SCHICK TECHNOLOGIES INC
Form 10-Q
February 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 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 |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes |_| No |X|

As of February 5, 2004, 10,443,753 shares of common stock, par value $.01 per share, were outstanding.

SCHICK TECHNOLOGIES, INC.

TABLE OF CONTENTS

PART I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets as of December 31, 2003 (unaudited) and March 31, 2003 .... Page 1

Consolidated Statements of Operations for the three and nine months ended December 31, 2003 and 2002 (unaudited) .... Page 2

Consolidated Statements of Cash Flows for the nine months ended December 31, 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 16

CERTIFICATIONS .... Page 17

PART I. Financial Information

Item 1. Financial Statements

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

December 31,	Ma
2003	

	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 15,541	$
Short-term investments	9	
Accounts receivable, net of allowance for doubtful accounts of $138 and $42, respectively	5,161	
Inventories	3,382	
Income taxes receivable	5	
Prepayments and other current assets	533	
Deferred income taxes	2,861	
Total current assets	27,492	
Equipment, net	1,621	
Goodwill, net	266	
Deferred income taxes	3,139	
Other assets	259	
Total assets	$ 32,777	$
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturity of long term debt	$ --	$
Accounts payable and accrued expenses	1,832	
Accrued salaries and commissions	1,628	
Income taxes payable	106	
Deposits from customers	33	
Warranty obligations	185	
Deferred revenue	4,348	
Total current liabilities	8,132	
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: 10,441,980 and 10,206,425 shares issued and outstanding, respectively)	104	
Additional paid-in capital	43,298	
Accumulated deficit	(18,757)	(
Total stockholders' equity	24,645	
Total liabilities and stockholders' equity	$ 32,777	$

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

1

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

	Three months ended December 31, 2003	Three months ended December 31, 2002	
Revenue, net	$ 12,124	$ 8,816	$
Cost of sales	3,063	2,503	
Excess and obsolete inventory	--	150	
Total cost of sales	3,063	2,653	
Gross profit	9,061	6,163	
Operating expenses:			
Selling and marketing	1,655	1,482	
General and administrative	1,725	1,179	
Research and development	827	663	
Total operating costs	4,207	3,324	
Income from operations	4,854	2,839	
Other income (expense)			
Interest income	39	12	
Interest expense	(9)	(75)	
Other income	4	84	
Total other income (expense)	34	21	
Income before income taxes	4,888	2,860	
Provision for income taxes	34	55	
Net income	$ 4,854	$ 2,805	$
Basic earnings per share	$ 0.47	$ 0.28	$
Diluted earnings per share	$ 0.29	$ 0.19	$
Weighted average common shares (basic)	10,407,356	10,154,059	
Weighted average common shares (diluted)	16,879,982	14,957,659	

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

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

	Nine months ended December 31, 2003	2002
Cash flows from operating activities		
Net income	$ 9,100	$ 5,1
Adjustments to reconcile net income to net cash provided by operating activities		
Deferred tax asset	(470)	
Depreciation and amortization	825	9
Gain from repayment of long-term debt	(50)	
Provision for doubtful accounts	(7)	
Provision for excess and obsolete inventory	--	2
Amortization of deferred financing charges	150	
Gain on sale of held to maturity investment	--	(
Other	282	1
Changes in assets and liabilities:		
Accounts receivable	(2,122)	(1,5
Inventories	(343)	(
Income taxes receivable	5	
Prepayments and other current assets	(112)	(3
Other assets	(80)	(
Accounts payable and accrued expenses	1,012	2
Income taxes payable	102	
Deposits from customers	(23)	
Warranty obligations	154	(
Deferred revenue	743	(5
Net cash provided by operating activities	9,166	4,3
Cash flows from investing activities		
Proceeds of short-term investments	703	4
Purchase of short-term investments	--	(6
Proceeds of liquidation of investment	--	1
Capital expenditures	(275)	(3
Net cash provided by (used in) investing activities	428	(4
Cash flows from financing activities		
Net proceeds from issuance of common stock	300	
Payment of long-term debt	(1,453)	(1,8
Net cash used in financing activities	(1,153)	(1,8
Net increase in cash and cash equivalents	8,441	2,0
Cash and cash equivalents at beginning of period	7,100	1,6
Cash and cash equivalents at end of period	$ 15,541	$ 3,7
Interest paid	$ 32	$ 1

Income taxes paid	$ 86	$

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

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

1. Basis of Presentation

The consolidated financial statements of Schick Technologies, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-Q, and do not include all of the information and footnote disclosures required by US GAAP for complete financial statements. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended March 31, 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 nine months ended December 31, 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 December 31, 2003, include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances have been eliminated.

