

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

SCHICK TECHNOLOGIES INC

Form 10-Q

November 12, 2004

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, 2004.

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 5, 2004, 15,184,155 shares of common stock, par value \$.01 per share, were outstanding.

SCHICK TECHNOLOGIES, INC.

TABLE OF CONTENTS

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

PART I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets as of September 30 (unaudited) and March 31, 2004...

Consolidated Statements of Operations for the three and six months ended September 30, 2004 and 2003 (unaudited).....

Consolidated Statements of Cash Flows for the six months ended September 30, 2004 and 2003 (unaudited).....

Notes to Consolidated Financial Statements (unaudited).....

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

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

Item 4. Controls and Procedures.....

PART II. OTHER INFORMATION.....

Item 1. Legal Proceedings.....

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

Item 3. Defaults Upon Senior Securities.....

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

Item 5. Other Information.....

Item 6. Exhibits.....

SIGNATURES.....

CERTIFICATIONS.....

PART I. Financial Information

Item 1. Financial Statements

Schick Technologies, Inc. and Subsidiary
Consolidated Balance Sheets
(In thousands, except share amounts)

Assets

Septe

(unau

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Current assets

Cash and cash equivalents	\$ 26
Accounts receivable, net of allowance for doubtful accounts of \$138	4
Inventories	3
Prepayments and other current assets	
Deferred income taxes	9

Total current assets 44

Equipment, net	1
Goodwill, net	
Deferred income taxes	
Other assets	

Total assets \$ 46

Liabilities and Stockholders' Equity

Current liabilities

Accounts payable and accrued expenses	\$ 1
Accrued salaries and commissions	
Income taxes payable	
Deposits from customers	
Warranty obligations	
Deferred revenue	3

Total current liabilities 6

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; 15,184,155 and 15,026,470 shares issued and outstanding, respectively)	45
Additional paid-in capital	(5)
Accumulated deficit	

Total stockholders' equity 40

Total liabilities and stockholders' equity \$ 46

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

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

Three months ended
September 30,
2004 2003

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

	-----	-----
Revenue, net	\$ 10,870	\$ 8,501
Total cost of sales	2,972	2,624
	-----	-----
Gross profit	7,898	5,877
	-----	-----
Operating expenses:		
Selling and marketing	1,531	1,415
General and administrative	1,284	1,511
Research and development	1,305	839
Bad debt expense	--	30
	-----	-----
Total operating costs	4,120	3,795
	-----	-----
Income from operations	3,778	2,082
	-----	-----
Other income (expense)		
Interest income	84	29
Other income	--	36
Interest expense	--	(2)
	-----	-----
Total other income (expense)	84	63
	-----	-----
Income before income taxes	3,862	2,145
Provision (benefit) for income taxes	1,376	(122)
	-----	-----
Net income	\$ 2,486	\$ 2,267
	=====	=====
Basic earnings per share	\$ 0.16	\$ 0.22
	=====	=====
Diluted earnings per share	\$ 0.14	\$ 0.13
	=====	=====
Weighted average common shares (basic)	15,099,299	10,365,939
	=====	=====
Weighted average common shares (diluted)	17,230,852	16,911,580
	=====	=====

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

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

	200

Cash flows from operating activities	
Net income	\$ 4,
Adjustments to reconcile net income to net cash provided by operating activities	
Non-cash compensation	
Depreciation and amortization	
Deferred income taxes	2,
Tax benefit of stock options exercised	
Gain from repayment of long-term debt	
Provision for doubtful accounts	
Provision for excess and obsolete inventory	
Amortization of deferred financing charges	
Changes in assets and liabilities:	
Accounts receivable	(
Inventories	(
Prepayments and other current assets	
Other assets	(
Accounts payable and accrued expenses	(
Income taxes payable	
Deposits from customers	
Warranty obligations	
Deferred revenue	(

Net cash provided by operating activities	5,

Cash flows from investing activities	
Proceeds from short-term investments	
Capital expenditures	(

Net cash (used in) provided by investing activities	(

Cash flows from financing activities	
Net proceeds from issuance of common stock	
Payment of long-term debt	

Net cash provided by (used in) financing activities	

Net increase in cash and cash equivalents	5,
Cash and cash equivalents at beginning of period	20,
Cash and cash equivalents at end of period	\$ 26,
	=====
Interest paid	
	=====
Income taxes paid	\$
	=====

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

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

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, 2004 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, 2004 are not necessarily indicative of the results to be expected for the full year ending March 31, 2005.

