

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

SCHICK TECHNOLOGIES INC  
Form 10-Q  
November 12, 2003

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, 2003.

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, 2003, 10,403,142 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, 2003  
(unaudited) and March 31, 2003.....Page 1

Consolidated Statements of Operations for the three  
and six months ended September 30, 2003 and 2002  
(unaudited).....Page 2

Consolidated Statements of Cash Flows for the six  
months ended September 30, 2003 and 2002 (unaudited).....Page 3

Notes to Consolidated Financial Statements (unaudited)...Page 4

Item 2. Management's Discussion and Analysis of Financial  
Condition and Results of Operations.....Page 9

Item 3. Quantitative and Qualitative Disclosures About Market  
Risk.....Page 14

Item 4. Controls and Procedures.....Page 14

PART II. OTHER INFORMATION.....Page 14

Item 1. Legal Proceedings.....Page 14

Item 2. Changes in Securities and Use of Proceeds.....Page 15

Item 3. Defaults Upon Senior Securities.....Page 15

Item 4. Submission of Matters to a Vote of Security Holders.....Page 15

Item 5. Other Information.....Page 15

Item 6. Exhibits and Reports on Form 8-K.....Page 16

SIGNATURES.....Page 17

CERTIFICATIONS.....Page 18

PART I. Financial Information

Item 1. Financial Statements

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

Assets

Sept  
-----  
-----  
(un

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

Current assets

Cash and cash equivalents .....  
 Short-term investments .....  
 Accounts receivable, net of allowance for doubtful accounts of \$138 and  
 \$42, respectively .....  
 Inventories .....  
 Income taxes receivable .....  
 Prepayments and other current assets .....  
 Deferred income taxes .....

Total current assets .....

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

Total assets .....

Liabilities and Stockholders' Equity

Current liabilities

Current maturity of long term debt .....  
 Accounts payable and accrued expenses .....  
 Accrued salaries and commissions .....  
 Income taxes payable .....  
 Deposits from customers .....  
 Warranty obligations .....  
 Deferred revenue .....

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;  
 10,401,247 and 10,206,425 shares issued and outstanding,  
 respectively) .....  
 Additional paid-in capital .....  
 Accumulated deficit .....

Total stockholders' equity .....

Total liabilities and stockholders' equity .....

-----

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

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

	September 30,	
	2003	2002
	-----	-----
Revenue, net .....	\$ 8,501	\$ 6,750
Cost of sales .....	2,624	2,474
Excess and obsolete inventory .....	--	--
	-----	-----
Total cost of sales .....	2,624	2,474
	-----	-----
Gross profit .....	5,877	4,276
	-----	-----
Operating expenses:		
Selling and marketing .....	1,415	1,334
General and administrative .....	1,541	1,268
Research and development .....	839	580
	-----	-----
Total operating costs .....	3,795	3,182
	-----	-----
Income from operations .....	2,082	1,094
	-----	-----
Other income (expense)		
Interest income .....	29	20
Other income .....	36	--
Interest expense .....	(2)	(76)
	-----	-----
Total other income (expense) .....	63	(56)
	-----	-----
Income before income taxes .....	2,145	1,038
	-----	-----
(Benefit)provision for income taxes .....	(122)	30
	-----	-----
Net income .....	\$ 2,267	\$ 1,008
	=====	=====
Basic earnings per share .....	\$ 0.22	\$ 0.10
	=====	=====
Diluted earnings per share .....	\$ 0.13	\$ 0.07
	=====	=====
Weighted average common shares (basic) .....	10,365,939	10,147,537
	=====	=====
Weighted average common shares (diluted) .....	16,911,580	14,465,750
	=====	=====

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

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

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

	-----
Cash flows from operating activities	
Net income .....	\$ 4,246
Adjustments to reconcile net income to net cash provided by operating activities	
Deferred tax asset .....	(314)
Depreciation and amortization .....	567
Gain from repayment of long-term debt .....	(50)
Provision for doubtful accounts .....	103
Provision for excess and obsolete inventory .....	--
Amortization of deferred financing charges .....	150
Gain on sale of held to maturity investment .....	--
Other .....	205
Changes in assets and liabilities:	
Accounts receivable .....	(612)
Inventories .....	(56)
Prepayments and other current assets .....	(76)
Other assets .....	(52)
Accounts payable and accrued expenses .....	649
Income taxes payable .....	23
Deposits from customers .....	(30)
Warranty obligations .....	67
Deferred revenue .....	936
	-----
Net cash provided by operating activities .....	5,756
	-----
Cash flows from investing activities	
Proceeds of short-term investments .....	705
Capital expenditures .....	(231)
	-----
Net cash provided by (used in) investing activities .....	474
	-----
Cash flows from financing activities	
Net proceeds from issuance of common stock .....	233
Payment of long-term debt .....	(1,453)
	-----
Net cash used in financing activities .....	(1,220)
	-----
Net increase in cash and cash equivalents .....	5,010
Cash and cash equivalents at beginning of period .....	7,100
	-----
Cash and cash equivalents at end of period .....	\$ 12,110
	=====
Interest paid .....	\$ 22
	=====
Income taxes paid .....	\$ 52
	=====