Stock-based compensation

At December 31, 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		Nin
	December 31		
	2003	2002	200
Net income, as reported	$ 4,854	$ 2,805	$ 9,

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects ...	70	58	
Proforma net income	$ 4,784	$ 2,747	$ 8,
Earnings per share:			
Basic - as reported	$ 0.47	$ 0.28	$ 0
Basic - proforma	$ 0.46	$ 0.27	$ 0
Diluted - as reported	$ 0.29	$ 0.19	$ 0
Diluted - proforma	$ 0.28	$ 0.18	$ 0

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

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. SFAS No. 145 did not have a material effect on the Company's financial statements.

Accounting for Guarantees

In November 2002, FASB Interpretation 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", 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 interest after that date. It applies in the first fiscal year or interim period beginning after December 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". That 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 that 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:

	December 31, 2003	March 31, 2003
Raw materials	$2,397	$2,103
Work-in-process	310	241
Finished goods	675	695
Total inventories	$3,382	$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 to Greystone. The Company agreed to repay the outstanding principal balance ($779) plus accrued interest in consideration of a $50 principal reduction which is included in "other income." The loan was repaid to Greystone on June 30, 2003.

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 nine months ended December 31, 2003 and 2002:

	Three months ended		Nine months ended	
	December 31			
	2003	2002	2003	2002
Beginning balance	$ 98	$ 68	$ 56	$ 72
Warranties issued in period ...	654	476	1,695	1,382
Warranties paid in period	(567)	(491)	(1,566)	(1,401)
Balance end of period	$ 185	$ 53	$ 185	$ 53

The Company records revenues on extended warranties on a straight-line basis over the term of the related warranty contracts (generally one year). Deferred revenues related to extended warranties were $2.3 million at December 31, 2003 and March 31, 2003.

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 December 31, 2003 and 2002:

	Three months ended December 31,		Nine months ended December 31,	
	2003	2002	2003	2002
Basic shares	10,407,356	10,154,059	10,334,331	10,146,059
Dilutive:				
Options	1,382,540	851,316	1,389,582	819,209
Warrants	5,090,086	3,952,284	5,052,239	3,920,620
Diluted shares ..	16,879,982	14,957,659	16,776,152	14,885,888

The Company excluded 93,288 and 486,014 options from the computation of diluted earnings per share for the three months ended December 31, 2003 and 2002, respectively, because they are anti-dilutive. The Company excluded 109,187 and 516,809 options from the computation of diluted earnings per share for the nine months ended December 31, 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, that claims will not be denied, in whole or in part, by insurance carriers, or that insurance will continue to be available on commercially acceptable terms, or at all.

SEC Investigation

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 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 chief executive officer, and its former vice president of sales and 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 Securities Exchange Act and various rules promulgated thereunder in connection with the financial statements included in the Company's reports on Form 10-Q for the quarters ended June 30, September 30 and December 31, 1998. The SEC complaint seeks to enjoin the Company from future violations of those provisions of the Exchange Act and the rules thereunder, as well as disgorgement of any ill-gotten gains, 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 officer/director bar. The Company promptly commenced, and has continued, discussions with the SEC's northeast regional office in an effort to resolve the complaint against the Company. There can be no assurance that those 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 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 and intellectual property-related litigation. 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 63% and 60% of net revenue for the three months ended December 31, 2003 and 2002, respectively. Sales to a single customer approximated 58% and 50% of net revenue for the nine months ended December 31, 2003 and 2002, respectively. Amounts due from that customer approximated 74% and 62% of net accounts receivable at December 31, 2003 and March 31, 2003, respectively, all of which have been substantially collected subsequent to those dates.

The Company's $0.3 million letter of credit for the purchase of inventory expired in January 2004.

8. Income Taxes

For the three and nine months ended December 31, 2003, the Company has recorded a current Federal income tax provision of $0.2 million and $0.5 million, respectively, based on the Alternative Minimum Tax method. During the three and nine months ended December 31, 2003, the net deferred tax asset increased by approximately $0.2 million and $0.5 million, respectively. During the three and nine months ended December 31, 2003, the Company reduced its deferred tax valuation allowance by $2.3 million and $3.7 million, respectively, since the Company believes that it is more likely than not that such tax benefit will be realized. 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.

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 action and 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 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 (74% and 62%, at December 31, 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

9

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 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 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 a one-year period. Deferred revenues relate to extended warranty fees paid by

customers prior to the performance of extended warranty services, to certain shipments to Patterson described above and to the 90-day exchange program for CDR(R) wireless, described below. Patterson instituted a policy permitting, under specific circumstances, the exchange of CDR(R) wireless products, sold after October 23, 2003, for wired CDR(R) 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. Accordingly, the Company has deferred recognition of revenue related to Patterson's shipment of the CDR(R) 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 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 Company records revenues on extended warranties on a straight-line basis over the term of the related warranty contracts (generally one year).