The consolidated financial statements of the Company, at September 30, 2004, include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances have been eliminated.

Stock-based compensation

At September 30, 2004, 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		
		September 30	
	2004	2003	
Net income, as reported	\$ 2,486	\$ 2,267	\$
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	171	47	
Proforma net income	\$ 2,315	\$ 2,220	\$
Earnings per share:			
Basic - as reported	\$ 0.16	\$ 0.22	\$
Basic - proforma	\$ 0.15	\$ 0.21	\$

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Diluted - as reported	\$ 0.14	\$ 0.13	\$
	=====	=====	=
Diluted - proforma	\$ 0.14	\$ 0.13	\$
	=====	=====	=

2. Inventories

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

	September 30, 2004	March 31,
	-----	-----
Raw materials	\$1,887	\$2,088
Work-in-process	234	246
Finished goods	1,038	723
	-----	-----
Total inventories	\$3,159	\$3,057
	=====	=====

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 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 and six months ended September 30, 2004 and 2003:

	Three months ended September 30, 2004	2003	Six months ended 2004
	-----	-----	-----
Basic shares	15,099,299	10,365,939	15,063,501
Dilutive:			
Options	1,339,410	1,428,597	1,365,144
Warrants	792,143	5,117,044	790,776
	-----	-----	-----
Diluted shares	17,230,852	16,911,580	17,219,421
	=====	=====	=====

The Company excluded 87,061 and 98,035 options from the computation of diluted earnings per share for the three months ended September 30, 2004 and 2003, respectively, because they are anti-dilutive. The Company excluded 110,150 and 115,637 options from the computation of diluted earnings per share for the six months ended September 30, 2004 and 2003, respectively, because they are anti-dilutive.

4. Contingencies and Other

Product Liability and Litigation

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

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 (in addition to that referred to above), 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.

SEC Investigation and other

In August 1999, the Company, through its outside counsel, contacted the Division of Enforcement of the Securities and Exchange Commission ("SEC") to advise it of certain matters related to the Company's restatement of earnings for interim periods of fiscal 1999. Subsequent thereto, the SEC requested the voluntary production of

5

certain documents and the Company provided the SEC with the requested materials. On August 17, 2000 and April 30, 2003, the SEC served subpoenas upon the Company, pursuant to a formal order of investigation, requiring the production of certain documents. The Company timely provided the SEC with the subpoenaed materials. The Company has been informed that since January 2002 the SEC and/or the United States Attorney's Office for the Southern District of New York have served subpoenas upon and/or contacted certain individuals, including current and former officers and employees of the Company, and a current Director, in connection with this matter. On June 13, 2002, the Company was advised by counsel to David Schick, the Company's former chief executive officer, that the United States Attorney's Office for the Southern District of New York had notified such counsel that Mr. Schick was a target of the United States Attorney's investigation of this matter. The Company has cooperated with the SEC staff and U.S. Attorney's Office.

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 and marketing. The SEC complaint alleges fraud, books and records violations, and reporting violations under Sections 10(b), 13(a) and 13(b)(2) of the Securities Exchange Act of 1934, as amended (the "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 seeks to enjoin the Company from future violations of those provisions of the Exchange Act and the rules thereunder, as well as disgorgement of ill-gotten gains, if any, which the Company does not believe to be material in amount. With respect to the other defendants, the complaint seeks injunctive relief, civil penalties, disgorgement and an

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

officer/director bar.