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

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

(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, 2003 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, 2003 are not necessarily indicative of the results to be expected for the full year ending March 31, 2004.

The consolidated financial statements of the Company, at September 30, 2003, include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances have been eliminated.

#### Stock-based compensation

At September 30, 2003, 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	
	2003	2002
	-----	-----
Net income, as reported .....	\$ 2,267	\$ 1,008
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects .....	47	77
	-----	-----
Proforma net income .....	\$ 2,220	\$ 931
	=====	=====
Earnings per share:		
Basic - as reported .....	\$ 0.22	\$ 0.10
	=====	=====
Basic - proforma .....	\$ 0.21	\$ 0.09
	=====	=====
Diluted - as reported .....	\$ 0.13	\$ 0.07
	=====	=====
Diluted - proforma .....	\$ 0.13	\$ 0.07

2. Recently Issued Accounting Standards

Accounting for Debt Extinguishments

In April 2002, the FASB issued Statement 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections" (SFAS 145). Among other provisions, SFAS 145 rescinds

4

FASB Statement 4, "Reporting Gains and Losses from Extinguishment of Debt". Accordingly, gains or losses from extinguishment of debt should not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the criteria of Accounting Principles Board Opinion 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). Gains or losses from extinguishment of debt, which do not meet the criteria of APB 30, should be reclassified to income from continuing operations in all prior periods presented. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002. The Company anticipates that SFAS No. 145 will not have a material effect on its financial statements.

Accounting for Guarantees

In November 2002, FASB Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), was issued. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 applies prospectively to guarantees the Company issues or modifies subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002.

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.

Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), "Consolidation of Variable Interest Entities". FIN 46 clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial Statements", for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of controlling financial interests ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an

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

interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not have any investment or other interest in "variable interest entities".

### Revenue Recognition

In November 2002, the Emerging Issues Task Force reached a consensus opinion of EITF 00-21, "Revenue Arrangements with Multiple Deliverables". That consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration of the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair values of all deliverables are not known or if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company believes EITF 00-21 does not have a material effect on its financial statements.

In July 2003, the Emerging Issues Task Force reached a consensus opinion of EITF 03-5, "Applicability of AICPA Statement of Position 97-2, Software Revenue Recognition, to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software". The consensus clarifies the types of non-software deliverables included in arrangements that contain more-than-incidental software that are included within the scope of SOP 97-2. The Company believes EITF 03-5 does not have a material effect on its financial statements.

5

### 3. Inventories

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

	September 30, 2003	March 31, 2003
	-----	-----
Raw materials.....	\$ 2,153	\$ 2,103
Work-in-process.....	193	241
Finished goods.....	749	695
	-----	-----
Total inventories.....	\$ 3,095	\$ 3,039
	=====	=====

### 4. Debt

#### Secured Term Notes

In June 2003, the Company and Greystone Funding Corporation ("Greystone") executed an agreement ("Secured Term Note Termination Agreement") terminating the Company's obligation. The Company agreed to repay the outstanding principal balance (\$779) plus accrued interest in consideration of a \$50 principal reduction. The loan was repaid to Greystone on June 30, 2003. Greystone's lien against the Company's assets is being removed.



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

In connection with the note, the Company had granted the lender warrants to purchase 650,000 shares of the Company's common stock at an exercise price of \$0.75 per share, expiring in December 2006. The unamortized financing cost (\$150) was written off to interest expense upon repayment of the obligation. The Secured Term Note Termination Agreement affirms Greystone's continuing rights with respect to the warrants.