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.

At December 31, 2003 the net deferred tax asset aggregated $6.0 million (a $0.5 million increase from March 31, 2003), which is net of a valuation allowance of $7.7 million. A valuation allowance has been established for deferred tax assets for which it is not more likely than not that the deferred tax asset would be realized. In assessing the valuation allowance, the Company has considered future taxable income and ongoing tax planning strategies. The valuation allowance decreased by $3.7 million during the nine months ended December 31, 2003 as a result of current year Company profitability.

Seasonality

In recent years, the third fiscal quarter (i.e., the three-month period ended December 31) has been the period of highest revenues and net income for the Company during each fiscal year. The Company believes that this is the result, in part, of calendar-year-end Federal income tax incentives available to system purchasers.

Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations and commercial commitments at December 31, 2003:

	PAYMENTS DUE BY PERIOD

CONTRACTUAL OBLIGATIONS	Total	Less Than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	$1,772	$ 482	$1,022	$268	--
Employment agreements	536	536	--	--	--
Purchase obligations	2,460	1,658	802	--	--
Total Contractual Cash Obligations	$4,768	$2,676	$1,824	$268	--

Results of Operations

Net revenues for the three months ended December 31, 2003 increased $3.3 million (38%) to $12.1 million as compared to $8.8 million in fiscal 2003. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products and also reflects a reduction in revenues from our warranty related upgrade program which has been phased out. CDR(R) product sales increased $3.2 million (43%) to $10.7 million (88% of the Company's net revenues) as compared to $7.5 million (85% 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. Warranty revenue for the three months ended December 31, 2003 increased $0.2 million (14%) to $1.3 million (12% of revenue) from $1.1 million (15% of revenue) in fiscal 2003. Total domestic revenue for the three months ended December 31, 2003 increased $2.3 million (32%) to $9.5 million (78% of revenue) as compared to $7.2 million (82% of revenue) in fiscal 2003. Total international revenue for the three months ended December 31, 2003 increased $1.0 million (63%) to $2.6 million (22% of revenue) as compared to $1.6 million (18% of revenue) in fiscal 2003.

Net revenues for the nine months ended December 31, 2003 increased $6.8 million (30%) to $29.3 million as compared to $22.5 million in fiscal 2003. The increase was due to increased sales of the CDR(R) radiography and intraoral camera products and also reflects a reduction in revenues from our warranty related upgrade program which has been phased out. CDR(R) product sales increased $6.7 million (37%) to $25.1 million (86% of the Company's net revenues) as compared to $18.4 million (82% 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. Warranty revenue for the nine months ended December 31, 2003 increased $0.2 million (4%) to $3.8 million (13% of total revenue) as compared to $3.6 million (16% of revenue) in fiscal 2003. Total domestic revenue for the nine months ended December 31, 2003 increased $4.7 million (26%) to $22.7 million (77% of revenue) as compared to $18.0 million (80% of revenue) in fiscal 2003. Total international revenue for the nine months ended December 31, 2003 increased $2.1 million (48%) to $6.6 million (23% of revenues) as compared to $4.5 million (20% of revenue) in fiscal 2003.

Total cost of sales for the three months ended December 31, 2003 increased $0.4 million (16%) to $3.1 million (25.3% of net revenue) as compared to $2.7 million (30.1% of net revenue) in fiscal 2003. The decrease in the relative total cost of sales (4.8%) was due to improved product mix and manufacturing efficiency.

Total cost of sales for the nine months ended December 31, 2003 increased $0.9 million (12%) to $8.3 million (28.4% of net revenue) as compared to $7.4

million (33.0% of net revenue) in fiscal 2003. The decrease in the relative total cost of sales (4.6%) was due to improved product mix and manufacturing efficiency.

Selling and marketing expenses for the three months ended December 31, 2003 increased $0.2 million (12%) to $1.7 million (14% of net revenue) as compared to $1.5 million (17% of net revenue) in fiscal 2003. Increases in commissions and payroll expenses were offset by reductions in marketing and trade show expenses.

Selling and marketing expenses for the nine months ended December 31, 2003 increased $0.2 million (6%) to $4.5 million (15% of net revenue) as compared to $4.3 million (19% of net revenue) in fiscal 2003. Increases in commissions and payroll expenses were offset by reductions in marketing and trade shows expenses.

General and administrative expenses for the three months ended December 31, 2003, increased $0.5 million (46%) to $1.7 million (14% of net revenue) as compared to $1.2 million (13% of net revenue) in fiscal 2003. The increase in general and administrative expenses was primarily attributable to increases in legal costs related primarily to the SEC investigation, insurance, professional services and other facility costs.