In September 2003, the Board of Directors appointed a Special Litigation Committee, consisting of four non-employee Directors, which has oversight responsibility and authority with respect to the SEC/U.S. Attorney matter. The Company has had discussions with the SEC's northeast regional office in an effort to resolve the complaint against the Company and, on October 21, 2004, a closed-door settlement conference was conducted before the Court. The Company intends to continue settlement discussions with the SEC. The next formal settlement conference has been scheduled by the Court for January 21, 2005. There can be no assurance that such settlement discussions will be successful. The Company will continue to incur significant legal fees and may incur indemnification costs. However, the Company believes that the magnitude of such expenditures will not adversely affect its ongoing business operations.

The Company cannot predict the potential outcome of these matters and their impact on the Company and, therefore, has made no provision relating to these matters in the accompanying consolidated financial statements.

Other

Sales to a single customer approximated 56% and 51% of revenue for the three months ended September 30, 2004 and 2003, respectively. Sales to a single customer approximated 56% and 54% of revenue for the six months ended September 30, 2004 and 2003, respectively. Amounts due from that customer approximated 62% and 58% of net accounts receivable at September 30, 2004 and March 31, 2004, respectively, substantially all of which have been collected subsequent to those dates.

5. Income Taxes

The following table summarizes income tax expense/(benefit) for the three and six months ended September 30, 2004 and 2003:

	Three months ended	

		September
	2004	2003
	-----	-----
Current - Federal and state	\$ 158	\$ 23
Deferred - Federal and state	1,218	798
	-----	-----
Tax provision before reserve reversal	1,376	821
Deferred tax reserve reversal	--	(943)
	-----	-----
Net income tax expense/(benefit)	\$1,376	(\$122)
	=====	=====

The income tax benefit of the net operating loss utilized for the three months ended September 30, 2004 and 2003 approximates \$1.1 million and \$0.9 million, respectively. The income tax benefit of the net operating loss utilized for the six months ended September 30, 2004 and 2003 approximates \$2.1 million in each period.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

During fiscal 2004 the deferred tax asset valuation reserve and income tax expense were each reduced by the amount of such reserve that the Company believed was more likely than not to be realized. As a result, net income for the three and six months ended September 30, 2003, respectively, was \$0.9 million (\$0.06 per diluted share) and \$1.7 million (\$0.10 per diluted share) higher than would otherwise have been reported if such reductions had not been recorded. At March 31, 2004, the balance of the deferred tax asset valuation reserve was reversed in full.

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, the pending SEC action and U.S Attorney investigation, 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)) and an intra-oral camera system (USBCam(TM)). The Company has also developed a bone mineral density assessment device (accuDEXA(R)) 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

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

The Company reports accounts receivable net of reserves for uncollectible accounts. The majority of the Company's accounts receivable (62% and 58%, at September 30, 2004 and March 31, 2004, respectively) are due from its exclusive domestic distributor, Patterson Dental Company ("Patterson"). Other accounts receivable are due

7

from international distributors and agencies of 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. 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. 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. 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. Patterson instituted a policy permitting, under specific circumstances, the exchange of CDR(R) wireless products, sold after October 23, 2003, for wired CDR products. This exchange is allowed for a period of 90 days from the date of installation in the event that external radio-frequency sources cause interference that cannot be resolved. Previously, the Company had deferred recognition of revenue related to Patterson's shipment of the CDR(R) wireless product until the foregoing 90-day period had elapsed. However, during the three months ended June 30, 2004, the Company issued a new release of its wireless product designed to resolve the radio frequency issue. Subsequent returns and/or exchanges have been negligible and the Company no longer defers the recognition of revenue relating to the wireless product.

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.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

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, 2004 and 2003:

	Three months ended		Six
	-----		-----
	September 30,		
	2004	2003	2004
	-----	-----	-----
Beginning balance	\$ 270	\$ 98	\$ 210
Warranties recorded in period	587	653	1,269
Warranties paid in period	(557)	(653)	(1,179)
	-----	-----	-----
Balance end of period	\$ 300	\$ 98	\$ 300
	=====	=====	=====

8

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 \$2.1 million and \$2.4 million at September 30, 2004 and March 31, 2004, 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, 2004:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	Total	Less Than 1 year	1-3 years	4- years
Operating leases	\$1,411	\$ 496	\$ 915	-
Employment agreements	1,354	581	773	-