### Former Secured Credit Facility

Effective as of December 17, 1999 (as amended on March 17, 2000), the Company entered into a Loan Agreement (the "Amended Loan Agreement") with Greystone to provide up to \$7.5 million of subordinated debt in the form of a secured credit facility. No funds were advanced under the Amended Loan Agreement in excess of an initial draw of \$1 million. In July 2001, the Company and Greystone executed an agreement ("Termination Agreement") terminating the secured credit facility. On July 5, 2001 the Company remitted \$1.05 million, repaying all outstanding advances under this agreement, plus accrued interest.

In connection with the credit facility, the Company issued to Greystone, or its designees, warrants to purchase 5,000,000 shares of the Company's common stock at an exercise price of \$0.75 per share, expiring in December 2006. The Termination Agreement affirms Greystone's continuing rights with respect to the warrants.

### 5. Warranties

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

The following table reconciles aggregate warranty liability for the three and six months ended September 30, 2003 and 2002:

	Three months ended		Six months
	September 30, 2003		
	2003	2002	2003
Beginning balance.....	\$ 98	\$ 87	\$ 56
Warranties issued in period.....	653	470	1,256
Warranties paid in period.....	(653)	(489)	(1,214)
	-----	-----	-----
Balance end of period.....	\$ 98	\$ 68	\$ 98
	=====	=====	=====

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 \$2.5 million and \$2.3 million at September 30, 2003 and March 31, 2003, respectively.

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

### 6. 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 price is 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 September 30, 2003 and 2002:

	Three months ended September 30, 2003	2002	Six months e 2003
	-----	-----	-----
Basic shares.....	10,365,939	10,147,537	10,297,818
Dilutive:			
Options.....	1,428,597	715,314	1,393,103
Warrants.....	5,117,044	3,602,899	5,033,315
	-----	-----	-----
Diluted shares.....	16,911,580	14,465,750	16,724,236
	=====	=====	=====

The Company excluded 98,035 and 567,206 options from the computation of diluted earnings per share for the three months ended September 30, 2003 and 2002, respectively, because they are anti-dilutive. The Company excluded 115,637 and 532,206 options from the computation of diluted earnings per share for the six months ended September 30, 2003 and 2002, respectively, because they are anti-dilutive.

### 7. Contingencies 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 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 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 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 June 11, 2003, the Company and its chief executive officer, David Schick, received notifications from the staff of the SEC of their intention to recommend that the SEC authorize civil enforcement actions against them. The notifications provide that the contemplated actions would allege violations of federal securities law relating to the Company's publicly-filed financial statements, including those for the first three quarters of the Company's fiscal year ended March 31, 1999, restatements of which were filed in March 2000. In connection with the contemplated actions, the staff would ask for authority to seek injunctive relief, civil penalties and a bar against Mr. Schick from serving as an officer or director of a public company. 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. Regardless of the outcome of these matters, the Company could be forced to expend significant amounts of money in legal fees.

#### Litigation

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, shareholder suits, including securities fraud, 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 57% and 45% of net revenue for the three months ended September 30, 2003 and 2002, respectively. Amounts due from that customer approximated 53% and 50% of net accounts receivable at September 30, 2003 and March 31, 2003, respectively, all of which have been substantially collected subsequent to those dates. The Company has a \$0.3 million unused letter of credit for the purchase of inventory, which expires in November 2003.

#### 8. Income Taxes

For the three and six months ended September 30, 2003, the Company has recorded a current Federal income tax provision of \$32 and \$69, respectively, based on the Alternative Minimum Tax method. The income tax benefit of the net operating loss utilized for the three months ended September 30, 2003 and 2002 approximates \$0.9 million and \$0.4 million, respectively. The income tax benefit

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

of the net operating loss utilized for the six months ended September 30, 2003 and 2002 approximates \$1.8 million and \$1.0 million, respectively.

During the three and six months ended September 30, 2003, the Company reduced its deferred tax valuation allowance by \$0.3 since the Company believes that it is more likely than not that such tax benefit will be realized. During the fourth quarter of fiscal 2003, the Company reduced its deferred tax valuation allowance by \$5.8 million. Management has established a valuation allowance for the remainder of the deferred tax asset. Management will continue to assess the realizability of the deferred tax asset at the interim and annual balance sheet dates based upon actual and forecasted operating results.

8

### 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 Securities Exchange Act of 1934, as amended (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 and the pending SEC/U.S Attorney investigation, 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, manufactures and markets its proprietary intra-oral digital radiography system and other digital imaging systems for the dental market. The Company also manufactures and markets a bone mineral density assessment device to assist in the diagnosis and treatment of osteoporosis, which was introduced to the medical market in December 1997. The Company has also commenced development of a digital radiography device for intended use in various applications.

