complaint sought to enjoin the Company from future violations of those provisions of the Exchange Act and the rules thereunder, as well as disgorgement of any allegedly ill-gotten gains. With respect to the other defendants, the complaint sought injunctive relief, civil penalties, disgorgement and an officer/director bar. In June 2005, this action was settled, as described above.

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

10.1 Amendment to Distributorship Agreement by and between Schick Technologies, Inc. and Patterson Companies, Inc., made and entered into as of July 1, 2005. (This copy omits information for which confidential treatment has been requested.)

31.1 Certification of Principal 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 Principal Executive Officer Pursuant to 18 U.S.C. § 1350.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. § 1350.

SCHICK TECHNOLOGIES, INC.

SIGNATURES

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: August 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)