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Purchase obligations	1,829	1,829	--	--
Consulting agreement	921	340	581	--
Total Contractual Cash Obligations	\$5,515	\$3,246	\$2,269	--

Results of Operations

Net revenues for the three months ended September 30, 2004 increased \$2.4 million (28%) to \$10.9 million as compared to \$8.5 million in fiscal 2004. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products. CDR(R) product sales increased \$2.5 million (35%) to \$9.5 million (87% of the Company's revenues) as compared to \$7.0 million (83% of revenue) in fiscal 2004. 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, 2004 decreased \$43 (3%) to \$1.2 million (11% of revenue) from \$1.3 million (15% of revenue) in fiscal 2004. 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, 2004 increased \$1.3 million (19%) to \$7.8 million (71% of revenue) as compared to \$6.5 million (77% of revenue) in fiscal 2004. A 39% revenue increase from Patterson was partially offset by decreases in domestic revenues from the government and others. Total international revenue for the three months ended September 30, 2004 increased \$1.1 million (56%) to \$3.1 million (28% of revenue) as compared to \$2.0 million (23% of revenue) in fiscal 2004.

Net revenues for the six months ended September 30, 2004 increased \$4.6 million (27%) to \$21.8 million as compared to \$17.2 million in fiscal 2004. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products. CDR(R) product sales increased \$4.6 million (32%) to \$18.9 million (87% of revenue) as compared to \$14.3 million (84% of revenue) in fiscal 2004. Warranty revenue for the six months ended September 30, 2004 decreased \$8 but remains at \$2.5 million (11% and 14% of revenue in fiscal 2005 and 2004, respectively). Total domestic revenue for the six months ended September 30, 2004 increased \$2.2 million (17%) to \$15.4 million (71% of revenue) as compared to \$13.2 million (77% of revenue) in fiscal 2004. A 30% revenue increase from Patterson was partially offset by decreases in domestic revenues from the government and others. Total international revenue for the six months ended September 30, 2004 increased \$2.3 million (60%) to \$6.3 million (29% of revenue) as compared to \$4.0 million (23% of revenue) in fiscal 2004.

Total cost of sales for the three months ended September 30, 2004 increased \$0.4 million (13%) to \$3.0 million (27% of revenue) as compared to \$2.6 million (31% of revenue) in fiscal 2004. The decrease in the relative total cost of sales (3.6%) was due to improved product mix and manufacturing efficiency.

Total cost of sales for the six months ended September 30, 2004 increased \$0.9 million (18%) to \$6.2 million (28% of revenue) as compared to \$5.3 million (31% of revenue) in fiscal 2004. The decrease in the relative total cost of sales (2.2%) was due to improved product mix and manufacturing efficiency.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Selling and marketing expenses for the three months ended September 30, 2004 increased \$0.1 million (8%) to \$1.5 million (14% of revenue) as compared to \$1.4 million (17% of revenue) in fiscal 2004. Increases are primarily attributable to commissions, payroll, promotions, marketing and trade show expense.

Selling and marketing expenses for the six months ended September 30, 2004 increased \$0.1 million (5%) to \$3.0 million (14% of revenue) as compared to \$2.9 million (17% of revenue) in fiscal 2004. Increases are attributable to the factors described above.

General and administrative expenses for the three months ended September 30, 2004, decreased \$0.2 million (15%) to \$1.3 million (12% of revenue) as compared to \$1.5 million (18% of revenue) in fiscal 2004. The decrease in general and administrative expenses was primarily attributable to a \$ 275 reduction in non-cash payroll costs and an insurance recovery of \$149 related to claims paid in connection with the SEC/US attorney matter. These decreases offset increases in professional services, corporate governance costs and insurance.

General and administrative expenses for the six months ended September 30, 2004, increased \$0.2 million (6%) to \$3.3 million (15% of revenue) as compared to \$3.1 million (18% of revenue) in fiscal 2004. The net increase in general and administrative expenses was attributable to the items discussed above.