#### 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

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

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 (53% and 50%, at September 30, 2003 and March 31, 2003, respectively) are due from its exclusive domestic distributor, Patterson Dental Company ("Patterson"). Other accounts receivable are due 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

9

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 customers with a 30-day return policy but allows for an additional 15 days, and accordingly recognizes allowances for estimated returns by customers pursuant to such policy at the time of shipment. The Company defers revenue from products shipped to its exclusive domestic distributor, 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 for 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. This policy may impact the Company's revenue recognition for the CDR wireless product until the foregoing 90-day period has elapsed.

### 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

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

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, 2003 and 2002:

	Three months ended		Six months
	September 30, 2003		
	2003	2002	2003
Beginning balance.....	\$ 98	\$ 87	\$ 56
Warranties issued in period.....	653	470	1,256
Warranties paid in period.....	(653)	(489)	(1,214)
Balance end of period.....	\$ 98	\$ 68	\$ 98

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 \$2.5 million and \$2.3 million at September 30, 2003 and March 31, 2003, 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.

A valuation allowance has been established for deferred tax assets for which it is not more likely than not that the deferred tax asset will be realized. At September 30, 2003 the deferred tax asset (\$10.7 million) has a partial reserve of \$4.6 million, reflecting a reduction in the valuation allowance of \$0.3 million during the six months

10

ended September 30, 2003. In assessing the valuation allowance, the Company has considered future taxable income and ongoing tax planning strategies and has determined that it is more likely than not that \$5.8 million of the deferred tax asset will be realized. If the Company continues to experience profits, the valuation allowance may be further reduced or if there is deterioration in profits, the valuation allowance may increase.

### Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations and commercial commitments at September 30, 2003:

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	Total	Less Than 1 year	1-3 years	4-5 years
Operating leases	\$1,889	\$477	\$1,012	\$400
Employment agreements	729	612	117	--
Purchase obligations	2,312	1,286	1,026	--
Total Contractual Cash Obligations	\$ 4,930	\$ 2,375	\$ 2,155	\$ 400

In connection with its purchase obligations, the Company has opened a letter of credit in the amount of \$0.3 million, which expires in November 2003.

Results of Operations

Net revenues for the three months ended September 30, 2003 increased \$1.8 million (26%) to \$8.5 million as compared to \$6.7 million in fiscal 2003. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products. CDR(R) product sales increased \$1.8 million (33%) to \$7.1 million (84% of the Company's net revenues) as compared to \$5.3 million (80% of the Company's net revenues) in fiscal 2003. 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, particularly Patterson. CDR(R) warranty revenue for the three months ended September 30, 2003 increased \$35 (3%) to \$1.3 million (15% of revenue) from \$1.2 million (18% of revenue) in fiscal 2003. Total domestic revenue for the three months ended September 30, 2003 increased \$1.2 million (23%) to \$6.5 million (76% of revenue) as compared to \$5.3 million (79% of revenue) in fiscal 2003. Total international revenue for the three months ended September 30, 2003 increased \$0.5 million (35%) to \$2.0 million as compared to \$1.5 million in fiscal 2003.

Net revenues for the six months ended September 30, 2003 increased \$3.6 million (26%) to \$17.2 million as compared to \$13.6 million in fiscal 2003. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products. CDR(R) product sales increased \$3.4 million (32%) to \$14.3 million (80% of the Company's net revenues) as compared to \$10.9 million (79% of the Company's net revenues) in fiscal 2003. The Company believes that the sales increases are a result of increasing acceptance and adoption of its products by dental customers. CDR(R) warranty revenue for the six months ended September 30, 2003 was unchanged at \$2.5 million (15% and 18% of revenue) in the first six months of fiscal 2004 and fiscal 2003, respectively. Total domestic revenue for the six months ended September 30, 2003 increased \$2.4 million (22%) to \$13.2 million (77% of revenue) as compared to \$10.8 million (79% of revenue) in fiscal 2003. Total international revenue for the six months ended September 30, 2003 increased \$1.1 million (38%) to \$4.0 million as compared to \$2.9 million in fiscal 2003.

Total cost of sales for the three months ended September 30, 2003 increased \$0.1 million (6%) to \$2.6 million (31% of net revenue) as compared to \$2.5 million (37% of net revenue) in fiscal 2003. The decrease in the relative total cost of sales (5.8%) was due to improved product mix and manufacturing efficiency.