General and administrative expenses for the nine months ended December 31, 2003, increased $1.4 million (39%) to $4.9 million (17% of net revenue) as compared to $3.5 million (16% of net revenue) in fiscal 2003. The increase in general and administrative expenses was primarily attributable to a non-cash compensation and increases in legal costs related primarily to the SEC investigation, insurance, provision for doubtful accounts, professional services and other facility costs.

Research and development expenses for the three months ended December 31, 2003 increased $0.1 million (25%) to $0.8 million (7% of net revenue) as compared to $0.7 million (8% 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 nine months ended December 31, 2003 increased $0.6 million (31%) to $2.5 million (9% of net revenue) as compared to $1.9 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 December 31, 2003 decreased $66 to $9 from $75 in fiscal 2003. The decrease in interest expense was attributable to the Company's June 2003 repayment of the balance of the notes payable. Interest income for the three months ended December 31, 2003 increased $27 to $39 from $12. The increase was attributable to an increase in cash held by the Company in a money market account.

Interest expense for the nine months ended December 31, 2003 decreased $61 to $180 from $241 in fiscal 2003. The decrease in interest expense was partially attributable to the Company's June 2003 repayment of the balance of the notes payable offset by the write-off of deferred finance costs related to that note ($150). Interest income for the nine months ended December 31, 2003 increased $49 to $88 from $39 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 December 31, 2003 increased $2.1 million (73%) to $4.9 million as

compared to $2.8 million in fiscal 2003.

As a result of the above items, the Company's net income for the nine months ended December 31, 2003 increased $4.0 million (77%) to $9.1 million as compared to $5.1 million in fiscal 2003.

Liquidity and Capital Resources

At December 31, 2003, the Company had $15.6 million in cash, cash equivalents and short-term investments and $19.4 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 nine months ended December 31, 2003 cash provided by operations was $9.2 million as compared to $4.4 million in fiscal 2003. Increases in cash were primarily provided by improved operating performance. Sales to a single customer approximated 58% and 50% of net revenue for the nine months ended December 31, 2003 and 2002, respectively. Amounts due from that customer approximated 74% and 62% of net accounts receivable at December 31, 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 shipments during the nine months ended December 31, 2003. Capital expenditures decreased from $0.4 million to $0.3 million for the nine months ended December 31, 2003. During the nine months ended December 31, 2003,

cash used to repay long-term debt decreased $0.3 million to $1.5 million as compared to $1.8 million in fiscal 2003. As noted above, the Company repaid its term notes to Greystone in full during June 2003.

With regard to the SEC investigation, the Company will continue to incur significant legal fees and may incur indemnification costs. However, the Company does not believe that the magnitude of such expenditures will adversely affect its ongoing business operations.

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. SFAS No. 145 did not have a material effect on the Company's 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 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 December 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

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 2. Quantitative and Qualitative Disclosures About Market Risk

None

Item 3. Controls and Procedures

a) Under the supervision and with the participation of the Company's management, including its chief executive officer and principal financial officer, the Company has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 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

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 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 chief executive officer, and its former vice president of sales and 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 Securities Exchange Act and various rules promulgated thereunder in connection with the financial statements included in the Company's reports on Form 10-Q for the quarters ended June 30, September 30 and December 31, 1998. The SEC complaint seeks to enjoin the Company from future violations of those provisions of the Exchange Act and the

rules thereunder, as well as disgorgement of any ill-gotten gains, 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 officer/director bar. The Company promptly commenced, and has continued, discussions with the SEC's northeast regional office in an effort to resolve the complaint against the Company. There can be no assurance that those discussions will be successful. The Company will continue to incur significant legal fees and may incur indemnification costs. However, the Company does not believe that the magnitude of such expenditures will 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.

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, and intellectual property-related litigation. 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

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 October 30, 2003 and reported on the Company's press release, which announced its second quarter conference call to report the Company's financial results for the second quarter of fiscal year 2004, in Item 5, "Other Events," of said Form 8-K.

2. A Form 8-K was filed on November 5, 2003 and reported on the Company's press release, which announced its financial results for the second quarter of fiscal year 2004, in Item 12, "Results Of Operations and Financial Condition," of said Form 8-K.

3. A Form 8-K was filed on November 18, 2003 and reported on the Company's press release, which announced that the Securities and Exchange Commission had filed a civil action against the Company, its chairman and chief executive officer, and its former director and vice president of sales and marketing, in Item 5, "Other Events," 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.

SCHICK TECHNOLOGIES, INC.

Date: February 12, 2004

By: /S/ David Schick

David B. Schick
Chief Executive Officer

By: /S/ Ronald Rosner

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