Research and development expenses for the three months ended September 30, 2004 increased \$0.5 million (56%) to \$1.3 million (12% of revenue) as compared to \$0.8 million (10% of revenue) in fiscal 2004. The increase was attributable to the Company's technical consulting agreement with its former chief executive officer, dated May 7, 2004, which resulted in non-cash and cash charges of \$267 and \$85, respectively, and to increases in payroll expenses and costs of product development materials.

Research and development expenses for the six months ended September 30, 2004 increased \$0.7 million (44%) to \$2.4 million (11% of revenue) as compared to \$1.7 million (10% of revenue) in fiscal 2004. The increase was attributable to the items discussed above.

Interest income increased for the three months and six months ended September 30, 2004 due to an increase in the cash balance held in a money market account.

Interest expense decreased for the six months ended September 30, 2004 as a result of the June 2003 repayment of the balance of notes payable and the write-off of deferred finance costs related to that note (\$150).

Income before income tax for the three months ended September 30, 2004 increased \$1.8 million (80%) to \$3.9 million, as compared to \$2.1 million in fiscal 2004.

Income before income tax for the six months ended September 30, 2004 increased \$2.9 million (68%) to \$7.1 million, as compared to \$4.2 million in fiscal 2004.

Income tax expense for the three months ended September 30, 2004 increased \$1.5 million to \$1.4 million as compared to a net income tax credit of \$0.1 million in fiscal 2004. This change is primarily the result of an increase in non-cash deferred income tax expense of \$0.4 million and the prior year partial reversal of the Company's tax asset valuation reserve of \$0.9 million. The valuation reserve was fully reversed at March 31, 2004.

Income tax expense for the six months ended September 30, 2004 increased

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

\$2.8 million primarily resulting from an increase in non-cash deferred income tax expense of \$0.8 million and the prior year partial reversal of tax asset reserves of \$1.7 million. The reserve was fully reversed at March 31, 2004.

10

The income tax benefit of the net operating loss utilized for the three months ended September 30, 2004 and 2003 approximates \$1.1 million and \$0.9 million, respectively. The income tax benefit of the net operating loss utilized for the six months ended September 30, 2004 and 2003 approximates \$2.1 million in each period.

During fiscal 2004 the deferred tax asset valuation reserve and income tax expense were each reduced by the amount of such reserve that the Company believed was more likely than not to be realized. As a result, net income for the three and six months ended September 30, 2003, respectively, was \$0.9 million (\$0.06 per diluted share) and \$1.7 million (\$0.10 per diluted share) higher than would otherwise have been reported if such reductions had not been recorded. At March 31, 2004, the balance of the deferred tax asset valuation reserve was reversed in full.

As a result of the above items, the Company's net income for the three months ended September 30, 2004 increased \$0.2 million (10%) to \$2.5 million as compared to \$2.3 million in fiscal 2004.

As a result of the above items, the Company's net income for the six months ended September 30, 2004 increased \$39 (1%) to \$4.3 million as compared to \$4.2 million in fiscal 2004.

Liquidity and Capital Resources

At September 30, 2004, the Company had \$26.4 million in cash, cash equivalents and short-term investments and \$37.8 million in working capital, as compared to \$20.7 million in cash, cash equivalents and short-term investments and \$27.4 million in working capital at March 31, 2004.

During the six months ended September 30, 2004 and 2003 cash provided by operations was \$5.8 million. Increases in cash were primarily provided by the Company's continuing and increasingly profitable operations. Net operating cash receipts increased \$2.3 million to \$7.5 million compared to \$5.2 million in fiscal 2004. This increase in cash receipts was primarily used to reduce current liabilities. Sales to a single customer approximated 56% and 54% of revenue for the six months ended September 30, 2004 and 2003, respectively. Amounts due from that customer approximated 62% and 58% of net accounts receivable at September 30, 2004 and March 31, 2004, 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, 2004. For the six months ended September 30, 2004 Capital expenditures increased \$0.2 million to \$0.4 million from \$0.2 million in fiscal 2004. During the six months ended September 30, 2003, the Company repaid its term notes to Greystone in full. The Company remains debt free at September 30, 2004.