Total cost of sales for the six months ended September 30, 2003 increased

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

\$0.5 million (10%) to \$5.3 million (31% of net revenue) as compared to \$4.8 million (35% of net revenue) in fiscal 2003. The decrease in the relative total cost of sales (4.3%) was due to improved product mix and manufacturing efficiency.

11

Selling and marketing expenses for the three months ended September 30, 2003 increased \$0.1 million (6%) to \$1.4 million (17% of net revenue) as compared to \$1.3 million (20% of net revenue) in fiscal 2003. Increases in commissions and payroll expense were offset by reductions in marketing and trade show expense.

Selling and marketing expenses for the six months ended September 30, 2003 increased \$0.1 million (3%) to \$2.9 million (17% of net revenue) as compared to \$2.8 million (20% of net revenue) in fiscal 2003. Increases in commissions and payroll expenses were offset by reductions in marketing and trade shows expense.

General and administrative expenses for the three months ended September 30, 2003, increased \$0.2 million (22%) to \$1.5 million (18% of net revenue) as compared to \$1.3 million (19% of net revenue) in fiscal 2003. The increase in general and administrative expenses was primarily attributable to a non-cash charge to payroll and increases in insurance, provision for doubtful accounts, legal and professional services and other facility costs.

General and administrative expenses for the six months ended September 30, 2003, increased \$0.8 million (35%) to \$3.2 million (18% of net revenue) as compared to \$2.4 million (17% of net revenue) in fiscal 2003. The increase in general and administrative expenses was primarily attributable to a non-cash charge to payroll and increases in insurance, provision for doubtful accounts, legal and professional services and other facility costs.

Research and development expenses for the three months ended September 30, 2003 increased \$0.3 million (45%) to \$0.8 million (10% of net revenue) as compared to \$0.6 million (9% of net revenue) in fiscal 2003. The increase was attributable to increases in payroll and research and development materials.

Research and development expenses for the six months ended September 30, 2003 increased \$0.4 million (35%) to \$1.7 million (10% of net revenue) as compared to \$1.3 million (9% of net revenue) in fiscal 2003. The increase was attributable to increases in payroll and research and development materials.

Interest expense for the three months ended September 30, 2003 decreased \$74 to \$2 from \$76 in fiscal 2003. The decrease in interest expense was attributable to the June 2003 repayment of the balance of notes payable. Interest income for the three months ended September 30, 2003 increased \$9 to \$29 from \$20. The increase was attributable to an increase in cash held in a money market account.

Interest expense for the six months ended September 30, 2003 increased \$5 to \$171 from \$166 in fiscal 2003. The increase in interest expense was attributable to the June 2003 repayment of the balance of notes payable and the write-off of deferred finance costs related to that note (\$150). Interest income for the six months ended September 30, 2003 increased \$6 to \$49 from \$43 in fiscal 2003. The increase was attributable to an increase in cash held in a money market account.

As a result of the above items, the Company's net income for the three months ended September 30, 2003 increased \$1.2 million (125%) to \$2.3 million as compared to \$1.0 million in fiscal 2003.



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

As a result of the above items, the Company's net income for the six months ended September 30, 2003 increased \$1.9 million (81%) to \$4.2 million as compared to \$2.3 million in fiscal 2003.

### Liquidity and Capital Resources

At September 30, 2003, the Company had \$12.1 million in cash, cash equivalents and short-term investments and \$14.1 million in working capital, as compared to \$7.8 million in cash, cash equivalents and short-term investments and \$9.2 million in working capital at March 31, 2003.

During the six months ended September 30, 2003 cash provided by operations was \$5.8 million as compared to \$3.1 million in fiscal 2003. Increases in cash were primarily provided by improved operating performance. Sales to a single customer approximated 51% and 44% of net revenue for the six months ended September 30, 2003 and 2002, respectively. Amounts due from that customer approximated 53% and 50% of net accounts receivable at September 30, 2003 and March 31, 2003, respectively, all of which have been substantially collected subsequent to those dates. The increase in net accounts receivable is the result of increased product

12

shipments during the six months ended September 30, 2003 which was offset by a \$96 increase to the reserve for doubtful accounts. Capital expenditures remained essentially unchanged at \$0.2 million for the six months ended September 30, 2003 and 2002. During the six months ended September 30, 2003, cash used to repay long-term debt increased \$0.2 million to \$1.5 million as compared to \$1.3 million in fiscal 2003. As noted above, the Company repaid its term notes to Greystone in full during June 2003.