Future expenses relating to the legal proceedings described in Part II, Item 1, "Legal Proceedings," to the extent not covered by insurance, could affect the Company's cash position. The Company estimates that the coverage available under the applicable insurance policy will be depleted during the quarter ending December 31, 2004. Management believes that its existing capital resources and other potential sources of credit are adequate to meet its current cash requirements.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

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, 2004. 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.

11

- 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

The Company and/or certain of its former officers are involved in the matters described below:

In August 1999, the Company, through its outside counsel, contacted the Division of Enforcement of the Securities and Exchange Commission ("SEC") to advise it of certain matters related to the Company's restatement of earnings for interim periods of fiscal 1999. Subsequent thereto, the SEC requested the voluntary production of certain documents and the Company provided the SEC with the requested materials. On August 17, 2000 and April 30, 2003, the SEC served subpoenas upon the Company, pursuant to a formal order of investigation, requiring the production of certain documents. The Company timely provided the SEC with the subpoenaed materials. The Company has been informed that since January 2002 the SEC and/or the United States Attorney's Office for the Southern District of New York have served subpoenas upon and/or contacted certain individuals, including current and former officers and employees of the Company, and a current Director, in connection with this matter. On June 13, 2002, the Company was advised by counsel to David Schick, the Company's former chief executive officer, that the United States Attorney's Office for the Southern District of New York had notified such counsel that Mr. Schick was a target of the United States Attorney's investigation of this matter. The Company has cooperated with the SEC staff and U.S. Attorney's Office.

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 alleges fraud, and books and records and reporting violations under Sections 10(b), 13(a) and 13(b)(2) of the 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 seeks to enjoin the Company from future violations of those provisions of the Exchange Act and the rules thereunder, as well as disgorgement of ill-gotten gains, if any, which the Company does not believe to be material in amount. With respect to the other

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

defendants, the complaint seeks injunctive relief, civil penalties, disgorgement and an officer/director bar.

In September 2003, the Board of Directors appointed a Special Litigation Committee, consisting of four non-employee Directors, which has oversight responsibility and authority with respect to the SEC/U.S. Attorney matter. The Company has had discussions with the SEC's northeast regional office in an effort to resolve the complaint against the Company and, on October 21, 2004, a closed-door settlement conference was conducted before the Court. The Company intends to continue settlement discussions with the SEC. The next formal settlement conference has been scheduled by the Court for January 21, 2005. There can be no assurance that such settlement discussions will be successful. The Company will continue to incur significant legal fees and may incur indemnification costs. However, the Company believes that the magnitude of such expenditures will not adversely affect its ongoing business operations.

The Company cannot predict the potential outcome of these matters and their impact on the Company and, therefore, has made no provision relating to these matters in the accompanying consolidated financial statements.

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

12

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

- (a) The Company held its 2004 Annual Meeting of Stockholders (the "Annual Meeting") on September 22, 2004.
- (b) The following matter concerning the election of Directors was voted upon at the Annual Meeting with the accompanying results:

Election of Directors:

	Number of Votes For -----	Number of Votes Withheld -----
William K. Hood (New term expires in 2007)	14,313,558	8,390
Curtis M. Rocca III (New term expires in 2007)	14,315,858	6,090
Jeffrey T. Slovin (New term expires in 2007)	14,312,358	9,590

The terms of the other Directors of the Company continued after the meeting, as follows: Euval Barrekette and Jonathan Blank serve in the class whose term expires in 2005 and Allen Schick and Uri Landesman serve in the class whose term expires in 2006. On October

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

13, 2004, Arthur D. Kowaloff was appointed to the Board for a term that expires in 2005. Upon the expiration of the term of a class of Directors, the members of such class will be elected for three-year terms at the annual meeting of stockholders held in the year in which such term expires.

- (c) The following additional matter was voted upon at the Annual Meeting held on September 22, 2004 with the following results:

Ratification of the selection of Grant Thornton LLP as the Company's independent accountants for the fiscal year ending March 31, 2005:

Number of votes for:	14,228,330
Number of votes against:	90,190
Number of abstentions:	3,428

- (d) Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Exhibits

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13

- 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 11, 2004

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)