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

### Recently Issued Accounting Standards

#### Accounting for Debt Extinguishments

In April 2002, the FASB issued Statement 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections" (SFAS 145). Among other provisions, SFAS 145 rescinds FASB Statement 4, "Reporting Gains and Losses from Extinguishment of Debt". Accordingly, gains or losses from extinguishment of debt should not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the criteria of Accounting Principles Board Opinion 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). Gains or losses from extinguishment of debt, which do not meet the criteria of APB 30, should be reclassified to income from continuing operations in all prior periods presented. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002. The Company anticipates that SFAS No. 145 will not have a material effect on its financial statements.

#### Accounting for Guarantees

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

In November 2002, FASB Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), was issued. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 applies prospectively to guarantees the Company issues or modifies subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002.

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.

13

### Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), "Consolidation of Variable Interest Entities". FIN 46 clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial Statements", for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support for other parties or in which equity investors do not have the characteristics of controlling financial interests ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not have any investment or other interest in "variable interest entities".

### Revenue Recognition

In November 2002, the Emerging Issues Task Force reached a consensus opinion of EITF 00-21, "Revenue Arrangements with Multiple Deliverables". That consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration of the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair value of all deliverables are not known or if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company believes EITF 00-21 does not have a material effect on its financial statements.

In July 2003, the Emerging Issues Task Force reached a consensus opinion of EITF 03-5, "Applicability of AICPA Statement of Position 97-2, Software Revenue Recognition, to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software". The consensus clarifies the types of non-software deliverables included in arrangements that contain

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

more-than-incidental software are included within the scope of SOP 97-2. The Company believes EITF 03-5 does not have a material effect on its financial statements.

### 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, 2003. 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 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

14

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 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 June 11, 2003, the Company and its chief executive officer, David Schick, received notifications from the staff of the SEC of their intention to recommend that the SEC authorize civil enforcement actions against them. The notifications provide that the contemplated actions would allege violations of federal securities law relating to the Company's publicly-filed financial statements, including those for the first three quarters of the Company's fiscal year ended March 31, 1999, restatements of which were filed in March 2000. In connection with the contemplated actions, the staff would ask for authority to seek injunctive relief, civil penalties and a bar against Mr. Schick from

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

servicing as an officer or director of a public company. The Company cannot predict the potential outcome of these matters.

The Company could become a party to a variety of legal actions (in addition to those referred to above), such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims, shareholder suits, including securities fraud, and intellectual property-related litigation. In addition, because of the nature of its business, the Company may be 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 could be sought. The Company currently has insurance coverage for some of these potential liabilities. The legal proceedings described above and other potential liabilities may not be covered by insurance, insurers may dispute or deny coverage at any time, or the amount of insurance may not be sufficient to cover the damages awarded and/or attorneys' fees incurred. 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.

### Item 2. Changes in 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

- (a) The Company held its 2003 Annual Meeting of Stockholders (the "Annual Meeting") on September 3, 2003.
- (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 -----
Allen Schick (New term expires in 2006)	4,774,110	347,140
David Schick (New term expires in 2006)	4,655,110	466,140
Uri Landesman (New term expires in 2006)	5,036,325	84,925

The other directors of the Company will continue in office for their existing terms, as follows: Euval Barrekette and Jonathan Blank serve in the class whose term expires in 2005 and William K. Hood,

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

Curtis M. Rocca III and Jeffrey T. Slovin serve in the class whose term expires in 2004. 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 3, 2003 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, 2004:

Number of votes for:	4,850,950
Number of votes against:	18,300
Number of abstentions:	252,000

- (d) Not Applicable.

### Item 5. Other Information

Not Applicable.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) 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.

#### (b) Reports on Form 8-K

1. A Form 8-K was filed on August 8, 2003 and reported on the Company's press release, which announced its first quarter conference call to report the Company's financial results for the first quarter of fiscal year 2004, in Item 5, "Other Events," of said Form 8-K.

16

2. A Form 8-K was filed on August 13, 2003 and reported on the Company's press release, which announced its financial results for the first quarter of fiscal year 2004, in Item 12, "Results Of Operations and Financial Condition," of said Form 8-K.

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.

Edgar Filing: SCHICK TECHNOLOGIES INC - Form 10-Q

SCHICK TECHNOLOGIES, INC.

Date: November 11, 2003

By: /S/ David Schick

-----  
David B. Schick  
Chief Executive Officer

By: /S/ Ronald Rosner

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

17